NORTHUMBRIAN WATER LIMITED ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

NORTHUMBRIAN WATER living water

ESSEX&SUFFOLK WATER living water

Registered company no: 02366703

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2020

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STRATEGIC REPORT

CHAIRMAN'S STATEMENT

The Board of Northumbrian Water Limited (NWL/the Company) recognises that, for most of our customers, we are the only available supplier of water.

The Company therefore carries very significant responsibilities and must strive to meet the high expectations of everyone we serve and work with. As a result, the Board challenges itself and the Company's employees, to deliver improved performance each year, so that our customers' high expectations can continue to be met. Our Company's vision, however, remains the same – to be the national leader in the provision of sustainable water and wastewater services.

It is a primary duty of the Board to balance the interests of all our stakeholders fairly, whilst meeting our fiduciary duties as directors. As Chairman, I believe the Board strikes the required balance very well, assisted by the robust governance arrangements we have in place, which are set out in detail in our Corporate Governance report.

Our strong performance is underpinned by our five strategic themes: Customer, Environment, Competitiveness, People and Communities. At each meeting the Board has reviewed performance against a balanced scorecard of measures related to these strategic themes in addition to health and safety, financial performance and other key factors. A more detailed overview of our work and progress on these themes is set out later in this Strategic Report.

Our Chief Executive Officer (CEO), Heidi Mottram, describes in her Review our continued strong performance delivered against existing commitments but, importantly, we have also tried to lay solid foundations for the coming years in our 2020-25 Business Plan (our Plan).

We submitted our Plan in August 2018. This was a very collaborative and consultative exercise, conducted in partnership with our customers and other key stakeholders and we were encouraged by the very positive response our Plan received, including 91% customer support. Our Plan committed to offering significant bill reductions to our customers alongside real improvements in service. It was clear from our detailed and extensive work with customers that they shared our firm belief that protecting the environment and ensuring the resilience of our services should remain two of our key priorities. We were confident that our Business Plan would have enabled us to deliver on those fronts in a cost effective manner, as we evidenced to Ofwat, and as supported by detailed analysis confirming that the investment we proposed is in our customers' best interests for the long term. Contrary to our customers' wishes, in its Final Determination of prices for 2020–25 (FD), Ofwat rejected several key elements of our Plan, including critical projects to enhance resilience and reduce sewer flooding.

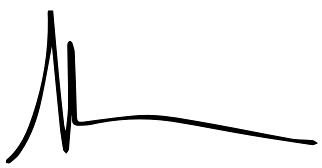
The Board assessed the FD in detail, in the context of the complex environment in which NWL operates, and the varied risks to which it is exposed, which are often difficult to forecast accurately. Although the Board considers that the Company remains financially viable in the short term, it unanimously agreed that the FD does not enable NWL to maintain the sustainable financial resilience required to ensure that it can continue over the longer term to provide the reliable and high quality services that our customers need and rightly expect of us.

Therefore, as a measure of last resort, on 14 February 2020, the Company rejected the FD and asked Ofwat to refer it for redetermination by the Competition and Markets Authority (CMA). This process is underway as I write this statement and we expect to know the outcome no later than March 2021.

Notwithstanding the CMA appeal, it is our people that are our ‘front-line’ and NWL’s performance depends entirely on their continued engagement, initiative and hard work. I would like to sincerely thank all our employees for their dedication and commitment this year, and in particular given the tremendous challenges posed by Covid-19.

Finally, I would like to welcome Mike Porter, who joined us on 29 June 2020 as Chief Financial Officer, and express the Board’s appreciation for the valuable contributions made by Frank Frame as a Non-Executive Director (NED) between 2011 and 2019 and Chris Johns as Finance Director between 2013 and 2020. Frank retired from the Board at the end of 2019 and Chris stepped down in May this year. We wish them both well for the future.

I hope you find our Annual Report and Financial Statements interesting and helpful.



A J Hunter
Chairman

CHIEF EXECUTIVE OFFICER'S REVIEW

Our vision is to be the national leader in the provision of sustainable water and wastewater services, and I am delighted that we have made further progress towards this vision during 2019/20, and remain one of the leaders in our industry.

H Mottram

But before I review some of the achievements we are most proud of this year and look forward to the year ahead, I would like to talk about the impact of the current Covid-19 pandemic and how we have responded to the many challenges it has created.

COVID-19

During this time the vital importance of delivering clean water and safely taking away wastewater has perhaps never been so clear. I am incredibly proud of how our teams and partners have come together to continue to provide our customers with this essential public service in the face of the pandemic.

Keeping our employees safe was our first priority, and we were able to quickly enable our customer and support teams to work from home, in line with government guidance, as well as taking measures to ensure that our operational and field workers could continue to carry out their essential work safely. We utilised multiple communication channels to keep our people informed and engaged, using daily email updates to share vital information and a variety of online tools to bring our people together. Guides such as the Health & Wellbeing Guide were delivered in interactive formats to encourage employee take up.

We understand how difficult this time has been for many of our customers and we built on our existing 'Water without the Worry' campaign through direct communications to customers. We were able to offer payment breaks to over 6,000 customers and apply our social tariffs to 2,000 customers with affordability issues. We also signed up 4,000 extra customers to our Priority Services Register to reflect their circumstances. We have built on other customer messages such as 'Bin The Wipe' to reinforce that, even during toilet roll shortages, other materials should not be flushed down the toilet.

Our purpose is not only to deliver this essential service for customers, but also to make a wider contribution to support our communities and enhance the environment we all depend on. The impact of the pandemic has brought this responsibility into even sharper focus. Recognising this we were one of the first businesses to sign the 'C-19 Business Pledge' (see **page 7**). This pledge commits us to supporting our customers, employees and communities as our part in helping the country pull through the Covid-19 crisis.

We chose as a business not to furlough any staff, with those who could not carry on their normal work either trained to support other parts of the business or given the opportunity to help others in our communities. This included delivering essential food and prescriptions, and making welfare phone calls to vulnerable, isolated people.

The Covid-19 situation is not over yet and we will continue to respond to government guidance as it develops and ensure that we keep delivering our key services safely, and look after our employees, customers and communities.

OUR C-19 PLEDGE

Making OVER £1,000,000 of support available during the COVID-19 pandemic

This matches our commitment as one of the first signatories of the C-19 Business Pledge

SUPPORTING OUR PEOPLE

£250,000
of in-kind support through volunteering by more than 160 of our people, whose time has been gifted meaning ZERO colleagues unable to do their usual jobs will be furloughed

1,372
people working on site and in the field in line with Government guidelines to keep our water flowing and toilets flushing

19,461
Covid-19 safety checks carried out by our teams, ensuring tasks are completed in line with social distancing guidelines

1,576
people now working from home supported by investment in new technology

SUPPORTING OUR CUSTOMERS

4,000
extra customers signed up to our Priority Services Register to match our support to their circumstances

6,200
households benefiting from a three-month payment break

15million
bathtubs – or **1.2 billion litres** – of the best quality water supplied to customers every day

2,000
customers receiving bill reductions through being added to our Social Tariff and WaterSure schemes

SUPPORTING OUR COMMUNITIES

£165,000
funding to help environmental groups sustain their work

4,816
people accessing education resources since school closures, including new careers sessions delivered via Zoom

3,000
businesses helped to bounce back through taking a leading role in North East England Chamber of Commerce's plan for economic recovery

15,000litres
of emergency water supplied to keep NHS teams hydrated, plus extra work to ensure resilient supplies to new and existing NHS sites

OUR PERFORMANCE IN 2019/20

We have been through a major transformation programme in our customer teams over the past few years. This year we followed the implementation of our new customer contact and billing system with our new operational contact and planning system and, at the same time, we've launched our new digital platforms. As with any major change programme this has required a huge amount of effort and learning from our people and I would like to personally thank the project and business teams for their tremendous efforts.

These systems give us a much improved platform to engage with our customers in the way they choose, but our most important asset in providing unrivalled customer experience is our people. With our Just Add You approach, we're taking best practice approaches and tailoring them to deliver what our customers have told us are their top priorities. I believe this sets us up well to deliver against, the new more holistic measure of customer experience (C-MeX).

We made steady improvements across almost all of our targets in our water business, meeting our leakage targets again in both of our operating regions and continuing long term improvements in reducing contacts related to the appearance and smell of our water. We have continued to lead the way on water efficiency adding our 'Leaky Loos' campaign to our existing 'Every Drop Counts' message.

While we continued our strong environmental performance, we have continued to focus on sewer flooding, which is one of the worst service failures our customers can experience. Our Bin the Wipe campaign is aimed at changing customer behaviour to avoid blockages and I have been really impressed by some of the early results where we have targeted three hot spot areas with different innovative approaches. We will look to build on this over the coming year.

I was pleased to have the opportunity to speak at Water UK's Delivering a Zero Carbon Water Sector conference earlier this year. Our business is embedded in the environment and it is something we, as an industry, care about passionately. We met our previous target to reduce greenhouse gas emissions by 2020 by a considerable margin, through our investment in generating energy from sewage sludge and commitment to sourcing renewable energy. We have now set ourselves a really challenging target of being net zero carbon by 2027, but I'm very pleased with the real progress we are making.

Innovation remains key to improving our long term performance. We hosted our third Innovation Festival in 2019, and also held a joint Innovate East event with Anglian Water. I am delighted to see ideas from our earlier events coming through into practical use within our business, such as our Digital Twin to help us better understand our customers' experience of our services. We have also gone global this year, launching our Amplify platform and opening up real life challenges for people around the world to work on solutions.

The common theme running through all of these achievements is that they are the result of the hard work that our people put in every single day. Through our Great Place To Work (GPTW) strategy we aspire for all of our people to have a great experience at work, to understand the part they play to achieve our vision and to deliver an unrivalled customer experience. We were delighted to be recognised as the top place to work in our northern operating region at the North East Best Places to Work awards.

LOOKING FORWARD

We are now entering the next five year cycle of our sector. I am still extremely proud of Our Plan, the engagement we had with over 400,000 customers in developing it, and of the ambitious goals and significant bill reductions we set out as a result. However, our Board decided unanimously that Ofwat's FD did not adequately reflect what our customers said were their priorities and we asked Ofwat to refer its FD to the CMA.

This will not distract us from our focus which remains, as always, on our customers and continuing to deliver an unrivalled service for them. Our goals are ambitious and so we need to push on and put our efforts firmly on delivering against the outcomes which our customers told us were so important to them, which are set out on **page 16** of this report.

We know we are building on strong foundations in many areas, such as leakage and our environmental performance, where we have been performing strongly for a number of years. Equally we know we have to improve our performance across other areas such as water quality and sewer flooding in order to meet our stretching Performance Commitments (PCs) and industry-leading ambitions, but our plans are already underway.

We are proud of the improvements we have made over the past five years, but we are never complacent and are focused on delivering the ambitious goals we've set for the next five years and beyond. I hope you find our Annual Report and Financial Statements helpful and informative.

H Mottram CBE
CEO

This Annual Report and Financial Statements is just one of a suite of documents we have published to provide our stakeholders with easily accessible information on our performance and governance. We have also published:

Annual Performance Report: setting out how we have performed against the commitments we made in our Business Plan for 2015-20 and how we are continually striving to improve the services we deliver to our customers and our business Outcomes. There is also an accessible summary version.

Our Contribution Report: presenting the social, environmental and economic impact we have on the communities we serve.

Data Assurance Summary: explaining how we ensure that the information we report is accurate, clear and transparent and deliver against the commitments in Our Assurance Plan.

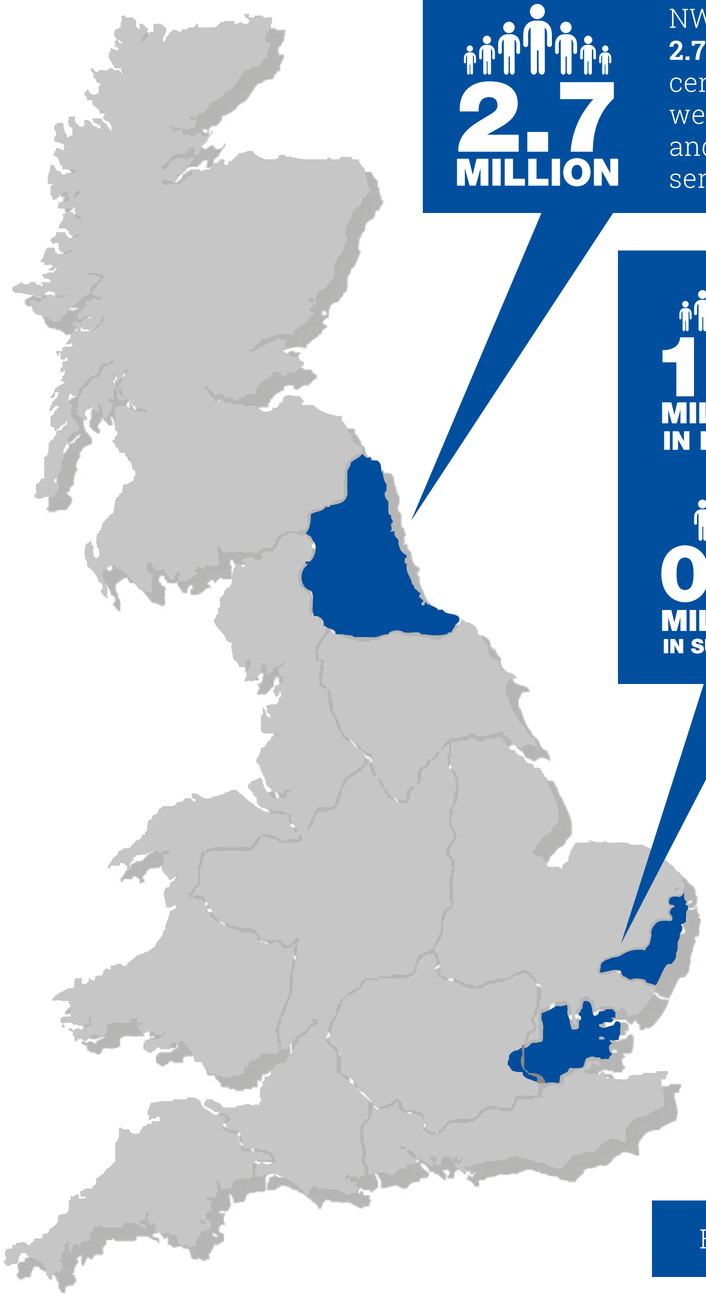
All of these documents are available on our websites at.**www.nwg.co.uk**.

BUSINESS OVERVIEW

Our vision is to be the national leader in sustainable water and wastewater services.

We provide water and wastewater services to our customers in the north east of England, trading as Northumbrian Water (NW), and water services only to our customers in the south east of England, trading as Essex & Suffolk Water (ESW).

We employ over 3,000 people



2.7 MILLION

NW supplies water and wastewater services to **2.7 million** people in the major population centres of Tyneside, Wearside and Teesside as well as the large rural areas of Northumberland and County Durham. We provide wastewater services only in Hartlepool.

1.6 MILLION IN ESSEX

0.3 MILLION IN SUFFOLK

ESW supplies water services to **1.6 million** people in Essex and **0.3 million** in Suffolk. Our Essex area is part rural and part urban and includes the main population centres of Chelmsford, Southend and the London Boroughs of Barking and Dagenham and Havering and Redbridge. Our Suffolk area is mainly rural with the largest towns being Great Yarmouth and Lowestoft.

We operate and maintain:

- 53 water treatment works;
- 394 water pumping stations;
- 341 water service reservoirs;
- 26,200km of water mains;
- 410 sewage treatment works;
- 1,007 sewage pumping stations; and
- 30,106km of sewers.

Every day we supply 1.1 billion litres of water

NWL is part of the Northumbrian Water Group (NWG or the Group). Further information about the structure and ownership of NWG is provided on page 54 of this report.

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OUR HIGHLIGHTS

SUPPORTING CUSTOMERS THROUGH COVID-19

Kept essential services running and supported customers in difficult circumstances

RATED TOP WATER & SEWERAGE COMPANY BY CCWATER

Top water and sewerage company in first CCWater Water Mark assessment

THINK DIGITAL

New customer websites launched during the year

ONE OF WORLD'S MOST ETHICAL COMPANIES

Only water and wastewater company in the world on Ethisphere list

THIRD INNOVATION FESTIVAL PLUS INNOVATE EAST

Industry leading approach to Innovation and first joint event with Anglian Water

EMPLOYER OF THE YEAR

2019 North East Business Women of the Year Awards.

100% OF SEWAGE SLUDGE CONVERTED TO RENEWABLE ENERGY

Benefitting customers and the environment

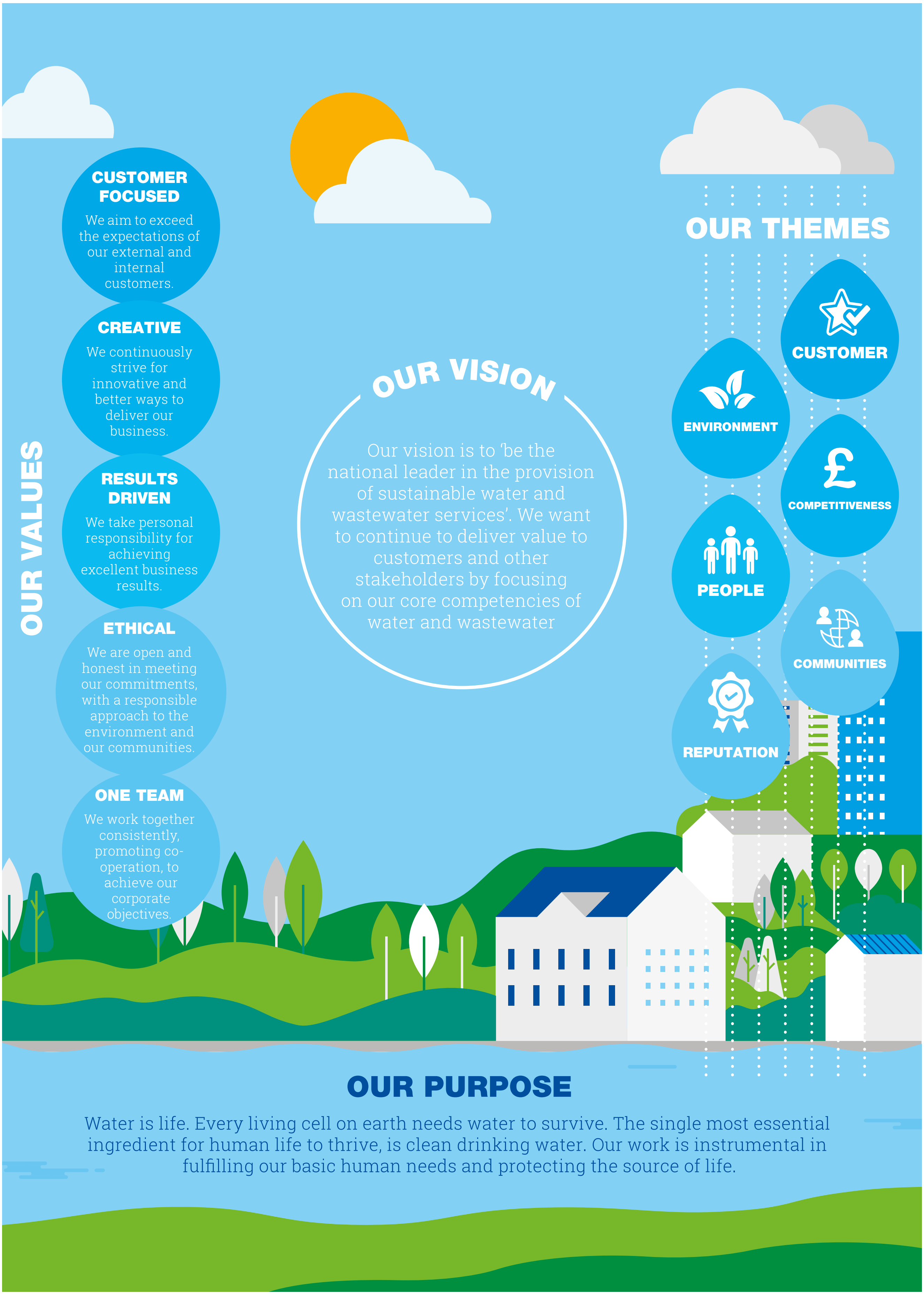
BEST PLACE TO WORK IN THE NORTH EAST

Number 1 in the Top 50 places to work at the North East Best Places to Work awards.

NET ZERO CARBON BY 2027

Programme underway to deliver challenging net zero target

BUSINESS MODEL



OUR PURPOSE

Water is life. Every living cell on earth needs water to survive. The single most essential ingredient for human life to thrive, is clean drinking water. Our work is instrumental in fulfilling our basic human needs and protecting the source of life.

WE ARE CUSTODIANS OF WATER

Delivering reliable and resilient services that are vital to public health.

We are the caretakers of water in our regions. Our practical purpose is to supply safe clean water, and remove and treat wastewater so that our communities enjoy excellent public health. Safeguarding the supply for future generations requires innovation, anticipating and instigating change and making the right decisions for the long term. We set effective and sustainable targets to match our ambition, always considering the legacy we leave.

WE ARE STEWARDS OF THE ENVIRONMENT

Valuing the natural capital and ecosystems we depend on.

We hold ourselves to account on an ambitious set of indicators designed to protect and improve the environment within our regions. We recognise the significant contribution we can make to reducing pollution, generating renewable energy, preventing flooding and improving public access to recreation. Going beyond compensating for loss of natural resources, our activities should have a lasting positive impact on the natural environment.

WE ARE COMMITTED TO DELIVERING WORLD-CLASS CUSTOMER SERVICE

Giving unrivalled customer experiences every time.

We strive to lead in customer service in our own industry and beyond. Customer service is core to our brand, values and culture. Our customers are supported to participate fully in our business, designing the services they receive, while our people know what is expected of them, and want our customers to always have complete trust and confidence in what we do. We own a customer's problem, keep our promises and show each customer that they are special by focusing on individual needs.

WE ARE THE LIFEBLOOD THAT FLOWS THROUGH OUR COMMUNITIES

Demonstrating our value and making a wider contribution to society.

We are integral to our communities, always listening to our customers so we understand what matters most to them and their expectations of us as a business that delivers public value. We are driven to protect the most vulnerable people in our society by eliminating water poverty and reducing any worries they face. Working, living and volunteering in our regions helps us to understand and positively impact the wellbeing of the communities we serve.

WE ENABLE EXTRAORDINARY LEADERS

Empowering people to know their purpose.

Working with a sense of purpose gives our people personal fulfilment. We foster a high performing culture and value diverse perspectives and skills. We support our leaders to develop high emotional intelligence, empowering our people to behave responsibly. Our people are held to account for living out our purpose, vision and values.

TAKING OUR PURPOSE FORWARD

We want our purpose statement to effectively convey what we stand for in historical, ethical, emotional and practical terms.

We want to be sure it resonates with our customers, stakeholders and employees not only now but into the future. This will ensure it continues to fit with our Vision and Values, demonstrating to all how we deliver public value.

Over recent months we have further reviewed best practice, looking not just at corporate reporting guidance, but considering how other companies are addressing purpose to ensure we can demonstrate we are leading in this area. We have also engaged with organisations that are driving purpose across the business sector, including the Confederation of British Industry (CBI), Business in the Community (BiTC), and This is Purpose, through the Social Mobility Pledge and more recently the C-19 Business Pledge. Through this we have confirmed that our purpose continues to drive our business effectively, and also identified how we should look at our purpose statement to ensure it fully encapsulates and communicates this ethos.

Our next steps will be to carry out detailed work involving senior executive leaders and board members in the business to examine our purpose statement, and to consult with our employees, stakeholders and customers on how to keep it powerful and relevant. As we move beyond our immediate response to the Covid-19 pandemic, we will put these actions into place.

OUR OUTCOMES: 2015-2020

THEME	OUTCOME
CUSTOMER	• We deliver water and sewerage services that meet the needs of current and future generations in a changing world. • We supply clean, clear drinking water that tastes good. • We provide a reliable and sufficient supply of water. • Our customers consider the services they receive to be value for money. • Our customers are well informed about the services they receive and the value of their water. • We provide a sewerage service that deals effectively with sewage and heavy rainfall. • We provide excellent service and impress our customers.
ENVIRONMENT	• We help improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife. • We protect and enhance the environment in delivering our services, leading by example.
COMPETITIVENESS	• We are an efficient and innovative company. • Our finances are sound, stable and achieve a fair balance between customers and investors.
PEOPLE	• Our people are talented, committed and inspired to deliver great services to customers. • Our people act in line with our values. • We are seen as a great place to work. • Our workplaces are healthy and safe.
COMMUNITIES	• We are proud to contribute to the success of local communities. • We work in partnership towards common goals.
REPUTATION	• We are a company that customers trust.

OUR OUTCOMES: 2020-25

UNRIVALLED CUSTOMER EXPERIENCE

Our customers' expectations are rising, and what customers want from us is changing too. We will deliver a package of measures to support our aim to deliver an unrivalled customer experience.

AFFORDABLE AND INCLUSIVE SERVICES

Water and sewerage services should be affordable for all of our customers, whatever their circumstances, and they should all have equal access to an unrivalled customer experience.

RELIABLE AND RESILIENT SERVICES

We will continue to deliver reliable and resilient services by anticipating change, planning ahead, and by making the right long-term decisions about how to run our business.

LEADING IN INNOVATION

Super-charging our innovation culture is essential if we are to continue to deliver unrivalled experiences within the context of rising customer expectations, technological advances and changing political and physical climates.

IMPROVING THE ENVIRONMENT

We will create a step change in our environmental activities, building on our role as stewards of the environment to demonstrate leadership, and to protect and improve the environment within our regions.

BUILDING SUCCESSFUL ECONOMIES IN OUR REGIONS

As a responsible business with a strong track record, it is important to us that we demonstrate leadership and make a wider contribution to life within our regions.

OUR STAKEHOLDERS

We provide essential services to our customers and, as a licensed water and wastewater undertaker, we operate within a strict regulatory environment.

It is very important to us that we understand the needs of our many stakeholders to ensure that we continue to provide a great service and deliver our business Outcomes. We engage proactively with all of our stakeholders in our continuing efforts to provide an unrivalled customer experience.

CUSTOMER VOICE

Customer participation was fundamental to the development of our Business Plan strategy for the 2020-25 Price Review (PR19), helping us to understand what matters most to customers about the services we provide, which areas of the business they would most like to influence and the best ways for us to engage with them. We engaged with over 400,000 of our customers to help shape our Business Plan through various means including design sprints, co-creation workshops and focus groups, with 91% of customers accepting our Business Plan.

We have continued to engage with our customers on an ongoing basis, through workshops, surveys, social media and face to face using Flo, our customer engagement vehicle. The launch of our new websites and customer app has created further engagement channels and we have been able to act quickly to incorporate feedback from customers into website enhancements. Examples of engagement activities which have taken place this year included our Whole Town Approach in Ashington and Leigh-on-Sea (see **page 30**), the Customer Zone at our Innovation Festival and Age UK events to share matters such as our Priority Services Register.

The Water Forum brings together a range of experts from various stakeholders to challenge the Company on behalf of our customers. It informs our approach to customer research and engagement on matters such as social tariffs research, attend customer participation workshops and partnership events as well as more formal meetings with management. Through this it provides challenge on areas where performance and outcomes for customers could be improved.

On a national and regional basis, customers' interests are represented by the Consumer Council for Water (CCWater). We share and review customer literature with them before publication and engage on how we support vulnerable customers, as well as holding quarterly liaison meetings and attending regional public meetings. During the year, their Chief Executive attended a round table on water poverty and we also met to discuss readiness for the new C-MeX and Developer Services Measure of Experience (D-MeX) performance measures.

GOVERNMENT AND REGULATORY CONTEXT

Ofwat regulates prices and levels of customer service. We engage on key issues such as market reform and future price controls as well as the need to demonstrate strong governance and the importance of maintaining the trust and confidence of our customers. This is achieved through formal processes, such as our **Annual Performance Report (APR)** and responding to consultations, regular account management calls and participating in the marketplace for ideas. In 2019 we hosted the Ofwat Chief Executive on a visit to our Innovation Festival and Chair on a visit to Innovate East. We also participated in Ofwat's key campaigns covering innovation, resilience, customer participation and water stories.

The Drinking Water Inspectorate (DWI) monitors drinking water quality and we engage at both an operational and strategic level to review performance and promote good practice, in addition to reviewing specific improvement schemes. In addition, The DWI Chief Inspector attended our Innovation Festival.

The Environment Agency (EA) regulates environmental protection and we liaise on our environmental performance, discharge compliance, pollution and sewer flooding. In addition to regular performance reviews, we have worked collaboratively through catchment partnerships and local partnerships such as the Northumbrian Integrated Drainage Partnership (NIDP). One particular area of engagement over the past year has been in relation to Drainage and Wastewater Management Planning.

OUR PEOPLE AND SUPPLY CHAIN PARTNERS

We engage with our employees both through our Employee Relations Framework and via a range of communication channels, such as team briefings, director roadshows and regular internal communications. This covers a wide range of subjects from health, safety and wellbeing and staff benefits to values and behaviours and diversity. Our approach is described in more detail in the Performance Review section, under the People heading on **pages 42 to 49**.

To meet the challenges of delivering our AMP6 (Asset Management Plan) capital investment programme as efficiently and effectively as possible, we implemented a new operating model with our supply chain, based around collaboration and co-operation. This involves joint framework governance groups, integrated programme delivery teams, joint recruitment campaigns and a joint framework for Health and Safety (H&S). In the year we carried out joint initiatives and approaches to health, safety and welfare, such as mental health first aiders, fire safety officers and psychological health checks.

CIVIL SOCIETY

We engage with government and policy makers, through briefings site visits and party conference events, to ensure there is a good understanding of the services we deliver and the key issues facing our sector. We also work closely with local authorities through regular meetings at a senior level as well as more technical meetings on matters such as planning, flooding risk mitigation and economic development matters. Activities in the year included our partnership on developing underground asset map in the North East and a joint conference with developers to discuss planning and regulatory issues.

We work closely with many non-government organisations and charities to deliver our corporate social responsibility commitments and build strong relationships with the communities we serve. Our activity in this area is explained in detail in Our Contribution Report, available on our websites, and is summarised on **pages 50 and 51** under the Communities heading of our Performance Review.

We work with the media to help communicate messages to our customers through news releases, case studies and social media messaging. This covers a wide range of subjects such as the local impacts of capital investment schemes, environmental and community investment. Coverage in the year included campaigns such as Refill and Every Drop Counts as well as issues such as the flushability of wipes.

INVESTORS

We are conscious of our duty to act in the best interests of our shareholders and we seek to achieve a fair balance between them and our customers and other stakeholders, including debt investors.

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SECTION 172 STATEMENT

The Directors of the Company have a duty to promote the success of the Company for the benefit of its members as a whole, as set out in Section 172 of the Companies Act 2006.

In doing so, the Directors must have regard to the needs of, and impact on, our many stakeholders and other matters described in the section. This Section 172(1) Statement has been prepared in accordance with new requirement established by the Companies (Miscellaneous Reporting) Regulations 2018 to describe how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act when performing this duty.

HOW THE BOARD OPERATES

The Governance Report on **pages 64 to 104** describes how the Board has operated during the year, and describes how the Board has:

- established the Company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves;
- taken full responsibility for all aspects of the Company's business over the long term;
- demonstrated leadership and an approach to transparency and governance which engenders trust and ensures accountability for their actions; and
- the range of skills and experience, including strong independent membership, enabling it to make decisions that address diverse customer and stakeholder needs.

LONG-TERM PLANNING HORIZON

The nature of our business requires a long term view to be taken on matters such as water resources and drainage management planning. This long term perspective underpinned the Board's strategy for the PR19 Business Plan, which was called 'Living water: Our plan 2020-25 and beyond', and shaped the Board's responses to the PR19 Draft and Final Determinations (see Key Decision – CMA Referral below).

During the year, the Board considered delivery strategies for the ambitious goals set out in the Business Plan. One example was the approval of an updated energy strategy which will underpin delivery of the commitment to be carbon neutral by 2027, and additional investment in solar power towards that goal. Another example was the Board discussion of how the Company is getting value from innovation to support delivery of ambitious goals set out in the Business Plan.

The Board, through its Risk & Compliance Sub-committee (R&CSC), monitors the principal risks and uncertainties facing the business including longer-term strategic risks. A detailed review of the Strategic Risk Register is carried out each year, most recently in November 2019, which considers horizon scanning reports from external sources. This year, two additional longer term risks were considered related to plastics pollution and the increasing reliance on global data platforms.

The Board closely monitors the financial position of the business through a rolling five year plan, whilst also considering longer term financial resilience over a ten year time horizon as explained in the viability statement on **page 102 and 103**.

STAKEHOLDER ENGAGEMENT

The Company has a wide range of stakeholders and we describe how we engage proactively with these groups in Our Stakeholder section on **pages 17 and 18**. Engagement with our stakeholders was

Key Decision – Purpose Statement

The Board has discussed and refined the Company's purpose statement and the updated version is set out on **page 13**. This was informed by the extensive consultation process carried out in the development of the PR19 Business Plan, with responses from over 400,000 customers and well as the Water Forum stakeholder group, regulators, employees, supplier and other partners. The Board ensured that the vision, corporate themes and values aligned to the purpose, as visualised in the business model on **page 12**.

central to 'Living water: Our plan 2020-25 and beyond', which was shaped by responses from more than 400,000 customers as well as our Water Forum stakeholder, regulators, employees and other partners. Through this process, the Board agreed stretching performance commitments to deliver improved service to stakeholders across a wide range of measures, which the Board monitors through the balanced scorecard (see **page 22 and 23**).

Much of the stakeholder engagement takes place at an operational level, the Board receiving regular reports in respect of customer service, operational performance, health and safety and key risks, such as data security of customer and employee data. However, the Board also takes steps to engage directly with employees and customers, as described on **page 74**, with one Independent NED (INED),, M Fay, designated to engage with the workforce and to provide the Board with a first-hand assessment of the culture of the business.

The Board reviews company performance across a wide range of subjects at each meeting through the balanced scorecard (see **pages 22 and 23**), which tracks performance across our corporate themes of Customer, Environment, Competitiveness, People and Communities, and also through management reports on health and safety, finance, customer, regulation and operational performance. This provides a balanced view of performance across matters of interest to each of our key stakeholder groups.

Examples of stakeholder matters considered by the Board during the year included:

- Customers: updates on the short term impacts on customer service due to the implementation of new systems, the benefits from investment in new digital platforms and efforts to extend engagement on social tariffs, especially for low income pensioners (see **pages 25 to 33** for more information on Customer matters);
- Environment: the Board approved the updated energy strategy to deliver net zero carbon emissions by 2027 and monitored performance on a range of environmental performance targets (see **pages 34 to 38** for more information on Environment matters);
- Employees: the health and safety of employees is the first matter considered by the Board at each meeting, including performance against leading and lagging indicators and progress against the Everyone Home Safe Every Day Strategy (see **pages 42 to 49** for more information on Employee matters);
- Community: consideration of sustainability matters and the impacts on the local community when approving capital projects and contracts (see **pages 50 to 52** for more information on Community matters pages); and
- Suppliers: new contract awards including extension of long term framework agreements, value of innovation partnerships and approval of Slavery and Human Trafficking statement to ensure transparency in supply chains

Key Decision – CMA Referral

In February 2020, the Board decided unanimously to ask Ofwat to refer its PR19 FD to the CMA for review. This followed discussions at a series of Board meetings. The Business Plan was developed taking account of the views of more than 400,000 customers and other stakeholders. Our customers' key priorities were efficient costs and assurance that water and wastewater services would be robust, deliverable and resilient for the future. The Board agreed that the FD did not properly reflect the views and priorities of customers, or the need for long term operational, environmental and financial sustainability. The Board took account of the trade off between lower customer bills in the short-term and long term resilience but felt strongly that the FD fell well short of what customers clearly stated were their priorities.

S172 DUTY

The Directors of NWL consider, both individually and together, that they have acted to promote the long term success of the Company for the benefit of its members as a whole during the year ended 31 March 2020, in accordance with their duties under S172 of the Companies Act.

Key Decision – Alignment of Remuneration to Stakeholder Benefits

The Board, through its Remuneration Committee, has agreed changes to the structures of both its short term and long term incentive plans for senior executives, in order to provide greater alignment to delivering benefits for customers and other key stakeholder groups. In both cases, with effect from 2020/21, 60% of benefits under the schemes will relate to non-financial measures taken from the balanced scorecard. These measures align directly to benefit customers, the environment, our employees and the communities we operate in.

PERFORMANCE REVIEW

In order to measure delivery of the Company Business Plan and goals, we use a balanced scorecard of Key Performance Indicators (KPIs) covering the full range of our strategic themes.

The top section of the Performance table on pages 22 to 23 (with a blue header block) shows our performance against the Outcomes, Measures of Success (MoS) and PCs we agreed in the PR14 price review.

We are pleased that once again we have achieved the majority of our performance targets in the period, and shown year on year improvement on many of our important customer targets, including leakage, discolouration, mains bursts and value for money. However, we aim to achieve all of our PCs and we are always disappointed when our performance doesn't meet our targets, albeit narrowly in some cases. We show (●) where we have met our performance against our promise in that year, (●) where we have not met our performance but not incurred a penalty, and (●) where we have not met our performance and have incurred a penalty.

The bottom section (with a green header block) reports our performance against our internal targets under our Competitiveness, People and Communities Outcomes.

We have reviewed and revised our Balanced Scorecard for 2020/21, taking account of the MoS and PCs set in our PR19 FD. Though we track a wide number of metrics in our business, we have reduced the number of key indicators to focus on the most important matters to our customers. The new targets are listed on page 24.

ACTUAL PERFORMANCE AGAINST THE KPI TARGETS

SCORECARD MEASURE	UNITS	2018/19 PERFORMANCE	PC	2019/20 PERFORMANCE	ACHIEVED
CUSTOMER					
We provide excellent service and impress our customers					
Ofwat Service Incentive Mechanism (SIM)	score (out of 100)	85.9	>=90	n/a	n/a
Independent overall customer satisfaction survey	score (out of 10)	8.7	>=8.2	8.6	
Domestic customer satisfaction, net promoter score	score	+43	>=32	+40	
Independent survey on keeping customers informed	%	93	>=94	93	
Our customers consider the services they receive to be value for money					
NWL independent value for money survey	score (out of 10)	8.2	>=7.9	8.1	
CCWater value for money survey – Water NW	%	75	>=83	79	
CCWater value for money survey – Sewerage NW	%	78	>=84	84	
CCWater value for money survey – Water ESW	%	71	>=73	76	
We supply clean, clear drinking water that tastes good					
Overall drinking water compliance	%	99.949	100	99.915	
Discoloured water complaints	no. of complaints	2,594	<=2,908	2,349	
Satisfaction with taste and odour of tap water	no. of complaints	1,060	<=987	862	
We provide a reliable and sufficient supply of water					
Leakage – NW	Ml/day	136.3	<=137	134.8	
Leakage – ESW	Ml/day	64.2	<=66	63.2	
Interruptions to water supply for more than 3 hours	average minutes/ property	09:12	<=05:00	06:08	
Properties experiencing poor water pressure	no. of properties	200	<=216	220	
Water mains bursts	no. of burst mains	3,853	<=4,586	2,817	

table continued...

SCORECARD MEASURE	UNITS	2018/19 PERFORMANCE	PC	2019/20 PERFORMANCE	ACHIEVED
We provide a sewerage service that deals effectively with sewage and heavy rainfall					
Properties flooded externally	no. of properties	902	<=1,318	1,001	●
Properties flooded internally	no. of properties	124	<=186	139	●
Repeat sewer flooding	no. of properties	60	<=496	75	●
Properties flooded externally – transferred network (TDS)	no. of properties	2,967	<=2,931	3,102	●
Properties flooded internally (TDS)	no. of properties	246	<=228	205	●
Sewer collapses	number	49	<=58	50	●
Sewer collapses (TDS)	number	59	<=84	63	●
ENVIRONMENT					
We help improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife					
Pollution incidents (category 3)	number	59	<=115	63	●
Bathing water quality compliance	no. sufficient	33	>=34	33	●
Sewage treatment works discharge compliance	no. failing works	0	0	2	●
We protect and enhance the environment					
Greenhouse gas emissions	ktCO2e	148	<=150	139	●

SCORECARD MEASURE	UNITS	2018/19 PERFORMANCE	TARGET	2019/20 PERFORMANCE	ACHIEVED
COMPETITIVENESS					
Gearing: net debt to Regulatory Capital Value (RCV)	%	67.2	<=77.5	67.8	●
Regulated gearing: net debt to RCV	%	66.8	<=70	67.2	●
Interest cover	times	3.6	>=2.4	4.0	●
PEOPLE					
Employee engagement – trust index	%	n/a	>=65	62	●
Employee engagement – external survey	score	One to Watch	n/a	n/a	n/a
Lost time reportable accidents	number	7	<=3	7	●
COMMUNITIES					
Ethisphere	awarded/not awarded	awarded	awarded	awarded	●

STRATEGIC REPORT
GOVERNANCE REPORT
STATUTORY FINANCIAL STATEMENTS

MEASURES AND KPI TARGETS FOR 2020/21

SCORECARD MEASURE	UNITS	2020/21 TARGET
CUSTOMER		
C-MeX: Customer experience	position	Top 2
C-MeX: Customer service	position	Top 2
D-MeX: Developer services measure of experience	position	Top 2
Interruptions to supply > 3 hours	mm:ss	<=05:24
Repeat sewer flooding incidents	number	<=46
Internal sewer flooding incidents	number	<=285
Compliance Risk Index (CRI)I	score	<=2
ENVIRONMENT		
Leakage (NW)	Ml/d	<=126.5
Leakage (ESW)	Ml/d	<=56.4
Discharge permit compliance	%	>=99
Pollution events (Category 1&2)	number	<=1
Greenhouse gas emissions	ktCO2e	<=57.2

SCORECARD MEASURE	UNITS	2020/21 TARGET
COMPETITIVENESS		
Gearing: net debt to RCV	%	<=77.5
Regulated gearing: net debt to RCV	%	<=70
Interest cover	times	>=2.4
PEOPLE		
Employee engagement index	%	>=65
Lost time reportable accidents	number	<=3
COMMUNITIES		
Trust - BITC Platinum Plus / Ethisphere / CCWater	awarded	awarded

CUSTOMER

CUSTOMER EXPERIENCE

Ofwat has used its SIM to measure our customers' experiences of dealing with us over recent years. As part of its PR19 FD, Ofwat assessed SIM performance for the four years from 2015/16 to 2018/19 and we were pleased to receive a positive outperformance reward of 1.9% of retail revenue.

For future years, Ofwat has introduced a new customer measure of experience (C-MeX). In addition to assessing service received, this is a broader and more representative measure of customers' wider experience and perception of our performance. C-MeX has operated in 'shadow year' for 2019/20, with no reward or penalty opportunity, to help companies and Ofwat to understand the new metric, and Ofwat published updated guidelines as part of its FD. Our ambition is to be in the top 2 companies for C-MeX. For the shadow year, we ranked 5 out of 17 water companies overall.

A separate measure has been introduced as a developer services measure of experience, D-MeX, assessing the service that we provide to developer services customers, including property developers, self-lay providers and those with new appointments and variations. This applies similar principles to C-MeX and has also operated in shadow reporting this year. Our ambition is to be in the top position for D-MeX across the AMP. For the shadow year, based on data shared between water companies we were very pleased to be ranked 1 out of 17 for the qualitative score.

"We provide excellent service and impress our customers"

UNRIVALLED CUSTOMER EXPERIENCE

Our clear ambition is to provide an unrivalled customer experience to each and every customer, whatever their circumstances or needs, and however they choose to contact us. Understanding our customers' preferences and changing needs is key to our success in providing an unrivalled customer experience to each and every one of our customers, whenever they engage with us. This is encapsulated in our Unrivalled Customer Experience strategy and informed by engagement with over 400,000 customers through the development of our PR19 Business Plan.

We have continued to engage across our customer base, using our mobile customer engagement vehicle, Flo, to reach different groups. For example, we've attended events at Newcastle, Durham and Northumbria universities to understand the needs of our student customers and, as a result, developed specific web pages to better engage and inform them. Flo has also been a proven model to engage more widely in understanding what our customers are interested in, such as key parts of our strategies in areas like water efficiency, and our Every Drop Counts campaigns, to sewer flooding and our 'Bin the Wipe' message. We've also used it as a vehicle to share more about our inclusivity strategies and to encourage customers to talk with us about the things that matter most to them.

We continue to work to evolve our thinking in line with best practice, using the Institute of Customer Services' UKCSI as a benchmark, and working with organisations like KPMG to understand some of their international benchmarking principles and measurements. We ran an Unrivalled Customer Experience sprint at our Innovation Festival, bringing together key speakers from across a number of industries and from a number of key 'north east' companies, ensuring we were aware of what businesses and customers expect in 2020 and beyond, in respect of service, experience and corporate social responsibility.

Customers in 2020 and beyond are looking for more and different things and we're evolving our thinking in order to reflect these nuanced changes and providing leading edge thinking and models. We are developing these ideas and refreshing our Unrivalled Customer Experience and Inclusivity strategies to help us continue to meet our customers developing needs.

DIGITAL TRANSFORMATION

Over the past few years we have committed a considerable investment in our transformational change programme, ONCE (Our New Customer Experience), including the implementation of our new Customer Care and Billing system. As with any significant change programme, the transition from disparate legacy systems to an holistic suite of future-proofed and integrated systems involved a steep learning curve for our people and took some time to stabilise, during which we saw some short term impacts on performance. We invested in extra staff, training and support as we worked through the changes, and are now beginning to see the benefits of the increased capabilities. We are also pleased that these improvements have been recognised in our meetings with CCWater and other stakeholders as well as in customer feedback.

Think Digital is a key component of our overall Unrivalled Customer Experience Strategy and one where we've driven significant improvement and engagement across the year. We've engaged with colleagues and customers through a number of channels, including face-to-face interviews, A-B testing, digital focus groups, customer testing, online forum engagement to test ideas and online digital challenges. We've aimed to engage with different customer groups for this, working with customers from school work experience 'future customer' groups, to students, to working customers to customers who have retired and we engaged with as part of our link with Age UK.

This culminated in the launch of our new websites in October 2019, moving to a new and agile platform with completely new customer journeys and experiences. This is a key part of our digitalisation strategy, to give customers access to channels of choice and the ability to self-serve and engage with us in a new way. Our new websites have a completely new look and feel and customer feedback has been great. Since go live we have worked to implement over 100 enhancements to the customer experience on the website, responding to customer suggestions. In March 2020 we saw a record numbers of transactions coming through the website and our new customer app, which we launched in February 2020.

CUSTOMER SATISFACTION AND VALUE FOR MONEY

Our aim is to deliver an unrivalled customer experience and, in addition to our C-MeX performance, we track various measures of customer satisfaction with the services we provide and the value for money of those services.

Our own customer satisfaction research is carried out quarterly by an independent company. Though our score fell slightly in the year from 8.7 to 8.6, this remains a strong result and well above our PC. As an alternative indicator, we use Net Promoter Score to measure customer advocacy, the loyalty that exists between a company and its customers, and our strong positive score of +40 ranks us alongside leading UK businesses.

Our customers tell us that it is important to keep them well informed and 93% of our customers have told us that they were satisfied that they are supplied with all the information they need to feel informed about the services we provide. We engaged with more than 400,000 customers during the development of our PR19 Business Plan to Ofwat and continue to engage on an ongoing basis.

> "Our customers consider the services they receive to be value for money"

Our customers have also told us that value for money is very important to them, and this is a key area where they would like to be involved in influencing our future plans. We use two surveys to help us assess whether our customers think we offer good value for money.

CCWater carries out research with customers about the value for money of services provided. We were delighted to see significant increases in our scores in both our NW region, for water and sewerage services, and in our ESW region, for water only, where average bills are higher. We achieved our PC against two out of three of these measures, for water services in our ESW area and wastewater services in our NW area, but were disappointed not to achieve our PC for water services in our NW region. We continue to strive to keep bills at affordable levels and we describe our work to support customers in vulnerable circumstance below. We also commission independent surveys for which the value for money score reduced marginally to 8.1 out of 10, remaining above our PC.

SUPPORTING CUSTOMERS IN VULNERABLE CIRCUMSTANCES

We have committed to eradicate water poverty across our supply areas, working with the charity National Energy Action (NEA) in an innovative research and delivery partnership. We have a number of arrangements in place already to support customers who are in vulnerable circumstances, as set out in our Inclusivity Strategy, which we developed in partnership with our customers. Through our strong partnership with the debt charity StepChange we continue to assist our customers to receive holistic debt advice. With the benefit of our data sharing agreement with StepChange we know which of our customers are seeking debt advice so that we can provide them with the breathing space they need to work through their finances.

We extended our affordability tariff in 2019/20 to include those in receipt of pension credits, building on our existing tariff which provides a discount of up to 50% for low income households where their water bills represent more than 3% of net income. We have been working actively with the Department for Work and Pensions (DWP) to be able to make use of the powers within the Digital Economy Act to identify customers who would be eligible for our financial support schemes. This will allow us to proactively check eligibility for our customers and provide support to those who need it.

Looking ahead, in our Business Plan we committed to the largest reduction in customer bills in the country. We will continue to work with DWP to extend the data sharing initiatives which will enable us to focus on proactive support and our customer digital twin project to help target how we promote our affordability schemes. We are also working with our credit reference partners on automating online eligibility for support schemes and we are exploring a digital banking income and expenditure initiative. In addition, we continue to support the work with NEA on water poverty developing new ways to support customers save money on both their water and energy bills.

"Our customers are well informed about the services they receive and the value of water"

JUST ADD YOU

We are passionate about water, and understand its importance to everyday life. Our customers' expectations are rising all the time.

We're proud of what we do already but know we can do more on our customer focus, consistently creating unrivalled experiences. Making sure we get it right first time is more important than ever. We want our customers to know we've done a great job, and that they matter to us.

In 2019 we launched our external customer campaign across our regions, 'Just Add Water', to remind our customers just how important water is to everyday life. However, we know that we can't give our customers an unrivalled experience without every one of our team playing a part in that, so we also created 'Just Add You' to showcase the diverse and brilliant ways our people help our customers every day.

We asked our customers what was important to them and focus our service on the five priorities chosen by our customers:

- Show each customer that they're important to us;
- 'Own' the customer's problem;
- Make it easy for them;
- Be proud to promote our great work in local communities; and
- Keep our promises.

To complement these, and to support in delivering an unrivalled customer experience every time, we've taken some great learning from a model developed by KPMG Nunwood; the Six Pillars of customer experience excellence. The Six Pillars provide a framework that supports leading companies around the world in driving positive change in their businesses. These are:

- Integrity – demonstrating trustworthiness;
- Resolution – putting issues right quickly;
- Expectations – understanding and exceeding expectations;
- Time and effort – enabling customers to achieve their objectives quickly and easily;
- Personalisation – understanding and adapting to a customer's specific needs; and
- Empathy – relating to a customer's experience.

Our customers are at the heart of everything we do and being recognised by our customers for great customer service is really important to us. By understanding our five customer priorities, and using the Six Pillars, whenever we engage with a customer means we can make sure we are delivering a world class service that we can be really proud of, each and every time.

WATER QUALITY

The water we supply must meet the stringent quality standards set by the DWI, to ensure that it is safe to drink and free of colour and particles, poor tastes and smells. Our overall drinking water compliance remains extremely high at 99.915%. To put this in context, this represented only 58 failures from over 86,000 tests, and it is important to note that none of the failures represented a risk to health.

Whilst we do expect some variation in performance due to samples being taken on a random basis, we are committed to improving water quality even further and have been delivering our long term plans to achieve this. We have been working end to end through our water supply system, from protecting raw water by our catchment management activities through to investing in improvements to our water treatment and distribution processes and systems.

"We supply clean, clear drinking water that tastes good"

We are continually evolving our processes to improve water quality performance over the longer term through our catchment management approach. Over the years Catchment Partnerships have become an essential way of working to improve the water environment and in 2019 we have continued our extensive engagement with the nine Catchment Partnerships in our NW and ESW regions. We work with a wide range of partners, including Rivers and Wildlife Trusts, Local Authorities, the EA and Natural England, and this has allowed us to pool our activity and funding in order for us all to make a difference to the water environment for our customers. Activities in the year have included hosting and funding events for farmers and land managers, and delivering on-farm improvements, and supporting catchment projects such as the Pennine-PeatLIFE project.

The DWI introduced a new measure of drinking water quality in 2017 called the CRI. This uses information from the whole source to tap journey, through water treatment works, networks and customer taps, to make a more exacting assessment of water quality. The CRI is a risk calculation and a perfect score is zero, indicating no failure of any standard within the entire water supply system. Our ambition is to drive towards a zero score over time.

CLEAN CLEAR WATER THAT TASTES GOOD

We have been working to reduce the number of discoloured water complaints in our NW area for more than ten years now and have seen a significant improvement over this time. Our performance improved further in 2019 to 2,349 contacts, compared to 2,594 contacts in 2018, the fifth year in a row we have performed better than our PC. However, when we compare to other companies in the industry, we recognise there is still more to do. We are continuing to make improvements at our water treatment works and managing our networks to reduce the accumulation of discolouration material. To continue our improvement journey we have identified a new programme of work, with DWI support, for our discolouration management plans for 2020-25.

The drinking water we supply is of a very high quality but occasionally some of our customers perceive different tastes or odours. This can occur as a result of the use of chlorine to maintain good hygiene in our water supply network, a change in where a customer's water comes from, or how it is treated, or even issues with a customer's own plumbing. The number of contacts we received reduced from 1,060 to 862 in 2019, which represents upper quartile performance in the sector.

RELIABLE WATER SUPPLY

Delivering a reliable supply of water to customers is core to what we do and we have delivered amongst the lowest levels of interruptions to supply in the industry over a number of years. After a challenging year in 2018/19, we have reduced the average interruption time per property from over 9 minutes to 6 minutes 8 seconds in 2019/20. This has been achieved through refresher training to our field and office based staff to refocus our commitment to keeping interruptions as short as possible, using temporary supply equipment where possible.

"We provide a reliable and sufficient supply of water"

We have maintained our focus on managing leakage throughout the year, aided by the relatively mild weather over the year and a significant reduction in burst mains. Leakage averaged 134.8 Ml/d in NW and 63.2 Ml/d in ESW, comfortably achieving our PC level in each of our operating regions. This performance was supported by the innovative actions we have taken over recent years, including using satellite imaging to help locate leaks and our online leakage portal to allow customers to report leaks more easily.

The number of water mains bursts reduced from 3,853 to 2,817. In order to maintain a stable burst rate we invest in replacing sections of our vast network of water pipes each year. In 2019/20 we replaced almost 70km of distribution mains across our operational areas. We have also been progressing with an innovative project looking at how we could further reduce bursts in the future by better managing 'pressure transients' which are high pressure shocks that reduce the life of water pipes and cause bursts.

We proactively monitor and investigate water pressures in the network so that we can identify customers who are not receiving sufficient pressure and take action. We have improved the pressure for 947 customers during the year, leaving 220 properties on the low pressure property register at the end of the year.

WATER EFFICIENCY

In addition to reducing water lost from our network, in 2019 we adapted and enhanced our Whole Town Approach to deliver multiple key campaigns in a community-focused and targeted programme. We delivered the programme in the towns of Ashington, Northumberland and Leigh-on-Sea, Essex, presenting ourselves in their community in a 'one-stop shop' to offer our help in whatever way we could. In addition to our Every Drop Counts water efficiency message, we added our Bring Your Own Bottle environmental message and Water Without The Worry customer affordability support. The co-ordinated approach was a great success in terms of engagement and customer satisfaction.

> "We provide a sewerage service that deals effectively with sewage and heavy rainfall"

Another water efficiency campaign we launched in the year was our 'Leaky Loo' programme. We know from research that between 5% and 8% of households have a leaking toilet wasting between 200 and 400 litres a day. For NWL this equates to approximately 105,000 homes wasting around 23Ml of water each day. We have introduced a service where we help customers identify if their toilet is leaking and repair it for them if it is. In addition to saving our customers money, we are helping to improve water efficiency towards our ambitious goal of reducing per capita consumption.

SEWER FLOODING

Sewer flooding is one of the worst service failures our customers can experience and reducing this remains one of our highest business priorities. Over the past year we have experienced a number of months where we have had sustained periods of wet weather, which has impacted our performance in this area. As a result, while the total number of properties flooding internally has reduced from last year, we were disappointed to see the number of properties flooding externally or suffering repeat flooding increase slightly.

Four out of our five sewer flooding measures achieved their PC, with external flooding from the network of drains and sewers transferred into our ownership a few years ago missing the PC slightly. Sewerage investigations, surveying and mapping of our transferred network continues to improve each year and this will help us to further improve our sewer flooding performance in this area.

We have agreed further challenging targets on sewer flooding for the next five years. In order to reduce the risk of sewer flooding and to help achieve the commitments we have made within our business plan, a sewer flooding tactical plan was developed to identify and deliver effective near term interventions. The sewer flooding tactical plan includes interventions around the core themes of customer communication, focused teams, improved operational planning, better use of data and an increased CCTV programme.

Communications, including our 'Bin The Wipe' campaign (see case study on page 32) aims to avoid blockages caused by misuse of sewers. Our newly created focused teams include a mix of technical and operational resources to respond to incidents, investigate root causes and fix problems identified on the network. Operational planning is identifying improvements in the way we work to help reduce the number of incidents occurring which are within our control. The tactical plan will support our longer term service delivery strategy for managing sewer flooding.

Occasionally the structure of a sewer can collapse, which can be due to ground movement, third party damage or age, and this can cause flooding or pollution. The number of sewer collapses remained at similar low levels to the previous year and well below the PCs.

BIN THE WIPE

We have to clean out 15,000 blockages a year from our sewer network, approximately 64% of which are caused by people flushing wipes.

These blockages can cause sewage to back up into customers' homes or to flood into the environment, in rivers or even beaches, and we want to stop that happening. Even brands of wipes that have the word "flushable" on the packet can contribute to this problem, so we want people to dispose of all wipes in bins, not down the toilet.

Historically, we have tried to encourage people to only put 'toilet paper, pee and poo down the loo'. However, the problem persists and we want to create sustainable, behavioural change that protects customers, their homes and the environment. In November 2019 we launched our new customer behaviour change campaign 'Bin the Wipe'. Alongside this overarching campaign, we also launched three targeted pilots in hot spot areas; Newcastle, Stockton and Redcar with the aim of reducing the amount of blockages caused by wipes in our sewer network.

Redcar – The Big Bin Giveaway

During our research we found that more than half of households did not have a bin in any bathroom. We visited all houses in this area to explain how flushing wipes can cause sewer flooding and gave each household a bin to put their wipes in rather than flushing them down the toilet. We are carrying out follow up communication and surveys to reinforce behaviour changes and our wastewater team is monitoring the network to see if the number of wipes ending up in our sewer network has reduced.

Stockton – Making blockages a moment of change

In January 2020 we wrote to all the households in this area to let them know we would be monitoring the sewers in the area, using smart technology to pinpoint which houses are flushing wipes. We also shared imagery of houses that have been flooded in the area because of blockages caused by wet wipes. Our wastewater team are now carrying out proactive and reactive work to pinpoint offending streets using our porcupine equipment, which catches wipes in the network on its spikes and allows the team to identify which direction the wipes have travelled from back to specific houses. We then engage directly with those customers through a five stage process.

Newcastle – Getting into good make up habits

Research has shown that over 50% of the wet wipe blockages we have to clear have been used for removing make up. We launched a specific make up focused 'Bin the Wipe' campaign in seven Newcastle postcodes, sharing messages about alternative products people can use to clean their face using social media 'influencers' as part of an integrated communications campaign.

We have seen a strong start to our social media campaign with our posts reaching more than 450,000 people and drawing more than 36,500 engagements. We've had continued support from a wide range of partners, including local authorities who have re-affirmed their support for #BinTheWipe.

INTELLIGENT ASSET MANAGEMENT

We adopt an integrated approach to managing our assets, which means finding the right balance between operational and long-term maintenance and investing in new assets at the right time, in the interests of current and future customers. We have company-wide accreditation to ISO 55001 Asset Management, demonstrating that we follow best practice in the long-term management of our assets.

Our Intelligent Asset Management (iAM) programme is building on this approach and will deliver both improved systems and processes and enhanced data and analytics to improve how we manage our assets. The first two phases of this programme, covering customer contact for operational matters, and below ground assets on the waste water network and water network in ESW, were implemented successfully during the year. The roll out for water network in NW was delayed until summer 2020 as a result of the Covid-19 pandemic.

ASSET HEALTH

We use the concept of Asset Health to assess the effectiveness of our long-term stewardship of our assets, based on two baskets of measures, for water and wastewater. As asset health is about the long-term stewardship of our assets, we assess our performance on a three-year rolling average basis.

Three out of four of our measures for water performed better than their PC for the three year period 2017/18 to 2019/20. However, our PC for overall drinking water compliance is set at a zero failure rate and, though we have a very high level of compliance, we did have a small number of failures in the year.

Similarly, on wastewater three out of four of our measures for water performed better than their PC for the three year period 2017/18 to 2019/20, but we had a zero PC target for sewage treatment works discharge compliance failures and have suffered an average of one failure each year on a three year rolling basis.

More detail on our asset health performance is available in our **APR**.

"We deliver water and sewerage services that meet the needs of current and future generations in a changing world"

RESILIENCE FRAMEWORK

We manage a large and complex asset base where a failure could have significant impacts on our customers and the environment. We know from our research that our customers are increasingly interested in the reliability and resilience of their water and wastewater services.

We have a strong track record as a resilient company. Our water resources are very secure and we have a security of supply index of 100% in all of our water resource zones across the full 40 year planning horizon of our water resources management plan. Our sewer flooding performance for both internal flooding and repeat flooding incidents demonstrates a magnitude of improvement since 2015.

We understand that the uncertainties that exist in today's world, such as climate change, will continue to challenge our business into the future. To demonstrate that we are moving to a position of strength in the future we have developed our own Resilience Framework, an effective way to show the interdependency and complexity of our business systems across corporate, financial and operational aspects. Our Resilience Framework provides a structure for us to achieve resilience in the round by taking an integrated and systematic approach to understanding risk and resilience challenges across all of our business areas. More information on this can be found in our Business Plan at **www.nwgourplan.co.uk**

ENVIRONMENT

We are committed to meeting our ambitious goal to have zero pollutions as a result of our assets and operations, and to have the best rivers and bathing water beaches in the country for the benefit of people, the environment and wildlife.

POLLUTION INCIDENTS

We manage and maintain a network of almost 30,000km of sewers across the NW region. When we have problems in our sewerage system, such as from blockages, mechanical breakdowns or power outages, untreated sewage can sometimes escape into watercourses and the sea causing environmental harm.

We continue to focus our attention on reducing the risk of this happening but a relatively small number of these pollution incidents occur. We are pleased that the number of more serious category 1 and 2 pollution incidents remains low at 2, down from 9 in 2016. One was related to a sewer near a watercourse and the other from our water distribution network. The number of category 3 incidents remained broadly stable and well below our PC. We continue to proactively self-report a high proportion of incidents to the EA, 80% in 2019, assisted by our Water Rangers programme.

This performance has been achieved as a result of our transformative pollution management programme. We are continuously learning and improving our pollution performance through our company-wide zero-tolerance approach. Our focus is to constantly examine all aspects of pollution through our Pollution Best Practice Group and target our efforts to effectively reduce the number of incidents. We have published a Pollution Incident Reduction Plan on our website, setting out our ongoing commitment to reducing pollution incidents further to 2025.

BATHING WATER QUALITY COMPLIANCE

Our bathing waters in the NW region continue to be amongst the cleanest in the country. Our aim is to contribute to all of the region's bathing waters being categorised as 'Sufficient' or better by the EA, working in partnership to make this happen as we recognise seawater quality can be affected by a number of sources, such as run-off from agriculture, urban pollution and from birds or animals.

"We help to improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife"

All bar one of our bathing waters achieved either the 'Good' or 'Excellent' standard, with 25 out of 34 achieving the highest standard. However, one of our bathing waters, at Cullercoats in North Tyneside, was classified as 'Poor' for a second year.

We continue to work in partnership with the EA and local authority to understand the reasons for the localised decline in bathing water quality at Cullercoats. Since September 2017, an extensive investigation programme has been carried out that has ruled out a number of potential factors. This has included undertaking precautionary measures and remedial works on parts of our network together with the resolution of a number of third party issues. We remain committed to working with our partners to improve the seawater quality at Cullercoats, including investigatory investment in our PR19 Business Plan.

SEWAGE TREATMENT WORKS DISCHARGE COMPLIANCE

The EA sets strict standards for effluent discharged into rivers, estuaries and the sea. These standards are specified in environmental permits for each of our sewage treatment works, taking into account what is required to protect the water quality and ecology of the rivers and bathing waters specific to our region. We have a very strong discharge compliance record, with zero failures in 2018, but were disappointed to have two discharge permit failures in 2019, against a challenging background of extreme weather events and third party impacts.

We are continuing our planning to meet future new and tighter consent standards and to satisfy our obligations in working towards meeting 'Good' Water Framework Directive status in our rivers. To do this, we will build on our innovative operational management and early warning systems, TriM (trigger management system) and DRIVE (Dynamic Risk Index and Visit Effectiveness – see case study on **page 36**), a tool that allows us to understand real-time compliance risk across all of our treatment works. These systems have been adopted both at works with numeric permits and those with descriptive permits. Our operators are also intervening more frequently at our descriptive works in order to prevent permit non-compliance and potential resulting pollution incidents.

"We protect and enhance the environment in delivering our services, leading by example"

We are continually evolving our processes and continuing to work in partnership to attain the necessary sustainable improvements in river water quality, supporting a catchment-based approach to managing the water environment. We are working within four catchment partnerships across the north east, in Northumberland, Tyne, Wear and Tees.

We know that future permits will tighten as legislation changes. This will introduce new challenges and standards, as well as tightening existing permit standards, which will require us to adopt new treatment technologies and increases the emphasis on very efficient operational control. We are also aware that the pressures of increasing population, new housing, industrial developments and climate change will challenge our performance.

DRIVE (DYNAMIC RISK INDEX AND INTERVENTION EFFECTIVENESS)

In a business where customer service levels and standards of service delivery performance are becoming increasingly demanding, at the same time as striving for industry-leading cost efficiency, we need to be much smarter at identifying, predicting and targeting resources towards risks in a much more measured and focused way.

We have always believed that most of the information we need to run our business is known to us. The challenge has been to capture it, determine when we need to act on it and identify who has the capacity and capability to carry out those actions.

Systems and processes are usually very capable of doing what they were designed to do in isolation. The challenge for our Drive project was to create an integrated business process which:

- identified the key operational measures from the vast amount of data points generated every second across our operational business;
- combined these to create leading indicators at the asset and operational system level;
- added asset health and criticality weightings to these measures to allow us to calculate risk;
- created a single business view of where effort needs to be focused to address these risks before they impact on performance; and
- communicated a clear enterprise-wide workflow to ensure that people understand their responsibilities to execute action plans to mitigate against these risks.

The DRIVE approach has created a cultural change to clear, evidence-based decision making, with discussions based on asset failure rates and deterioration trends rather than individual judgements. The increased level of operational understanding has also reduced dependence on technical experts.

The result has been improved performance through industry-leading sewage treatment compliance as well as a 30% reduction in underlying risk score due to improved operational focus on specific issues.

The DRIVE framework has now been extended from wastewater treatment into water and wastewater networks and water supply to create a common approach to managing operational risk across the business.

CLIMATE CHANGE

The nature of our business, with our interaction with the natural environment, means that climate change presents particular challenges to us and our customers, and is one of the principal risks facing our business (see page 61). It also means we have significant potential to make a positive contribution to both climate change adaptation and mitigation. We have sought to realise that in the past year and in our future planning, facing up to the challenge of water resources becoming scarcer and demand increasing, as set out by EA Chief Executive Sir James Bevan in a series of speeches in 2019.

Ten years ago we committed to a carbon management plan with the aim of reducing our greenhouse gas (GHG) emissions by 35% by 2020 against a 2008 baseline. We were delighted to achieve this goal ahead of schedule in 2018/19. This was achieved through a twin focus on energy efficiency and renewable energy generation.

Our focus on energy efficiency included investing in optimisation tools, such as Aquadapt, and the use of data analytics, site energy audits, trigger management and investment in energy efficient assets are all routinely applied to drive down our underlying consumption. In respect of renewable energy, we use 100% of the sludge remaining after sewage treatment to produce renewable energy at two thermal hydrolysis advanced anaerobic digestion plants and power all our sites using renewable electricity, including a long term commitment to offshore wind power.

In the last year we have installed over 500 new smart meters to help monitor energy usage at our treatment works and pumping stations, and implemented a new travel booking process to provide insight and support reducing business travel. We have also signed outline agreements with a third party to develop solar power at a number of our sites which will provide emissions-free, and lower cost, energy.

Net Zero Emissions

In March our Chief Executive, Heidi Mottram opened an industry-wide conference, Water UK's Delivering a Zero Carbon Water Sector conference. Representatives from across the sector came together to discuss the challenge and share experience as they work to deliver on a commitment to be net zero carbon by 2030. We have gone a step further and have set a challenge of achieving net zero carbon by 2027, three years ahead of the government target. In addition, we have committed to creating zero avoidable waste by 2025

In terms of carbon emissions, we are continuing to explore renewable energy opportunities through solar generation, pilots of large scale battery storage and the production of hydrogen in hydropower sites that cannot be connected to the grid. We have begun the process of turning our vehicle fleet green with the addition of our first electric vehicles and are investigating the use of biofuels, while we introduced a new system to help monitor and reduce the amount of travel we do. We are extending this to our supply chain, and have committed to increase the amount we spend in our operating areas to 60p in every pound, to reduce transportation, as well as supporting local economies.

Our commitment on waste will mean eliminating, re-using or recycling 90% of waste from operations, and working with partners to contribute to the circular economy in our regions. Our Innovation Festivals already operate on a zero waste basis, with no waste going to landfill, including all food waste being taken to a local anaerobic digestion plant to produce gas.

Resilience

Over the longer term, climate change could impact on water resources resilience and the integrity of our assets. Our Resilience Framework provides a structure for us to achieve resilience in the round by taking an integrated and systematic approach to understanding risk and resilience challenges across all of our business areas and how they interact. Resilience was a key element of our PR19 Business Plan.

Our Water Resource Management Plan has demonstrated that we have 100% security of supply index in all of our water resource zones across the full 40-year planning period. We have also demonstrated our resilience to a 1 in 200-year drought scenario.

In our southern operating area the completed expansion of Abberton Reservoir in 2014 provides further security in Essex. However, although our Essex region has robust water resource availability there are constraints, under certain circumstances, on our ability to move water to where it is required for treatment and distribution. In our PR19 Plan we proposed a new Essex transfer scheme that would provide additional flexibility and allow our two key reservoirs to be kept in balance. There was strong customer support for investing to enhance the resilience of supplies in this way and this scheme forms a key part of our case at CMA.

The security of supplies for customers in our North East operating area is largely due to the reserves available from Kielder Reservoir, and the flexibility provided by the Kielder Transfer System – a giant pipeline that can feed into the rivers Tyne, Wear and Tees.

We recognise that this puts us in a position to contribute to resilience in neighbouring operating areas as well. We play a full part in both Water Resource East, which is pioneering a collaborative approach to water resources planning across Eastern England, and Water Resources North, protecting resilience and supporting sustainable growth in the Northern Powerhouse.

On the wastewater side, we are also using industry-leading approaches to reduce the risk of flooding. Our award-winning NIDP brings 13 Lead Local Flood Authorities across the North East together with the EA to promote sustainable drainage.

We are using innovation to manage flood risk, including utilising Digital Twin technology to assess how our assets will respond to extreme weather events, and deploying fibre-optic sensor technology enabling us to measure depth flow and temperature in our sewers, helping us to predict and resolve incidents before they occur.

We included in our PR19 business plan a programme to address properties which are at increased risk of sewer flooding for the first time due to climate change and the effect of urban creep. This is distinct from our base programme which is focused on preventing repeat flooding at properties which have experienced flooding previously and reflects strong customer support for a more proactive approach. This sewer flooding enhancement scheme forms another key part of our case at CMA.

COMPETITIVENESS

FINANCIAL PERFORMANCE

The financial performance of the Company is detailed in the Financial Performance and Structure section later in this report.

"Our finances are sound, stable and achieve a fair balance between customers and investors"

INNOVATION

We believe that innovation is the process of turning ideas into business value, and that this is everyone's responsibility. We have engaged with and empowered our people to develop a culture which is open to future change and the potential to improve the lives of our customers and the environment that we live and work in.

This year has seen the creation of a robust innovation pipeline and process which is enabling focus on the big challenges laid out in the business plan. Central to this are the innovation ambassadors that are enabling innovation across the business. These employees are spreading innovative culture across the business and driving the implementation of innovative new ideas so it becomes business as usual.

"We are an efficient and innovative company"

In 2019 we launched Amplify which is an idea management platform that is harnessing the creativity and expertise of our employees, our supply chain, eco-system and beyond. This is a challenge based approach so focus is on solving big challenges like reducing the use of single use plastics when there is an interruption to supply, increasing the number of customers on the priority register and how to reduce flooding by changing customer behaviours (see case study on **page 32**).

INNOVATION FESTIVALS

We drive innovation all year round, but our festivals are the focal point. The events have become firmly-established as industry-wide and attract participants from across the globe. In 2019 we had more than 3,000 people join us from 734 organisations. This diversity represents a huge breadth and depth of experience that we would not be able to tap into in business as usual activities. The professional services value of this contribution is estimated to be worth c.£5m.

Clearly the main purpose of the event is to create new ideas to improve our business. We also use it to rapidly progress existing ideas, or 'a year's worth of work in a week'. We have used this technique to great effect to drive forward ideas that require collaboration across organisational boundaries, such as the Common Underground Map.

The festival places us firmly at the epicentre of an innovation ecosystem. There are lots of spin offs from the event, many of which we get involved in, some of which happen without us. Our reputation for being innovative is enhanced either way. To date, our festivals have attracted over 6,000 participants generating 132 ideas back into the business. In 2019 we reached more people than ever with Twitter messaging, achieving a reach of 3.6m people.

In September 2019 we held a joint event, Innovate East, with Anglian Water over three days in Ipswich, a first of its kind for the industry. The event had its own character, but was broadly based on our Innovation Festival format. We embraced open innovation, attracting participants from over 250 organisations. We held nine sprints and three hacks within the context of four themes: leakage, social purpose, natural capital and digital twins.

INVESTQUEST

It is important that our people have the opportunity to have their ideas listened to and we continued our InvestQuest competition, which allows our employees to say how they would use an investment of up to £250,000. For the best five ideas, the individuals and teams were given the opportunity to pitch their idea to a panel of directors in a 'Dragon's Den' style. The ideas covered a diverse range of subjects from improving customer complaint handling to an automatic flushing and probe system and generating more renewable energy from our anaerobic digesters. The winning idea was a mobile unit which would provide real time analysis data, and this is now being progressed into reality.

RESEARCH AND INNOVATION PARTNERSHIPS

We are at our best and most innovative when we combine our people and ideas with those from the outside world. Accordingly, we have built strong relationships with organisations and individuals to support our innovation initiatives. These innovation partnerships have given us early sight of latest thinking and product developments. Some examples of our activities over the last year are given below:

- We regularly work with inventor in residence, Andrew Turner Innovation Limited, on a number of early stage proof of concept projects including a smart drain pipe, which slows down the flow of rain water from roofs into sewers, helping reduce the risk of flooding;
- We are collaborating with Wordnerds, applying artificial intelligence to linguistics to help us to interpret how our customers feel about their experience of NWL, particularly when we are reading written comments and feedback on social media;
- Our partnership with Durham University has continued with our Innovate UK-funded Knowledge Transfer Partnership, which is working with affected people to increase flood resilience in their communities;
- We have also continued our partnership with Newcastle University with the appointment of a post-graduate research engineer to investigate the role of green infrastructure in reducing urban flood risk, and the expansion of the BE:WISE wastewater research facility at our Birtley sewage treatment works;
- Our work on Digital Twins has also continued apace, focusing on developing digital twins of water supply systems and biogas production;
- NWG is a founder member of the national Digital Twin Hub. We are pleased to work with this group of developers, owners and users of digital twins to shape the national landscape and ensure that digital twins create value for our customers and stakeholders.

We also work closely in partnership with colleagues across the water and utilities sector, including playing an active role in UK Water Industry Research, which is chaired by our Wastewater Director, Richard Warneford. Through our membership of the Cross Utility Innovation Group (with Northern Gas Networks (NGN), Northern Powergrid and Yorkshire Water) we share knowledge and look for opportunities for collaboration to tackle shared needs on a regional basis. Most recently, we partnered with the Energy Innovation Centre to run a series of open innovation challenges in collaboration with their other members.

THE POWER OF 5G

In December 2019, we joined forces with telecoms partners and conducted a series of initial 5G trials to harness the power of 5G connectivity to revolutionise the way we operate. Across our business we require a range of technical skills and competencies in order to manage the logistical challenge of maintaining water in our supply areas and the wastewater services across the North East region. 5G-enabled augmented reality technology allows experienced technicians to remotely guide on the ground teams through complex tasks by relaying real-time data and instructions. The technology also allows multiple experts to join one call simultaneously, adding valuable second opinions.

The first set of trials will focus on areas including a home water maintenance app, for consumers to monitor their home's water supply and flow to identify any unusual patterns to flag potential issues ahead of time. We are also looking to use 5G to power augmented reality to provide a 3D representation of buried assets for technicians and to allow field technicians and engineers to quickly access and upload crucial data from our central GIS database, without requiring a wi-fi or cable connection.

GLOBAL INNOVATION PLATFORM LAUNCHED

It is very important to us to work with and share best practise where we can. A lot of problems are better solved together and our Innovation Festival is a great example of how we bring many people, companies and industries together to look at big problems.

As part of this we have launched a new ideas sharing platform 'Amplify', opening the innovation floodgates to the whole world.

Amplify is a shared space where anybody from across the globe can come together to help solve big problems, pitch new ideas and innovate together. We post a series of big real life challenges and then open them up to the rest of the world to try and help solve them. As well as work on these problems, people can suggest ideas, pitch their products, ask questions and interact with other innovators and creators all within the Amplify website.

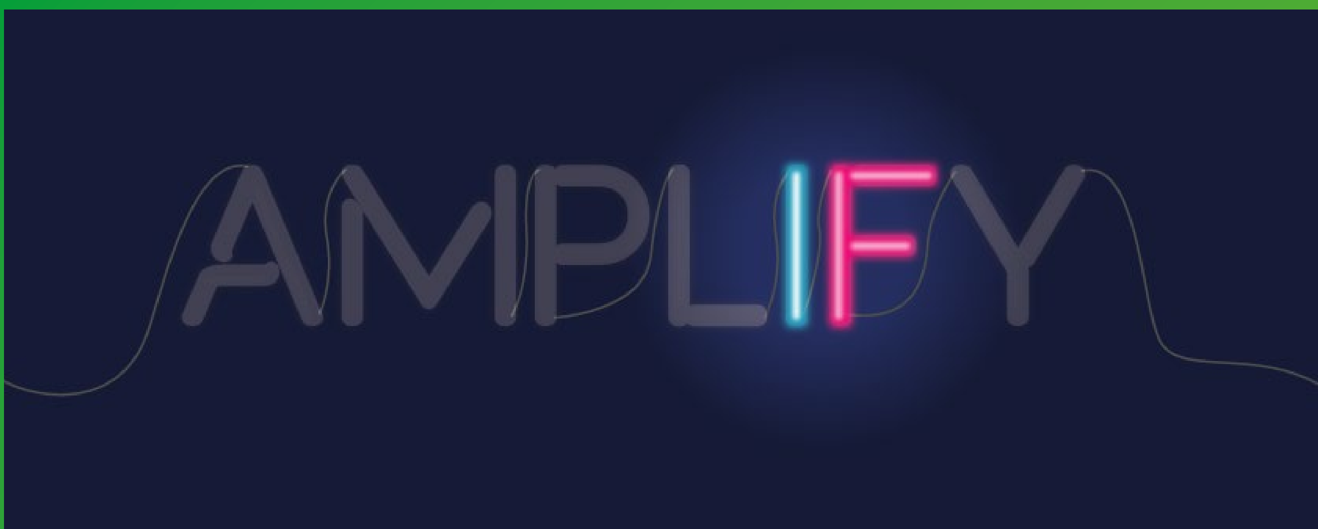
Each challenge is owned by an expert from the company and they monitor responses, engage with users and pick up and run with the most promising ones. There is potential financial backing and funding to develop and trial the best ideas and anyone can register and take part in the challenges.

At the launch, our Head of Innovation, Angela MacOscar, said: "We believe whole-heartedly in open innovation. We love new ideas that will make a difference to our customers' lives and when we find them, we will back them completely. We've seen the benefits of breaking the rules, doing things differently and innovating outside of the box. That's why we're so excited about Amplify, the newest tool that will allow us to connect with every innovator and creative mind from across the world and to work together to solve big problems."

Over the years we've heard from lots of small and medium sized companies and inventors who say they struggle to get their ideas off the ground or in front of big companies like ours. This is the perfect opportunity.

Our first challenge was based around reducing single use plastics. Specifically, how the water company can eliminate the use of plastic bottles when providing emergency water supplies to customers during an interruption.

Anyone interested in taking part in our challenges should visit **amplifynwg.co.uk** and register on the website to join the discussion.



PEOPLE

GREAT PLACE TO WORK

Our aspiration is for all of our people, current and future, to have a great experience at work and to understand the part they play to achieve our purpose, vision, outcomes and to deliver unrivalled customer experience. We aspire to have an inclusive and diverse culture where our people are supported by their managers, feel confident that their voice is heard and have a workplace where everyone can thrive and feel empowered to be the best they can be. We know from the 84% of employees that took part in our most recent employee survey that 72% of our people feel proud to work here.

“We are seen as a great place to work”

We have continued to develop our employee engagement through our GPTW programme, based on the four themes of My Voice, My Manager, Our Values and Our Shared Story. We engage with our employees through our Employee Relations Framework and through a range of communication channels including director roadshows, structured Teamtalk briefings every two months, our weekly H2info e-bulletin, and digital tools such as our intranet and Yammer.

Our annual employee roadshows provide an opportunity for our people to understand our vision and progress towards this. Our CEO, Heidi Mottram, attends all of the roadshow sessions with the relevant director allowing direct engagement with all staff.

It’s important that people understand the part they play to achieve our vision and outcomes. Our bi-monthly Teamtalk events ensure everyone comes together to discuss performance and key areas of focus. After a session with our CEO, our leaders cascade to their teams with the support of a pack including videos and interactive activities to bring the message to life. In 2019 we held a ‘Teamtalk Takeover’ where the whole session was focused on our customer service and the change from SIM to C-MeX.

“Our people are talented, committed and inspired to deliver great services to customers”

In 2019, we used the GPTW employee survey for the first time. This provides an opportunity for employees to tell us how they feel about working here. Managers receive the results for their teams and involve employees in creating local action plans. The change in survey provider meant that we also revised our target measure to achieving a Trust Index score of 65% or more, which we only just missed.

In December 2019, we asked the Great Place to Work Institute to undertake a Best Workplaces comprehensive culture audit of the business. Their conclusions were “it is evident that NWG is an employee, customer and environmentally centric employer.” Two areas identified as being a particular strength included how we recruit and welcome new people into the business and the way we listen and collaborate. The audit has given us what we wanted, areas to focus on and different ideas to consider.

We continue to be accredited as a Living Wage Employer with the Living Wage Foundation, which means that every employee in the Company earns at least the Living Wage, an hourly rate set independently and calculated according to the basic cost of living for the UK.

OUR VALUES AND BEHAVIOURS

Our employee awards scheme, known as ViVa (Vision and Values), is our way of saying thank you to our employees for doing a great job or going the extra mile. Now in its ninth year it is still as popular as ever with circa 1,700 employees in 2019 nominating teams and colleagues for demonstrating our values and behaviours. Anyone can nominate anyone in the business that they feel have done a particularly great job or have gone the extra mile. Prizes are awarded each month to the top nominations and every year we hold a ViVa awards ceremony to celebrate the best across the five categories.

Our overall winners were the Planning and Scheduling (south) team for the One Team support they provided to two colleagues who suffered a serious accident while on holiday. Special recognition was made to the Leakage team who used a range of innovative approaches to deal with extremely challenging weather conditions and still meet our leakage targets for 2018/19, and laid the groundwork to deliver our targets again in 2019/20.

> "Our people act in line with our values"

We developed 'Our Behaviours' with our people across the Company to identify the behaviours we all need to demonstrate to enable us to achieve our medium-term goals and deliver our vision of being national leader. We have continued to embed these through our annual appraisal process and midyear reviews and using our Leadership behaviours to inform our recruitment and selection process including shortlisting and interviews.

NWG ACADEMY

We recognise that our people are our greatest asset and we are committed to making sure that people have the opportunity to develop, have the chance to achieve their goals potential and make a difference. Our NWG Academy is a strategy and plan of activities to ensure we have the skills, knowledge and talent we need to continue to give our customers the service they expect and deserve, sustainably. NWG Academy activities are focused to raise our profile as an industry and an employer with the future workforce, develop the talent already in the business to ensure everyone is fit for the future and retain knowledge as people retire.

Apprenticeship programmes have given 110 of our existing employees the opportunity to learn and grow during 2019. Some have been learning about data intelligence to help maximise the strategic and operational benefits from the increasing data that technology gives us access to and use their new skills on business improvement projects. Others have focused on management or water engineering.

For some of our Water production team, their personal development has resulted in NWL being the first in the water industry to achieve the Licence to Operate Standards for competence. These Standards are recognised by DWI as demonstrating that our people are competent to provide clean, clear water to our customers every day. Many of the people involved in the programme have been working in their roles for many years and after completing the programme their understanding of the science and engineering behind why they do what they do has equipped them to take their contribution in the business to another level and their hard work has resulted in a qualification they can all be proud of.

Our involvement with other utility sector organisations in a Procurement Skills Accord ensures that we look wider than just our own people and help address sector-wide skills gaps and shortages to improve the future as well as the present. Our contribution is audited each year, including how we promote relevant skills development across our supply chain through our procurement process.

We continue to look for ways we can develop and support our managers to be the best they can be and build trusted relationships with their teams. Our Leadership and Management Development Programme for all new people managers within the Company has continued to evolve to meet business needs. This has been designed to provide our managers with a foundation of excellence in their leadership roles and aims to enable our managers to lead and manage their people with confidence whilst delivering a great place to work and unrivalled customer experiences for our internal and external customers.

DIVERSITY AND EQUAL OPPORTUNITIES

We recognise the value and importance of diversity and inclusion in our workforce. Our customers come from a wide range of backgrounds, and our workforce needs to reflect that.

Research shows that diverse organisations consistently perform better, attracting great people, making better decisions and successfully innovating and evolving. If we are to achieve our vision, we need to grasp this opportunity for improving performance through creating an environment where all our people can be themselves and do their very best each day.

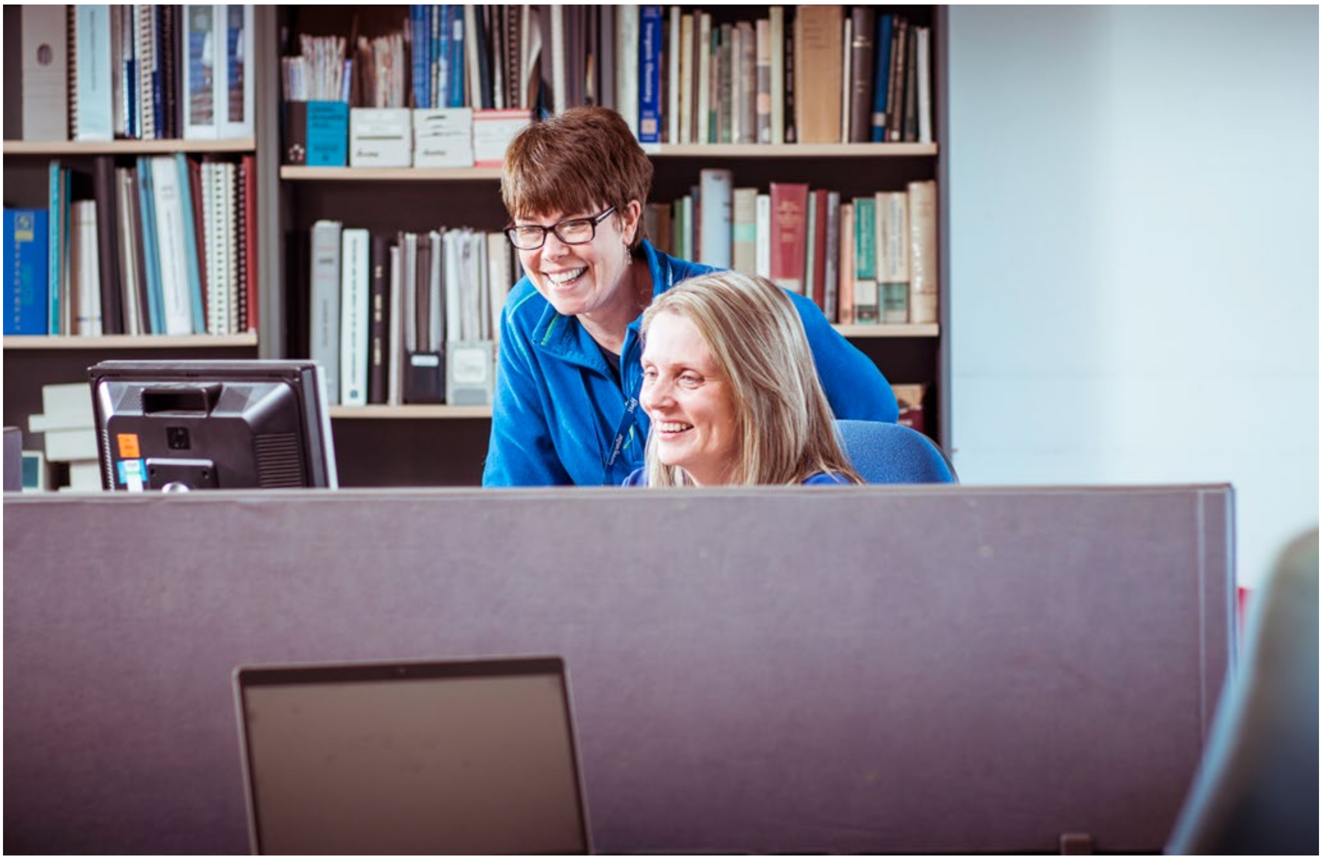
GENDER DIVERSITY AT 31 MARCH 2020

NAME	FEMALE	MALE
Board	2	9
Executive Leadership Team (ELT)	6	6
Full company	1,005	2,079

We operate in an environment where traditional perceptions of careers and roles persist and whilst we work hard to attract people from diverse backgrounds, our business is currently predominantly male. We are committed to improving our gender balance and are taking positive steps to ensure that our roles are attractive to women as well as men. We've used social media to demonstrate that the water industry is a place where females can add real value across all roles, and our #waterwomen campaign to focus on the themes we know from research are important to women.

One area of success has been recruitment to our development programmes where 67% of our undergraduates in 2019 were female, the majority involved in science, technology, engineering and maths roles, and 33% of apprentices, despite most of their roles being operational.

To encourage more applications from people with different personal characteristics and to make sure they are comfortable to be themselves at work with us, we have partnered with Vercida to develop an attraction strategy to raise our profile amongst ethnic minorities and with Stonewall to better access and support the LGBT community.



DIVERSITY AND EQUAL OPPORTUNITIES (continued)

To drive real change our relationships with external partners are really important to us. We work closely with the WISE (Women in Science and Engineering) campaign and the Energy and Utility Skills Partnership. Being regional lead on the WISE North East Hub enables us to promote networking opportunities and highlight female role models, through collaboration with other local businesses. We were delighted to be awarded Employer of the Year at the 2019 North East Business Women of the Year Awards.

The objective of our Science, Technology, Engineering, Arts and Maths (STEAM) activities at the 2019 NWG Innovation Festival, the culmination of a year of outreach activity with schools, colleges and universities, was to encourage young people to seriously consider a STEAM career. Circa 1,300 young people joined in the fun and educational activities. Women working in science, technology, engineering and maths careers in the region came to support and share their stories.

Our Equal Opportunity Policy seeks to ensure that all our current employees and potential employees are treated with respect. We welcome job applications from all parts of the community and it is our intention that all job applicants and employees are treated equally, regardless of their age, ability, marital or partnership status, race, religion or belief, gender or sexual orientation.

We welcome employment applications from people with disabilities and, where existing employees develop disabilities, they are supported to remain in employment, wherever practicable, by providing appropriate adjustments to their roles and/or effective redeployments. Occupational health physicians assist this process with professional medical advice. Our work with the North East Local Enterprise Partnership's Special Educational Needs and Disabilities group and our involvement with Disability Confident is building our network and understanding to do more to find ways to offer work experience and create a pathway into employment.

GENDER PAY GAP REPORT

We are committed to the principle of equality of opportunity and equal treatment for all of our employees. We published our gender pay gap figures in our Gender Pay Report March 2020, which is available on our websites. We continue to make progress and our gender pay gap is reducing, but we are not complacent and we know that we have to do more to improve inclusion at all levels of our organisation.

The gender pay gap is the difference between the average hourly pay for all the men and women working for the same organisation. It's not the same as equal pay, which is about a man and woman receiving the same pay for performing the same or a similar job.

The mean gender pay gap is the percentage difference in the average hourly pay for women compared to men. The median pay gap is the difference between the hourly pay rate for the median woman compared to the median man.

Our mean and median pay gaps have reduced from 2018, and we are now below the ONS average. Although we are proud of our work on diversity, we know there is more we can do. We remain committed to meaningful and sustainable change, through understanding the underlying issues, enabling progression and development for all colleagues who want it, and to make sure we access the best talent possible.

We are constantly working to make NWL a great place to work. That includes creating a framework for an inclusive and diverse workforce who are supported by our benefits programme. We will continue to update on our progress and policies to support this.

Over the next year, we will focus on:

- Providing more coaching and mentoring;
- Continuing to ensure that, wherever possible, shortlists for senior roles have a balance of genders;
- Utilising role models from inside and outside the business to inspire and support female talent;
- Engaging in the wider conversation about equality in the Utility sector, through our involvement in initiatives such as EU Skills; and
- Focusing on departments where gender balance is more challenging.

NWG MEAN GENDER PAY GAP 2019

Our Mean gender pay gap has reduced by 5% on last year.

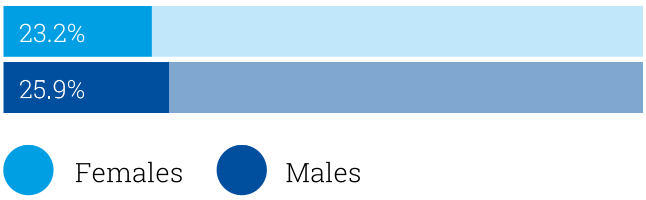
NWG MEAN BONUS GAP 2019

NWG MEDIAN GENDER PAY GAP 2019

We are now below the ONS figure of 17.3%.

NWG MEDIAN BONUS GAP 2019

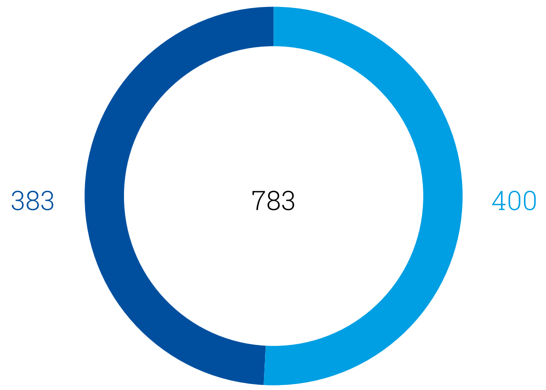
PROPORTION OF MEN AND WOMEN PAID A BONUS



PAY QUARTILES BY GENDER

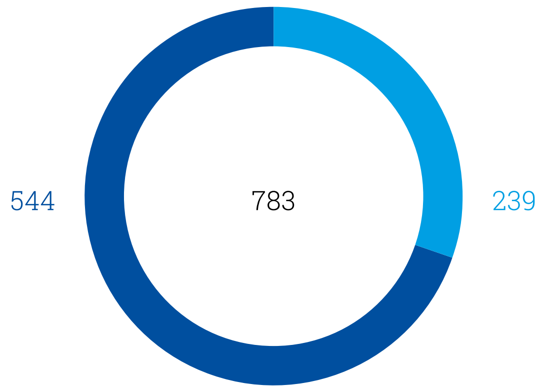
BAND A

All employees whose standard hourly rate places them at or below the lower quartile.



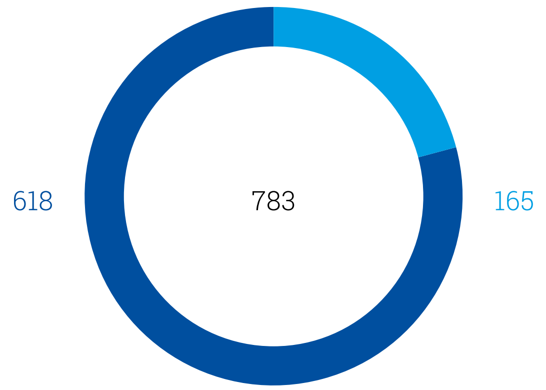
BAND B

All employees whose standard hourly rate places them at or below median but above the lower quartile.



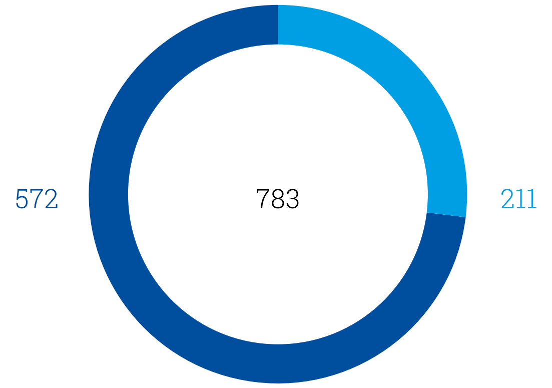
BAND C

All employees whose standard hourly rate places them above median but at or below the upper quartile.

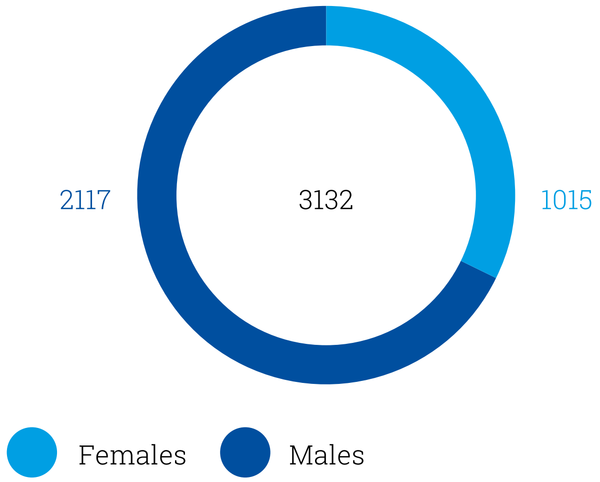


BAND D

All employees whose standard hourly rate places them above the upper quartile.



OVERALL TOTAL



HEALTH AND SAFETY

It is our aspiration and ethical responsibility to make sure that everyone goes home safe every day, which extends to our employees, supply chain partners and customers. Our Safety performance improved significantly on the previous year and we experienced our longest period of time - almost 100 days - without having a lost time accident.

To have a truly safe organisation we need to get four fundamental things right. We need safe people, a safe way of doing things, safe places and we need to keep on learning. These are all vital components of our safety plan to encourage safe behaviour and help us achieve our aspiration of Everyone Home Safe Every Day.

“Our workplaces are healthy and safe”

We continued to work on our safety awareness within the business and our people carried out almost 30,000 ‘60 second checks’, a huge increase compared to the previous year. We encourage employees to have safety conversations to not only stop unsafe behaviour but also as a positive indicator when someone is doing something right, and completed 3,221 safety conversations last year.

We also extended our programme of managers’ safety visits, completing over 1,000 in the year. This shows that our managers are visible and looking at what’s working well and finding out what we can do better on our sites. It also encourages employees to talk about safety and discuss any issues, concerns or ideas on how to improve safety on sites.

WELLBEING

We are committed to providing an environment where people can maintain good physical and mental health and make informed lifestyle choices. Our ‘Live Well, Work Well, Be Well’ health and wellbeing programme continues to evolve and is driven by our top reasons for absence and feedback we receive from employees. As part of our annual wellbeing calendar we hold wellbeing challenges for individuals or teams focusing on physical (weight loss and physical activity) and mental (energy and resilience) challenges, as well as quarterly wellbeing weeks and monthly awareness campaigns.

Our network of Wellbeing Champions support our people by ensuring their teams are aware of our internal wellbeing support such as our Employee Assistance Programme for mental health and our Physiotherapy service for physical health. We have continued our focus on mental health and over the last year have trained over 30 Mental Health First Aiders across the business to support people who may be struggling with their mental health. We have also started a new programme for all people managers to receive mental health awareness training to equip them to have conversations with their people and spot signs and symptoms, and personal resilience workshops are available to all employees.

THE POWER OF Z

We have invented a simple but innovative tool which helps measures the depth of underground water pipes, to keep our workers safe and speed up the regions' roadworks in future.

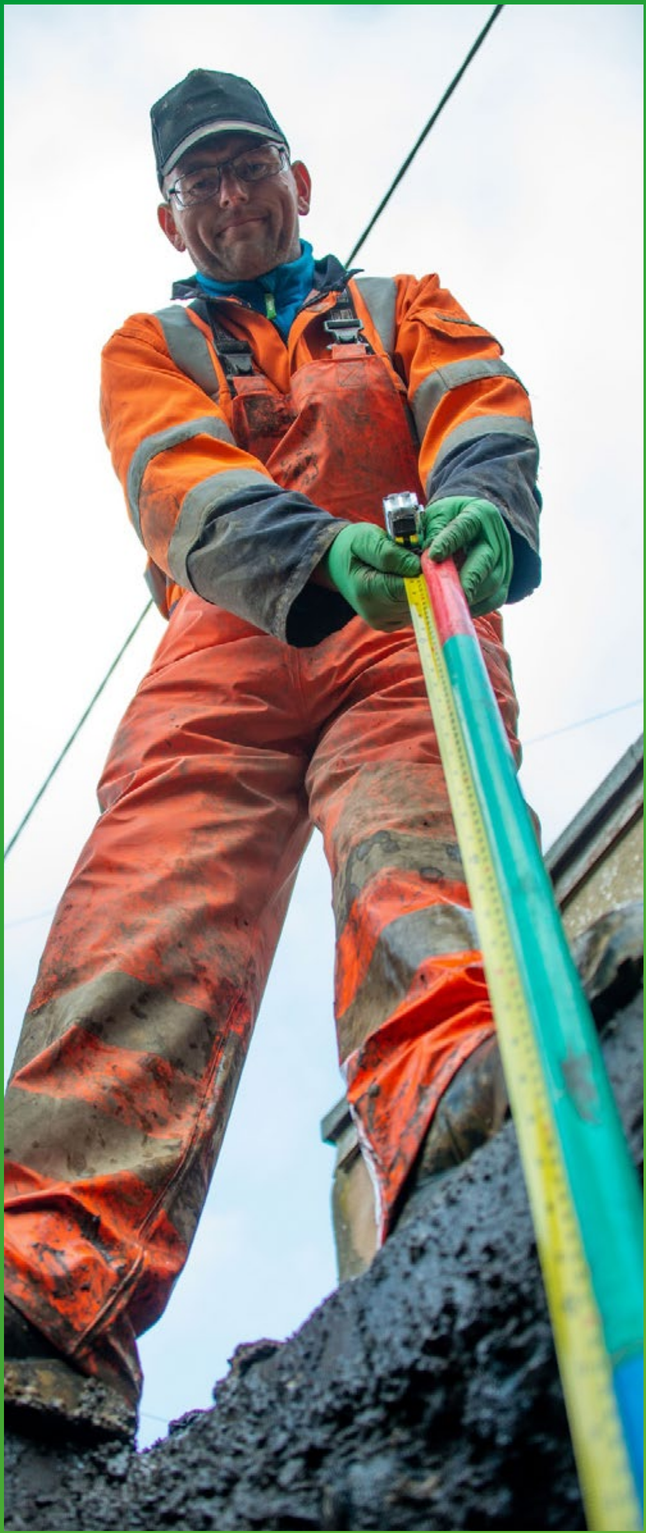
The 'Z stick' idea was first discussed at our Innovation Festival back in July 2019, to help workers capture and record the depth of underground water and sewer pipes across our networks.

Paddy Garrett our Asset Systems Team Leader, said: "It's more important than ever that we know the depth of our pipes, underneath our pavements and roads the space is being over crowded with the ever-increasing number of fibres and cables. We already know the width and the height, otherwise known as the X and Y position, of our assets, but this will help us measure the Z position, and that's how the Z stick was born."

The Z stick, is a colour-coded stick which, when placed into open excavations, helps to indicate to our teams how deeply a pipe is buried. The blue, green and red coloured bands on the tool categorise the excavation as either shallow, normal or deep and this information is being measured and recorded from over 2,000 locations as part of a pilot project. The data is used to develop and recalibrate a 3D model of the entire 15,000km long network of water pipes.

This information will keep our people safe by helping them to avoid accidental strikes to live cables. It will enable us to despatch teams to jobs knowing in advance of any specialist equipment they may need to help dig and locate the pipe safely and quickly, and complete the work faster and potentially with less disruption for our customers.

This shows that innovation comes in all different shapes and sizes and it's not just about utilising the latest new technology. Thanks to the Z stick, our aim is that in future, any field worker or planner about to dig, would be able to know accurately how deep the network is at any one point.



COMMUNITIES

We know it is important to our customers that we support our local communities and is something they want us to do.

We know we can have a positive impact on our communities and their success. It is important to us to contribute to the economic wellbeing of the areas we serve and essential we make a wider contribution to life within our regions to support this.

We use our skills, assets and experience to support communities in areas that our customers have told us are most important to them. Our activities have a 'ripple effect', going far beyond our direct investment through trade with local suppliers to benefit our regional economies. We see ourselves as part of our communities and over the years we have developed an extensive community programme, that includes employee volunteering, supporting important local events, engaging and helping to educate young people around important issues and long standing partnerships that meet local community needs.

"We are proud to contribute to the success of local communities"

We are an integral part of the communities in which we operate. The health of our customers, their economic prosperity, and the surrounding environment all depend on how we deliver our services. Our reach into communities is extensive, and we benefit from being one of the few organisations to have a relationship with all of the households and businesses in our operating areas. We take this responsibility seriously, and our customers agree that we are an important part of the community.

EMPLOYEE VOLUNTEERING

Our 'Just an Hour' employee volunteering scheme is very important to us and is something we are immensely proud of. Every year each of our team have the opportunity to give a minimum of 15 working hours to support community initiatives. We know our communities can benefit from the wealth of knowledge, skills and expertise our employees have to give. The programme is designed to have an impact on education, the environment and the general wellbeing of the community. In 2019, 42% of our people volunteered their time supporting 989 organisations across our communities.

POWERED BY WATER

Our Powered by Water campaign has been running for many years, and is designed to teach young people the importance of staying well hydrated and avoiding sugary drinks in an engaging and fun way through our sporting partnerships. Thousands of young people across our supply areas, have benefited from the interactive educational workshop delivered with our partners Newcastle Eagles Community Foundation, MFC Foundation in Teesside, Foundation of Light in Sunderland, Essex Cricket Foundation and Mowden Park Rugby Club in Darlington. In 2019 over 27,500 young people participated in a Powered by Water workshop, with many more having the opportunity to take part in 2020.

WATER RANGERS

Our award-winning Water Rangers initiative, set up in 2014, consists of trained customer volunteers who act as our eyes and ears on the ground in the community and raise awareness of any issues spotted on regular patrols along our waterways. River guardians and catchment partners also report any issues they see when working in the water environment. In 2019 our volunteer Water Rangers carried out over 2,000 patrols.

BRANCH OUT

Our Branch Out fund helps to deliver projects that benefit the natural environment and their local communities. A healthy natural environment is essential for us today and to make sure we can continue to supply top quality drinking water and safely remove wastewater in the future. In 2019/20 we supported 21 Branch Out projects providing £60,000 in funding. Since 2013, our Branch Out fund has supported 126 projects and invested over £470,000 which has been used to leverage 12 times that amount in funding into our regions. This has resulted in us being part of, and helping to enable, an amazing £5.6million investment in wildlife and people across our communities.

PARTNERSHIPS

Partnership working is an essential aspect of our approach as a water and wastewater provider. By working in partnership with other stakeholders, we are able to share the costs, risks and benefits of addressing the challenges and opportunities faced by our business, and together make a difference to our customers' lives.

“We work in partnership towards common goals”

Our Partnership Strategy sets out how we work with those whose values align with ours to achieve the shared goals that are important to our customers. Our partnerships are governed through joint steering groups, codes of practice and charters. We are a trusted partner of local, national and global strategic partnerships, influencing water policy and regulation to be progressive and sustainable.

Many of those partnerships have been described elsewhere in this report, such as our customer affordability partnerships, with StepChange and NEA, and our catchment partnerships on page 27.

COMMUNITY PARTNERSHIPS

We look beyond our annual finance and performance reporting and also report on our influence and impact in the wider economy, the environment and society in Our Contribution report, which is available on our websites. Some of the highlights are shown below.

- 30,624 customers receiving support to make their bills more affordable;
- £859,696 financial contribution to environmental, community and charitable non-governmental organisations;
- 989 organisations supported;
- 42% of our people volunteered to support community projects giving 13,992 hours;
- 13,000 young people supported through our employability activity;
- over 1,200 ‘Refill Stations’;
- 12,000 people given access to clean water and sanitation through our fundraising for WaterAid;
- over 850,000 visitors to our historical and ecological sites; and
- over 2,000 patrols by 78 water ranger volunteers to help protect our rivers.

WORKING TOGETHER FOR THE FUTURE OF WATER

Water Resources East (WRE) was officially established as a not for profit, independent company back in June 2019.

The focus of WRE is simple; recognising the impact that climate change and population growth will continue to have on Eastern England's finite water supply, combined with the need to enhance the environment in this region.

WRE is one of five regional water resource planning groups working as part of the EA's development of a national framework for water resource management, but is the first to set itself up as an independent legal entity. This has been formed by a collaborative partnership comprising Anglian Water; Affinity Water; Cambridge Water; Essex and Suffolk Water; Severn Trent Water; the National Farmers' Union; RWE Generation; Lincolnshire County Council; Suffolk Growth Programme Board (on behalf of all Local Authorities in Suffolk) and Norfolk County Council. Other organisations are expected to join over the coming months.

Eliane Algaard, our Water Director said: "We are excited to be a part of WRE and looking forward to working in collaboration with the other water companies and organisations going forward. We know we face some significant challenges in the East such as responding to climate change and population growth, but there are also opportunities to protect and enhance our water supply and benefit the wider region. It makes sense for water companies to come together in this way to achieve our common goals and deliver positive solutions for our customers."

The next phase of WRE's work will focus on the delivery of pilot projects within water-stressed catchments in the region. These pilots will focus on the links between land management and water management and will seek to maximise and account for environmental and Natural Capital benefits.

As part of one set of pilots, land owners will be encouraged to develop multi-sector water storage reservoirs, capturing excess water from winter rainfall and floods. This water could then be used to benefit the whole regional economy to bolster the regions water supply, support agriculture, enhance fenland conservation and reduce flood risk. These new reservoirs will be supported by further interconnecting pipes to enable water to be moved around the region, irrespective of water company boundaries.

REPUTATION

TRUST

Our reputation is extremely important to us and we are proud to have again been named as one of the 'most ethical companies' in the world by the Ethisphere institute. Ethisphere promotes best practices for ethics and compliance globally, recognising companies for transparency and standards of integrity. We're the only water company in the world to be included in this year's World's Most Ethical Company list and one of only four UK based companies on the list.

We have worked hard to give our customers a high level of trust and confidence in our governance and assurance arrangements. We published **Our Assurance Plan for 2019/20**, following consultation with customers and stakeholders, setting out how we intend to meet our obligations and commitments and providing information of appropriate quality. We have published a Data Assurance Summary as part of our suite of annual reporting which describes what assurance we have carried out on our data reporting any key findings. This confirms that that there were no significant issues to report.

Our assurance framework builds upon our company-wide accreditation to: ISO 14001 Environmental Management; ISO 55001 Asset Management and our sampling and laboratory analysis accreditation to the demanding ISO 17025.

"We are a company that customers can trust"

WATER MARK

CCWater has introduced its Water Mark assessment, using previously published information on customers' views, complaint numbers and operational performance to highlight how companies are performing in a simple table. Every area of performance, including trust, has been assessed and graded and companies have been ranked to show overall performance.

In our Northumbrian area we were 1st of the 11 water and sewerage companies and in our Essex and Suffolk area we were 8th for water only companies. We will look at the previous reports that were combined in this assessment so we can better understand the scoring and see where the differences are between the two areas.

The report shows that most customers were generally satisfied with the service they received, however we know our customers' expectations are rising, along with those of our stakeholders, shareholders and regulators. This report gives us the opportunity to see how we are performing against other companies and gives us an insight into what our customers opinion is and their perception of the service they receive from us.

BiTC's RESPONSIBLE BUSINESS TRACKER®

The BiTC Responsible Business Tracker is a measurement tool that allows organisations to fairly assess and benchmark their responsible business performance within communities and the environment. Last year we were one of the first companies to take part in the Tracker in its pilot year. This year we were one of 94 companies across all 24 different sectors taking part. We are delighted to report that we scored 81% overall, meaning that we are leading our Energy and Utilities benchmark group and the cohort as a whole in responsible business practice, including healthy ecosystems and net zero carbon.

The national insights report has been published which summarises the key findings and best practice examples from the 2019/20 Tracker cycle and what they could mean in the context of the Covid-19 pandemic.

www.bitc.org.uk/report/2019-20-responsible-business-tracker-insights-report

FINANCIAL PERFORMANCE AND STRUCTURE

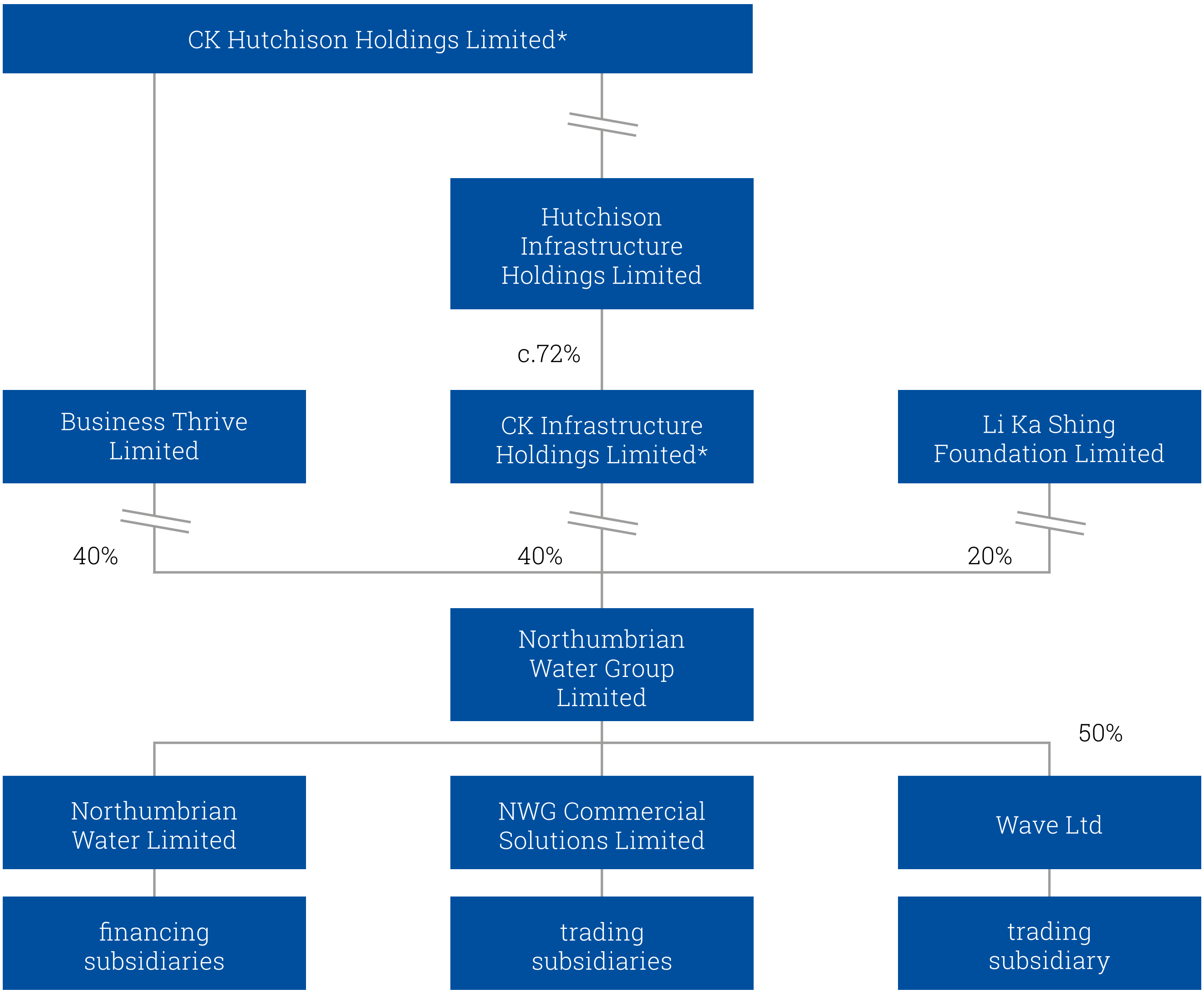
GROUP STRUCTURE

NWL is a wholly owned subsidiary of Northumbrian Water Group Limited (NWGL). NWGL has one other direct subsidiary, NWG Commercial Solutions Limited, which acts as a holding company for other non-regulated trading companies. NWGL also owns 50% of a joint venture company, Wave Ltd. which, through its trading subsidiary, carries out Non-household (NHH) retail activities in England and Scotland.

Note 25 describes the Company's relationship with CK Hutchison Holdings Limited (CKHH). The Company has been informed by CKHH that, by virtue of contractual arrangements entered into with other parties, with effect from 30 December 2019 it ceased to have a controlling interest in the Company as defined by the applicable accounting standards.

The chart below shows the structure of the Group and the upstream links to CKHH as at 31 March 2020. The chart shows the principal intermediate holding companies, which are wholly owned unless otherwise shown. The 40%/40%/20% split above NWGL represents the economic rights of Business Thrive Limited (BTL), CK Infrastructure Holdings Limited (CKI) and Li Ka Shing Foundation Limited under NWGL's Articles of Association.

CKHH, CKI, BTL and NWGL have provided Ultimate Controller undertakings to the Company in accordance with the provisions of the Company's Instrument of Appointment (Licence).



* Companies listed on The Stock Exchange of Hong Kong Limited.

FINANCIAL PERFORMANCE

The financial KPIs we report in our balanced scorecard on **page 23** reflect the financial covenants underpinning our committed bank facilities and regulatory gearing, which are reported to each Board meeting. These KPIs all remained better than the target for the year.

The Company's income statement, statement of comprehensive income, balance sheet, statement of changes in equity and cash flow statement are set out on **pages 106 to 110**. The Financial Statements have been prepared on an historical cost basis in accordance with Financial Reporting Standard (FRS) 101, reflecting International Financial Reporting Standards (IFRS) with reduced disclosures. The key accounting policies are summarised in note 1 to the Financial Statements on **pages 111 to 118**. A new accounting standard, IFRS 16 Leases, was adopted in the year and the impact of transition to the new standard is explained in note 1(r).

Revenue was £900.4m for the year ended 31 March 2020 (31 March 2019: £869.1m). This reflects an increase in wholesale charges, set in line with the revenue allowance from the FD of price controls for 2015-20, which increased by a 'K factor' of 0.1% plus Retail Prices Index (RPI) inflation of 3.2%, and an increase in non-regulated revenue related to the recovery of costs under the Kielder Water Resources Operating Agreement (WROA).

Operating costs, including capital maintenance costs, for the year ended 31 March 2020 were £541.6m (31 March 2019: £530.3m). The increase of £11.3m includes a provision of £6.5m to reflect additional bad debt risk on household revenue as a result of the economic impact of the Covid-19 pandemic on our customers, and increases in staff salaries and depreciation charges from capital investment programme, partially offset by cost efficiencies.

Net interest payable was £112.4m in the year ended 31 March 2020 (31 March 2019: £130.9m). The reduction of £18.5m relates to lower accretion on index-linked bonds, and smaller adverse movements on the market valuation of derivatives compared to the previous year. Profit before taxation for the year ended 31 March 2020 was £246.4m (31 March 2019: £207.9m).

The current tax charge for the year ended 31 March 2020 was £38.9m (31 March 2019: £33.6m). The increase in the charge mainly reflects higher profit before tax. The deferred tax charge for the year ended 31 March 2020 was £58.9m (31 March 2019: £5.5m). The significant increase in the charge is due primarily to a restatement of deferred tax from 17% to 19%. This reflected the decision by government to reverse the planned reduction to 17% which had been previously enacted. Further details of the net tax charge are provided in note 7 to the Financial Statements. Profit for the year ended 31 March 2020 was £148.6m (31 March 2019: £168.8m).

A final dividend of £65.0m for the year ended 31 March 2019 was paid in April 2019 and that comprised the total of dividends paid in the year ended 31 March 2020 (31 March 2019: £130.0m). No dividends have been proposed, approved or paid in respect of the year ended 31 March 2020. The dividend policy, and how the policy has been applied in the year, is explained in note 8 to the Financial Statements.

CAPITAL INVESTMENT

Total fixed asset additions in the year ended 31 March 2020 were £280.4m (31 March 2019: £279.5m). Around £187m of this investment related to the maintenance of our asset base to ensure the continued provision of sustainable water and wastewater services in the areas we serve. In addition we have continued to enhance our asset base, in particular to reduce the risk of sewer flooding, to improve water and wastewater treatment compliance and to support new development activity in our areas of operation.

Significant investments in the year included the successful first phase of implementation of new systems under our iAM programme, for wastewater network and for water network in ESW, and progress on the upgrade of Horsley water treatment works, which serves Newcastle. We also completed our second gas to grid plant at Bran Sands.

CAPITAL STRUCTURE AND LIQUIDITY

The Company's long-term debt structure remained largely unchanged with 61% fixed at an average rate of 4.44%, 38% index-linked at an average real rate of 1.27% and 1% on a variable rate basis, after allowing for hedging instruments. The slight increase in index-linked debt reflected the £100m Consumer Prices Index (CPI) linked issuance, described below. The blended average nominal rate for the Company for the year ended 31 March 2020 was 4.22% (31 March 2019: 4.19%).

Our committed five year bank facility of £450m, which is for the purpose of maintaining general liquidity, was undrawn at 31 March 2020. During the year, the maturity date of this facility was extended to December 2024.

In July 2019, the Company placed its first CPI-linked issuance, as a UK private placement through its financing subsidiary Northumbrian Water Finance plc (NWF). This was issued at a principal of £100m on a forward settlement basis for a tenor of 20 years, with a coupon of CPI plus 0.242%.

The gearing KPI, which is measured per the financial covenant for the committed facility and excludes loans receivable, increased slightly from 67.2% to 67.8%, remaining well within target. Interest cover improved from 3.6 to 4.0, also remaining comfortably better than target. Regulatory gearing was 67.2%, also below our target level of 70.0%.

The Company retains strong investment grade credit ratings of BBB+ (negative outlook) from Standard & Poor's (S&P) and Baa1 (negative outlook) from Moody's. The Moody's outlook reflects its view on the gearing level of our parent company, NWGL, whilst recognising the strength of the regulatory ring-fence. Moody's has extended the review period pending the outcome of the CMA review process. S&P updated its outlook to CreditWatch negative to reflect the uncertain outcome of the CMA review. We report on our financial resilience in our viability statement on pages 102 to 103.

TREASURY POLICIES

The Board is responsible for the financing strategy of the Company which is determined within treasury policies set by NWGL. The treasury policies set out how the risks associated with treasury activities are managed, which are summarised below. On occasion, derivatives are used as part of this process, but the treasury policy prohibits their use for speculation.

Funding risk

The level of capital expenditure which NWL is obliged to incur is such that we cannot be wholly cash financed by internally generated sources. As a result, we must rely upon raising additional finance on a regular basis, to be principally used to fund the long-term assets required by the regulated business. In order to raise this finance efficiently, the Board's aim is to retain prudent investment grade credit ratings. A reduction in the credit rating would likely restrict future sources of funding, increase the associated cost of new borrowing and prompt discussions with the European Investment Bank (EIB) about the existing facilities in place.

Liquidity risk

The Company's policy is to have available standby committed bank borrowing facilities with a value of no less than £50m and with a bank agreement availability period of no less than three months. At 31 March 2020, NWL had £450m (31 March 2019: £440m) of undrawn bank facilities, provided by a group of five key relationship banks, which mature in 2024.

Interest rate risk

The Company finances its operations through a mixture of retained profits and borrowings. It borrows at both fixed and variable rates of interest and, on occasion, uses derivatives to generate the desired interest profile and to manage its exposure to interest rate fluctuations. The Company's policy is to keep a minimum 50% of its borrowings at fixed rates of interest. At 31 March 2020, 61% (31 March 2019: 63%) of the borrowings of the Company were at fixed rates of interest. Index-linked borrowings are treated as variable rate debt.

Credit risk

The Company invests surplus cash with banks on a short-term basis. The treasury policy specifies which counterparties the Company can invest with and sets a limit for the maximum exposure to each counterparty. These limits take account of published credit ratings. There is no material customer credit risk as no individual customer accounts for a significant proportion of income or debt. Note 1(o) of the Financial Statements sets out the Company's bad debt policy.

Foreign currency risk

The Company's policy is that any foreign currency exposure in excess of £100,000 sterling equivalent of a transactional nature, or £3m sterling equivalent of a translation nature, should be covered as soon as they are identified. At 31 March 2020, the Company had forward foreign exchange contracts of £1.8m (31 March 2019: £4.3m) for the purpose of hedging the foreign currency risk of committed future purchases.

Market price risk

The Company's exposure to market price risk principally comprises interest rate exposure. The Company's policy is to accept a degree of interest rate risk. On the basis of the Company's analysis, it is estimated that a 1% rise in interest rates would not have a significant effect.

RISK REPORT

RISK MANAGEMENT FRAMEWORK

The Board sets the tone for risk management within the Company, supported by the R&CSC, and determines the appropriate risk appetite. The Board's view of acceptable risk is based on a balanced view of all of the risks in the operating environment and it aims to ensure an appropriate balance between risk aversion and opportunities. The Board's approach to monitoring, managing and mitigating risk, and the work undertaken by the R&CSC during the year, is set out in the Governance Report.

The ELT implements policies on risk management and internal control, ensuring that risks are appropriately controlled, managed and reported and that remedial action is taken as appropriate. The Company's approach to risk management is set out in our Risk Management Framework, which has been endorsed by the R&CSC, and is managed through a corporate risk model.

The Risk Management Framework sets out our process for identifying, analysing and evaluating risk across the business. Risk champions within each area of the business co-ordinate the identification and assessment of risks for their area of responsibility and record these in a departmental risk register. Risk champions meet on a quarterly basis to share learning and ensure consistency of approach.

Each risk is assessed against defined likelihood and consequence criteria on both an unmanaged and managed basis, producing a risk score. The management controls and responsibilities are documented and the effectiveness of the control assessed. An assurance map details the external and internal assurance provided over the controls. We also set a target risk and, where this is below the current managed risk score, set out an action plan to achieve the desired risk reduction.

Those risks in the departmental risk registers with a managed risk score above a defined threshold are classed as 'significant risks' and are reported in the Corporate Risk Register. This is reviewed monthly by the ELT and at each meeting of the R&CSC.

We define strategic risks as those which are foreseeable, but not with sufficient clarity to be assessed within the corporate risk model. These are captured in a Strategic Risk Register and a sub-group of the Board reviews these strategic risks annually, most recently in November 2019.

PRINCIPAL RISKS AND UNCERTAINTIES

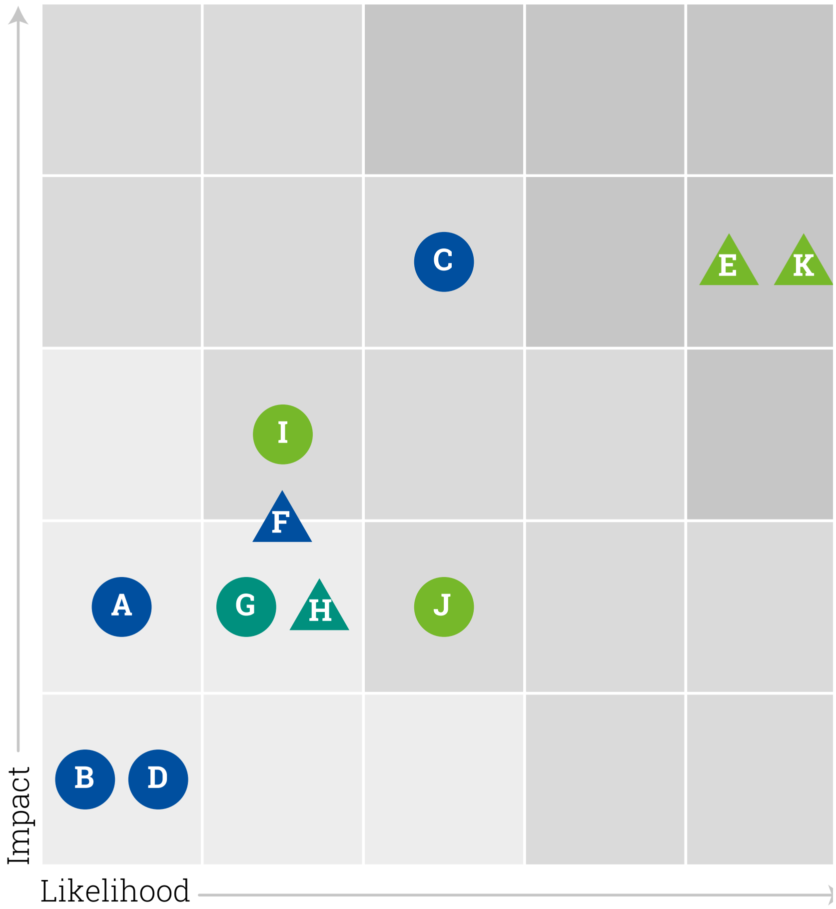
The R&CSC, on behalf of the Board, carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, taking account of both the highest rated risks on our Corporate Risk Register and the Strategic Risk Register identified by the Sub-committee.

The conclusions of this assessment are summarised on the heat map below. This shows the current exposure of each of the principal risks and an indication of whether the risk is increasing, stable or reducing. The table on **pages 59 to 63** then describes each of the principal risks in more detail, along with our approach to mitigating these risks. The risks are not set out in order of priority. These principal risks have also been considered in our assessment of financial resilience, as set out in our viability statement on **pages 102 to 103**.

STRATEGIC REPORT
GOVERNANCE REPORT
STATUTORY FINANCIAL STATEMENTS

A. Health & Safety
B. Customer trust and confidence
C. Water service failure
D. Wastewater service failure
E. Impact of pandemic
F. Effect of climate change
G. Cyber security / Information management
H. Regulatory and political changes
I. Funding and liquidity
J. Pension contributions
K. Financial performance

- Operational
- Financial
- Compliance
- Risk increasing
- Risk stable
- Risk decreasing



Impact of pandemic

The risk associated with a pandemic has been identified historically within the Company's risk register but has not previously been considered to be a principal risk. This was because the impact had been considered to be relatively moderate.

However, the unprecedented impact of the Covid-19 pandemic and, in particular the lockdown measures implemented by government, has clearly demonstrated the potential scale and wide-ranging effect of such an occurrence. As a result, the R&CSC has decided that this should be added to the principal risks of the business. This is described on page 60.

OPERATIONAL RISKS

DESCRIPTION OF RISK	MITIGATION	CHANGE FROM PRIOR YEAR
Health & safety The nature of our operational and construction workplaces means that there is a significant inherent risk to the health and safety of our staff and supply chain of which we are acutely conscious. *Our workplaces are healthy and safe*	The health and safety of our staff, contractors and members of the public is our highest priority. We are proud of our record of maintaining a healthy and safe workplace, but not complacent, and we are working hard to improve this further. Health and safety matters are given a high priority at all meetings of our ELT and Board. Long-term planning and targets are set to drive continuous improvement. This is underpinned by our focus on improving behavioural safety and creating a great safety culture. Our health and safety management system defines clear arrangements and responsibilities for implementation and management throughout the Company, and this is externally audited as part of our OHSAS 18001 certification.	No change (focus on continuous improvement).
Customer trust and confidence Our customers are at the heart of everything we do and failure to deliver a consistently unrivalled customer experience or negative media coverage resulting in a poor public perception of our reputation could damage our customers' trust and confidence in our business. *We provide excellent service and impress our customers* *Our customers consider the services they receive to be value for money* *We are a company that customers can trust*	Our unrivalled customer experience strategy was co-created with our customers so that we could understand what was really important to them. We continue to involve customers through active participation and over 400,000 of our customers helped to shape our Business Plan for 2020-25. We have invested in significant improvements in our customer facing systems and the digital experience we offer to our customers. We continue to improve our support for customers in vulnerable circumstances, through our Inclusivity Strategy, StepChange partnership and new affordability tariffs. We plan to take this further through our commitment to eradicate water poverty across our supply areas.	No change (focus on continuous improvement against a background of increasing customer expectations).
Water service failure A problem in our water system could cause either a major loss of supply or for unfit water to be supplied. This could have many potential causes, including the failure of a strategic water main or treatment works, loss of power supply or contamination of a service reservoir. *We provide a reliable and sufficient supply of water* *We supply clean, clear drinking water that tastes good*	We operate a risk-based prioritisation process for the maintenance and replacement of our assets. We are ISO 55001 (Asset Management) certified on a company-wide basis, demonstrating that we follow best practice in the long-term management of our assets. We monitor the effectiveness of our asset management through a number of asset health measures. We have well developed business continuity plans in place for managing incidents, down to a site specific level. These are regularly tested. We restrict access to our treated water network through authorisation and physical security measures.	No change.

DESCRIPTION OF RISK	MITIGATION	CHANGE FROM PRIOR YEAR
Wastewater service failure A problem in our wastewater system could cause either significant environmental pollution or flooding of customer properties. This could have many potential causes, including insufficient network capacity to cope with severe weather events, misconnected properties and the consequences of sewer blockages or collapses. *We provide a sewerage service that deals effectively with sewage and heavy rainfall*	We operate a risk-based prioritisation process for the maintenance and replacement of our assets. We are ISO 55001 (Asset Management) certified on a company-wide basis, demonstrating that we follow best practice in the long-term management of our assets. We monitor the effectiveness of our asset management through a number of asset health measures. We continue to invest heavily in preventing pollution and sewer flooding and have a pollution management programme with multiple workstreams to tackle the root causes. We engage with our customers and local communities through initiatives such as 'Love Your Drain' and Water Rangers and working with partners to deliver SuDS. We are also investing significantly in proactive maintenance and cleaning of the network, real time monitoring and analysis, flooding mitigation and investment to increase network capacity.	No change.
Impact of pandemic Unavailability of staff due to a pandemic outbreak. This could result in a significant impact on a number of business areas with people, service, operational and financial consequences including the Company's ability to deliver services to customers. Also, impact of an extended lockdown or social distancing measures impacting on our customers and ability to function normally. Financial risks include reduced revenue from customers, increased operating costs, impacts on delivery of capital investment and potential impacts on PCs. *We provide excellent service and impress our customers* *We provide a reliable and sufficient supply of water* *We provide a sewerage service that deals effectively with sewage and heavy rainfall*	Our response to the Covid-19 pandemic has demonstrated that we can continue to operate effectively even under strict lockdown conditions. We have well developed business continuity plans in place which have been updated through Covid-19 pandemic. We have been able to quickly enable large parts of our customer and support service teams to work remotely from home, as well as maintaining operational activities, taking account of Covid-19 risk assessments and with appropriate adjustments.	New principal risk

DESCRIPTION OF RISK	MITIGATION	CHANGE FROM PRIOR YEAR
Effect of climate change In the short term, climate change may cause more volatile weather conditions which could impact on customer service through disrupting water supply or causing sewer flooding. Over the longer term, climate change could impact on water resources resilience and the integrity of our assets. This may be exacerbated by growing population and ongoing urbanisation. *We provide a reliable and sufficient supply of water* *We provide a sewerage service that deals effectively with sewage and heavy rainfall* *We deliver water and sewerage services that meet the needs of current and future generations in a changing world*	Our approach to mitigating short-term risks of service failures on our water and wastewater businesses are set out in the risks above. We consider the longer-term impacts of climate change in our long-term planning, such as our Water Resource Management Plan, and identify long term solutions to future potential resilience issues well in advance. Our Resilience Framework provides a structure for us to achieve resilience in the round by taking an integrated and systematic approach to understanding risk and resilience challenges across all of our business areas and how they interact.	Increasing risk over time, especially in relation to sewer flooding.

COMPLIANCE RISKS

DESCRIPTION OF RISK	MITIGATION	CHANGE FROM PRIOR YEAR
Cyber security Key business systems could be lost as a result of a malicious attack or failure of cyber security. Sensitive data could be released in breach of the Data Protection Act, General Data Protection Regulation (GDPR) or Environmental Information Regulations (EIR). May not comply with obligations under the Networks & Information Systems Directive. *We are a company that customers can trust*	Our Information Security policy sets out our commitment to the continuous improvement of information security controls and culture throughout the business. This is delivered through software and hardware access controls, additional levels of security for web-facing systems and clear policies and procedures and user awareness, supported by briefings and training. We have implemented a resilient infrastructure which includes full back-up and recovery, and also fail-over to other hardware in the event of a local failure. Data is protected through access controls, laptop encryption and awareness briefings. A ten point data protection action plan has been developed to further mitigate the risks. This activity is supported by a dedicated team covering security, data protection and EIR.	No change.

DESCRIPTION OF RISK	MITIGATION	CHANGE FROM PRIOR YEAR
Regulatory and political changes Changes to the Licence or regulatory methodology could impact adversely on the balance of risk and return or reduce investor confidence in the stability and predictability of the regulatory framework. Outcome of PR19 process remains uncertain as a result of referral to CMA. A change in future government could introduce significant changes in policy. *Our finances are sound, stable and achieve a fair balance between customers and investors*	Externally driven, but we have actively engaged with Ofwat throughout the current price review process by responding to formal consultations and regular direct dialogue. The CMA referral will independently review our PR19 FD providing a further opportunity to set out and support our plans. We continue to engage with all political stakeholders, both directly and through Water UK, to ensure that any debate is well-informed. This risk is also mitigated by our excellent performance, behaviours and values.	Increased regulatory uncertainty through CMA referral. Reduced political uncertainty after UK General Election.

FINANCIAL RISKS

DESCRIPTION OF RISK	MITIGATION	CHANGE FROM PRIOR YEAR
Funding and liquidity risk A key funding risk would be an inability to access future funding at acceptable rates due to market uncertainty. Future borrowing costs could increase as a result of a credit rating downgrade or the loss of EIB as a source of low cost funding, due to Brexit. Liquidity risk could arise due to breaching financial covenants on committed facilities. *Our finances are sound, stable and achieve a fair balance between customers and investors*	The Board has approved treasury policies which set out how we manage treasury risks (see page 56). Our five year plans identify future borrowing requirements and we plan our financing strategy accordingly over this time horizon. This is supported by £450m of standby committed borrowing facilities, which was fully undrawn at 31 March 2020, and we maintain substantial headroom in the financial covenants for these facilities. We are committed to maintaining our investment grade credit ratings and manage our financial plans accordingly. Our viability statement on pages 102 to 103 reports on the financial resilience of our plan over a ten year time horizon.	Risk remains heightened due to uncertainty in financial markets as a result of the UK's process to exit the EU and Covid-19 impacts.
Pensions Risk of increased pension deficit at the next actuarial valuation of our defined benefit pension scheme (at 31 December 2019) as a result of market conditions, increasing balance sheet liabilities and some measures of gearing. Risk of increased employer contributions, for either ongoing service obligations or to repair the pension deficit. *Our finances are sound, stable and achieve a fair balance between customers and investors*	We have an agreed schedule of contributions from our most recent actuarial valuation of our defined benefit pension scheme, as at 31 December 2016. Our employer covenant remains strong, reflecting the long-term nature of our business and 25 year rolling term of our Licence.	No change. Actuarial valuation in progress.

DESCRIPTION OF RISK	MITIGATION	CHANGE FROM PRIOR YEAR
Financial performance A failure to deliver our financial plans could impact on expected shareholder returns. This could result from significant adverse movements on costs, interest or tax or a failure to deliver efficiency commitments. A sustained period of low CPI(H) inflation could depress RCV, increasing gearing. The Board asked Ofwat to refer the PR19 FD to the CMA as it concluded that it would adversely impact the long term financial resilience of the business. *Our finances are sound, stable and achieve a fair balance between customers and investors*	We are implementing a range of efficiency actions for both operating and capital expenditure and progress is reported monthly to ELT. We maintain more than 50% of our borrowings on fixed rates, providing certainty. We resubmitted our PR19 Business Plan in the light of Ofwat's Initial Assessment, including additional evidence supporting our expenditure plans. The CMA referral will independently review our PR19 FD providing a further opportunity to set out and support our plans. Our viability statement on pages 102 to 103 reports on the financial resilience of our plan over a ten year time horizon.	Increased, due to outcome of PR19 FD and continued uncertainty through the CMA referral process.

BREXIT RISK

The R&CSC has considered risks to the business which could result from the UK leaving the European Union (EU) without a trade agreement, but does not consider this to be a principal risk, other than in relation to future EIB funding as explained above. We have engaged with government, our supply chain and other stakeholders to review potential impacts of restrictions being placed on trading with the EU. Whilst NWL operates entirely within the UK, we are conscious that some of our supply chain does rely on transportation from Europe. We have made appropriate preparations to mitigate against these risks and ensure continuity of service.

By order of the Board

H Mottram, CEO
15 July 2020

STRATEGIC REPORT
GOVERNANCE REPORT
STATUTORY FINANCIAL STATEMENTS

GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION

The Board of NWL recognises that the Company has a very important role in the lives and wellbeing of its customers and that it is a privilege to be entrusted to provide essential public services to millions of customers.

A J Hunter

We also have key environmental responsibilities and we are a significant employer and buyer of goods and services. The NWL Board understands and accepts its responsibilities and listened carefully to the views of our many stakeholders throughout the preparation of our Plan. As I explain in my statement at **page 4**, the Company asked Ofwat to refer its FD of the 2019 Price Review to the CMA for a redetermination and the outcome of this process will be known in due course. The Board remains fully committed to ensuring that NWL continues to provide excellent customer service, and is ethical and fair in its relationship with all stakeholders.

Corporate governance requirements continue to evolve and, last year, Ofwat prescribed four new objectives (the 2019 Objectives) which it expects us to meet. These are set out on **pages 74 to 80** below, where we have also explained how we meet them. The 2019 Objectives have now been incorporated into each company's Licence. Along with most others in the sector, NWL consented to the change, noting Ofwat's acknowledgement that companies will have scope to demonstrate compliance in different ways. That flexibility is consistent with the view of the Financial Reporting Council (FRC) that there is no 'one-size-fits-all' version of corporate governance.

The 2019 Objectives are now the primary governance framework against which NWL will report, but the Board has agreed that it would also be appropriate to report compliance with the Wates Corporate Governance Principles for Large Private Companies (the Wates Principles). NWL has, in prior years, reported compliance with the UK Corporate Governance Code. Whilst we will now focus on the 2019 Objectives and the Wates Principles, our standards of corporate governance will be at least as high as in previous years and higher wherever appropriate.

As a private company with NWL's ownership structure, we believe it is consistent with good corporate governance for there to be significant shareholder representation on the Board, including the Chairmanship. However, we accept that there needs to be an appropriate balance. Currently, there are four INEDs and four further NEDs (including me as Chairman). This year we intend to appoint an additional INED which will make INEDs the largest single group on the Board.

The INEDs play a very significant role in the functioning of the Company and are instrumental in all aspects of the Board's work, taking a leading role on the various Committees, which the Board relies on. The Committees are effectively led by the INEDs (within agreed parameters) and handle a very significant volume of important work and present options and proposals to the Board.

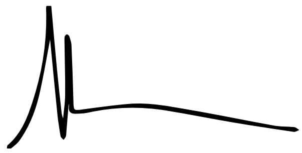
Our four current INEDs are highly experienced, capable and independently-minded professionals with a diverse range of experience and talents. Working with the other NEDs, they scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. We believe our current governance arrangements, with strong INED leadership, ensure that there is always sufficient independent membership and judgement on the Board, further supporting the Board and its Committees in making high quality decisions that address diverse customer and stakeholder needs. This independent voice will be further expanded when we appoint a fifth INED later this year. Moreover, in accordance with common governance practice, all four current INEDs will step down by the end of 2021 and be succeeded by new appointees, which will allow new talent and experience to be brought to the Board.

As I explained in last year's report, the Board functions as an integrated whole. All Directors have the same legal responsibilities and each Director understands his or her individual responsibility to act in the best interests of the Company, as well as the importance of the service provided to our customers and our environmental responsibilities. All Directors play a full part in Board meetings and shape the Company's strategy, as well as ensuring that customers' interests are fully considered in any investment and operational decisions. The composition of the Board ensures a sound balance of experience, knowledge and independence and that decision making is not dominated by any single group.

Paul Rew, our Senior INED, sets out in his report (on **pages 67 to 68**) how the INEDs are fully involved in all the main aspects of NWL's governance and, throughout the year, were invited to, and participated in, all the Board meetings of our holding company, NWGL (except in relation to NHH retail business).

In practice, the Company complies with the 2019 Ofwat Objectives and, with very few exceptions, the supporting Provisions. The effective arrangements which the Board and its Committees have in place to ensure such compliance are explained in some detail below in the Corporate Governance Report (**on pages 64 to 104**).

I am pleased to report that our recent Board evaluation exercise delivered very positive feedback on how the Board operates. We again engaged Professor Giovanna Michelon (a specialist in corporate governance and social responsibility) to facilitate the exercise and her report concludes that the Board and its Committees are working effectively, as evidenced by healthy and challenging discussions, an appropriate and balanced mix of expertise and competencies and the high quality work carried out by the Committees. These findings are entirely consistent with my own view of how well the Board works, on behalf of all the Company's stakeholders.



A J Hunter
Chairman

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR'S REPORT

As Senior Independent Non-Executive Director (SINED) I am pleased to be able to describe the role of NWL's INEDs, and the key role played by the INEDs in the Board Committees and Sub-committee.

Paul Rew

I am happy to endorse the Chairman's explanation of the key role which the INEDs continue to play in NWL's governance, assurance and decision making. I chair the Audit Committee (AC), the R&CSC and the CMA Board Sub-group and I chaired the PR19 Board Sub-group, which I explain below. Fellow INEDs sit on all these bodies, as well as on the Remuneration and Nomination Committees. INEDs are in the majority on the AC, the R&CSC, the Remuneration Committee and the Nomination Committee.

We are therefore fully involved in all the main aspects of NWL's governance and the Board is satisfied that this enables it to ensure that sound governance is maintained.

In my recent reports I have explained the role of the PR19 Board Sub-group, which provided integrated support to the Board as a whole in driving forward and assuring preparation of our Plan. The PR19 Board Sub-group was fully involved in all aspects of the development of our Plan and all members reviewed and challenged both the overall strategy and the detailed submissions, as well as the re-submissions following Ofwat's Initial Assessment of Business Plans. On the ground, INEDs were involved in customer focus groups, meetings of the Water Forum and other stakeholder groups.

As the Chairman explains in his statement (at page 4), the Board did not consider that Ofwat's FD for 2020–25 adequately reflected the clear guidance provided by our customers and other stakeholders. This manifested in the disallowance by Ofwat of schemes to enhance water supply resilience and reduce sewer flooding. Moreover, the overall package did not, in the Board's opinion, put the Company on a sustainable footing to meet the very stretching targets set by Ofwat in an increasingly challenging operating environment.

The Board therefore agreed, unanimously, to ask Ofwat to refer the FD to the CMA for redetermination, which is in progress. In order to support the Board in managing the CMA referral, the Board established the CMA Board Sub-group, which includes all the INEDs, the Executive Directors and professional advisers. This Sub-group developed the Company's Statement of Case for approval by the Board and submission to the CMA and the outcome is awaited.

Although the INEDs are not members of the NWGL Board, we have been present at its Board meetings this year, which has continued to encourage a cohesive approach at both Boards and given us full transparency. We have not, however, received papers relating to the NHH retail market or been present when that has been under discussion.

The INEDs have again all taken part in extensive sessions with management on business risk and customer service, have met from time to time without management or the other Directors being present (with and without the Company's auditors) and attended seminars arranged by Ofwat and other events relating to the water sector. Beyond the formal work of the Board and its various committees, we have also continued to develop a broader insight into the work of the Company through other channels such as NWL's Innovation Festival, customer focus groups, meetings on environmental issues, the Water Forum, chairing internal sprints, and through discussions with Directors and staff at informal events.

In conclusion, I and the other INEDs believe that the Board and Committees have sufficient independent membership, and this will be enhanced by the appointment of a fifth INED this year. Our INEDs, through their leading role in the Committees, continue to exert significant influence in setting the direction which the Board takes in all key areas of strategy and business planning, monitoring, governance and reporting.

P Rew
Senior Independent Non-Executive Director

CORPORATE GOVERNANCE

BOARD MEMBERSHIP


A J Hunter

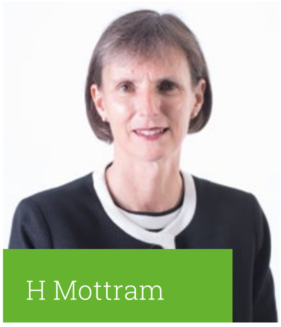
A J Hunter (Non-Executive Chairman) joined the Board in October 2011. Mr Hunter is Deputy Managing Director of CKI, which is listed on The Hong Kong Stock Exchange and is a substantial shareholder in the Group. Mr Hunter is an Executive Director of Power Assets Holdings Limited, a listed company. He has been an Executive Director of CKI since December 2006 and Deputy Managing Director since May 2010. Mr Hunter acted as the Chief Operating Officer of CKI from December 2006 to May 2010. Prior to his appointment to the board of Power Assets Holdings Limited in 1999, Mr Hunter was Finance Director of the Hutchison Property Group. He holds a Master of Arts degree, a Master's degree in Business Administration and is a member of the Institute of Chartered Accountants of Scotland and of the Hong Kong Institute of Certified Public Accountants. Mr Hunter chairs the Remuneration Committee and Nomination Committee.

Key strengths: Leadership, strategic overview, finance and infrastructure.


P Rew

P Rew (Senior Independent Non-Executive Director) joined the Board in 2010. Mr Rew is a Chartered Accountant and was a partner in PricewaterhouseCoopers LLP (PwC) from 1987 until 2010, where he was lead partner for a diverse range of FTSE 100 clients and for PwC's UK energy, utilities and mining sector practice. Mr Rew is a Non-Executive Director of the Care Quality Commission and chairs its Audit Committee. He was formerly a Non-Executive Director of the Met Office and of Defra. Mr Rew chairs the AC, R&CSC and the CMA Board Sub-group, and chaired the PR19 Board Sub-group. He is also a member of the Remuneration Committee and Nomination Committee.

Key strengths: Finance, risk and corporate governance.


H Mottram

H Mottram (CEO) joined the Board in 2010, when she was appointed as CEO of NWL and NWGL. Ms Mottram is a Non-Executive Director of Centrica plc, Vice-Chair of the North East Local Enterprise Partnership, a member of the CBI Board and Vice-Chair of Newcastle University Council. Ms Mottram was named North East Business Executive of the Year in 2017 recognising her significant contribution to business in the north east of England. She was awarded an OBE in 2010 for services to the rail industry and a CBE in 2018 for services to the water industry and business community.

Key strengths: Leadership, corporate overview, infrastructure and customer service.


C I Johns

C I Johns (Finance Director) joined the Board in 2013, having served as Finance Director of NGN, which is also part of the Cheung Kong Group, since 2005. Before joining NGN, Mr Johns, who is a Chartered Accountant, held senior financial management positions in the financial services sector, in both Yorkshire and London. Mr Johns' previous positions include being Head of Finance and Accounting within the UK lending operations of Provident Financial plc, and a senior management role in the Financial Reporting and Control Group of Morgan Stanley. Mr Johns stepped down from the Board on 30 May 2020.

Key strengths: Finance and infrastructure.

A C Jones

A C Jones (Assets and Assurance Director) joined the NWL Board in 2004. An economist by background, Mr Jones holds an MBA with distinction from Warwick and has extensive experience in dealing with government and regulatory bodies. Mr Jones is a Chartered Environmentalist and worked as a government economist and economic consultant before joining the water industry. He has held non-executive positions at a number of water industry organisations and is currently Chair of PNE Group, a social enterprise company.

Key strengths: Economic regulation and corporate planning.

M Fay

M Fay (Independent Non-Executive Director) joined the Board in 2010. Ms Fay was Managing Director of Tyne Tees Television until December 2003 when she became Chair of One North East, a position she held until August 2010, and was Deputy Chair of The Sage Gateshead until March 2018. Ms Fay is Deputy Chair of Governors of the University of Sunderland, Chair of South Tyneside Council's Economic Regeneration Board, Chair of the Customs House South Shields and a Non-Executive Director of the Tyne and Wear Passenger Transport Executive (which trades as 'Nexus'). She was awarded a CBE in 2010 for services to regional development and is a Deputy Lieutenant for Tyne and Wear. Ms Fay is a member of the CMA Board Sub-group, Remuneration Committee and Nomination Committee.

Key strengths: Corporate overview and customer service.

Dr S Lyster

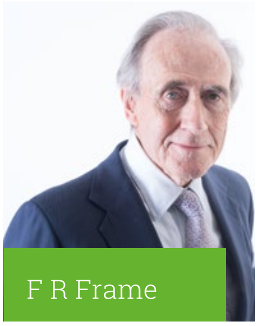
Dr S Lyster (Independent Non-Executive Director) joined the Board in 2006. A lawyer by training, Dr Lyster qualified in both the UK and the USA and is the author of the leading legal textbook on international wildlife law. Dr Lyster was Chief Executive of LEAD International from 2005 to 2011. Before joining LEAD, he was Director General of The Wildlife Trusts and previously worked for World Wildlife Fund for nine years, where he was responsible for its global policy work on international conventions. He is Chairman of Conservation International-UK, a Trustee of Kilverstone Wildlife Conservation Trust and the Rural Community Council of Essex, and a Council member of World Land Trust. In July 2014, Dr Lyster was appointed to the Board of Natural England and, in 2020, was appointed a member of Essex County Council's Climate Action Commission. He is a Deputy Lieutenant for the County of Essex. Dr Lyster is a member of the CMA Board Sub-group, AC, Remuneration Committee, Nomination Committee and R&CSC.

Key strengths: Conservation, the environment and law.

M A B Nègre

M A B Nègre (Independent Non-Executive Director) joined the Board in 2006. Mr Nègre was, between April 2000 and April 2001, the CEO of the former Northumbrian Water Group plc and the chief corporate representative of its parent company, Suez, in the UK. Mr Nègre was a founding Director of NWGL when it acquired the Group from Suez SA in 2003 and listed it on the London Stock Exchange (LSE). He currently chairs Ecofin Vista Hedge Fund and Ecofin Global Renewable and Infrastructure Fund and is a Non-Executive Director of LSE-listed Investment Trust EGL plc. Mr Nègre is a member of the CMA Board Sub-group, AC and R&CSC.

Key strengths: Strategy, utilities and infrastructure.



F R Frame (Non-Executive Director) joined the Board in November 2011, having been appointed by Li Ka Shing Foundation Limited, a company limited by guarantee and a charity, which is a substantial shareholder in the Group. A lawyer by profession, Mr Frame served as Deputy Chairman of The Hongkong and Shanghai Banking Corporation; as Chairman of South China Morning Post Limited and The Wallem Group Limited; and as a Director of The Weir Group plc, Swire Pacific Limited, The British Bank of the Middle East, Edinburgh Dragon Trust plc and Baxter International Inc. He holds the degrees of Master of Arts and Bachelor of Laws. Mr Frame retired from the Board on 31 December 2019.

Key strengths: Corporate overview and law.

H L Kam (Non-Executive Director) joined the Board in October 2011, having been appointed by Cheung Kong (Holdings) Limited (CKH), a wholly-owned subsidiary of CK Hutchison Holdings Limited of which he is the Deputy Managing Director. Mr Kam is also Group Managing Director of CKI, a position he has held since its incorporation in May 1996. He is the Deputy Managing Director of CK Asset Holdings Ltd., President and Chief Executive Officer of CK Life Sciences Int'l. (Holdings) Inc., as well as Chairman of Hui Xian Asset Management Limited, which manages Hui Xian Real Estate Investment Trust, a listed real estate investment trust. Mr Kam holds a Bachelor of Science degree in Engineering and a Master's degree in Business Administration.

Key strengths: Leadership, strategic overview, finance and infrastructure.

D N Macrae (Non-Executive Director) joined the Board in October 2011, and represents CK Infrastructure Holdings Limited, where he holds the position of Head of International Business. Mr Macrae has over 25 years' experience in the infrastructure investment field and holds a Bachelor's and a Master's degree in Philosophy, Politics & Economics. He is a member of the Remuneration Committee and Nomination Committee.

Key strengths: Finance, infrastructure and corporate overview.

L S Chan (Non-Executive Director) joined the Board in 2016, having been appointed by CKH, and has been an Executive Director of CKI since January 2011 and Chief Financial Officer of CKI since January 2006. Mr Chan joined Hutchison Whampoa Limited, which is a substantial shareholder of CKI, in January 1992 and has been with the Cheung Kong Group since May 1994. Mr Chan is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow of the Association of Chartered Certified Accountants and also a member of the Institute of Certified Management Accountants (Australia). He is a member of the Audit Committee.

Key strengths: Finance, infrastructure and corporate overview.

ATTENDANCE AT BOARD MEETINGS

There were five scheduled meetings during the year and five shorter additional meetings. The Board considered this sufficient to enable it to discharge its duties effectively, and will meet out of the agreed cycle for time-critical matters or significant matters that arise as necessary.

Attendance at the five scheduled meetings during the year was as follows:

NAME	ATTENDANCE
A J Hunter	5
P Rew	5
H Mottram	5
C I Johns	5
A C Jones	5
M Fay	5
Dr S Lyster	5
M A B Nègre	4
F R Frame	4
H L Kam	4
D N Macrae	5
L S Chan	5

Attendance at the five additional Board meetings held during the year was as follows:

NAME	ATTENDANCE
A J Hunter	5
P Rew	5
H Mottram	5
C I Johns	5
A C Jones	5
M Fay	5
Dr S Lyster	4
M A B Nègre	5
F R Frame	3
H L Kam	1
D N Macrae	5
L S Chan	4

CORPORATE GOVERNANCE STATEMENT

The Boards of the Company and its holding company, NWGL, are committed to high standards of corporate governance. Ofwat has now embedded the 2019 Ofwat Objectives in the Company's Licence, to ensure that governance is sound and that the Company's Directors, acting as such, act independently of parent companies.

The arrangements and functioning of the Board, its Committees, Sub-committee and Sub-groups adhere to the Wates Principles and the 2019 Ofwat Objectives, with the latter being subject to the minor exceptions explained below. As set out above, there are currently four INEDs, a further four NEDs (including the Chairman) and two Executive Directors. These arrangements, with strong INED input which is expanded upon in the section below on meeting the 2019 Ofwat Objectives, ensure that there is sufficient independent challenge and judgement on the Board. Moreover, the Company will appoint an additional INED during 2020, making INEDs the largest single group on the Board.

The Chairman comments in his introduction to the Governance Report (on **pages 65 to 66**) on the balance of the Board, which functions as an integrated whole, and the quality and contribution of the INEDs: P Rew, S Lyster, M Fay and M A B Nègre. Their biographical details are set out on **pages 69 to 71** above. They were appointed on the recommendation of the Nomination Committee of Northumbrian Water Group plc, when it was independently listed. The Board has rigorously reviewed the re-appointment of the INEDs and determined that they are independent, notwithstanding that they have served on the Board for more than nine years. However, all four existing INEDs will step down over the course of 2020 and 2021 and be succeeded by new appointees, which will allow new talent and experience to be brought to the Board.

The Chairman ensures that the Board works in a collegiate way, in the best interests of the Company and its stakeholders, and that each Director has an equal voice. All members of the Board are content that the balance of the Board is appropriate, but welcome the decision to appoint an additional INED during 2020. The Directors have all been able to allocate sufficient time to the Company to discharge their responsibilities effectively.

As the Chairman says in his introduction (on **pages 65 to 66**), the INEDs, within agreed parameters, effectively lead the work of the Committees, which hold very full meetings with considerable workloads, to prepare the ground for the Board.

There is a clear division of responsibilities between the Chairman and CEO. This has been set out in writing and agreed by the Board.

The Company has put in place Directors' and Officers' insurance cover for the benefit of all Directors of the Company. In addition, NWGL entered into a Deed of Indemnity on 21 March 2017 to provide Directors of NWGL and its subsidiaries further protection against potential liability.

BOARD LEADERSHIP, TRANSPARENCY AND GOVERNANCE – THE 2019 OFWAT OBJECTIVES (AND SUPPORTING PROVISIONS)

We explain below how we meet the Objectives and supporting Provisions on board leadership, transparency and governance as published by Ofwat in January 2019.

Objective 1

The Board of the Appointee establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

Our comments below on compliance with the relevant supporting Provisions explain how the Company meets this Objective:

(i) *The Board develops and promotes the Company's purpose in consultation with a wide range of stakeholders and reflecting its role as a provider of an essential public service.*

The Board's purpose statement (set out on page 13) has been informed by the very extensive consultation exercise conducted in preparation for the submission of the Company's PR19 Business Plan, as well as continuous broadly based consultation in the normal course of business and Ofwat's emphasis on the need for companies to embed a "public value" ethos. The consultation underpinning the PR19 Business Plan was comprehensive, with responses from more than 400,000 customers as well as from our Water Forum, or regulators, employees, suppliers and partners.

There is, of course, a comprehensive and continuous programme of engagement with customers and full details are set out in the Company's APR.

This open and consultative culture is a key element of how the Company does business. It is also maintained through a very broad programme of engagement, including regular engagement at Chief Executive level with local authorities across our operating areas, and participation in regional and national business organisations. The Company also hosts numerous site visits by MPs, civil servants, and senior regulators to encourage open and transparent debate about the challenges faced by the sector and to enable the Company to understand their respective concerns and priorities.

As explained on page 14, the Company intends to review its purpose statement over the coming year, drawing on extensive further work with senior executives, board members, employees, customers and other stakeholders.

(ii) *The Board makes sure that the Company's strategy, values and culture are consistent with its purpose.*

The Board has reviewed and discussed the Company's strategy, values and culture and is satisfied that these are consistent with the purpose. The Board recognises that the Company's strategy needs to reflect the Company's purpose, as well as customers' long term priorities and to take account of Ofwat's emphasis on public value. NWL's purpose statement is therefore underpinned by key principles which demonstrate that NWL:

(a) provides a reliable, resilient, safe and high quality water and wastewater service for all;

(b) intends to leave the environment in a better condition for the next generation;

(c) is committed to keeping water affordable including for those on low incomes; and

(d) acts in the long-term interests of society and the environment while still providing the very best service for customers today.

(iii) *The Board monitors and assesses values and culture to satisfy itself that behaviour throughout the business is aligned with the Company's purpose. Where it finds misalignment it takes corrective action.*

(a) The Board has received and discussed detailed feedback on an extensive employee engagement survey conducted by "Best Companies". This provided a comprehensive insight into the alignment of behaviour throughout the business with the purpose. The survey findings were positive but there are always areas where there is scope to improve engagement. Line managers are being supported to develop action plans to further improve engagement and ensure alignment of behaviour with the purpose. Engagement will be re-assessed later in the year to measure the improvement achieved and identify any further steps required.

(b) The Board has designated one of the INEDs, M Fay, to engage with the workforce and to provide the Board with a first-hand assessment of the culture of the business. Mrs Fay has fed back to the Board on her experience of employee roadshows and other site visits and a programme of virtual (and, if safe, physical) visits will be arranged during 2020.

(c) P Rew, S Lyster and M A B Nègre (INEDs) have attended employee roadshows and the Innovation Festival and fed back their views to the Board.

(d) The Human Resources team is reviewing Company policies and procedures to ensure that these properly reflect the Company purpose and to embed it where this is appropriate.

(iv) *Annual reporting explains the Board's activities and any corrective action taken. It also includes an annual statement from the Board focusing on how the Company has set its aspirations and performed for all those it serves.*

The Board receives detailed reports from the Executive Directors in advance of Board meetings, covering each aspect of the Company's activities.

The Chairman leads the Board and ensures that all items on the Board agendas are discussed openly and that all Directors have an opportunity to express their views. He encourages constructive challenge, so that ideas and proposals are tested and explored fully. The Board recognises that customers' interests are best served when the Company is flexible and innovative, so the ELT is always encouraged to think laterally and consider a range of solutions for each issue.

The Board makes key strategic decisions, approves the annual budget and notes the medium-term business plans. It also approves key regulatory submissions and very significant investments or expenditure which is not in the normal course of business. Investments which form part of projects within approved business plans are authorised by the Committees below Board level. Although this formal framework is very effective, the ELT takes great care to ensure that matters which relate to the quality of the Company's services to customers, leakage, water quality and environmental performance are discussed fully by the Board.

The Standing or Executive Committees can take decisions not delegated to specific committees between Board meetings. All Directors receive notice of Standing Committee meetings and may participate if they wish. Decisions taken by the Standing or Executive Committees are reported at the next Board meeting. The Company's Board meets at least five times each year.

During the year, the Board received regular detailed updates from the Executive Directors on each aspect of the Company's work. There are also regular reports on each Board agenda on customer service, operational performance, health and safety, management of key business risks, the investment programme and regulatory matters. There is a strong focus on the Company's success in delivering its key outcomes, as explained in the Strategic Report. The Chairman of the AC, R&CSC and Sub-groups reports fully to the Board on their work. In addition, the following significant matters were considered by the Board, as a matter of sound governance:

(a) the Annual Report and Financial Statements;

(b) the annual business plan;

(c) data security;

(d) decisions on tariffs;

(e) approval of several significant capital projects;

(f) review of performance commitment targets and related investment priorities; and

(g) matters relating to PR19, including addressing Ofwat's Initial Assessment of Plans, the Draft Determination and FD and the decision to ask Ofwat to refer the FD to the CMA for redetermination.

A Board statement as detailed above is included in NWL's **APR** for the year ended 31 March 2020.

Objective 2

The Appointee has an effective Board with full responsibility for all aspects of the Appointee's business for the long term.

NWL clearly meets this Objective. The Board sets, implements and supports the Company's vision, values, standards and strategy and ensures compliance with policies and legal and regulatory obligations. We comment below on compliance with the relevant objectives:

(i) *The regulated company sets out any matters that are reserved to shareholders or parent companies (where applicable) and explains how these are consistent with the board of the regulated company having full responsibility for all aspects of the regulated company's business, including the freedom to set, and accountability for, all aspects of the regulated company's strategy.*

Although proper regard is given to the interests of shareholders, in accordance with company law, NWL's Board has full responsibility for all aspects of the Company's business, including the freedom to set, and accountability for, all aspects of NWL's strategy. This is evidenced by the fact that the PR19 Business Plan and actions taken in response to the Draft and Final Determinations were developed and approved entirely by the NWL Board.

The Company has adopted terms of reference which set out the matters reserved to the Board for approval and matters which are, or can be, delegated to the Committees, Sub-committee, Sub-groups and management. These are published on the Company's website.

The Company has also adopted financial approval rules which set out the authorisation processes and financial limits to be applied to financial transactions within the Company. The terms of reference and financial approval rules are reviewed periodically by the Board.

Although certain limited matters (such as extensions of directors' appointments, large contract awards and significant borrowing arrangements) are referred to the NWGL Board, this is regarded as a formality. The NWGL Board accepts that the NWL Board is required to have full responsibility for all aspects of the regulated company's business and, to that end, has never rejected a recommendation of the NWL Board.

(ii) *Board committees, including but not limited to audit, remuneration and nomination committees, report into the board of the regulated company, with final decisions made at the level of the regulated company.*

All the NWL Board Committees report into the NWL Board and final decisions are made at that level.

(iii) *The board of the regulated company is fully focused on the activities of the regulated company; takes action to identify and manage conflicts of interest, including those resulting from significant shareholdings; and ensures that the influence of third parties does not compromise or override independent judgement.*

The Board is absolutely focused on the sustainable, long-term success of NWL. Any conflicts of interest are declared and Directors do not speak or vote on matters where a potential conflict arises.

It is a key principle of the Cheung Kong group of companies that the boards of companies within the group manage their own affairs. Whilst support and assistance is provided when asked for, it is recognised that local management have hands-on knowledge of the operational business and of customers' needs and priorities. The non-NWL interests of the shareholders are, therefore, never a factor in decision-making at the NWL Board and this approach is regularly re-affirmed by the NEDs in the clearest possible terms.

Objective 3

The Board of the Appointee's leadership and approach to transparency and governance engenders trust in the Appointee and ensures accountability for their actions.

Our comments below on the relevant supporting provisions explain how the Company meets this Objective. The provisions require publication of the following in a clear and accessible manner:

(i) *An explanation of group structure.*

This is provided at **page 54.**

(ii) *An explanation of dividend policies and dividends paid, and how these take account of delivery for customers and other obligations (including to employees).*

The dividend policy, and how the policy has been applied in the year, is explained in note 8 to the Financial Statements.

(iii) *An explanation of the principal risks to the future success of the business, and how these risks have been considered and addressed.*

The Board has ultimate responsibility for risk management and determines appropriate risk appetite. The Board's view of acceptable risk is based on a balanced assessment of all of the risks in the operating environment and aims to ensure an appropriate balance between risk aversion and opportunities. The Board monitors the management of risks and approves major decisions affecting the Company's risk profile. The Board is supported in this by the R&CSC, from which it receives regular and detailed reports.

The Board requires management to identify and assess the impact of risks to the business using a corporate risk model. In addition, during the year, a Sub-group of the Board carried out a review of strategic risks, which are potentially high-impact risks which are foreseeable but with a high degree of uncertainty.

An explanation of principal risks, and our approach to mitigating these risks, is provided on **pages 57 to 63.**

(iv) *Details of board and committee membership, number of times met, attendance at each meeting and where relevant, the outcome of votes cast.*

Details of Board and Committee membership and meetings and attendance is set out at **page 72.** No votes were held at any relevant meeting and all decisions were reached by consensus.

(v) *An explanation of the company's executive pay policy and how the criteria for awarding short and long-term performance related elements are substantially linked to stretching delivery for customers and are rigorously applied. Where directors' responsibilities are substantially focused on the regulated company and they receive remuneration for these responsibilities from elsewhere in the group, policies relating to this pay are fully disclosed at the regulated company level.*

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on **pages 88 to 99**, including how the criteria for the short-term incentive plan have significant linkage to benefits for our customers and the wider environment. The Remuneration Committee Report also explains changes which took effect from 2020 to further increase the proportion of performance-related executive pay aligned to delivering benefits for our customers, in both the short-term and long-term incentive plans.

Objective 4

The Board of the Appointee and its committees are competent, well run, and have sufficient independent membership, ensuring they can make high quality decisions that address diverse customer and stakeholder needs.

Our comments below on the relevant supporting provisions explain how the Company meets this Objective.

(i) *Boards and committees have the appropriate balance of skills, experience, independence and knowledge of the company. Boards identify what customer and stakeholder expertise is needed in the boardroom and how this need is addressed.*

The Board has determined that the following Directors are independent, notwithstanding that they have served on the Board for more than nine years:

- M A B Nègre (appointed in 2006). Mr Nègre has no prior connections with the Group's shareholders. He is a very experienced director and brings to the Board an excellent understanding of the business coupled with sound commercial judgement. The Board is satisfied that he continues to demonstrate a fully independent approach and to contribute a constructive and challenging perspective to Board discussions.
- Dr S Lyster (appointed in 2006). Dr Lyster has no prior connections with the Group or its shareholders. He is a very experienced director, with particular expertise in wildlife, conservation and environmental matters, which are central to the Company's work. He lives in the Company's Essex and Suffolk supply area. The Board is satisfied that Dr Lyster continues to demonstrate a fully independent approach and to offer valuable constructive challenge.
- M Fay (appointed in 2010). Mrs Fay has no prior connection with the Group or its subsidiaries. She is a very experienced director, with very strong connections to customers in the Company's north-eastern service area, where she has lived throughout her life. The Board is satisfied that she continues to demonstrate a fully independent approach and to constructively challenge and bring fresh and innovative perspectives to Board discussions.
- P Rew (appointed in 2010). Mr Rew has no prior connections with the Group or its shareholders. He brings expertise in finance, risk, corporate governance and compliance and has very significant experience as an audit committee chairman in substantial and complex organisations. The Board is satisfied that Mr Rew continues to demonstrate a fully independent approach and to offer constructive challenge.

All four INEDs were appointed under the auspices of NWL's Nomination Committee while NWGL (then Northumbrian Water Group plc) was a separately-listed company with no relationship with the current shareholders.

As part of her recent review of the effectiveness of the Board and its Committees and Sub-committee (as detailed on **page 79**), Professor Michelon paid particular attention to the independence of the INEDs and whether their long tenure may have raised concerns that the Board's decisions are the outcome of group thinking. She has assessed this aspect by interviewing both INEDs and other members of the Board. The interviews specifically covered board dynamics during challenging decisions taken over the year, to understand how consensus was reached. Professor Michelon concluded that the Board's capacity to work cohesively, and reach consensus is not attributable to individual directors, and the INEDs in particular, lacking opinions or independent thinking. On the contrary, she noted that it is not unusual for Directors to have divergent points of view to start with, but through discussions in which pros and cons are considered and evaluated, each Director is able to share their own personal view before a consensual conclusion is reached. In Professor Michelon's expert opinion, all INEDs demonstrate the required level of independence to continue to perform their roles effectively and contribute to a healthy and constructive debate.

The NWL Board therefore has an excellent balance of skills, experience, independence and knowledge of the Company. The Executive Directors have very significant experience in the water sector and other utilities, whilst the INEDs make full use of their individual professional expertise and personal interests to make a significant contribution to addressing the needs of all stakeholders and customers. For example, Dr Lyster is a board member of Natural England with a strong interest in the environment and long-term resilience. This role is directly relevant to NWL's position as a custodian of the environment and Dr Lyster brings an expertise in environmental protection as well as an understanding of stakeholder perspectives in this area. Similarly, P Rew was a Non-Executive Director of Defra until 2018, enabling him to bring extensive knowledge of environmental matters and stakeholders to his role at NWL. M A B Nègre brings first class knowledge of the global utilities sector, whilst M Fay champions customers and has excellent contacts across NWL's north eastern operating area.

The Board therefore believes that the Board and Committees, Sub-committee and Sub-groups have sufficient independent membership to meet the objective but, as outlined above, a fifth INED will be appointed during 2020 to further strengthen the independent voice on the Board.

In preparation for the recruitment of further INEDs during 2020 and 2021, the Board has conducted a skills audit to ensure that the Board has all the required expertise, including that relating to customers and other stakeholders. This work has guided the planning of the INED recruitment campaign.

Although INEDs are not yet the largest single group, they have a strong, influential and effective voice. Professor Michelon's Board performance review has confirmed that, on the basis of her interviews with Directors, the INEDs assess problems and express judgement independently of the shareholders and management. She reports that there is no evidence that the long tenure may have impaired their individual independent thinking, whereas their extensive experience and deep knowledge of the Company allow them to act as critical friends, speaking their minds with constructive scepticism and professionalism.

The non-independent NEDs bring extensive knowledge and experience of global infrastructure, finance and governance.

(ii) *INEDs are the largest single group on the board.*

At the time of publishing this report, there are an equal number of INEDs and NEDs on the NWL Board. As confirmed in this report, the Company intends to recruit a fifth INED during 2020 so that INEDs are the largest single group, going forward.

(iii) *The chair is independent of management and investors on appointment and demonstrates objective judgement throughout their tenure. There is an explicit division of responsibilities between running the board and executive responsibility for running the business.*

The Chairman was not independent of investors on appointment, when the Company had a single ultimate controlling shareholder. The Chairman has demonstrated objective judgement throughout his tenure, as well as an empowering approach which has encouraged all directors to participate fully in Board discussions.

(iv) *There is an annual evaluation of the performance of the board. This considers the balance of skills, experience, independence and knowledge, its diversity, how stakeholder needs are addressed and how the overarching objectives are met. The approach is reported in the annual report and any weaknesses are acted on and explained.*

There is an annual, independently-conducted, evaluation of the performance of the Board. In each of the last three years this has been conducted by Professor Giovanna Michelon, a specialist in corporate governance and social responsibility, and very good results achieved.

Since 2018, Professor Michelon (a specialist in corporate governance and social responsibility) has conducted independent annual evaluation processes to assess the Board's effectiveness in collectively working for the long-term success of the Company and fulfilling its three key roles of setting the strategic direction of the Company, monitoring management performance and providing support and advice. Professor Michelon had no connection with NWL prior to conducting the 2018 evaluation. P Rew is an advisory board member of the business school at which Professor Michelon was employed until May 2019 but was not involved in her appointment.

Professor Michelon's 2020 report concluded that the Board as a whole is able to reach consensus, yet divergent opinions exist and constructive discussions are used by Directors to share their views, highlight pros and cons and consider all relevant matters. She further states that the evidence gathered during the review process does not suggest that group thinking is a problem of this Board. More specifically:

(a) All participating Directors were clearly satisfied with the mix of skills and experience of both executive and non-executive (and independent) Directors, with the secretarial support and quality of documentation and Board minutes;

(b) The Chairman's leadership style was described as "inclusive and engaging" and able to create an atmosphere where all Board members feel comfortable to comment and are very appreciative of other people's opinions during the meetings;

(c) The risk management process led by the Board and its committees was felt to be very detailed and thorough, and its strengths were tested in response to the recent Coronavirus emergency confirming a solid system; and

(d) Board members fully understand the Company's strategic positioning and its public service role; stakeholder engagement activities are taking place regularly and the key issues in the competitive/institutional environments and the culture of the Board are aligned with the values of the organisation.

Recommendations in the 2020 report focused mainly on the nomination process for the new INEDs.

(v) *There is a formal, rigorous and transparent procedure for new appointments which is led by the nomination committee and supports the overarching objective.*

There is such a procedure in place. The current recruitment campaign will involve a leading executive search agency to ensure that candidates are drawn from as wide a pool as practicable and will be consistent with the highest standards of best practice.

(vi) *To ensure there is a clear understanding of the responsibilities attached to being a non-executive director in this sector, companies arrange for the proposed, final candidate for new non-executive appointments to the regulated company board to meet Ofwat ahead of a formal appointment being made.*

The Company will adhere to this.

(vii) *There is a majority of independent members on the audit, nomination and remuneration committees and the audit and remuneration committees are independently led.*

There is a majority of INEDs on the AC, Nomination Committee and Remuneration Committee. The latter two Committees are chaired by the Company's Chairman, which the Board considers appropriate in the context of the Company's ownership structure.

The INEDs play a leading part in the Board committees and sub-committees. Importantly, the AC is chaired by the SINED and three of the four members are INEDs. The R&CSC is, similarly, chaired by the SINED and all three members are INEDs. Professor Michelon has described the AC and R&CSC focus on ensuring that NWL has the resilience and long-term financial and operational stability to provide customers with a reliable service and meet the expectations of other stakeholders. More specifically, the AC and R&CSC deliver much of the preparatory work on the Annual Report and Financial Statements and APR, review the work of the internal audit function, review risk management and advise the Board on risk appetite and monitoring compliance with covenants and management of debt. At the AC, there is a particular focus on matters which directly impact customers, such as Guaranteed Standards of Service compliance, whilst the R&CSC held 'deep dives' during the year on cyber security and the Company's Intelligent Asset Management programme. The AC and R&CSC report fully and frame proposals on all these matters for the Board to consider. Therefore, in addition to their direct input to the Board, the influence of the INEDs and their contribution to the running of the Company, through the AC and R&CSC, is very significant and highly valued.

AUTHORISATION OF DIRECTORS' CONFLICTS OF INTEREST

Directors have a statutory duty, under s175 of the Companies Act 2006, to avoid a situation in which they have, or could have, a conflict of interest with the Company's interests. However, there is no breach of this duty if the Board has authorised the matter in question. The Articles permit Directors (other than the Director having the interest in question) to authorise any situation giving rise to a known or potential conflict. A register of the interests which have been authorised is maintained by the Company Secretary and is available at every Board meeting.

WORK OF THE COMMITTEES

Details of the work of the PR19 Board Sub-group, CMA Board Sub-group, AC, R&CSC and Nomination Committee are set out below. During the year, in addition to her review of the effectiveness of the Board, Professor Michelon also conducted a review of the effectiveness of the AC and the R&CSC. The evaluation was conducted by means of a questionnaire and a number of one-to-one interviews, following which Professor Michelon produced a written report. The main findings were as follows:

- Directors were satisfied with the composition and chairmanship of the AC and R&CSC;
- Meeting arrangements were deemed satisfactory and efficient;
- Oversight of external audit, risk management and internal controls and assurance is considered to be excellent;
- The AC and R&CSC are working appropriately despite an increasing workload; and
- The quality of feedback to the Board is high.

Professor Michelon also advised that it is important to maintain training and technical updates and to ensure that the number and timing of meetings is kept under review.

PR19 BOARD SUB-GROUP/CMA BOARD SUB-GROUP

As reported in NWL's last two Governance Reports, given the critical importance of our Plan proposals, the Board formed a dedicated PR19 Board Sub-group to provide integrated support to both the Board and management in producing and assuring NWL's Business Plan.

The PR19 Board Sub-group worked closely with the Company's full Board, the ELT and relevant senior managers below that level, as well as external assurance providers and the Board approved the submission of the PR19 Business Plan on 18 July 2018.

On 31 January 2019, Ofwat published its PR19 Initial Assessment of Business Plans. The Company was disappointed not to receive 'enhanced' status and was required to revise some elements of its Plan and the revised Plan was submitted on 1 April 2019.

Ofwat published the PR19 FD on 16 December 2019 and this was discussed by the NWL Board on a number of occasions, culminating in the Board's request to Ofwat on 14 February 2020 to refer the PR19 FD to the CMA for redetermination. In order to support the Board in managing the CMA referral the Board established the CMA Board Sub-group, which includes all the INEDs, the Executive Directors and professional advisers. The Sub-group has met regularly to discuss the referral and to carefully review the Company's submissions to the CMA, on behalf of the Board. The Company's Statement of Case was approved by the full Board prior to submission.

AUDIT COMMITTEE REPORT

Introduction by the Chairman of the Committee, P Rew

The role of the AC is to assist both Executive Directors and NEDs of NWL and its subsidiaries (the NWL Group) to discharge their individual and collective responsibilities in relation to:

- ensuring the financial and accounting systems of each NWL Group company are providing accurate and up-to-date information on its current position;
- ensuring the published Financial Statements of the NWL Group companies represent a true and fair reflection of this position;
- ensuring the integrity of the Company's regulatory reporting systems and the accuracy of its regulatory reports; and
- assessing the integrity of internal financial controls.

The Committee also maintains oversight of internal and external auditors. I have worked with the members of the Committee and with management and key advisors to produce an action plan for the Committee, setting out the business to be addressed at each meeting. This plan is dynamic and is updated throughout the year. The members of the Committee are updated regularly on developments in financial reporting requirements and on any changes in NWL's regulatory environment.

Members of the Audit Committee

The members of the AC are P Rew (Chairman), Dr S Lyster, M A B Nègre and L S Chan.

The CEO, Finance Director, Assets and Assurance Director, Internal Audit Manager and the external auditor normally attend the Committee's meetings by invitation and M Parker is Secretary to the Committee. Other senior managers, independent technical auditors and advisers are invited to attend as appropriate.

The work of the Audit Committee

During the year, and up to the date of approval of these Financial Statements, the AC assisted both Executive Directors and NEDs to discharge their individual and collective responsibilities. Its work included the following:

External Audit

- reviewing the draft Financial Statements and APR, considering reports from the external auditor setting out the audit approach and plan, significant audit risks and conclusions on the NWL Group's internal controls and risk management;
- considering the key areas of judgement in the Financial Statements, reviewing reports from management, and ensuring these are consistent with those set out in note 1(q) to the Financial Statements on pages 116 to 117;
- reviewing the appropriateness of accounting policies and evidence supporting the going concern basis for the Financial Statements and recommending approval of the Financial Statements to the Board;
- reviewing and monitoring the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- approving the external auditor's fees for both audit and non-audit services, by reference to the agreed policy (see further details below).

The Committee monitors the independence of the audit through different reviews and actions including:

- confirmation that the auditor is, in its professional judgement, independent of the NWL Group;
- obtaining from it an account of all relationships which may affect the firm's independence and the objectivity;
- rotation of the lead audit partner every five years. NWL's current lead audit partner first signed the Annual Report in 2016 and will rotate after the 2020 audit;
- maintaining a policy regarding the engagement of the auditor to conduct non-audit work and monitoring the level of audit fees compared to non-audit fees (see further details below);
- considering audit tender requirements, being tenders every 10 years and mandatory rotation after 20 years. Deloitte was first appointed in respect of the 2012 Annual Report;
- considering new accounting standards and reviewing their applicability to the Company;
- reviewing the approaches taken to bad debt and taxation provisioning as well as unbilled revenue recognition; and
- reviewing reporting from management or the external auditor on the accounting judgements associated with property, plant and equipment, and assumptions taken regarding valuing financial instruments and the defined benefit pension scheme liability.

In addition, the Committee considers the effectiveness of the external audit, and considers the level of experience, industry knowledge and expertise of the audit team, and its delivery of appropriate challenge in a knowledgeable and constructive manner.

Non-Audit Fees

The Company has adopted a formal policy on the provision of audit services, which was updated with effect from 1 April 2017, to reflect the FRC's Revised Ethical Standards 2016.

The policy provides for general pre-approval of a range of services which are generally regarded as audit related, where the fees are equal to or less than £50,000. It also sets out a broad range of prohibited activities.

Services which are not prohibited, but which have not been pre-approved and in respect of which the fee is equal to or less than £50,000 can be approved by the AC Chairman, who reports such approval to the AC. If the fee for such services will exceed £50,000 the approval of the AC is required.

The policy imposes a cap on non-audit fees equal to 70% of average audit fees for the previous three years.

Where Deloitte LLP is engaged to provide non-audit services, this results from its extensive knowledge on NWL's business and the sector generally, as well as demonstrating the required expertise and capability to provide good value for money.

Non-audit related work undertaken by Deloitte LLP in 2019-20 amounted to fees of £14,000, which represents 6% of total fees paid to Deloitte LLP. The fees paid are set out in note 3 to the Financial Statements on **page 119**. The non-audit work in 2019-20 comprised provision of assurance on third party contracts.

The AC also holds in camera sessions with the audit partner.

Having considered the effectiveness and independence assessments above, the AC agreed to recommend to the Board that Deloitte continues as external auditor.

Internal Audit

The NWL Group operates a blended model for its internal audit function. Under this model, the internal audit team conducts the majority of the work, including core financial controls and regulatory reporting reviews. Reviews of specialist technical areas are outsourced to firms with appropriate experience and qualifications when felt necessary.

The Committee reviews and approves the internal audit plan for the year. Its review is designed to ensure that focus is given to the areas of highest risk for the NWL Group and that the audit work focuses on key controls.

Internal audit reports reviewed by the Committee during 2019-20 included:

- April 2019

  Process Review – Sewer flooding

  Financial Accounting

  Wholesale services

  Process Review – Service Reservoirs and Water Tower Inspection Programme
- June 2019

  Process Review - Appointments
- August 2019

  Process audit – Customer Complaints and Account Queries
- January 2020

  Asset Investment

  Procurement – General policies, purchasing cards and payment terms

  Procurement – Building Maintenance

  Customer Accounts

  CKI/CKHH audit report – GDPR and its application within the Customer team and sewerage network maintenance

In addition, at each of its scheduled meetings the Committee received reports detailing progress with implementing recommendations previously raised by internal audit and is satisfied that management has taken appropriate steps to implement the recommendations raised.

The Chair of the Committee, independent of management, maintains regular and direct contact with both the internal and external auditor, allowing open dialogue and feedback.

The Committee has considered the effectiveness of internal audit. There was also an external assessment completed by the Chartered Institute of Internal Auditors during 2018/19 which overall noted that the function "clearly meets the expectations of its stakeholders". The Committee is satisfied that the current model described above remains appropriate for the Group.

Work with other assurance providers

Support with data assurance work for the principal regulatory reporting (including the APR, Water Resource Management Plan and PR19 in the year) was provided by Deloitte for financial tables and PwC or our Internal Audit team for non-financial tables.

Our overall approach to assurance of regulatory data has been approved by the Committee and is described below:

- business as usual assurance for our ongoing data capture and measurement processes;
- each piece of data must be provided by the nominated data provider and reviewed before being audited. This is controlled by a workflow system; and
- additional independent technical assurance was procured (from PwC as our External Technical Auditor) to examine areas that were identified as being higher risk as defined by our regulatory data risk management framework as approved by the Committee. Our approach is described in our draft and final assurance plans with the results being described in our **Data Assurance Summary** annually.

Reports from Deloitte, PwC and Internal Audit are received and reviewed by the Committee.

Further compliance and other matters

- reviewing and commenting on the APR, including the underlying assurance, reviewing evidence to support the Condition F6A.2A certificate (statement of sufficiency of financial resources) and long-term Viability Statement and recommending their approval to the Board;
- approving arrangements for monitoring compliance with the Company's procedures designed to prevent bribery, having regard to the Bribery Act 2010 and the code of conduct 'Our Way at NWG', including receiving reports on any whistleblowing allegations;
- management of tax compliance matters and other tax issues, including Base Erosion and Profit Shifting and renewing NWL's Advance Thin Capitalisation Agreement and discussing other key matters with HMRC; and
- reviewing the Company's Long Term Viability Statement.

The AC Chairman reports formally to the NWL Board following each AC meeting, and its minutes are circulated to both NWL and NWGL Boards.

Attendance at the five AC meetings during the year was as follows:

NAME	ATTENDANCE
P Rew	5
Dr S Lyster	5
M A B Nègre	5
L S Chan	1
N Herrington	(as alternate for L S Chan) 4

P Rew
Chairman of the Audit Committee

RISK & COMPLIANCE SUB-COMMITTEE REPORT

Introduction by the Chairman of the Sub-committee, P Rew

The role of the Sub-committee is to assist both Executive and NEDs to discharge their individual and collective responsibilities in relation to assessing the scope and effectiveness of the NWL Group's risk management systems and the integrity of its internal financial controls.

Members of the Risk & Compliance Sub-committee

The members of the R&CSC are P Rew (Chairman), Dr S Lyster and M A B Nègre.

The work of the Risk & Compliance Sub-committee

The ELT implements policies on risk management and internal control and ensures that risks are appropriately identified and managed within the business, to ensure that the Company's resources and capacity to deliver services as required by customers remain resilient. This approach is set out in a Risk Management Framework, which has been endorsed by the R&CSC. The ELT reviews the approach to risk management in detail every year and reviews the significant risks every month. Any significant issues are reported by the CEO to the Board. Senior management implements policies on risk management and internal control.

The R&CSC, on behalf of the Board, has performed a robust assessment of the principal risks facing the Company, including those that would threaten its business model, resilience, future performance, solvency or liquidity. These principal risks, and how they are managed, are described on pages 57 to 63 in the Strategic Report.

The internal control framework supports the risk management process, ensuring that risks are appropriately managed, that controls are effective and that appropriate remedial action is taken where identified. Risks are mapped against the providers of assurance, whether this be management, internal or external assurance. The Board is supported by the AC in monitoring the effectiveness of the internal control framework with primary assurance being provided by the internal audit team.

The R&CSC, on behalf of the Board, has carried out an annual review of the effectiveness of the Company's risk management and internal control systems. This review confirmed that the Company has strong systems of internal control and robust processes in place to enable it to identify, evaluate and manage the risks it faces and to ensure that its obligations are met. These systems and processes are embedded in the organisation and are reviewed regularly by the Board, its Committees and Sub-committee. The annual review confirmed that the risk management and internal control systems have operated effectively through the year and that there have been no significant failings or weaknesses.

During the year, and up to the date of approval of these Financial Statements, the work of the R&CSC included the following:

- reviewing reports at each meeting on the top-rated managed risks and priorities for assurance (being those risks with the biggest reduction between the business (gross) and managed (net) risk scores), representing key control areas for the Company;
- reviewing high impact, low likelihood risks which have a rare to unlikely likelihood of occurrence but a potentially catastrophic level of impact;
- reviewing the management of specific areas of risk in relation to a major business change project iAM and business continuity arrangements;
- advising the Board on risk appetite and exposure and reviewing risk assessment processes as well as keeping the effectiveness of the risk and internal control management systems under review;
- monitoring compliance with covenants and treasury risks;
- reviewing management of customer debt;
- "deep dives" on cyber security and the iAM programme; and
- reviewing the risk and control framework and reporting.

Attendance at the three scheduled R&CSC meetings during the year was as follows:

NAME	ATTENDANCE
P Rew	3
Dr S Lyster	3
M A B Nègre	3

The Sub-committee holds a special meeting with other members of the Board each year to conduct a separate Strategic Risk review exercise.

The Board is able to monitor the impact of environmental, social and governance matters on the Company's business, to assess the impact of significant risks on the business and to evaluate methods of managing these risks through reports

STRATEGIC REPORT
GOVERNANCE REPORT
STATUTORY FINANCIAL STATEMENTS

it receives from the AC and the R&CSC.

P Rew
Chairman of the Risk & Compliance Sub-committee

NOMINATION COMMITTEE

The Nomination Committee has wide-ranging terms of reference which are available on the Company's website. The members during the year were A J Hunter (Chairman), P Rew, M Fay, Dr S Lyster and D N Macrae. The Committee met once formally during the year, principally to discuss the recruitment of a fifth INED and the plan for the existing four INEDs to step down during 2020/21 and be succeeded by new appointees. There were further ad hoc discussions as required through the year.

COMPLIANCE WITH THE WATES PRINCIPLES

The Board considers that it complies substantially with the relevant provisions of the Wates Principles, through the corporate governance arrangements described in detail above, and the further arrangements set out below.

Principle One – Purpose and Leadership

An effective Board develops and promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

Please see the comments on compliance with Objective 1 of the 2019 Ofwat Objectives, on **pages 74 to 80**.

Principle Two – Board Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

Please see the comments on compliance with Objective 4 of the 2019 Ofwat Objectives, on **pages 74 to 80**.

Principle Three – Director Responsibilities

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge.

The Company has in place clear corporate governance practices which provide clear lines of accountability and responsibility. The members of the ELT have clearly defined responsibilities and levels of authority are set out in Financial Approval Rules (as explained in the comments in relation to Objective 2 of the 2019 Ofwat Objectives on **page 76**. The Board's approach to conflicts of interest and the relationship between the Company and its owners is also explained in that section of the Report.

The Chairman and Company Secretary discuss governance processes from time to time to confirm they remain fit for purpose and consider initiatives which could strengthen governance.

Details of the Board Committees are set out in the comments on Ofwat's 2019 Objective 4, on **pages 78 to 80**.

Details of processes which are in place to ensure systems and controls are operating effectively and that information provided to the Board is robust are set out throughout this document and in the **Company's APR and Data Assurance Summary.**

Principle Four – Opportunity and Risk

A board should promote the long-term sustainable success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

The Company is a long term business and ensuring its long term sustainable success is a key driver underpinning the work of the Board and Committees, as described in detail in this Report. The Board's approach to oversight of the identification and mitigation of risks is detailed in the Risk Report on **pages 57 to 63**.

Principle Five – Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of a company, taking into account pay and conditions elsewhere in the company.

A detailed explanation of the Company's executive pay policy is provided in the Remuneration Committee Report on **pages 88 to 99.**

Principle Six – Stakeholder Relationships and Engagement

Directors should foster effective stakeholder relationships aligned to the company's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

Details of the Company's extensive stakeholder engagement programme are set out on **pages 17 to 18**.

CODE OF CONDUCT

The Group has a code of conduct, 'Our Way at NWG', covering its relationships with customers, employees, suppliers, local communities, shareholders, other investors and regulators. This document provides clear guidance to employees in relation to personal conduct, conflicts of interest, the anti-bribery policy and a number of other matters. As part of the annual staff appraisal system, all employees are required to confirm that they have seen the code of conduct

REMUNERATION COMMITTEE REPORT

The following report has been produced in accordance with section 35A of the Water Industry Act 1991. It also has regard to the requirements of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 in respect of directors' remuneration reporting for quoted companies, albeit in the context of a company which is not a listed public limited company.

ANNUAL STATEMENT

The work of the Remuneration Committee comprises the adoption of principles and standards in relation to executive remuneration and benefits, as well as agreeing individual remuneration packages. All decisions regarding Directors' remuneration are taken by the Remuneration Committee, other than where stated.

Members of the Remuneration Committee

The members of the Remuneration Committee during the year were A J Hunter (Chairman), P Rew, M Fay, Dr S Lyster and D N Macrae. H Mottram attends Committee meetings but does not participate in discussions relating to her own remuneration. There is a majority of INEDs in accordance with the Ofwat Principles.

The work of the Remuneration Committee

The Remuneration Committee met twice during the year, in May 2019 and January 2020. All members attended the meetings.

The Committee discussed and agreed changes to the structures of the Short Term Incentive Plan (STIP) and Long Term Incentive Plan (LTIP), to take effect from 2020. This will increase to 60% the proportion of performance-related executive pay aligned to delivering benefits for our customers across our stretching balanced scorecard targets. The changes are described in more detail on pages 98 to 99.

Set out below is a brief summary of the work of the Committee:

- reviewing Executive pay and Non-Executive Directors' fees, taking account of market data, and agreed annual pay awards to take effect from 1 January 2020;
- considering an assurance report from the Internal Audit Manager on performance against targets reflected in the 2019 STIP and LTIP;
- agreeing STIP payments for the 2019 calendar year, including reviewing performance against the balanced scorecard measures;
- agreeing the level at which the LTIP award in respect of the 2019 calendar year would vest;
- considering and agreeing changes to the structures of the STIP and LTIP, which increased the proportion of measures delivering benefits for customers and other stakeholders, other than shareholders, to 60%;
- setting performance targets for the STIP for Executive Directors and senior managers for the 2020 calendar year in accordance with the revised structure, reflecting all of the corporate themes in our balanced scorecard to deliver benefits for all stakeholders and ensuring that targets are set at stretching levels aligned to industry-leading performance; and
- setting performance targets for the LTIP scheme for the award in respect of the 2020 calendar year in accordance with the revised structure, reflecting a sub-set of the balanced scorecard measures which deliver benefits for our stakeholders.

Decisions in respect of pay awards and STIP and LTIP were made in January 2020 before the outbreak of the Covid-19 pandemic. The Committee will consider at its meetings during 2020/21 whether or not it would be appropriate to make any adjustments to Directors' remuneration in the light of the impact of Covid-19.

A J Hunter
Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION POLICY

The policy of the Remuneration Committee is to pay no more than necessary to attract and retain good quality directors, and to ensure that policy is aligned with market practice. For Executive Directors the reward policy is designed to achieve a balance between attraction, reward for performance and retention, and salaries are based on relevant market benchmarks, which are reviewed typically every three years. For Non-Executive Directors, fees paid reflect market practice for similar sized companies, and may be enhanced for roles leading Board Committees.

Executive Directors

The remuneration of the Executive Directors comprises:

- basic salary;
- benefits in kind;
- a performance related STIP;
- annual LTIP awards; and
- pension benefits.

In addition to reviewing each constituent element, the Remuneration Committee reviews the remuneration packages as a whole to ensure that they remain appropriate in terms of structure and quantum. In 2012 the Remuneration Committee restructured the remuneration of the Executive Directors, with advice from Hay Group, independent external reward consultants. This resulted in a reduction in the value of performance related STIP and LTIP awards, offset by an adjustment to basic pay. The Remuneration Committee is satisfied that this balance between fixed and performance related remuneration remains appropriate.

A significant proportion of remuneration is linked to Company performance through the short-term and long-term incentive plans, with 50% of the CEO's maximum remuneration being linked to performance and around 40% for the other Executive Directors, as illustrated on page 92.

The remuneration policy is designed to incentivise performance across all the full range of the Company's strategic themes and not to over-emphasise short-term financial gains. The following table describes the policy in more detail, explaining the purpose of each component, how the policy operates and, for the variable elements of remuneration, the maximum amount payable and how performance is assessed.

PURPOSE	OPERATION	PERFORMANCE ASSESSMENT	MAXIMUM PAYABLE
Basic salary			
Basic salaries are set at a level to attract and retain Directors with the leadership capabilities to deliver the Company's vision of being the national leader in the provision of sustainable water and wastewater services and to reflect the external market.	Basic salary is reviewed annually based on individual contributions, periodic benchmarking to the external market and with regard to the expected pay award for other groups of employees.	The basic salaries payable to Directors of NWL are not directly linked to specific standards of performance in connection with the carrying out of functions of a 'relevant undertaker'. There is no variable performance related element.	Fixed annual amount determined annually by the Remuneration Committee.
Benefits in kind			
Other employment benefits provided in accordance with the Company's policy on provision of benefits to all staff.	Benefits provided to the Executive Directors comprise car and fuel allowances, healthcare and professional subscriptions.	There is no variable performance related element.	Fixed annual amount set in accordance with the Company's policies on provision of benefits to all staff.
STIP			
The purpose of the STIP is to focus on delivering key business performance targets in the year. The performance targets are firmly linked to NWL's strategic themes (customer, environment, competitiveness, people and communities) as reported in the balanced scorecard. Stretching targets are set which are aligned to the Company's vision of being the national leader in the provision of sustainable water and wastewater services.	The STIP is assessed on a calendar year basis. Awards are paid in cash with no deferral, other than for specific reasons, such as a performance metric not being finalised at the point of award. A clawback applies in the event that results on which the STIP is paid are subsequently found to be inaccurate or there has been relevant misconduct on the part of the employee.	The STIP is structured with three elements, determined by the Remuneration Committee: • up to 50% payable on financial targets; • up to 40% payable on balanced scorecard targets; and • up to 10% payable on performance against personal targets. The Chairman retains the right to award an additional discretionary bonus to the CEO, taking account of overall performance. The structure will change in 2020/21 to: • up to 40% payable on financial targets; and • up to 60% payable on balanced scorecard targets.	The maximum STIP payable, as a percentage of basic salary, is 70% for the CEO and 50% for the other Executive Directors.

table continued...

PURPOSE	OPERATION	PERFORMANCE ASSESSMENT	MAXIMUM PAYABLE
LTIP			
Our LTIP is structured differently from others in the sector and is designed to operate as a modest retention mechanism only.	The LTIP is a cash based award, with deferred payment. Vesting of the LTIP is based on performance in the first calendar year after award. Payment is deferred until the completion of four years from the start of the performance period.	The LTIP is structured with 50% related to delivery of expected distributions to Group shareholders in line with the Board approved plan and 50% related to achievement of the Group profit after tax target. For each element, there will be no vesting if less than 97.5% of the target value is achieved, increasing on a sliding scale to 50% vesting if 100% of the target is achieved and 100% vesting if 105% of the target is achieved. The structure will change in 2020/21 to: • up to 40% payable on financial targets; and • up to 60% payable on balanced scorecard targets.	The maximum LTIP payable, as a percentage of basic salary, is 50% for the CEO and 30% for the other Executive Directors.
Pension			
Pension benefits are provided at a level to reflect market expectations.	The Company operates the Northumbrian Water Pension Scheme (NWPS or the Scheme) which has defined benefit and defined contribution sections. The defined benefit section closed to new entrants on 31 December 2007. More details of the NWPS are provided in note 23 of the Financial Statements.	There is no variable performance related element.	H Mottram left the NWPS in 2016 and receives additional salary payments in lieu of pension contributions. C I Johns participates in the defined contribution section of the NWPS, making an employee contribution of 8% of basic salary (under a salary sacrifice arrangement) and receiving an employer contribution of 15% of salary, up to the annual pension contribution taxation limit, and additional salary payments in lieu of pension contributions. A C Jones participated in a defined benefit section during the year, making an employee contribution of 8% of pensionable salary (under a salary sacrifice arrangement) and receiving an employer contribution equivalent to 25.5% of pensionable salary. Benefits are calculated on a career average revalued earnings basis with future accrual at 1/45th of salary per annum. A C Jones stopped being an active member of the NWPS during the year and now receives additional salary payments in lieu of pension contributions.

ILLUSTRATION OF REMUNERATION POLICY

The graphs below show for each Executive Director, for the proportion of their remuneration borne by the Company:

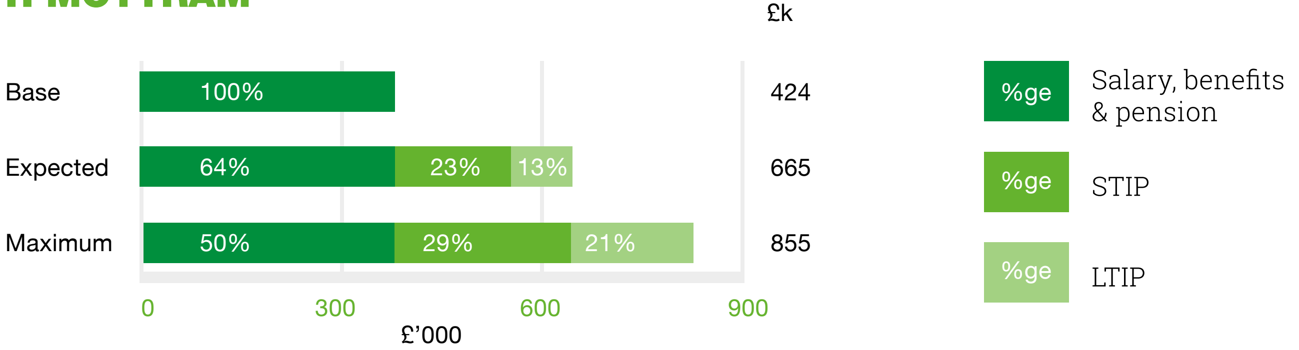
- the base level of remuneration, which is not dependent upon performance and comprises basic salary, benefits in kind and pension;
- the expected level of remuneration, reflecting a typical level of performance against targets for the STIP and LTIP; and
- the maximum level of remuneration, if all STIP and LTIP performance targets were fully achieved.

For H Mottram, 50% of maximum remuneration is linked to Company performance through the STIP and LTIP. For C I Johns and A C Jones, the equivalent proportions are 40%.

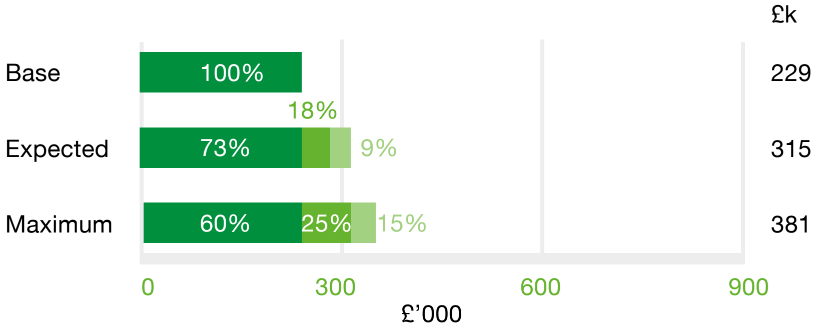
For the purposes of the graph, the expected level of performance for the STIP has been assumed to achieve 60% of the maximum potential value and the LTIP has been assumed to achieve 50% of the maximum value, though awards are dependent upon actual performance.

Information on actual awards for the STIP and LTIP in respect of 2019 is provided on pages 94 to 96.

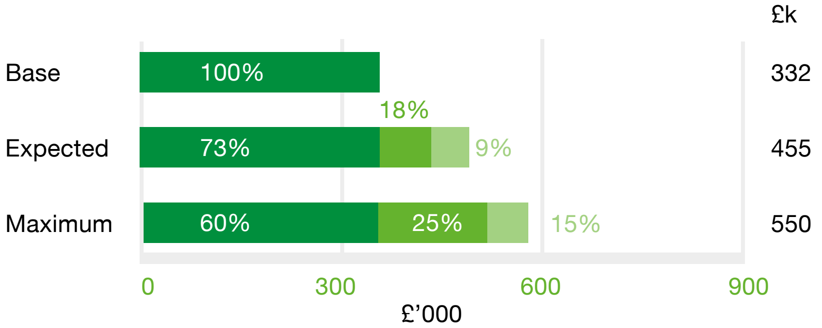
H MOTTRAM



C I JOHNS



A C JONES



NON-EXECUTIVE DIRECTORS

FEES	OTHER COMPONENTS OF REMUNERATION	REMUNERATION ELSEWHERE IN THE GROUP
The Company's policy is that the Independent Non-Executive Directors receive fees for their duties. The level of fees is set by reference to the market. An additional fee is paid to the Chair of the Audit Committee to reflect the additional responsibilities and time commitment involved.	The Non-Executive Directors do not receive benefits in kind and do not participate in the STIP, LTIP or pension schemes operated by the Company.	The INEDs do not receive any other remuneration from the Company, the Group or its shareholders. In respect of the Non-Executive Directors appointed by the Group's shareholders, F R Frame received the same base fee for performing his duties as a Director of both the Company and NWGL. This fee is shared with NWL paying a 30% proportion and NWGL paying the remaining 70%. The other Non-Executive Directors receive no remuneration from the Company.

SERVICE CONTRACTS

The service contracts of Executive Directors have a notice period of six months from either side.

The contracts do not contain any specific provisions related to payment for loss of office. Any such payments would be at the discretion of the Remuneration Committee and would take account of the contractual notice period and any STIP payments considered to have been earned. LTIP awards will typically lapse, although the Remuneration Committee may approve payment of outstanding LTIP awards if a Director is considered to be a 'good leaver', for example upon retirement.

INEDs are engaged on a contract for services with a notice period of six months from either side. No payment is made for loss of office other than accrued fees.

The other NEDs do not have service contracts with the Company, and receive no payment from the Company.

APPROACH TO REMUNERATION ON RECRUITMENT

Newly appointed Directors are remunerated in accordance with the policy set out in this report. Service contracts for new Directors have a notice period of six months from either side.

CONSIDERATION OF SHAREHOLDER VIEWS

The Remuneration Committee comprises two shareholder-appointed Directors and three INEDs. In the context of a private company with NWL's ownership structure, this ensures that the views of the shareholder are taken into account when setting executive remuneration, whilst also maintaining a strong independent presence on the Committee.

CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN THE COMPANY

The Remuneration Committee reviews Directors' pay on an annual basis, taking account of market trend information and pay awards for the wider workforce in the Company. Whilst Directors' remuneration is not specifically consulted on with employees, in general, annual pay awards for Directors reflect the target pay awards for the workforce, which are subject to consultation under the Company's Employee Relations Framework. The incentive pay arrangements for executives are not mirrored elsewhere, but are considered to be relatively modest in comparison with market comparisons.

Directors' remuneration packages are benchmarked against market data on a periodic basis, typically every three years, with support from external advisers. The salary benchmarking is reviewed annually for senior managers and every three years for the wider workforce.

DIRECTORS' REMUNERATION IN 2019/20 (AUDITED)

The table below shows the total remuneration paid by the Company to Directors during the year, along with comparative information for the previous year. The table has been produced in accordance with the requirements of Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

	SALARIES AND FEES £'000		BENEFITS IN KIND £'000		STIP £'000		LTIP £'000		PENSION £'000		TOTAL REMUNERATION £'000	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
H Mottram	375	366	9	9	158	192		44	41	40	583	651
C I Johns	193	189	8	10	46	47		14	27	25	274	285
A C Jones	283	276	13	19	65	67		20	44	26	405	408
M Fay	48	47	-	-	-	-	-	-	-	-	48	47
F R Frame	11	14	-	-	-	-	-	-	-	-	11	14
Dr S Lyster	48	47	-	-	-	-	-	-	-	-	48	47
M A B Nègre	48	47	-	-	-	-	-	-	-	-	48	47
P Rew	65	62	-	-	-	-	-	-	-	-	65	62
	1,071	**1,048**	**30**	**38**	**269**	**306**		**78**	**112**	**91**	**1,482**	**1,561**

The table shows only the proportion of remuneration borne by the Company. For two of the Directors, H Mottram and C I Johns, NWL paid 70% of their remuneration and NWGL paid the remaining 30%. For F R Frame, NWL paid 30% of his remuneration and NWGL paid the remaining 70%. For the other Directors reported in the table, NWL paid 100% of their remuneration.

The Executive Directors receive salary payments in lieu of employer pension contributions. These payments are reported under the pension heading in the table.

BASIC SALARY

Basic salary is set by reference to market data and trends.

For the calendar year 2019, senior executives were awarded an annual increase in their basic salaries of 2.5%. This was the same as the level awarded to other senior managers, but less than that awarded to other employees of 2.8%.

For the calendar year 2020, senior executives were awarded an annual increase in their basic salaries of 2.5%. This was the same as the level awarded to other senior managers and other employees.

BENEFITS

Taxable benefits provided to the Executive Directors comprise car and fuel allowance, healthcare and professional subscriptions. The values are not significant in the context of overall remuneration.

STIP

The STIP for the 2019 calendar year was structured by the Committee in accordance with the policy outlined above, as follows:

- up to 50% payable on balanced scorecard financial targets;
- up to 40% payable on balanced scorecard non-financial targets; and
- up to 10% payable on performance against personal targets.

The balanced scorecard measures and targets, and performance against the targets in the year, are shown in the table below. These targets are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision. This means that they are often more stretching than the regulatory PCs reported in the Performance Review section on pages 22 to 23.

SCORECARD MEASURE	TARGET	PERFORMANCE	ACHIEVED	% OF TOTAL AWARDED	% OF TOTAL STIP POTENTIAL
Customer					
Customer satisfaction					
- SIM qualitative score	>=4.65	4.5	no	-	3
- SIM quantitative score	<=75	94.19	no	-	1
Water supply interruptions >3 hours (average minutes per property)	<=3:45	9:12	no	-	4
Mean zonal compliance	>=99.97	99.94	no	-	4
Repeat sewer flooding (properties)	<=60	60	yes	4	4
Environment					
Leakage (Mld)					
- NW	<=134	136.3	no	-	2
- ESW	<=66	64.2	yes	2	2
Pollution incidents category 1 & 2	<=1	1	yes	4	4
Sewage treatment works failing consent	>=99	98.84	no	-	4
Competitiveness					
Group Earnings Before Interest and Taxes (EBIT)	budget	not achieved	no	-	25
Group cash available for distribution	budget	achieved	yes	25	25
People					
Employee engagement score	>=80	67	no	-	4
Lost time reportable accidents (no.)	<=3	7	no	-	4
Communities					
Ethisphere	award	awarded	yes	4	4
Total STIP related to balanced scorecard				**39**	**90**

The personal targets related to the delivery of strategic objectives relevant to each Director's role.

A number of these targets related to NWL's performance as a relevant undertaker. In assessing overall performance, the Committee takes into account the Company's position in Ofwat reports.

For the CEO, in addition to the STIP calculation explained above, a further discretionary award was made by the Committee to reflect the Board's continued satisfaction with the CEO's performance. This remained within the limit of the overall potential maximum STIP award.

The total STIP awards for 2019 were as follows:

	STIP awarded (out of 100%)	MAXIMUM STIP (% OF BASIC SALARY)	STIP AWARDED (% OF BASIC SALARY)
H Mottram	62.4%	70%	43.7%
C I Johns	48.0%	50%	24.0%
A C Jones	48.0%	50%	24.0%

LTIP

A cash LTIP was awarded by the Committee in 2019, structured in accordance with the policy outlined above, as follows:

- up to 50% payable on achievement of the Group profit after tax target; and
- up to 50% payable on delivery of expected distributions to Group shareholders.

The scheme related to the period January 2019 to December 2022. Performance targets were assessed in the first year of the scheme with payment deferred until early 2023, after the end of the four year scheme period.

The Committee assessed the performance against the scheme criteria in January 2020 and determined that neither Group profit performance or Group distributions should vest. The Committee therefore approved that the 2019 LTIP should vest at 0%.

The total LTIP awards for 2019 were as follows:

	LTIP awarded (out of 100%)	MAXIMUM LTIP (% OF BASIC SALARY)	LTIP AWARDED (% OF BASIC SALARY)
H Mottram	0%	50%	0%
C I Johns	0%	30%	0%
A C Jones	0%	30%	0%

PENSION

Pension arrangements operated in accordance with the policy outlined on page 91.

A C Jones was an active member of the defined benefit section of the NWPS until January 2020, therefore the pension value shown in the table on page 94 has been calculated in accordance with the 2013 Regulations and represents the estimated increase in the capital value of his pension in the year.

PERCENTAGE CHANGE IN CEO REMUNERATION

The table below shows the change in remuneration for 2019/20 compared to 2018/19 for the CEO and for other employees. In order to make a meaningful comparison, other employees includes only those who have been employed for the full two year period and excludes senior management whose remuneration is set by the Remuneration Committee. STIP has been compared to the annual bonus paid to the senior management cohort.

	CHANGE IN CEO REMUNERATION	CHANGE IN OTHER EMPLOYEES' REMUNERATION
Salaries and fees	2.7%	4.6%
Benefits in kind	0.9%	(0.7%)
STIP / annual bonus	(18.2%)	(4.0%)

CEO PAY RATIO

The Companies (Miscellaneous Reporting) Regulations 2018 introduced new legislation in respect of reporting ratio of CEO pay compared to other employees. The table below shows this information produced in accordance with the legislation.

YEAR	METHOD	25TH PERCENTILE RATIO	MEDIAN PAY RATIO	75TH PERCENTILE RATIO
2020	Option A	20:1	16:1	12:1
2019	Option A	22:1	17:1	14:1

The Company has chosen Option A (as set out in the said Regulations) for calculating the pay ratio on the basis that it represents the most complete data set. The employees representing each of the percentiles were based on the full year remuneration of staff employed throughout the year. The pension cost for those employees in the defined benefit section of the pension scheme have been calculated based on the estimated employer contributions as applying the method set out in section 229 of the Finance Act 2004 for all members would not be practical. Under Option A, the value of the full-year remuneration of each relevant employee is listed in order from lowest to highest and the values at the 25th, 50th and 75th percentile points identified.

£000	25TH PERCENTILE EMPLOYEE	MEDIAN PAY EMPLOYEE	75TH PERCENTILE EMPLOYEE
Salary component of pay and benefits	20	28	39
Total pay and benefits	29	38	48

CEO REMUNERATION OVER TIME

Since the current remuneration policy was put in place in 2012, the basic salary of the CEO has increased by the same as, or less than, the average pay award for the majority of employees each year, which has been targeted to ensure we keep pace with the general cost of living. Over the same period, the maximum potential bonus available under the STIP and LTIP has remained a constant proportion of salary and the actual bonuses awarded have increased year on year by less than 2%.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below shows total staff costs and dividends paid for the current and prior years, and the year on year change.

	2020 £'M	2019 £'M	CHANGE %
Staff costs (note 5)	150.1	144.7	3.7%
Dividends (note 8)	65.0	130.0	(50.0%)

CHANGES TO FUTURE REMUNERATION POLICY

At its meeting in January 2020, the Remuneration Committee agreed to revise the structures of the STIP and LTIP, taking effect from 2020, to increase the proportion of performance-related executive pay which is aligned to delivering benefits for our customers.

For the STIP the 10% proportion related to personal targets will be removed and the proportion linked to non-financial balanced scorecard measures will increase to 60%. The Remuneration Committee will review the structure annually and may choose to revise the individual measures within the STIP to reflect appropriate performance objectives but the 60% weighting for customer-focused measures will not be reduced.

For the LTIP, the proportion linked to financial metrics, Group profit after tax and Group distributions, will be reduced to 40% with the remaining 60% linked to customer and environmental balanced scorecard measures.

STIP

The balanced scorecard targets for 2020/21 are shown in the table below, in accordance with the revised policy. These are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision.

SCORECARD MEASURE	TARGET	%OF TOTAL STIP POTENTIAL
Customer		
C-MeX experience	top 2 company	2.5
C-MeX customer service	top 2 company	2.5
D-MeX experience	top 2 company	5
Unplanned interruptions >3 hours (mm:ss per property) [1]	<=5:24	5
Compliance risk index (number) [1]	<=2	5
Repeat sewer flooding (number) [1]	<=46	2.5
Internal sewer flooding (number) [1]	<=285	2.5
Environment		
Leakage – NW (Mld) [1]	<=126.5	2.5
Leakage – ESW (Mld) 1	<=56.4	2.5
Discharge permit compliance (EPA [1])	>=99%	5
Pollution incidents category 1 & 2 [1]	<=1	5
Greenhouse gas emissions (ktCO2e) [1]	<=57.2	5
Competitiveness		
Group EBIT	budget	20
Group distributions	budget	20
People		
Employee engagement score (Trust Index) (%)	>=65	5
Lost time reportable accidents (number)	<=3	5
Communities		
BITC Platinum Plus/Ethisphere/CCW 'Most Trusted Water Company'	awarded	5
Total		**100**

[1] Where stretching targets are set which are designed to achieve industry leading performance, the Remuneration Committee has agreed that if the target score is not achieved but actual performance is at an industry leading level and has shown an improvement on prior year performance, the target will be deemed to have been achieved.

LTIP 2020

The LTIP targets for the 2020 scheme are shown in the table below, in accordance with the revised policy. These are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver our 'national leader' vision. This means that they are often more stretching than the regulatory PCs reported in the Performance Review section on pages 22 and 23.

SCORECARD MEASURE	TARGET	% OF TOTAL LTIP POTENTIAL
Customer & Environment		
C-MeX customer service	top 2 company	10
Unplanned interruptions >3 hours (mm:ss per property)	<=5:24	10
Compliance risk index (number)	<=2	10
Internal sewer flooding (number)	<=285	10
Leakage – NW (Mld)	<=126.5	5
Leakage – ESW (Mld)	<=56.4	5
Pollution incidents category 1 & 2	<=1 (cat 2)	10
Competitiveness		
Group profit after tax	budget	20
Group distributions	budget	20
Total		**100**

STRATEGIC REPORT
GOVERNANCE REPORT
STATUTORY FINANCIAL STATEMENTS

DIRECTORS' REPORT

DIRECTORS

The Directors who served during the year, and to the date of signing, are listed on **pages 69 to 71** of the Governance Report.

DISCLOSURES PROVIDED IN THE STRATEGIC REPORT

Future developments which may impact on the Company are described in the CEO's Report and in the Strategic Report.

Our approach to research and innovation is described in the Performance Review section of our Strategic Report under the Competitiveness heading and the costs of research and development are disclosed in note 3 of the Financial Statements.

Our policies in respect of the employment of disabled persons are set out in the Performance Review section of our Strategic Report under Diversity and Equal opportunities on **pages 44 to 45**.

Information on results and dividends and capital structure and equity are contained in the Financial Performance and Structure section of the Strategic Report. Our policies in relation to the use of financial instruments and treasury operations are set out in the same section under the 'Treasury policies' heading.

The Companies (Miscellaneous Reporting) Regulations 2018, effective for years beginning on or after 1 January 2019, set out revised requirements for reporting on engagement with employees, suppliers, customers and others in a business relationship with the Company. Our approach to stakeholder engagement is set out in the Our Stakeholders section of our Strategic Report on **pages 17 to 18**, and summarised on our S172 Statement on **pages 19 to 20**.

Further information in relation to employee engagement is set out in the Performance Review section of our Strategic Report under the People heading on **pages 42 to 49**.

EVENTS AFTER THE BALANCE SHEET DATE

Although the Covid-19 pandemic started before the end of the financial year, with lockdown restrictions commencing in the UK on 24 March 2020, the impacts of the pandemic have continued since the balance sheet date and up to the signing of the financial statements.

The Company's response to the pandemic is described in the CEO Review. Both the going concern statement and viability statement, on **pages 102 to 103** of this Directors' Report, explain how the impacts of the pandemic have been taken into account in making the judgements set out in the statements.

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

The Company's corporate governance arrangements are described on **pages 86 to 87** of the Governance Report. In accordance with the requirements of our Licence, we report our corporate governance arrangements against the 2019 Objectives set by Ofwat. We also report compliance with the Wates Principles, which are appropriate for large privately owned companies.

POLITICAL DONATIONS

NWL does not support any political party and we do not, directly or through any subsidiary, make what are commonly regarded as donations to any political party or other political organisation. However, the wide definition of donations in the Political Parties, Elections and Referendums Act 2000 covers activities which form part of the necessary relationship between the Company and political parties and political organisations. These activities include attending party conferences, as these provide the best opportunity to meet a range of stakeholders, both national and local, to explain our activities, as well as local meetings with MPs, MEPs and their agents. During the year, no external costs were associated with these activities, however, Company representatives attended the party conferences of the Labour and Conservative parties.

ENERGY AND CARBON REPORTING

We set out our carbon management plan in 2009 with the aim of reducing our GHG emissions by 35% by 2020 against a 2008 baseline of 303 ktonnes. We achieved this target two years early in 2018/19 as a result of our investment in renewable energy and improved energy efficiency, along with lower emissions linked to grid electricity. Our approach to reducing energy emissions is described in more detail in the Performance Review section of our Strategic Report under the Environment heading on **pages 34 to 38**.

Our total net operational GHG emissions for the year ended 31 March 2020 reduced further to 139 ktonnes CO2e (31 March 2019: 148 ktonnes CO2e), which was 54% lower than the 2008 baseline. This included 94 ktonnes CO2e resulting from the purchase of electricity and 37 ktonnes CO2e arising from the use of fuels. A total of 532 million kWh of energy was consumed for these purposes.

The protocol that we use for measuring our emissions is based on the Carbon Accounting Workbook developed and updated annually by the consultants Ricardo, on behalf of the water industry, and published by UK Water Industry Research. This is founded on international and Defra protocols but includes additions that are specific to the water industry. For the first time this year, we have obtained external assurance on our emissions reporting to ISO 14064 standard.

Our energy supply deal and power purchase agreement with Ørsted provides the company with energy from wind farms around the UK and is guaranteed to be emissions free. New protocols on reporting of emissions from electricity means that we can reflect that in our reporting. On this basis our emissions in 2019/20 were just 62 ktonnes CO2e.

In addition to absolute emissions we also monitor the emissions intensity of our operations using three measures, one relating to the water service and two for wastewater. These measures can be volatile depending upon levels of rainfall and pumping requirements.

ANNUAL OPERATIONAL GHG INTENSITY RATIO	2019/20	2018/19
Emissions/Ml of water	144	163
Emissions/Ml of sewage treated (flow to full treatment)	185	208
Emissions/Ml of sewage treated (water distribution input)	378	361

Figures in kgCO_2e/Ml

Having reached our previous target two years early, we have now set a new ambitious target for the future and have committed to achieving net zero emissions by the end of 2027. This will be delivered through a combination of further investment in renewable energy and green vehicles and continued focus on using energy more efficiently.

DIRECTORS' INDEMNIFICATION

The Company has maintained Directors' and Officers' (D&O) insurance cover throughout the year to 31 March 2020, provided under group-wide D&O insurance placed by CKHH.

On 21 March 2017 NWGL entered into a deed of indemnity to grant the Directors of NWGL and its subsidiaries further protection against liability to third parties, subject to the conditions set out in the Companies Act 2006, and this remains in place.

DIRECTORS' STATEMENT

As required under s418 of the Companies Act 2006, so far as each current Director is aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

Pursuant to s487 of the Companies Act 2006, Deloitte LLP is deemed to be re-appointed as the Company's auditor for the ensuing year.

FINANCIAL STATEMENTS PREPARATION AND GOING CONCERN

The Directors confirm that, in their opinion, the Company has sufficient financial resources and facilities available to enable it to carry out its activities for at least the next 12 months. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Financial Statements. In arriving at their decision, the Directors have taken into account:

- the financial strength of the Company at the balance sheet date and financial performance, which is in line with expectations and reviewed at each Board meeting, most recently in July 2020;
- the key financial ratios over the next 12 month planning horizon, as reflected in investment grade credit ratings;
- the fact that the Company has in place £450m of committed bank facilities as back up liquidity, maturing in December 2024, which

was undrawn at 31 March 2020; and

- the Company's formal governance and risk management arrangements which are monitored by the Audit Committee, R&CSC and Board.

The Directors have taken specific account of the impacts of the Covid-19 pandemic when making this assessment. The Board has received regular updates on the operational impacts on the business and the business continuity arrangements in place to ensure continuity provision of service. The Board has also received regular assessments of the financial risks arising from the pandemic and has noted the impact on cash flows from reduced payments from household customers and non-household business closures. However, these are not material in the context of the £450m liquidity arrangements noted above.

VIABILITY STATEMENT

When considering longer-term viability, the Directors note that, in their opinion, the PR19 FD has resulted in a lower cost of capital, significant totex challenge, stretching PC targets and an asymmetric penalties and incentives mechanism which represents a significant challenge to financeability in AMP7. There is also lower financial headroom available for management of downside shocks and there is likely to be pressure on projected credit ratings, as reflected in the current negative outlooks, and additional financial mitigations required in downside scenarios to support long term viability. This impact underpins the Board's decision to appeal the FD to the CMA and, while the Board are confident in the Company's case, uncertainty around the CMA redetermination has been considered in the assessment of financial resilience

There is also additional uncertainty on the economic impact of the current Covid-19 pandemic. In addition to the short-term impacts of the Covid-19 pandemic being considered in the going concern assessment, the Directors note that the longer-term impacts remain uncertain and work to assess the Company's financial exposure is ongoing. Estimates have been included in the scenario analysis to reflect the observed impacts to date.

Financial forecasts over longer-term timeframes are inherently subject to more risk that the assumptions adopted will not be realised. As set out above, the Directors have confirmed that the business remains a going concern. In considering the longer-term viability, the Directors note (1) the uncertainties referred to above and that the downside stress test scenarios would place pressure on projected credit ratings in the next five years and (2) the longer-term view beyond five years assumes that the 2024 price review will provide a sufficient rate of return to enable the Company to finance its functions for the period 2025-30. The Directors have assessed the future prospects of the Company and consider that the Company should be able to manage its business risks, continue to operate and meet its liabilities as they fall due over the ten years to March 2030 given the long-term nature of the business.

In arriving at their conclusion, the Directors have taken into account:

- the Licence which is in place on a rolling 25 year basis;
- revenue from wholesale and household retail price controls to March 2025 provided by the 2019 FD by Ofwat, an assumption which is subject to revisions by the CMA;
- the financial strength of the Company at the balance sheet date and the fact that the Company has a £450m undrawn committed bank facility as back up liquidity, maturing in December 2024 with the intention of extending until 2030 in due course;
- the key financial ratios over the planning horizon of the Company's financial forecast to March 2025 and extended forecast to March 2030, as reflected in investment grade credit ratings;
- the Board's flexible dividend policy; and
- the principal risks and uncertainties facing the Company and the mitigating controls, as described on pages 57 to 63, which are monitored by the Audit Committee, R&CSC and Board.

The Directors have chosen a period of ten years to March 2030 to assess the viability of the Company to align with the business planning process for the regulatory price review period to March 2025, and the next price review period to March 2030. Whilst the Directors do not believe that it is possible to test financial resilience beyond March 2025 to the same level of robust detail, given uncertainty of revenue and returns past this point, they have performed an assessment of viability beyond five years against an extended plan applying reasonable assumptions for the next price review which includes a sufficient rate of return to enable to Company to finance its functions..

The financial forecast has been stress tested under a number of plausible and severe adverse scenarios. The scenarios were selected by the Board after considering the principal risks and uncertainties facing the Company, as set out on pages 57 to 63 of the Strategic Report, and the key economic and financial variables which could impact on the forecast. The combined impact of multiple scenarios has also been tested.

The stress tests were assessed in the context of NWL's overarching financial objective of maintaining prudent investment grade credit ratings from S&P and Moody's, and the Board's commitment to retaining regulatory gearing of no more than 70%. Whilst the viability statement relates specifically to NWL, both rating agencies take account of NWGL metrics in their methodologies, therefore, the impact on both NWL and NWGL financial plans have been considered.

The scenarios tested were:

- lower CPIH inflation, leading to reduced allowed revenue and RCV and therefore lower profitability and higher gearing;
- increased future borrowing rates for new and refinanced debt, increasing interest charges and reducing interest cover metrics;
- increased defined benefit pension scheme deficit and revised schedule of contributions, resulting in increased contribution payments and higher gearing under rating agency methodologies;
- impact of a credit rating downgrade, causing increased borrowing costs and potentially triggering refinancing of existing debt and;
- higher operating and capital investment cost, causing increased net debt and gearing and reduced profitability;
- impact of a major incident crystallising one of the principal risks identified on pages 57 to 63, causing a significant cash outflow and increased net debt and gearing; and
- reduced Outcome Delivery incentive (ODI) rewards or increased ODI penalties as a result of performance not achieving targeted levels of performance, reducing future revenues.

A number of combined scenarios were also tested. These were determined by considering which scenarios were most likely to occur in combination. The combined scenarios tested were:

- adverse economic conditions, comprising reduced indexation and increased borrowing costs;
- external impacts, comprising increased pension payments and credit rating downgrade; and
- shortfall in operational performance, comprising higher totex, major operational incident and reduced ODI rewards or increased penalties.

To the extent that any of these scenarios, in isolation or combination, would place retention of the Company's investment grade credit rating or liquidity position at risk a range of mitigation measures would be adopted, including application of the Board's flexible dividend policy. While outperformance of the FD allowance would also help mitigate such an outcome, the Directors do not consider this to be a key mitigating factor given the level of challenge and stretch implied by the FD.

The Board engaged Deloitte LLP to provide third party assurance, in the form of agreed upon procedures performed on the calculations and stress testing of the plan, to provide independent assurance on the impact of the stress testing scenarios on the forecast.

FAIR, BALANCED AND UNDERSTANDABLE

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Board has taken advice from the Audit Committee which has considered the process by which the Annual Report and Financial Statements has been produced as well as reviewing and commenting on the Report.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including FRS 101 Reduced Disclosure Framework. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

MParker

M Parker,
Company Secretary,
15 July 2020

Registered office
Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ

Registered in England and Wales
Registered no: 02366703

FINANCIAL STATEMENTS

INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2020

	NOTE	2020 £'m	2019 £'m
Continuing operations			
Revenue	2	900.4	869.1
Operating costs	3	(541.6)	(530.3)
Operating profit		**358.8**	**338.8**
Finance costs	6	(112.4)	(130.9)
Profit before taxation		**246.4**	**207.9**
Taxation	7(a)	(97.8)	(39.1)
Profit for the year attributable to the shareholder of the Company		**148.6**	**168.8**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2020

	NOTE	2020 £'m	2019 £'m
Profit for the year		148.6	168.8
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain / (loss)	23	17.0	(20.6)
Deferred tax related to actuarial gain / loss	7(b)	0.5	3.5
Items that may be reclassified subsequently to profit and loss:			
(Loss) / profit on cash flow hedges taken to equity		(1.0)	2.1
Deferred tax on items charged to equity that may be reclassified	7(b)	0.4	(0.4)
Other comprehensive income / (loss)		**16.9**	**(15.4)**
Total comprehensive income for the year attributable to the shareholder of the Company		**165.5**	**153.4**

BALANCE SHEET

AT 31 MARCH 2020 (REGISTERED NUMBER 02366703)

	NOTE	2020 £'m	2019 £'m
Non-current assets			
Intangible assets	9	90.6	74.7
Property, plant and equipment	10	4,573.4	4,452.3
Financial investments	11	160.9	160.9
		4,824.9	**4,687.9**
Current assets			
Inventories	12	4.2	3.6
Trade and other receivables	13	244.4	182.9
Short-term cash deposits		27.0	5.0
Cash and cash equivalents		4.7	-
		280.3	**191.5**
Total assets		**5,105.2**	**4,879.4**
Current liabilities			
Trade and other payables	14	(170.0)	(177.7)
Borrowings	15	(41.3)	(51.2)
Provisions	17	(0.1)	(0.2)
		(211.4)	**(229.1)**
Non-current liabilities			
Borrowings	15	(2,916.0)	(2,824.3)
Provisions	17	(0.9)	(0.9)
Deferred tax liabilities	7(d)	(467.0)	(409.0)
Pension liability	23	(84.1)	(108.5)
Hedging instruments	19	(44.1)	(42.2)
Grants and deferred income	18	(506.1)	(490.3)
		(4,018.2)	**(3,875.2)**
Total liabilities		**(4,229.6)**	**(4,104.3)**
Net assets		**875.6**	**775.1**
Capital and Reserves			
Share capital	20	122.7	122.7
Cash flow hedge reserve		(10.5)	(9.9)
Profit and loss account		763.4	662.3
Equity attributable to the shareholder of the Company		**875.6**	**775.1**

Approved by the Board of Directors on 15 July 2020 and signed on their behalf by: H Mottram

H Mottram

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2020

	NOTE	SHARE CAPITAL £'m	CASH FLOW HEDGE RESERVE £'m	RETAINED EARNINGS £'m	TOTAL EQUITY £'m
At 1 April 2018		**122.7**	**(11.6)**	**640.6**	**751.7**
Profit for the year		-	-	168.8	168.8
Other comprehensive income and expense		-	1.7	(17.1)	(15.4)
Total comprehensive income and expense for the year		**-**	**1.7**	**151.7**	**153.4**
Dividends	8	-	-	(130.0)	(130.0)
At 31 March 2019		**122.7**	**(9.9)**	**662.3**	**775.1**
Profit for the year		-	-	148.6	148.6
Other comprehensive income and expense		-	(0.6)	17.5	16.9
Total comprehensive income and expense for the year		**-**	**(0.6)**	**166.1**	**165.5**
Dividends	8	-	-	(65.0)	(65.0)
At 31 March 2020		**122.7**	**(10.5)**	**763.4**	**875.6**

Other comprehensive income and expense taken to the cash flow hedge reserve arises from the cumulative amount of gains or losses on hedging instruments, and associated deferred tax, taken directly to equity under the hedge accounting provisions of International Accounting Standard (IAS) 39.

Other comprehensive income and expense taken to retained earnings arises from actuarial revaluations, and associated deferred tax, on the Company's defined benefit pension scheme taken directly to equity.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2020

	2020 £'m	2019 £'m
Operating activities		
Reconciliation of profit before interest to net cash flows from operating activities		
Profit on ordinary activities before interest	358.8	338.8
Depreciation and impairment losses	143.3	137.9
Other non-cash charges and credits	(13.6)	(15.1)
Net credit for provisions, less payments	(0.1)	(0.2)
Difference between pension contributions paid and amounts recognised in the income statement	(9.6)	(8.8)
Capital grants received	14.9	11.6
Increase in inventories	(0.6)	(0.5)
Increase in trade and other receivables	(50.1)	(22.1)
Increase in trade and other payables	1.2	14.2
Cash generated from operations	**444.2**	**455.8**
Interest paid	(96.9)	(97.5)
Income taxes paid	(61.0)	(39.2)
Net cash flows from operating activities	**286.3**	**319.1**
Investing activities		
Interest received	3.3	3.3
Proceeds on disposal of property, plant and equipment	1.1	3.3
Short term cash deposits	(22.0)	87.0
Purchase of property, plant and equipment and intangible assets	(247.6)	(254.5)
Net cash flows from investing activities	**(265.2)**	**(160.9)**
Financing activities		
New borrowings	99.4	10.0
Dividends paid to equity shareholders	(65.0)	(130.0)
Repayment of borrowings	(46.0)	(37.5)
Payment of principal in respect of leases	(4.3)	(3.4)
Net cash flows from financing activities	**(15.9)**	**(160.9)**
Increase / (decrease) in cash and cash equivalents	5.2	(2.7)
Cash and cash equivalents at start of year	(0.5)	2.2
Cash and cash equivalents at end of year	**4.7**	**(0.5)**
Cash and cash equivalents at end of year	4.7	(0.5)
Short term cash deposits	27.0	5.0
Total cash, cash equivalents and short term cash deposits	**31.7**	**4.5**

Additional cash flow information is included in note 21.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

1. ACCOUNTING POLICIES

NWL is incorporated in the UK under the Companies Act 2006. The Company is a private company limited by shares and is registered in England and Wales. The address of the Company's registered office is shown on **page 104**. The nature of the Company's operations and its principal activities are set out in the Strategic Report on **page 10**.

These Financial Statements are presented in pounds sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

These Financial Statements are separate financial statements. The Company is exempt from the preparation and delivery of consolidated financial statements under the terms of section 400 of the Companies Act 2006, because it is included in the Group Financial Statements of NWGL (see note 25).

(A) BASIS OF ACCOUNTING

These Financial Statements have been prepared in accordance with FRS 101, incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015.

The Company adopted the new accounting standard IFRS 16 Leases in the period. The amended accounting policy is explained below in note 1(g) Leases. The approach adopted to transition to the new standard, and the impact on the Financial Statements, is described in note 1(r).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, standards not yet effective and related party transactions.

The Financial Statements have been prepared under the historical cost convention, with the exception of financial instruments held at fair value through profit and loss.

The Financial Statements have been prepared on a going concern basis, having considered the principal risks and uncertainties, which assumes that the Company will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 March 2020, the Company had net current assets of £68.9m (2019: net current liabilities of £37.6m). The Directors have reviewed cash flow requirements and other factors, as described in the going concern statement on **pages 101 and 102** of the Directors' Report. Accordingly, the Directors believe it is appropriate to prepare the financial statements on a going concern basis.

(B) REVENUE

Revenue, which excludes Value Added Tax, represents the income receivable in the ordinary course of business for services provided within the UK. In accordance with IFRS 15 Revenue from Contracts with Customers revenue is recognised as performance obligations to the customer are satisfied.

The Company's principal source of revenue is from water and wastewater charges to customers, which are recognised over the period which the services are provided. For volumetric charges to measured customers, revenue is recognised as the service is supplied. For measured charges which have not yet been billed, an accrual is made based on an estimate of consumption. Wholesale charges for non-household customers are estimated on the basis of market information provided by MOSL.

A secondary source of revenue is contributions to capital investment, particularly from developers.

1. ACCOUNTING POLICIES (continued)

For contributions related to the connection of new properties to the Company's networks, comprising infrastructure charges, new connection charges, requisitioned mains and sewers and adopted assets, the Company considers that these activities form a combined performance obligation that is not distinct from the ongoing provision of water and wastewater services through the new connection. On this basis, these contributions are recognised as deferred income and amortised to the income statement over the expected useful life of the connection, per note 1(f).

For other contributions to capital investment, most significantly mains and sewer diversions, the Company considers that the performance obligation is satisfied upon completion of the investment, which will typically be the point at which the associated asset is brought into use. On this basis, these contributions are recognised in full in the income statement upon satisfaction of the performance obligation. Contributions received before the performance obligation is satisfied are recorded as receipts in advance.

(C) INTANGIBLE ASSETS

Intangible assets, primarily comprising computer software, are recognised at cost less accumulated amortisation and any provision for impairment. Computer software is amortised evenly over its estimated economic life of 2 to 25 years. Intangible assets in development are not amortised until commissioned. Amortisation is charged to the income statement through operating costs.

(D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, including assets in the course of construction, comprise infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) and other assets (including properties, vehicles and above ground plant and equipment).

Purchased property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment. Cost comprises the aggregate amount incurred and the fair value of any other consideration given to acquire the asset and includes costs directly attributable to making the asset capable of operating as intended.

Where assets are constructed by a developer and adopted by NWL at no cost to the Company, the assets are recognised in the balance sheet at their fair value on the date of the transfer and an equivalent value is recognised in deferred income, in accordance with IFRIC 18 Transfers of Assets from Customers. The fair value is based on the average cost to the Company of constructing an equivalent asset.

Upon their initial recognition, right-of-use assets are valued at the initial measurement of the corresponding lease liability (note 1(g)), less lease payments made at or before the commencement day, any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are presented as a separate line in Note 10.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Freehold buildings	30-60 years
Operational structures, plant and machinery	4-92 years
Infrastructure assets (see below)	4-200 years
Fixtures, fittings, tools and equipment	4-25 years

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable and are written down immediately to their recoverable amount. Useful lives and residual values are reviewed annually and, where adjustments are required, these are made prospectively.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

Assets in the course of construction are not depreciated until commissioned.

1. ACCOUNTING POLICIES (continued)

Infrastructure assets

Infrastructure assets comprise a network of systems being mains and sewers, reservoirs, dams and sea outfalls.

Expenditure on infrastructure assets which enhances the asset base is treated as fixed asset additions while maintenance expenditure which does not enhance the asset base is charged as an operating cost.

Infrastructure assets are depreciated evenly to their estimated residual values over their estimated economic lives, which are principally as follows:

Dams and impounding reservoirs	150 years
Water mains	100 years
Sea outfalls	60 years
Sewers	200 years
Dedicated pipelines	4-20 years

(E) FINANCIAL INVESTMENTS

Financial investments are stated at their purchase cost, less provision for diminution in value (note 11).

(F) GRANTS AND CONTRIBUTIONS

Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Revenue grants are credited to the income statement in the period to which they relate.

Grants and contributions related to the connection of new properties to the Company's networks, comprising infrastructure charges, new connection charges, requisitioned mains and sewers and adopted assets, are recognised as deferred income and amortised to the income statement over the expected useful life of the connection, as explained in note 1(b).

Other grants and contributions to capital investment, most significantly mains and sewer diversions, are recognised in full in the income statement upon satisfaction of the performance obligation to the customer, which is the point at which the associated asset is brought into use. Up to this point, any contributions received are reported as receipts in advance.

(G) LEASES

The Company has adopted IFRS 16 with effect from 1 April 2019 (note 1(r)).

The Company assesses whether a contract is or contains a lease, at the inception of a new contract and recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less). For these leases, the Company recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in substance fixed payments), less any lease incentives receivable;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented within Borrowings in the Balance sheet and as a separate line within note 15.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured

1. ACCOUNTING POLICIES (continued)

by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in operating costs in the Income Statement.

(H) INVENTORIES

Inventories are stated at cost less any provision necessary to recognise damage and obsolescence. Inventory is charged at average cost upon use.

(I) PENSION COSTS

The Company is the principal employer of the NWPS, which has both a defined benefit section and a defined contribution section.

The cost of providing benefits under the defined benefit section of the Scheme is determined using the projected unit credit method, which attributes entitlement to benefits to the current period (to determine current service cost) and to the current and prior periods (to determine the present value of defined benefit obligation) and is based on actuarial advice. Past service costs are recognised in the income statement on a straight line basis over the vesting period or immediately if the benefits have vested. When a settlement (eliminating all obligations for benefits already accrued) or a curtailment (reducing future obligations as a result of a material reduction in the scheme membership or a reduction in future entitlement) occurs, the obligation and related plan assets are re-measured using current actuarial assumptions and the resultant gain or loss recognised in the income statement during the period in which the settlement or curtailment occurs. Net interest is calculated by applying the discount rate to the net defined asset or liability.

The service cost is disclosed in manpower costs and the net interest expense is disclosed within finance costs.

Actuarial gains and losses on experience adjustments and changes in actuarial assumptions are recognised in full in the period in which they occur in the statement of comprehensive income.

The costs of the defined contribution section are charged to the income statement in the period they arise.

(J) TAXATION

Current tax

Current tax liabilities are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will

1. ACCOUNTING POLICIES (continued)

reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, at the balance sheet date.

Deferred tax is recognised in the income statement, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

(K) FOREIGN CURRENCY

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the date of transaction. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains or losses are recognised in the profit and loss account in the period incurred.

(L) RESEARCH AND DEVELOPMENT

Research and development expenditure is charged to the income statement in the period in which it is incurred.

(M) DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilises interest and inflation rate swaps, gilt locks and forward exchange contracts as derivative financial instruments.

A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Company in line with the Group's risk management policies. Derivative financial instruments are stated at their fair value.

Hedge accounting is employed in respect of those derivative financial instruments fulfilling the requirements for hedge accounting as prescribed under IFRS 9. The Company has not applied hedge accounting criteria under IFRS 9 on a retrospective basis. Existing derivative financial instruments, if eligible for hedge accounting, continue to apply the hedging criteria under the provisions of IAS 39. Any new instruments will apply IFRS 9.

Derivative financial instruments are measured at fair value, which is considered to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction reflecting the credit risk of the counterparties in the principal (or most advantageous) market under market conditions as at the balance sheet date.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps and inflation swaps are determined by reference to market values for similar instruments.

Hedging transactions undertaken by the Company are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in currency cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement.

In relation to cash flow hedges to hedge firm currency commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in the cash flow hedge reserve and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of a non-financial asset or a non-financial liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in the cash flow hedge reserve are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in the cash flow hedge reserve are transferred to the income statement in the same periods in which the hedged firm commitment

1. ACCOUNTING POLICIES (continued)

affects the income statement.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in the cash flow hedge reserve is kept in the cash flow hedge reserve until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the cash flow hedge reserve is transferred to the income statement.

(N) INTEREST BEARING LOANS AND BORROWINGS

All loans and borrowings are initially stated at the amount of the net proceeds, being fair value of the consideration received net of issue costs associated with the borrowing. Finance costs (including issue costs) are taken to the income statement over the term of the debt at a constant rate on the balance sheet carrying amount. The carrying amount is increased by the finance charges amortised and reduced by payments made in respect of the accounting period. The carrying amount of index linked borrowings increases annually in line with the relevant RPI, with the accretion being charged to the income statement as finance costs payable. Other borrowing costs are recognised as an expense when incurred.

Realised gains and losses that occur from the early termination of loans and borrowings are taken to the income statement in that period.

Net debt is the sum of all loans and borrowings less cash and cash equivalents, short- term cash deposits, financial investments and loans receivable.

(O) BAD DEBT PROVISIONING

The bad debt provision is calculated by applying a range of percentages to debt of different ages. These percentages also vary between different categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age.

(P) BORROWING COSTS

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial time to prepare for its intended use are capitalised while the asset is being constructed as part of the cost of that asset.

Capitalisation ceases when the asset is substantially ready for its intended use or sale. If active development is interrupted for an extended period, capitalisation is suspended. When construction occurs piecemeal, and use of each part ceases upon substantial completion of that part, a weighted average cost of borrowings is used.

(Q) SIGNIFICANT ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. Actual results may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The significant accounting judgements were:

- the estimation of income for measured water and sewerage services supplied but not billed at the end of the financial period. Consumption by measured domestic customers is billed in arrears on quarterly or six-monthly cycles. Revenue is estimated and accrued using a defined methodology based upon historical usage and the relevant tariff per customer. Consumption by non-household properties is billed to the relevant retailer under the terms of the Wholesale Contract and may be either in advance or in arrears. Revenue billed in arrears is estimated by reference to wholesale market settlement reports, adjusted for any additional information obtained after a settlement report has been run;
- the estimation of uncertain tax provisions, which are assessed on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities; and
- the asset lives assigned to property, plant and equipment, details of which can be found in note 1(d) above.

The significant accounting estimates were:

- those assumptions used in arriving at the defined benefit pension scheme assets and liabilities under IAS 19. These key assumptions and their possible impact are disclosed in note 23; and
- the bad debt provision, which is determined by estimating expected credit losses based on the Company's historical experience of irrecoverable debts. Debt is segmented according to the age of the debt, payment history and type of debt (eg. current or previous occupier). Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are reviewed annually to reflect the latest collection performance data from the Company's billing system. Potential impacts of forward-looking macro-economic factors on collectability are also considered. A reduction of 0.1% in the long term collection rate would increase the provision by £5.9m.

Consider forward looking macro-economic factors and conclude on appropriate loss rates

The Company's detailed bad and doubtful debts provision policy has remained unchanged during the year and has been consistently applied in the current and prior periods. The bad debt provision is charged to operating costs to reflect the Company's assessment of the risk of non recoverability of debtors. It is calculated by applying expected recovery rates to debts outstanding at the end of the accounting period. These recovery rates take into account the age of the debt, payment history and type of debt.

Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are reviewed annually to reflect the latest collection performance data from the Company's billing system. Actual amounts recovered may differ from the estimated levels of recovery which could impact on operating results.

A comparison of the provision against historical collection rates is carried out at the end of each year. This indicated a slight deterioration in the longer term recovery of debt. In addition, an assessment has been made of the potential impact of Covid-19 on the economic circumstances of our household customers, in relation to outstanding debt at the balance sheet date. This assessment was based on cash flow trends observed after the balance sheet date and third party modelling of the potential economic impacts of Covid-19. Based on this assessment, an additional provision of £6.5m has been made.

Accordingly, the provision has increased from £85.6m at 31 March 2019 to £104.4m at 31 March 2020. As well as the additional Covid-19 provision and adjustment for historical collection rates, this reflects aging of outstanding debt less debt written off.

(R) TRANSITION TO NEW ACCOUNTING STANDARDS IN THE PERIOD

IFRS 16 Leasing

The Company adopted IFRS 16 with effect from 1 April 2019 and has applied the standard retrospectively with the cumulative effect recognised at the date of initial application. Prior years have not been restated.

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether or not a contract is or contains a lease. Accordingly the definition of a lease under IAS 17 will continue to be applied to those leases entered into before 1 April 2019.

The Company has applied the definition of a lease as set out in IFRS 16 to all lease contracts entered into or changed on or after 1 April 2019.

Former operating leases

IFRS 16 has changed how NWL accounts for leases previously classified as operating leases under IAS 17. In applying IFRS 16 to these leases, NWL has:

- recognised right of use assets and lease liabilities in the Balance Sheet, initially measured at the present value of future lease payments, with the right of use asset adjusted by any prepayments or accruals in accordance with IFRS 16:C8(b)(ii); and
- recognised depreciation of right of use assets and interest of lease liabilities in the Income Statement.

The Company has used the following practical expedients when applying the cumulative catch up approach to former operating leases:

- applied a single discount rate to portfolios of leases with reasonable similar characteristics; and
- elected not to recognise right of use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

Former finance leases

For leases that were classified as finance leases under IAS 17, the carrying amount of the leased assets and obligations under finance leases measured applying IAS 17 immediately before the date of initial application has been reclassified to right of use assets and lease liabilities respectively without any adjustment.

Impact of initial application of IFRS 16

The weighted average incremental borrowing rate applied to lease liabilities recognised in the Balance Sheet on 1 April 2019 is 2.6%.

The table below shows the operating lease commitments disclosed under IAS 17 as at 31 March 2019 discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the Balance Sheet on 1 April 2019:

	£'m
Operating lease commitment at 31 March 2019	12.6
Effect of discounting the above amount	(9.0)
Lease liabilities recognised at 1 April 2019	**3.6**

The Company has recognised £3.6m as right of use assets in respect of former operating leases.

2. REVENUE AND SEGMENTAL INFORMATION

The Directors consider that the Company has a single class of business, the provision of water and wastewater services. All revenue is generated from within the United Kingdom.

Appointed business revenue is generated from the regulated activities of the Company, defined in its licence of appointment, necessary to fulfil its duties as a water and sewerage undertaker under the Water Industry Act of 1991.

Non-appointed revenue is generated from the non-regulated activities of the Company.

	2020			2019		
	Household £'m	Non Household £'m	Total £'m	Household £'m	Non Household £'m	Total £'m
Wholesale Water	346.8	95.43	442.1	339.4	97.2	436.6
Wholesale Wastewater	246.4	78.1	324.5	237.5	79.2	316.7
Retail	59.8	-	59.8	59.6	-	59.6
	653.0	173.4	826.4	636.5	176.4	812.9
Other appointed business			30.9			31.2
Total appointed business			**857.3**			**844.1**
Non appointed business			43.1			25.0
Total revenue			**900.4**			**869.1**

3. OPERATING COSTS

	2020 £'m	2019 £'m
Materials and consumables	21.0	19.9
Manpower costs (note 5)	150.1	144.7
Own work capitalised	(43.7)	(41.0)
Costs of research and development	0.8	0.9
Operating lease payments	-	2.4
Bad debt charge	21.7	12.4
Inventories recognised as an expense	2.8	3.4
Other operating costs	246.6	252.5
Depreciation of property, plant and equipment	134.0	129.7
Amortisation of intangible assets	9.3	8.2
Profit on disposal of property, plant and equipment	(1.0)	(2.8)
Total operating costs	**541.6**	**530.3**

Auditor's remuneration in respect of the statutory audit of the Financial Statements initially accrued amounted to £154k (2019: £219k), including fees for a financing subsidiary, NWF, of £7k (2019: £6k). The prior year costs included fees related to the implementation of new accounting standards and a new customer billing system. Fees of £78k (2019: £61k) were incurred in respect of the APR, including the audit of the Regulatory Accounting Statements, and agreed upon procedures in respect of additional regulatory information, the statement of sufficiency of financial resources and facilities and financial resilience stress testing.

Fees of £14k (2019: £158k) were incurred for non-audit services comprising provision of assurance on third party contracts. The prior year costs included work in respect of PR19 submissions and some consultancy support.

4. DIRECTORS' EMOLUMENTS

(a) Directors' remuneration

The remuneration of the Directors of the Company was as follows:

	2020 £'000	2019 £'000
Emoluments (including benefits in kind)	1,482	1,565

For those Directors holding office with both NWL and NWGL, or contributing significantly to the day to day operations of NWGL, costs are apportioned between the companies to reflect the level of activity carried out for each company. This note reflects only the proportion of costs charged to NWL.

One of the Directors was a member of a defined benefit section of the Scheme, where the Company makes contributions towards the cost, during the year but stopped being an active member before the year end (2019: 1).

One of the Directors at 31 March 2020 was a member of a defined contribution section of the Scheme where the Company makes contributions towards the cost (2019: 1).

The Directors' remuneration policy and a detailed report showing total remuneration for each Director, for the year to 31 March 2020, are set out in the Remuneration Committee Report on pages 88 to 99 of the Governance Report.

(b) Highest paid Director

The amounts for remuneration shown in note 4(a) include the following in respect of the highest paid Director:

	2020 £'000	2019 £'000
Emoluments (including benefits in kind)	583	651

The highest paid Director left the defined contribution section of the NWPS at the beginning of the year ended 31 March 2017, therefore no payments were made to the Scheme in either the current or prior year.

5. EMPLOYEE INFORMATION

The total employment costs of all employees (including Directors) were as follows:

	2020 £'m	2019 £'m
Gross costs charged to the profit and loss account:		
Wages and salaries	82.9	81.9
Social security costs	9.1	8.9
Other pensions costs	20.2	18.7
	112.2	**109.5**
Costs recharged to other Group companies:		
Wages and salaries	2.3	2.3
	2.3	**2.3**
Net costs charged to the profit and loss account:		
Wages and salaries	80.6	79.6
Social security costs	9.1	8.9
Other pensions costs	20.2	18.7
	109.9	**107.2**
Costs charged to capital schemes:		
Wages and salaries	30.3	28.4
Social security costs	3.2	3.1
Other pensions costs	6.7	6.0
	40.2	**37.5**
Total employee costs	**150.1**	**144.7**

The average monthly number of employees during the year was made up as follows:

	2020	2019
Water and waste water services	1,295	1,561
Customer services and meter reading	643	569
Other regulated activities	1,081	927
Non regulated activities	89	89
	3,108	**3,146**

6. NET FINANCE COSTS

	2020 £'m	2019 £'m
Finance costs payable:		
Bank overdrafts and loans	11.3	13.0
Receivable in respect of derivatives	(4.5)	(4.9)
Payable to subsidiary Group company	85.7	85.2
Payable to other Group company	0.1	-
Amortisation of discount, fees, loan issue costs and other financing items	2.1	2.3
Accretion on index linked bonds	25.9	30.2
Interest cost on pension plan obligations	2.3	2.2
Obligations under leases	2.6	3.1
	125.5	**131.1**
Less amounts capitalised on qualifying assets	(10.6)	(8.5)
	114.9	**122.6**
Fair value losses on derivative financial instruments	0.7	11.5
Total finance costs payable	**115.6**	**134.1**
Finance income receivable:		
Bank deposits	(0.2)	(0.3)
Receivable from Group companies	(3.0)	(2.9)
Total finance costs receivable	**(3.2)**	**(3.2)**
Net finance costs payable	**112.4**	**130.9**

7. TAXATION

(a) Tax on profit on ordinary activities

	2020 £'m	2019 £'m
Current tax:		
UK current income tax charge at 19% (2019: 19%)	26.7	18.4
Adjustments in respect of prior periods	(7.5)	(4.1)
Payable in respect of group relief for the year	15.2	16.5
Adjustments in respect of prior period group relief	4.5	2.8
Total current tax	**38.9**	**33.6**
Deferred tax:		
Origination and reversal of temporary differences in the year at 19% (2019: 19%)	4.7	4.5
Impact of increase in rate of UK corporation tax	51.9	-
Adjustments in respect of prior periods	2.3	1.0
Total deferred tax	**58.9**	**5.5**
Tax charge in the income statement	**97.8**	**39.1**

The rate of UK corporation tax for the current year was 19%. The reduction to 17% with effect from 1 April 2020 included in Finance Act 2016 has been cancelled. Accordingly, deferred tax has been restated from 17% to 19% and all movements have been calculated at the higher rate.

Tax losses have been provisionally claimed as group relief from other group companies in the current year, for which payment is being made at the full rate of tax.

Net prior year adjustments mainly reflect a revision to the estimate for corporate interest restrictions and the benefit of improved capital allowances claims (including R&D).

(b) Tax relating to items charged outside the income statement

	2020 £'m	2019 £'m
Deferred tax:		
Actuarial gains / (losses) on pension scheme	3.2	(3.5)
Impact of increase in rate of UK corporation tax	(3.7)	-
Financial instruments	(0.2)	0.4
Impact of increase in rate of UK corporation tax	(0.2)	-
Tax credit in the statement of comprehensive income	**(0.9)**	**(3.1)**

7. TAXATION (continued)

(c) Reconciliation of the tax charge

	2020 £'m	2019 £'m
Profit on ordinary activities before tax	**246.4**	**207.9**
Profit on ordinary activities multiplied by standard rate of corporation tax of 19% (2019: 19%)	46.8	39.5
Effects of:		
Expenses not deductible for tax purposes	0.2	1.1
Non-taxable gains and amortisation of capital sums	(1.5)	(1.9)
Depreciation in respect of non-qualifying items	1.2	1.2
Impact on deferred tax of change in current tax rate	51.9	-
Deferred tax movement not at current tax rate for the year	-	(0.5)
Adjustments in respect of prior periods	(0.8)	(0.3)
Transfer pricing adjustments	(0.8)	(0.8)
Balancing payment payable	0.8	0.8
Total tax charge	**97.8**	**39.1**

The effective rate of tax for the year was 39.7% (2019: 18.8%). The increase of 20.9% is mainly explained by the restatement of deferred tax from 17% to 19%.

(d) Deferred tax

	ACCELERATED TAX DEPRECIATION £'m	DEFERRED INCOME £'m	RETIREMENT BENEFIT OBLIGATIONS £'m	FAIR VALUE HEDGING INSTRUMENTS £'m	BUSINESS COMBINATIONS £'m	OTHER £'m	TOTAL £'m
At 1 April 2018	**462.2**	**(57.3)**	**(17.3)**	**(5.5)**	**5.4**	**7.1**	**394.6**
Adoption of IFRS 15	-	12.0	-	-	-	-	12.0
Charge/(credit) in the income statement	7.1	(2.8)	2.2	(2.1)	(0.1)	1.2	5.5
Charge/(credit) in other comprehensive income	-	-	(3.5)	0.4	-	-	(3.1)
At 31 March 2019	**469.3**	**(48.1)**	**(18.6)**	**(7.2)**	**5.3**	**8.3**	**409.0**
Charge/(credit) in the income statement	64.6	(9.6)	2.9	(0.7)	0.5	1.2	58.9
Credit in other comprehensive income	-	-	(0.5)	(0.4)	-	-	(0.9)
At 31 March 2020	**533.9**	**(57.7)**	**(16.2)**	**(8.3)**	**5.8**	**9.5**	**467.0**

(e) Factors that may affect future tax charges

The Company expects to continue to incur high levels of capital expenditure during the 2020-25 regulatory review period which, under current tax legislation, should result in claims for tax reliefs in excess of depreciation.

8. DIVIDENDS

	2020 £'m	2019 £'m
Equity:		
Dividends paid:		
Final dividend paid for the year ended 31 March 2019 of 53.00p (year ended 31 March 2018: 53.00p) per share on an aggregated basis	65.0	65.0
Interim dividend paid for the year ended 31 March 2020 of nil (year ended 31 March 2019: 53.00p) per share on an aggregated basis	-	65.0
Total dividends paid in the year	**65.0**	**130.0**
Dividends proposed:		
Final dividend proposed for the year ended 31 March 2020 of nil (year ended 31 March 2019: 53.00p) per share on an aggregated basis	-	65.0
Total dividends proposed	**-**	**65.0**

Dividend Policy

The Board has a policy which takes into account the principle of incentive based price cap regulation, including operating and investment performance. When declaring dividends, the Directors consider the Company's five-year plan and give due consideration to business performance, the prospects of the Company and the principal risks facing the business.

Specifically, the Board determines the level of dividend declared by reference to:

- the Company's ability to finance its functions;
- the Company's cumulative financial performance and past outperformance; and
- maintaining the Company's investment grade credit ratings.

The Directors also have regard to:

- the Company's operational performance and the level of service provided to its customers; and
- employees' interests and, specifically, compliance with the pension deficit repair plan agreed with the Pension Trustee in respect of the NWPS, as submitted to the Pensions Regulator.

Application of Policy

The Company typically pays an interim dividend during the year and a final dividend after the year end, once the Directors have reviewed the financial position of the Company at the balance sheet date.

In April 2019, the Board approved the payment of a final dividend in respect of the year 2018/19. In reaching this decision, the Board took account of the Company's financial position at 31 March 2019, cumulative financial performance in AMP6 and Medium Term Plan projections, which remained compatible with investment grade credit ratings. The Board also took into account the principal risks facing the business; good performance against most performance commitments with no significant service failures to customers; positive ongoing employee engagement and payments made under the schedule of contributions for the NWPS.

No dividends have been proposed, approved or paid in respect of the year ended 31 March 2020. In deciding this, the Board has taken into account the impact of the PR19 FD on the financial position of the Company over a five year time horizon, especially in relation to the Company's credit ratings and regulatory gearing; the need to retain financial resilience in order to be able to deliver the Company's Business Plan commitments for stakeholders; and the uncertainty associated with the impacts of the Covid-19 pandemic on the Company's future cash flows.

9. INTANGIBLE ASSETS

	SOFTWARE £'m	ASSETS IN DEVELOPMENT £'m	TOTAL £'m
Cost:			
At 1 April 2019	97.4	29.7	127.1
Additions	-	23.9	23.9
Transfers	33.2	(31.9)	1.3
At 31 March 2020	**130.6**	**21.7**	**152.3**
Amortisation:			
At 1 April 2019	52.4	-	52.4
Charge for the year	9.3	-	9.3
At 31 March 2020	**61.7**	**-**	**61.7**
Carrying value:			
At 31 March 2020	68.9	21.7	90.6
At 31 March 2019	45.0	29.7	74.7

Cumulative borrowing costs capitalised in the cost of intangible assets amount to £5.2m (2019: £4.0m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.43% (2019: 4.30%).

10. PROPERTY, PLANT AND EQUIPMENT

	FREEHOLD LAND AND BUILDINGS £'m	INFRASTRUCTURE ASSETS £'m	OPERATIONAL STRUCTURES, PLANT AND MACHINERY £'m	FIXTURES, FITTINGS, TOOLS AND EQUIPMENT £'m	ASSETS IN THE COURSE OF CONSTRUCTION £'m	TOTAL £'m
Cost:						
At 1 April 2019	158.0	2,877.7	3,044.5	223.4	223.3	6,526.9
Additions	3.6	13.2	0.3	-	239.4	256.5
Schemes commissioned	2.4	81.7	125.7	6.7	(216.5)	-
Reclassifications	-	-	(2.1)	0.8	-	(1.3)
Disposals	-	(3.3)	(2.4)	-	-	(5.7)
At 31 March 2020	**164.0**	**2,969.3**	**3,166.0**	**230.9**	**246.2**	**6,776.4**
Depreciation:						
At 1 April 2019	63.3	407.8	1,416.0	187.5	-	2,074.6
Charge for the year	4.0	28.9	93.5	7.6	-	134.0
Disposals	-	(3.3)	(2.3)	-	-	(5.6)
At 31 March 2020	**67.3**	**433.4**	**1,507.2**	**195.1**	**-**	**2,203.0**
Carrying value:						
At 31 March 2020	96.7	2,535.9	1,658.8	35.8	246.2	4,573.4
At 31 March 2019	94.7	2,469.9	1,628.5	35.9	223.3	4,452.3
Right of Use Assets included above:						
Additions in the year	3.6	-	-	-	-	3.6
Depreciation charge for the year	0.4	0.5	0.7	-	-	1.6
Carrying value at 31 March 2020	3.2	43.3	10.6	-	-	57.1
Carrying value at 31 March 2019	-	43.8	11.3	-	-	55.1

Operational structures, plant and machinery include an element of land dedicated to those assets. It is not possible to separately identify the value of all land assets.

Cumulative borrowing costs capitalised in the cost of property, plant and equipment amount to £55.5m (2019: £46.1m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.43% (2019: 4.30%).

11. FINANCIAL INVESTMENTS

	LOANS TO GROUP COMPANIES £'m
At 1 April 2019 and 31 March 2020	160.9

(a) Loans to Group Companies

In May 2004, the Company made a loan of £159.0m to Northumbrian Services Limited, maturing in January 2034. Following a restructuring of the NWGL group, this loan was reassigned to NWGL in March 2016 at a variable interest rate of LIBOR plus 1% calculated on twice yearly payment dates.

The Boards of NWL and NWGL have agreed to settle this loan before its maturity date. It is currently envisaged that this legacy intercompany loan arrangement will be settled in 2020.

In May 2004, the Company made a loan of £1.5m to Bakethin Holdings Limited, maturing in January 2034. The interest on the loan is capitalised and at 31 March 2020 the balance was £1.9m (2019: £1.9m).

(b) Subsidiaries

The Company's interests in subsidiaries at 31 March 2020 were as follows:

NAME OF UNDERTAKING	COUNTRY OF INCORPORATION OR REGISTRATION AND OPERATION	DESCRIPTION OF SHARES HELD	PROPORTION OF NOMINAL VALUE OF ISSUED SHARES HELD BY COMPANY (%)	BUSINESS ACTIVITY
Northumbrian Water Finance plc	England and Wales	Ordinary shares of £1	100	Holding of finance instruments
Reiver Finance Limited	England and Wales	Ordinary shares of £1	100	Special purpose financing vehicle
Reiver Holdings Limited	England and Wales	Ordinary shares of £1	100	Holding company

The registered office of all subsidiaries listed above is Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ. Holdings are direct other than Reiver Finance Limited which is indirect.

The Company also has two quasi-subsidiary special purpose entities, Bakethin Holdings Limited, which is wholly owned by Bakethin Charitable Trust, and Bakethin Finance Plc, which is a wholly owned subsidiary of Bakethin Holdings Limited. The principal activity of Bakethin Finance Plc is as a special purpose financing vehicle.

The registered office of the two quasi-subsidiaries is c/o Wilmington Trust SP Services (London) Limited, Third Floor, 1 King's Arms Yard, London, United Kingdom, EC2R 7AF.

12. INVENTORIES

	2020 £'m	2019 £'m
Raw materials and consumables	4.2	3.6

13. TRADE AND OTHER RECEIVABLES

	2020 £'m	2019 £'m
Trade receivables	205.2	170.2
Doubtful debt provision	(104.4)	(85.6)
Income tax recoverable	11.2	-
Amounts owed by other Group companies	2.9	2.9
Other receivables	15.7	5.7
Prepayments and accrued income	113.8	89.7
	244.4	**182.9**

Amounts owed by other Group companies includes interest of £0.1m (2019: £0.2m) in respect of the financial investment of £159.0m in note 11(a). This loan has a variable interest rate of LIBOR plus 1% calculated on twice yearly payment dates and matures in January 2034. The remaining amounts owed by other Group companies include £2.4m due from NWG and £0.4m due from fellow subsidiary companies, which are due on demand with no fixed repayment date and bear no interest.

14. TRADE AND OTHER PAYABLES

	2020 £'m	2019 £'m
Trade payables	29.1	26.1
Amounts owed to other Group companies	7.4	11.4
Taxation and social security	3.1	3.5
Income tax payable	-	7.1
Other payables	33.5	34.2
Accruals and deferred income	96.9	95.4
	170.0	**177.7**

Included in amounts owed to other Group companies is £5.9m (2019: £9.7m) payable in respect of tax losses surrendered to the Company. The remaining amount of £1.5m is owed to NWG and is due on demand with no fixed repayment date and bears no interest.

15. LOANS AND BORROWINGS

	NOTE	2020 £'m	2019 £'m
Current:			
Bank overdrafts		-	0.5
Current instalments due on external borrowings	15(a)	36.9	46.7
Current instalments due on leases	16	4.4	4.0
		41.3	**51.2**
Non-current:			
Non-current instalments due on external borrowings	15(a)	501.9	530.4
Non-current instalments due on internal borrowings	15(b)	2,355.5	2,237.0
Non-current instalments due on leases	16	58.6	56.9
		2,916.0	**2,824.3**

(a) External borrowings

Loans wholly repayable within five years amount to £18.6m (2019: £38.6m).

Loans not wholly repayable within five years amount to £520.2m (2019: £538.5m) and bear interest rates in the range 1.47% to 5.35%.

The fair value loss on the Company's outstanding interest rate and RPI swaps in the year to 31 March 2020 was £2.9m (2019: loss of £12.6m) in relation to interest rate swaps with a notional principal of £350.0m (2019: £350.0m).

(b) Internal borrowings

NWF issued £200m and £150m Guaranteed Eurobonds in February 1998 and September 2001 respectively, maturing February 2023, with an annual coupon of 6.875%. The issues were guaranteed by the Company who received the issue proceeds by way of inter-company loans of £194.2m and £163.2m respectively. Finance costs allocated during the year amounted to £0.2m (2019: £0.2m). Amortisation of loan issue receipts during the year amounted to £0.3m (2019: £0.3m).

NWF issued £250m and £100m Guaranteed Eurobonds in December 2002 and December 2004, maturing April 2033 with an annual coupon of 5.625%. Both issues were guaranteed by the Company who received the issue proceeds by way of inter-company loans of £246.6m and £100.8m respectively. Finance costs allocated during the year amounted to £0.2m (2019: £0.2m).

NWF issued £150m Guaranteed Index Linked Eurobonds in September 2005, maturing July 2036, with a real coupon of 2.033%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £149.1m. Indexation accretion during the year amounted to £6.2m (2019: £7.0m). Finance costs allocated during the year amounted to £0.2m (2019: £0.2m)

NWF issued £60m Guaranteed Index Linked Eurobonds in January 2006, maturing January 2041, with a real coupon of 1.6274%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £60.0m. Indexation accretion during the year amounted to £2.4m (2019: £2.7m).

NWF issued two £100m Guaranteed Index Linked Eurobonds in June 2006 with real coupons of 1.7118% and 1.7484% and with maturities of 2049 and 2053 respectively. Both issues were guaranteed by the Company who received the issue proceeds by way of two inter-company loans of £100.0m. Indexation accretion during the year amounted to £8.1m (2019: £9.1m).

NWF issued £360m Guaranteed Eurobonds in January 2012, maturing January 2042, with an annual coupon of 5.125%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £339.3m. Finance costs allocated during the year amounted to £0.7m (2019: £0.7m).

NWF issued £300m Guaranteed Eurobonds in October 2016, maturing October 2026, with an annual coupon of 1.625%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £297.6m. Finance costs allocated during the year amounted to £0.2m (2019: £0.2m).

NWF issued £300m Guaranteed Eurobonds in October 2017, maturing October 2027, with an annual coupon of 2.375%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £298.2m. Finance costs allocated during the year amounted to £0.3m (2019: £0.3m).

15. LOANS AND BORROWINGS (continued)

NWF issued £100m Guaranteed Index Linked Private Placement notes in October 2019 with a coupon of CPI plus 0.242%, maturing October 2039. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £99.6m. Indexation accretion during the year amounted to £0.5m.

16. LEASES

(a) Lease obligations under IFRS 16

At 1 April 2019, the Company adopted IFRS 16 and has applied the standard retrospectively with the cumulative effect recognised at the date of initial application (note 1(r)). Prior years have not been restated.

The Company holds leases in respect of land and buildings, and to acquire plant, machinery and motor vehicles.

Land and building rent reviews are triggered by the lessor and typically take place every 3 to 5 years, at which point there may be an increase in rental payments. There are no purchase options or escalation clauses in respect of these leases and the terms of renewal are governed by Landlord and Tenant legislation. There are no restrictions imposed by these lease arrangements. There are no contingent rents, escalation clauses or material renewal or purchase options. The leases impose no restrictions in respect of dividends or raising additional debt. The obligations are as follows:

MATURITY ANALYSIS:	2020 £'m
Year 1	4.4
Year 2	3.7
Year 3	3.0
Year 4	2.2
Year 5	1.5
Onwards	48.2
	63.0

16. LEASES (continued)

(b) Finance lease and operating lease commitments under IAS 17

Leases previously classified as finance leases under IAS 17:

	2019 £'m
Future minimum lease payments due:	
Within one year	6.0
In the second to fifth years inclusive	18.9
After five years	70.9
	95.8
Less:	
Finance charge allocated to future periods	(34.9)
Present value of minimum lease payments	**60.9**
Present value of minimum lease payments:	
Within one year	4.0
In the second to fifth years inclusive	10.6
After five years	46.3
	60.9

Leases previously classified as operating leases under IAS 17:

The future minimum rentals payable under non-cancellable operating leases:

	2019 £'m
Not later than one year	0.5
After one year but not more than five years	1.0
After five years	11.1
	12.6

17. PROVISIONS

	£'m
Pension provision for former employees:	
At 1 April 2019	1.1
Utilised during the year	(0.1)
At 31 March 2020	**1.0**
Analysed as:	
Current	0.1
Non-current	0.9
	1.0

The provision mainly represents outstanding pension liabilities for pensions that have been awarded on a discretionary basis, mainly to former employees of water companies which have since merged with the Company. These pension liabilities have been calculated by an independent actuary, using the same actuarial assumptions as applied to the defined benefit pension scheme, and are expected to be paid over the remaining lives, which is approximately three years.

In the ordinary course of business, the Company is sometimes subject to claims and potential litigation, whether from regulatory bodies, individuals or particular groups, related to one off matters. The Directors consider that, where it is possible to be estimated, a reasonable and appropriate position has been taken in reflecting such items in these financial statements in note 14 and the note above.

It is not currently possible to estimate the financial effect and likely timing of any associated outflow of some matters, given that some are in early stages of discussion, the limited likelihood of the claims against the Company being successful, or the potential range of possible outcomes, and accordingly no provision has been made in the Financial Statements. No reasonably possible financial outcome that would be significant to the Financial Statements has been identified in relation to these remaining matters at the date of the issue of these Financial Statements.

18. GRANTS AND DEFERRED INCOME

	CAPITAL GRANTS AND CONTRIBUTIONS £'m	PROCEEDS FROM KIELDER SECURITISATION £'m	TOTAL £'m
At 1 April 2019	**383.6**	**106.7**	**490.3**
Additions	28.4	-	28.4
Amortised during the year	(5.5)	(7.1)	(12.6)
At 31 March 2020	**406.5**	**99.6**	**506.1**

The Kielder securitisation involved the assignment of the right to the future income stream associated with the Kielder WROA until 2034 to Reiver Finance Limited, a subsidiary company, in return for consideration of £212.1m. This capital sum is amortised to the income statement of the Company over the life of the assignment.

19. FINANCIAL INSTRUMENTS

	2020 £'m	2019 £'m
Financial liabilities / (assets) that are designated and effective as hedging instruments carried at fair value:		
Interest rate swaps	13.2	10.9
Power forward contracts	-	1.3
Foreign exchange contracts	(0.1)	(0.3)
Financial liabilities / (assets) carried at fair value through profit and loss:		
Interest rate swaps	31.0	30.4
Power forward contracts	-	(0.1)
	44.1	**42.2**

At 31 March 2020, the Company held the following interest rate swaps, designated as hedges of future interest cash flows, used to convert variable rate interest payments to a fixed rate basis:

NOTIONAL AMOUNT	START DATE	TERMINATION DATE	INDEX LINKED RATE
£100.0m	15 September 2008	15 March 2022	4.79%
£150.0m	15 October 2015	15 October 2025	2.36%

At 31 March 2020, the Company held the following interest rate swaps, designated as hedges of future interest cash flows, used to convert fixed rate interest payments to an index linked rate basis:

NOTIONAL AMOUNT	START DATE	TERMINATION DATE	INDEX LINKED RATE
£150.0m	15 October 2015	15 October 2025	(0.42%)
£100.0m	22 June 2017	22 June 2027	(1.10%)

At 31 March 2020, the Company held the following forward exchange contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

CURRENCY BOUGHT	MATURITY	EXCHANGE RATE	TRANSACTION VALUE £'m
EUR 2,980	9 April 2020	1.0932	-
USD 1,245,000	17 April 2020	1.2620	1.0
USD 1,240,404	30 April 2020	1.4293	0.8
			1.8

19. FINANCIAL INSTRUMENTS (continued)

At 31 March 2019, the Company held the following forward exchange contracts, designated as hedges of expected future purchases for which the Company has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

CURRENCY BOUGHT	MATURITY	EXCHANGE RATE	TRANSACTION VALUE £'m
USD 1,245,000	4 April 2019	1.4550	0.9
USD 1,112,000	31 May 2019	1.2645	0.9
USD 1,245,000	13 March 2020	1.4600	0.8
USD 1,240,404	30 April 2019	1.4069	0.9
USD 1,240,404	30 April 2020	1.4293	0.8
			4.3

20. SHARE CAPITAL

	2020 £'m	2019 £'m
Authorised:		
122,650,000 Ordinary Shares of £1 each (31 March 2019: 122,650,000)	122.7	122.7
Allotted, called-up and fully paid:		
122,650,000 Ordinary Shares of £1 each (31 March 2019: 122,650,000)	122.7	122.7

NWL is a company limited by shares.

21. ADDITIONAL CASH FLOW INFORMATION

Analysis of net debt as at 31 March 2020

	NOTE	AT 1 APRIL 2019 £'m	CASH FLOW £'m	OTHER NON-CASH MOVEMENTS £'m	AT 31 MARCH 2020 £'m
Cash and cash equivalents		(0.5)	5.2	-	4.7
Loans receivable	11	160.9	-	-	160.9
Short term cash deposits		5.0	22.0	-	27.0
Loans payable	15	(2,814.1)	(53.4)	(26.8)	(2,894.3)
Leases	16(a)	(60.9)	4.3	(6.4)	(63.0)
		(2,709.6)	**(21.9)**	**(33.2)**	**(2,764.7)**

Analysis of net debt as at 31 March 2019

	NOTE	AT 1 APRIL 2018 £'m	CASH FLOW £'m	OTHER NON-CASH MOVEMENTS £'m	AT 31 MARCH 2019 £'m
Cash and cash equivalents		2.2	(2.7)	-	(0.5)
Loans receivable	11	160.9	-	-	160.9
Short term cash deposits		92.0	(87.0)	-	5.0
Loans payable	15	(2,810.1)	27.5	(31.5)	(2,814.1)
Finance leases	16(b)	(59.5)	3.4	(4.8)	(60.9)
		(2,614.5)	**(58.8)**	**(36.3)**	**(2,709.6)**

22. FINANCIAL COMMITMENTS

(a) Capital commitments

	2020 £'m	2019 £'m
Contractual commitments for the acquisition of property, plant and equipment and intangible assets	120.2	145.3

In addition to these commitments, the Company has longer term expenditure plans, including investment to deliver business outcomes, maintain the health of the asset base and provide for new demand and growth in the regulated part of the business.

(b) Foreign currency commitments

At 31 March 2020 the Company held forward foreign exchange contracts of £1.8m (2019: £4.3m) for the purpose of hedging the foreign currency risk of committed future purchases.

(c) Power purchase agreement

In 2018/19 the Company signed a power purchase agreement with Ørsted, to purchase renewable energy from an offshore wind farm which will meet around 25% of the Company's energy demand. The agreement is for a 10 year term at a fixed commodity price, increasing annually by CPI. The Company has concluded that the 'own use exception' applies, meaning that the power purchase agreement contract is not within the scope of IFRS 9 and therefore no further disclosures are necessary.

23. PENSIONS

NWL participates in the Group defined benefit pension scheme, NWPS, providing benefits to 1,117 active members at 31 March 2020 (2019: 1,200). The assets of the NWPS are held separately from those of the Group in independently administered funds.

The most recent actuarial valuation of the NWPS was at 31 December 2016. At that date, the value of assets amounted to £954.6m and the liabilities were £1,245.2m, resulting in a deficit of £290.6m and a funding level of 76.7%. The next actuarial valuation has commenced and will be dated as at 31 December 2019.

Under the revised schedule of contributions the future service contribution rate, jointly payable by members and the employers, remained at 29.4% of pensionable salaries until 31 December 2017. With effect from 1 January 2018, the employers' contribution was set at £12.3m per annum, increasing annually by RPI. Employee contribution rates remained at between 6% and 8% of pensionable salary, dependent upon which section of the Scheme the employee is a member of. The Company operates a salary sacrifice scheme under which members can elect for the Company to pay employee contributions on their behalf in place of salary. The Company will continue to pay the employer NI savings resulting from the salary sacrifice arrangement as additional employer contributions to the Scheme.

In addition, the employers continue to make deficit reduction payments of £11m per annum, with effect from 1 April 2015, increasing annually by RPI. Deficit reduction payments will increase by £2.6m per annum with effect from 1 April 2021. The deficit reduction payments have been set with the objective of removing the deficit by 31 March 2031, which has been the Company's long-term aim.

Employers' contributions (including associated company contributions) of £30.0m were paid in the year to 31 March 2020, of which £12.2m related to deficit reduction. For the year to 31 March 2021 employers contributions are projected to be £29.9m, including £12.5m in respect of deficit reduction.

Since 1 June 2019, the Company has participated in the LifeSight master trust, a defined contribution pension arrangement for non-associated employers. Prior to 1 June 2019, the Company contributed to the defined contribution section of the NWPS. Defined contribution members and assets were transferred from the NWPS to LifeSight during 2019. There were 1,989 active members in defined contribution pension arrangements at 31 March 2020 (2019: 1,957). Members can choose to contribute either 3%, 4% or 5% of salary, with employers contributing at either 6%, 7% or 8% depending on the member contribution rate. The contributions paid to defined contribution pension arrangements by the Company in the year totalled £6.7m (2019: £6.0m).

The additional disclosures regarding the defined benefit scheme as required under FRS 101 and the relevant impact on the Financial Statements are set out below. A qualified actuary, using revised assumptions that are consistent with the requirements of FRS 101 has updated the actuarial valuation described above as at 31 March 2020. Investments have been valued, for this purpose, at fair value.

23. PENSIONS (continued)

FRS 101 ACTUARIAL ASSUMPTIONS:	2020	2019
Discount rate	2.35%	2.40%
Pay increases[1]	3.00%	3.15%
Price inflation (RPI)	2.50%	3.15%
Price inflation (CPI)	2.00%	2.05%
Pension increases linked to RPI	2.50%	3.15%
Pension increases linked to CPI	2.00%	2.05%
Mortality assumptions[2]		
- Life expectancy for a member aged 65 - female (years)	24.2	23.8
- Life expectancy for a member aged 65 - male (years)	22.4	22.0

1. including promotional salary scale
2. scheme specific bespoke 'Vitacurves' which reflect the characteristics of the Scheme membership

The fair value of the assets in the NWPS and the present value of the liabilities in the Scheme are shown below:

	2020 £'m	2019 £'m
Equities	218.4	293.1
Corporate bonds	100.0	47.0
Government bonds	483.6	466.5
Property related funds	47.8	56.6
Cash	19.5	15.4
Other	151.3	152.2
Total fair value of assets	**1,020.6**	**1,030.8**
Present value of liabilities	**(1,104.7)**	**(1,139.3)**
Deficit	**(84.1)**	**(108.5)**

The amounts recognised in the income statement and in the statement of comprehensive income are analysed as follows:

RECOGNISED IN THE INCOME STATEMENT:	2020 £'m	2019 £'m
Current service cost	16.4	15.6
Administration cost	2.3	1.9
Past service cost	1.5	1.2
Recognised in operating costs in arriving at operating profit	**20.2**	**18.7**

RECOGNISED IN THE INCOME STATEMENT:	2020 £'m	2019 £'m
Net interest cost on plan obligations	2.3	2.2
Recognised in finance costs	**2.3**	**2.2**

23. PENSIONS (continued)

RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME:	2020 £'m	2019 £'m
Changes in demographic assumptions	_	21.5
Changes in financial assumptions	26.2	(81.4)
Return on assets (excluding amounts included in finance costs)	(12.9)	40.0
Other actuarial gains / (losses)	3.6	(0.9)
Net actuarial gains / (losses)	**16.9**	**(20.8)**
Contributions made by associated company	0.1	0.2
Net actuarial gains / (losses)	**17.0**	**(20.6)**

Changes in the present value of the defined pension obligations are analysed as follows:

	2020 £'m	2019 £'m
At start of period	**1,139.3**	**1,083.6**
Current service cost	16.4	15.6
Administration cost	2.3	1.9
Past service cost	1.5	1.2
Interest cost	26.8	28.1
Contributions by plan participants	0.1	0.1
Benefits paid	(51.9)	(52.0)
Remeasurement:		
Changes in demographic assumptions	_	(21.5)
Changes in financial assumptions	(26.2)	81.4
Other actuarial (gains) / losses	(3.6)	0.9
At end of period	**1,104.7**	**1,139.3**

Changes in the fair value of plan assets are analysed as follows:

	2020 £'m	2019 £'m
At start of period	**1,030.8**	**989.3**
Interest income on scheme assets	24.5	25.9
Contributions by employers (including associated company)	30.0	27.5
Contributions by plan participants	0.1	0.1
Benefits paid	(51.9)	(52.0)
Return on assets (excluding amounts included in finance costs)	(12.9)	40.0
At end of period	**1,020.6**	**1,030.8**

23. PENSIONS (continued)

Nature of benefits, regulatory framework and other entity's responsibilities for governance of the Scheme

The Scheme is a registered defined benefit scheme subject to the UK regulatory framework for pensions, including the scheme specific funding requirements. The Scheme is operated under trust and as such, the Trustee of the Scheme is responsible for operating the Scheme and it has a statutory responsibility to act in accordance with the Scheme's Trust Deed and Rules, in the best interest of the beneficiaries of the Scheme, and UK legislation (including Trust law). The Trustee has the power to set the contributions that are paid to the Scheme.

Risks to which the Scheme exposes the Company

The nature of the Scheme exposes the Company to the risk of paying unanticipated additional contributions to the Scheme in times of adverse experience. The most financially significant risks are likely to be:

- members living for longer than expected;
- higher than expected actual inflation and salary increase experience;
- lower than expected investment returns; and
- the risk that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets.

Asset-liability matching strategies used by the Scheme or the Company

The Scheme does not currently use any asset-liability matching strategies. The Trustee's current investment strategy, having consulted with the Company, is to invest the majority of the Scheme's assets in a mix of equities and corporate and government bonds, in order to strike a balance between:

- maximising the returns on the Scheme's assets; and
- minimising the risks associated with lower than expected returns on the Scheme's assets.

The Trustee is required to regularly review its investment strategy in light of the revised term and nature of the Scheme's liabilities. During the year, the Trustee chose to de-risk part of its equity allocation.

Sensitivity to key assumptions

The costs of a pension arrangement require estimates regarding future experience. The financial assumptions used for FRS 101 reporting are the responsibility of the Directors of the Company. These assumptions reflect market conditions at the balance sheet date. Changes in market conditions which result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increases of salaries, deferred pension revaluation or pensions in payment), can have a significant effect on the value of the liabilities reported.

There has been no change in the methodology used to assess the impact of changes in assumptions. Approximate adjustments were made to the defined benefit obligations reflecting the mean term of the liability.

Impact of changes in assumptions compared with actuarial assumption for the NWPS:

Actuarial value of liabilities on 31 March 2020:

	£'m
0.25% reduction in discount rate	1,155.5
0.25% increase in inflation	1,151.4
1 year increase in life expectancy	1,143.4

Maturity profile of the defined benefit obligation for the year ended 31 March 2020:

	NUMBER OF MEMBERS	LIABILITY SPLIT (%)	DURATION (YEARS)
Active members	1,404	41	24
Deferred members	1,193	14	21
Pensioners	3,163	45	12

24. RELATED PARTY DISCLOSURES

The Company is a wholly owned subsidiary of NWGL, whose publicly available consolidated Financial Statements include the Company. Accordingly, the Company is exempt under the terms of FRS101 from disclosing transactions with other members of the Group headed by NWGL.

Transactions with related parties outside of the NWGL group comprised purchases of £13.7m (2019: £11.4m) and sales of £150.3m (2019: £158.1m). As at 31 March 2020 £17.9m (2019: £26.8m) is owed from these companies in respect of sales or rebates, and £nil (2019: £0.2m) is owed to these companies in respect of purchases.

The Company acquires vehicles from Vehicle Lease and Service Limited, an associated company, on a lease basis. During the year, new leases of £3.3m (2019: £4.8m) were entered into and capital repayments of £3.7m (2019: £3.4m) were made. The year end lease creditor was £11.6m (2019: £12.0m).

The companies with which NWL had transactions during the year, included in the above balances, were as follows:

- Anglian Water Business (National) Limited;
- CKI;
- Eastern Power Networks;
- Hutchison Whampoa (Europe) Limited;
- NGN;
- NWG Business;
- UK Power Networks (Operations) Limited; and
- Vehicle Lease and Service Limited.

25. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The Company's immediate parent undertaking is NWGL, which is incorporated in England and Wales.

The Company has been informed by the former ultimate parent and controlling party, CKHH (incorporated in the Cayman Islands) that by virtue of contractual arrangements entered into with other parties, with effect from 30 December 2019, it ceased to have a controlling interest in the Company and, as required by the applicable accounting standards, it has ceased accounting for the Company as a subsidiary from that date.

The results of the Company prior to 30 December 2019 are consolidated in the financial statements of CKHH. The Directors of the Company consider that CKHH was the ultimate parent and controlling party of the Company prior to 30 December 2019.

The Directors of the Company consider that, with effect from 30 December 2019, NWGL has become the ultimate controlling party of the Company.

The parent undertaking of both the largest and smallest group of undertakings for which group Financial Statements are drawn up, and of which the reporting company is a member, is NWGL. Copies of NWGL's group Financial Statements will be available in due course from its registered office at Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN WATER LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion the Financial Statements of NWL:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.
- We have audited the financial statements which comprise:
  - the income statement;
  - the statement of comprehensive income;
  - the balance sheet;
  - the statement of changes in equity; and
  - the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

SUMMARY OF OUR AUDIT APPROACH

KEY AUDIT MATTERS	The key audit matters that we identified in the current year were: • Classification of capex, opex and capitalised overheads; • Provision for bad and doubtful debts; • Revenue recognition (valuation of unbilled revenue accrual);and • Going concern and impact of Covid-19. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
MATERIALITY	The materiality that we used in the current year was £9.1m which was determined on the basis of profit before tax adjusted for movements in certain derivatives charged to the income statement in the year.
SCOPING	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
SIGNIFICANT CHANGES IN OUR APPROACH	Changes in our approach were limited to adding a new key audit matter in relation to the going concern assumption. This is due to the Covid-19 pandemic that has had a significant impact on the UK and a number of countries throughout the world.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

GOING CONCERN	We have reviewed the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements. We considered as part of our risk assessment the nature of the company, its business model and related risks including where relevant the impact of the Covid-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the company's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment. We state whether we have anything material to add or draw attention to in relation to that statement that would be required by Listing Rule 9.8.6R(3) if the company had a premium listing and report if the statement is materially inconsistent with our knowledge obtained in the audit.	**Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.** We confirm that we have nothing material to report, add or draw attention to in respect of these matters.
PRINCIPAL RISKS AND VIABILITY STATEMENT	Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to: • the disclosures on pages 57 to 63 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated; • the directors' confirmation on page 57 that they have carried out a robust assessment of the principal and emerging risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity; or • the directors' explanation on pages 102 and 103 as to how they have assessed the prospects of the company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We also report whether the directors' statement relating to the prospects of the company that would be required by Listing Rule 9.8.6R(3) if the company had a premium listing is materially inconsistent with our knowledge obtained in the audit.	**Viability means the ability of the company to continue over the time horizon considered appropriate by the directors.** We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

CLASSIFICATION OF CAPEX, OPEX AND CAPITALISED OVERHEADS

Key audit matter description

The water industry is capital intensive and pipeline assets require regular maintenance and upgrades. There is an inherent risk in the industry that costs included in property, plant and equipment are not capital in nature and/or are not in line with the capitalisation criteria of IAS 16.

Annual capital expenditure across PPE and intangibles spend was £280.4m for the year ended 31 March 2020 (2019: £269.6m), together with significant spend on maintenance costs.

The classification of expenditure on capital assets also includes the allocation of overheads to capitalised amounts, which is judgemental in nature and the amount capitalised as intangibles. Given the level of capital expenditure forecast by the company and the prior year adjustment in relation to intangible assets being classified to PPE, it is important that appropriate policies are agreed in advance and adhered to. The capitalised labour costs were £43.7m for the year to 31 March 2020 (2019: £41.0m).

Given the value involved in fixed asset additions, there being a degree of complexity in what can be capitalised and the allocation to either intangible or tangible assets, we deemed this as a potential fraud risk for our audit.

Further details are included within the Strategic Report on page 55 and also notes 1(d), 9 and 10 to the financial statements.

How the scope of our audit responded to the key audit matter

- We obtained an understanding of management's relevant controls over the processing of accounting entries associated with capital and operating expenditure;
- We reviewed the appropriateness of the Company's capitalisation policies and its approach to determining which costs should be capitalised and which expensed;
- We compared the actual capitalised expenditure incurred in the period with regulatory targets and make enquiries of management to understand any under/over spend;
- We performed substantive testing on both capitalised and expensed amounts to assess whether these are classified in accordance with the company's policies and IAS 16;
- We continued to challenge and understand the levels of capitalisation by comparing amounts capitalised by department in the current and prior years;
- We performed testing over the completeness of intangibles and additions to this balance given the prior year error noted in 2019;
- We tested a sample of capitalised overheads by agreeing to timesheets and project plans to assess whether capitalisation was appropriate and there is consistent application of the policy year on year; and
- We assessed whether any there are impairment indicators or underutilised assets exist which would require an impairment to be recognised.

Key observations

The results of our procedures were satisfactory. We concluded that the classification of capex, opex and capitalised overheads are appropriate.

PROVISION FOR BAD AND DOUBTFUL DEBTS

Key audit matter description	As stated in the critical accounting judgements and key sources of estimation uncertainty in note 1(o) of the Annual Report, the value of the bad debt provision is calculated by applying a range of percentages to debt of different ages with higher percentages applied to different categories of debt depending on an assessment of the level of risk of default. There is a significant customer base, and regulations do not allow NWL to interrupt water supply to domestic customers. The valuation of the bad debt provision is sensitive to the specific percentages applied which are judgemental. At 31 March 2020 the bad debt provision was £101.8m104.4m (2019: £85.6m) and is therefore a significant balance. Of this £101.8m104.4m, we note an increase of £6.5m in the current year due to Covid-19 and expected bad debts as a result. The provision is based on assumptions made on the forecast and historic collectability of debts across both invoiced amounts and accrued revenues. There is a significant customer base and regulations do not allow NWL to interrupt water supply to domestic customers. The provision for bad and doubtful debts is significantly large and subject to high amount of management judgement and hence we have considered this to be a key audit matter. Due to the complexity in calculating the provision, particularly in the current year with the additional considerations around Covid-19, we deemed this as a potential fraud risk for our audit. Further details are included within the financial performance section of the Strategic Report, note 1(o) and 13 to the financial statements.
How the scope of our audit responded to the key audit matter	• We obtained an understanding of management's relevant controls surrounding the estimate; • We compared the assumptions made by management in calculating the provision to evidence provided from historical collection data; • We tested any bad debt write offs and utilisation of the provision during the year; • We tested the accuracy of the aged debtor balance and the ageing categories applied; • We assessed the reasonableness of any judgements made in respect of likely future events, including the effects of Covid-19 on debt collectability; • We tested a sample of credit notes raised to determine whether any were as a result of an event known but not appropriately provided for; • We tested a sample of bills included within the bad debt provision to assess the accuracy of the provision and ageing profile; • We compared current and prior year bad debt provision balances to assess completeness; • We challenged managements assumptions relating to amounts provided in response to Covid-19, referencing external market information where appropriate; • We performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rate; and • We reviewed the receivables ageing report to help assess whether overdue debtors are appropriately provided for.
Key observations	The results of our procedures were satisfactory. We have concluded that management's judgements are appropriate, including the additional £6.5m provision made during the year for Covid-19, and that the provision for bad and doubtful debts was appropriately stated.

REVENUE RECOGNITION (VALUATION OF UNBILLED REVENUE ACCRUAL)

Key audit matter description	The nature of NWL's business is such that it is not possible to read all water meters at year-end. An estimate is therefore made of the unbilled revenue at the year-end. At 31 March 2020 this measured income accrual was £110.3m (2019: £85.8m). Management estimates the amount of water and sewerage services that have been supplied to customers and not billed at year end, based on historic water consumption and default consumption rates. The revenue attributable to this unbilled revenue at year end is accrued. The accrual is both material and judgemental and is therefore considered to be a key audit matter. Towards year-end management were unable to physically visit customers' houses due to the UK-wide lockdown and so fewer meter readings were taken than in a normal year. The result of this has been a decrease in meter readings of 53,337 in the year, taking the percentage of unread metres in the year from 13% to 40% which has increased management judgement and estimation included within the balance as at 31 March 2020 compared to previous periods. Given the value of the accrual, the quantum of data and the level of estimation involved in calculating it, we deemed this as a potential fraud risk for our audit. Further details are included within notes 1(b), 2 and 13 to the financial statements.
How the scope of our audit responded to the key audit matter	• We obtained an understanding of management's relevant controls over the unbilled revenue accrual; • We performed substantive testing of the accrued revenue calculation and make an assessment of the appropriateness of accounting estimates made by management; • We re-performed management's retrospective review on the March 2019 balance; • We reviewed the accrued revenue balance for any potential recoverability issues by tracing a sample to subsequent bill and cash payment; and • We performed substantive analytical procedures on the year-end balance by forming an expectation compared to the prior year.
Key observations	The results of our procedures were satisfactory. We concluded that the valuation of the unbilled revenue accrual is appropriate and concurred with management on the judgements adopted.

GOING CONCERN AND IMPACT OF COVID-19

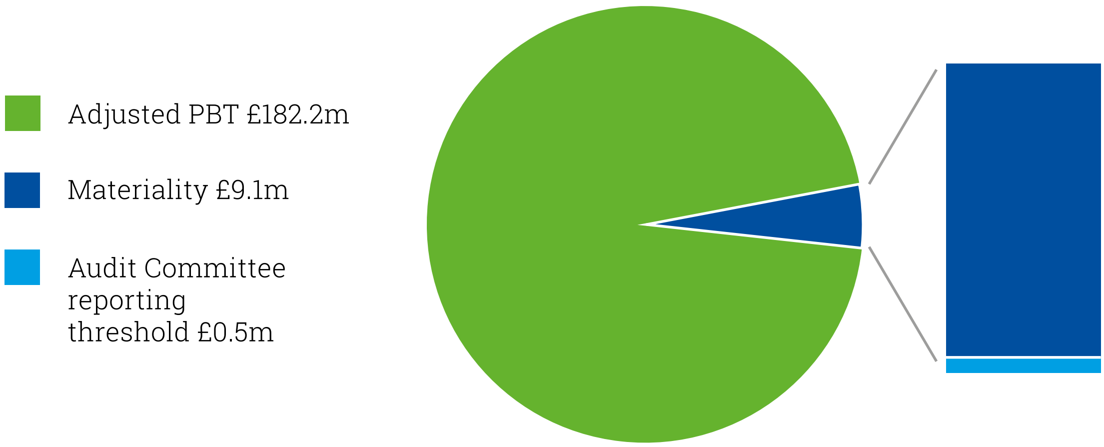
Key audit matter description	During the year there has been the emergence of a global pandemic of a new strain of Coronavirus. The virus, and responses taken by organisations and governments to manage its spread in markets to which the company is exposed have led to increased volatility and economic disruption. Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date and as part of their going concern review have performed procedures to assess the financial and operational impacts of Covid-19, including: • An assessment of operational resilience of NWL, challenging internal control and governance, critical business functions ensuring ongoing water supply is maintained throughout the crisis; • An assessment of certain key sources of estimation uncertainty and critical judgements such as the bad debt provision as discussed above; • Considerations of solvency and liquidity projections, including an assessment of the effects on short term and long term cash flow. In order to fully assess the above, management have made a number of judgements and considered a range of factors. Management have also ran an extensive series of sensitivity analyses, taking into account a number of outcomes and the potential responses to these. Management have placed particular focus on the credit ratings and regulatory gearing, as these are relevant to assessing the covenants in the group's financing arrangements. From the considerations undertaken, management believes that the company continues to be a going concern due to having robust plans in place to manage liquidity in the short and longer term as well as the stable solvency position of the wider Northumbrian Water Group. Management has made disclosures throughout the annual report and financial statements to reflect the results of its assessment, in line with applicable accounting standards, the company law and corporate governance code provisions. Due to the inherent management judgement in the financial statement disclosures, particularly those relating to going concern, and the increased level of audit effort, we considered these to be a key audit matter. Further details are included in note 1a of the financial statements.
How the scope of our audit responded to the key audit matter	• We assessed management's projected cash flows, which include the impact of Covid-19, and have performed sensitivity anlaysis; • We challenged management's estimations and judgements used in the forecasting of future cash flows used in the assessment of the company's liquidity; • We obtained an understanding of relevant controls implemented when forecasting cash flows; • We assessed the operational impact of Covid-19 on the company and have analysed management's assessment of the ability of the company to continue as a going concern; • We considered whether plans are in place to allow the company to assess whether a continued supply of water to customers throughout the impact of the pandemic, including any emergency repair works required; • We reviewed the most recent Board minutes and regulatory correspondence to identify items of interest; • We evaluated management's assessment of the impact of the significant business developments, including the spread of Covid-19 and the resulting actions taken by the UK Government; • We evaluated management's assessment of the impact of recent events on the carrying value of the Company's assets and liabilities including intercompany receivables; and • We assessed the disclosure made by management in the financial statements.
Key observations	The results of our procedures were satisactory. We concluded that the adoption of the going concern basis of accounting and the disclosures related to the potential impact of Covid-19 and in respect of the company's ability to continue as a going concern are appropriate.

OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

MATERIALITY	£9.1m (2019: £10.3m)
BASIS FOR DETERMINING MATERIALITY	5% of adjusted pre-tax profit. This was adjusted to take account of derivative valuation movements charged to the income statement in the year. This has been excluded due to the level of volatility of such derivative valuation movements, in order to provide a consistent basis year on year. This approach is also consistent with prior year.
RATIONALE FOR THE BENCHMARK APPLIED	Adjusted pre-tax profit was selected as the appropriate measure on which to determine materiality as it is considered an area of focus for the users of the accounts.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the low number of corrected and uncorrected misstatements in the prior years, our cumulative knowledge of the company and low turnover within management or key accounting personnel

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.5m (2019: £0.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Scoping
Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Our consideration of the control environment
We involved our IT specialists to assess relevant controls over the company's IT systems. As planned and reported to the Audit Committee, we adopted a fully substantive testing approach in the current and prior years.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement that would be required if the company had a premium listing relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our Auditor's Report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

- **Directors' remuneration**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of these matters.

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Anthony Matthews

Anthony Matthews FCA (Senior statutory auditor)

for and on behalf of Deloitte LLP
Statutory Auditor
Newcastle Upon Tyne
United Kingdom
15 July 2020

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