

NORTHUMBRIAN
WATER *living water*

A close-up photograph of a person's hands holding a teal ceramic mug filled with coffee. The person is wearing a grey, textured knit sweater. The background is softly blurred, showing more of the sweater and a warm, yellowish light source. The overall mood is cozy and comfortable.

ANNUAL PERFORMANCE REVIEW

2013-14

WELCOME TO OUR ANNUAL PERFORMANCE REVIEW 2013-14

This performance review describes the service we have provided for our customers and the work we have done to protect the environment over the last year.

CONTENTS

Welcome to our Review of Performance for 2013-2014
Page 6

How we manage our business - our vision, values and what we aim to achieve
Page 8

How we manage our business - data integrity
Page 16

Overview of performance 2013-14
Page 18

Looking to the future
Page 78

Regulatory statements and explanatory note
Page 84

Governance overview
Page 88

Appendix: Glossary of terms
Page 94

Note: this performance review and regulatory statements also meet our regulatory responsibility to publish a Risk and Compliance Statement.



Langford Water Treatment Works

OUR COMPANY

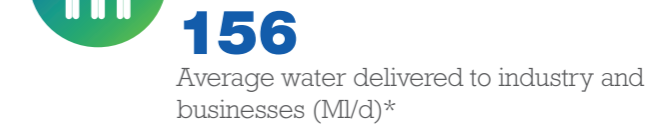
Northumbrian Water Limited (NWL) operates in the South East of England, where it trades as Essex & Suffolk Water (ESW) and the North East of England, where it trades as Northumbrian Water (NW).

ESW provides water services to two separate supply areas. Our Essex area, which has a population of 1.5 million, is part rural and part urban. The main areas of population are in Chelmsford, Southend and the London Boroughs of Barking and Dagenham, Havering and Redbridge. We serve a population of 0.3 million in our Suffolk area, which is mainly rural with the largest towns being Great Yarmouth and Lowestoft.

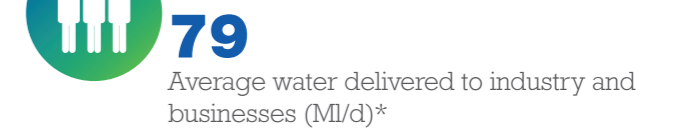
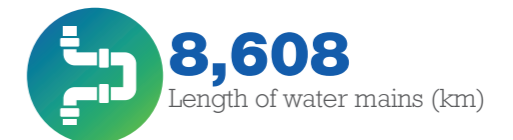
NW provides water and sewerage services to 2.7 million people in the North East of England. The major population centres of Tyneside, Wearside and Teesside are in our area but we also serve large rural areas in Northumberland and County Durham. We provide only sewerage services in Hartlepool.



NORTHUMBRIAN WATER *living water*



ESSEX & SUFFOLK WATER *living water*



*MI/d = megalitres per day
1 megalitre = 1,000,000 litres

WELCOME TO OUR REVIEW OF PERFORMANCE FOR 2013-2014

It is a privilege to serve our customers in the North East, Essex and Suffolk. Our customers are always at the heart of everything we do. We are working hard to continually improve service and are making great progress as we continue on our journey 'to be the national leader in the provision of sustainable water and waste water services'.

I am delighted to report improved performance in a number of key areas. This includes our best-ever customer satisfaction scores (as measured by Ofwat's Service Incentive Mechanism ('SIM') score), a continuation of our industry-leading performance for interruptions to supply and sewage treatment, a reduction in sewer flooding incidents and our best-ever microbiological performance at our service reservoirs. We are confident we will regain our industry leading bathing water quality position very soon. We continue to be recognised as industry leaders in leakage control and water efficiency and the completion of the major project to expand Abberton Reservoir has secured supplies to Essex for the next 25 years.

Alongside all these improvements, we are very proud of the external recognition the Company has received in the last year for our commitment to providing the best service possible for our customers.

We achieved 36 separate awards in 2013. This included winning a record five of the 12 categories we entered at the Utility Week Achievement Awards 2013, including the coveted title of Utility of the Year. Our debt collections team also won the 'treating customers fairly award' at the National Credit Industry Awards 2014, which are the biggest awards in the financial sector.

We have been awarded the Queen's Award for Enterprise (sustainable development), for an impressive second time. The judges' comments specifically mention the great work we've done to generate 20% of our energy from renewable sources, generating electricity from sewage sludge through our Advanced Anaerobic Digestion (AAD) processes, using reed-beds in water treatment and increasing the capacity of Abberton Reservoir. They also praised us for the way we work with the communities we serve and our 'Just an hour' employee volunteering programme, in which nearly 55% of our workforce participate.

The full Queen's Award for Enterprise: Sustainable Development 2014 citation reads as follows:

"Northumbrian Water Ltd wins its second Sustainable Development Award for upholding exemplary standards in supplying drinking water and treating waste water.

Having developed a credible strategy to generate 20% of its energy from renewable sources by 2020, it has contributed much towards environmental improvement, developing innovative methods for generating electricity from sludge, utilising reed-beds to treat waste and co-digesting many waste streams in anaerobic digester plants. Whilst increasing the capacity of an existing reservoir to secure water for 1.5 million people, it is boosting the wildfowl and bio-diversity habitat. It has demonstrated sector-leading outreach to communities, including donating 1% of pre-tax profit, establishing staff volunteer programmes, sponsoring improvement in a failing school, offering space to projects and developing a health centre within a deprived community."

Whilst it is pleasing to receive such external recognition, we are never complacent and continually strive to improve the service we provide to our customers. We have been talking extensively to our customers and stakeholders about what they expect from us in the future so that this can underpin our business plan for the period 2015-20.

To ensure we are listening to our customers and interpreting their views fairly we formed two independent Customer Challenge Groups (known as Water Forums), for ESW and NW. Members of the Forums challenged and advised us on behalf of our customers and stakeholders. I would like to thank the members of the Forums for their substantial contribution to the business plan. It was the better for their challenge.

After more than two years of meticulous planning and consulting with our customers, our plan for the period 2015-20 was submitted to our economic regulator, Ofwat in December 2013.

We have listened to our customers and our intention to keep customers' bills as low as possible, while delivering great service, received considerable support in extensive market research.

Ofwat was very complimentary about our plan and noted we were close to satisfying all their requirements. Since December, we have been addressing a few outstanding areas, and we submitted a revised plan to Ofwat on the 2 May 2014 putting incentives in place to drive even better services to our customers.

Ofwat examined the revised plan and published its draft decision (Draft Determination) on the 30 May 2014. This described the services to be provided and the prices we can charge for the period 2015-20.

All parties have recently responded to the Draft Determination and we await Ofwat's Final Determination in December 2014.

Things are also beginning to change for our business customers. Currently, only business customers who use more than five megalitres of water per year are able to choose who they purchase their water and waste water retail services from. The opening of the water retail market in 2017 will change this position, and all business customers, charities and public bodies will be able to choose their retail supplier. In April 2014, we successfully secured a retail licence to supply business customers and we are looking forward to competing successfully in the market and being the retailer of choice for business customers.

I hope you find this review helpful and take the opportunity to find out about the service we provide.

Heidi Mottram

Heidi Mottram
Chief Executive Officer
Essex & Suffolk Water
Northumbrian Water

**HOW WE MANAGE
OUR BUSINESS**

**OUR VISION
IS TO BE THE
NATIONAL
LEADER IN THE
PROVISION OF
SUSTAINABLE
WATER AND
WASTE WATER
SERVICES.**



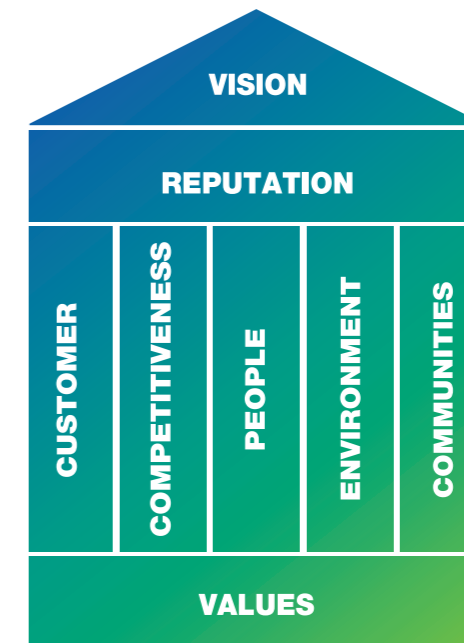
Advanced Anaerobic Digestion, Bran Sands

HOW WE MANAGE OUR BUSINESS - OUR VISION, VALUES AND WHAT WE AIM TO ACHIEVE

We have a clear vision 'to be the national leader in the provision of sustainable water and waste water services'. To achieve this we have strong values and focused key performance indicators which are embedded throughout the company to help us to deliver our commitments to our customers. All employees know the part that they play in helping us achieve these targets.

This allows the NWL Board and business management team to send clear messages to our employees and contractors about what we aim to achieve for customers and how we will go about doing this. The framework is shown in the diagram below.

Our vision and values are supported by five themes: Customer; Competitiveness; People; Environment; and Communities which are mutually supportive. Achieving the right balance between them is essential to our success. After extensive consultation with our customers, we have developed a set of outcome statements which sum up our long-term goals and what we aim to achieve. A very high percentage of customers surveyed (88%) support these outcomes. Our corporate themes (below) fully support these outcomes, we describe this over the page.



OUTCOME STATEMENTS

The following outcome statements are our goals, what we want to achieve against our five corporate themes. They reflect what our customers and stakeholders have told us they want from us.

Customer:

- We provide excellent service and impress our customers.
- 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 supply clean, clear drinking water that tastes good.
- 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 waste water services that meet the needs of current and future generations in a changing world.
- We are a company that customers can trust.

Environment:

- We protect and enhance the environment in delivering our services, leading by example.
- We help to improve the quality of rivers and coastal waters for the benefit of people, the environment and wildlife.

Competitiveness:

- Our finances are sound, stable and achieve a fair balance between customers and investors.
- We are an efficient and innovative company.
- We are the retailer of choice for business customers.

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.

VALUES

Doing things the right way is as important to us as what we do. This is driven by our five company values. We are:

Customer focused

- We aim to exceed the expectations of our external and internal customers.

One team

- We work together consistently, promoting co-operation, to achieve our corporate objectives.

Results driven

- We take personal responsibility for achieving excellent business results.

Creative

- We continuously strive for innovation and better ways to deliver our business.

Ethical

- We are open and honest in meeting our commitments, with a responsible approach to the environment and our communities.

These values are deeply embedded in our business and ensure we achieve results in the right way. Our achievements have been externally recognised in 2013-14. Here are some of the awards we received.

AWARDS RECEIVED

Queen's Award for Enterprise (Sustainable Development)

In April 2014, in recognition of our leading performance in sustainable development we received the great news that we had been awarded the Queen's Award for Enterprise (sustainable development), for the second time. This means we will keep our Royal recognition and this amazing accolade for a further five years. We are one of only eight businesses in the North East to be given this accreditation and the only one to receive it for sustainable development.



Business in the Community

We were awarded Platinum Plus/Big Tick status in the Corporate Responsibilities Indices 2008 to 2013.



Sunday Times Best Companies to work for

We achieved 1 star status in 2013 having being classed as 'one to watch' in 2011.



Utility of the Year 2013

We won a record five of the seven categories in which we were shortlisted at the Utility Week Achievement Awards 2013, including Utility of the Year. The judges said NWL had "consistently outperformed its peers".



World's Most Ethical Companies List

An American think-tank, the Ethisphere Institute, included NWG on its list of the world's most ethical companies for the fourth time in 2013. We remain the only water utility in the world to make the list.

Visit England 2014 Awards

Leaplish Waterside Park: Best Holiday Park

Lowestoft Local Links Sustainable Travel Awards

Customer: Travel plan for Trinity House

RoSPA

Health & Safety: Industry

East Anglia Building Excellence Awards 2014

Scott Everett, Client Project Manager: Best public service building (Hanningfield reservoir building)

Credit Today Awards

Customer: Treating Customers Fairly

Community Project of the Year

Just an hour: Volunteering Scheme
The Main Event mains cleaning programme: Customer Satisfaction Initiative of the Year
PRV (pressure reduction valve) technology: Most Innovative Use of an Existing Technology
Hanningfield reed beds: Water Resource Management Initiative of the Year

Robert Stephenson Awards - Institute of Civil Engineers North East 2014

Investment Delivery: Project value under £14m

East of England RICS Awards

The Abberton Scheme: Infrastructure

2014 Environment & Waterwise Water Efficiency Award

ESW H2eco: Built Environment
Saltersgill Allotments: Landscape & Gardening
ecoFIT: Built Environment
ESW H2eco: Research & Evaluation
Little Green Riding Hood: Campaigns & Education

Utility Week Stars Awards

Jane Moreland: Giving Back Award
Supplychain: Team of the Year Award
Supplychain: Team of the Year - Back Office
Customer Contact Centre: Customer Service

Institute of Civil Engineers East of England Merit Award

Abberton Scheme: Physical Achievement
Abberton Scheme: Sustainability

Note: Several of the awards listed were won by Northumbrian Water Group (NWG), but, in all cases, the entire entry was based on activities undertaken by NWL.

KEY PERFORMANCE INDICATORS:

Key:  Satisfactory  Marginal  Unsatisfactory

The table below summarises our performance in 2013-14. All water companies strive to maintain a 'satisfactory' result. The other possible results include marginal or unsatisfactory - where a company must improve its performance. Some targets are industry wide, set by OFWAT. Some are our own (e.g. sewer flooding), for these we have set very high standards that we are striving to attain.

OUTCOME	MEASURE AND UNIT	PERFORMANCE LEVEL		COMMENTS	REFERENCE
		2012-13	2013-14		
We provide excellent customer service and impress our customers; and Our customers consider the services they receive to be value for money	Service incentive mechanism (score) <i>100 is the maximum; the industry average for 2011-12 and 2012-13 was 76</i>	80.15	85.29	Improvement - close to industry leading	See page 23
We supply clean clear drinking water that tastes good	Drinking water quality (%) - North East <i>Companies are aiming to achieve 100% - the 2012 industry average was 99.96%</i>	99.94	99.95	A high level of compliance; an improvement on last year and in line with the industry average	See page 30
	Drink water quality (%) - Essex and Suffolk <i>Companies are aiming to achieve 100% - the 2012 industry average was 99.96%</i>	99.89	99.91	A high level of compliance; an improvement but slightly lower than the industry average	See page 30
We provide a reliable and sufficient supply of water	Water supply interruptions 3 hours or longer (minutes: seconds per property served) <i>We consider that 10 minutes or lower is satisfactory</i>	06:57	04:56	Improvement - maintaining industry leading	See page 38
	Leakage (Ml/d) - North East <i>Every company has its own regulatory target - our target is not more than 141 Ml/d</i>	136.0	134.03	Target significantly bettered	See page 38
	Leakage (Ml/d) - Essex and Suffolk <i>Every company has its own regulatory target - our target is not more than 66 Ml/d</i>	53.9	58.39	Target significantly bettered	See page 38
	Security of Supply Index (SOSI) - North East <i>100 is the maximum</i>	100	100	This is the highest score possible	See page 39
We provide a sewerage service that deals effectively with sewage and heavy rainfall	Security of Supply Index (SOSI) - Essex and Suffolk <i>100 is the maximum</i>	97	100	Improvement to achieve the highest score possible	See page 39
	Repeat internal sewer flooding (number) <i>Every company has its own regulatory target - our target is 269 or below</i>	1196	351	Significant improvement but still above our target	See page 44
We deliver water and sewerage that meets the needs of current and future generations in a changing world	Serviceability water above ground Serviceability water below ground Serviceability sewerage above ground Serviceability sewerage below ground <i>Companies are aiming to achieve stable serviceability</i>	stable	stable	Serviceability for all services is 'stable' <i>This indicates how effectively we are operating and maintaining our water mains to deliver an expected level of service now and into the future.</i>	See page 50
We protect and enhance the environment in delivering our services, leading by example	Greenhouse gas emissions (KtCO ₂ e) <i>We are measured against our PR04 Business Plan target - 288.2 or less</i>	214.8	199.7	We have achieved year on year improvement	See page 59
	Pollution incidents sewerage (category 1-3) (per 10,000km of sewer) <i>The industry wide target is 50. The industry average for 2013 was 98</i>	119.56	77.59	Significant improvement and significantly better than the industry average but still above our target	See page 58
	Serious pollution incidents sewerage (category 1-2) (per 10,000km of sewer) <i>The industry wide target is 1.5. The industry average for 2013 is 3.4</i>	1.87	3.05	We have very few category 1-2 incidents but have deteriorated slightly. However, we have still performed better than industry average.	See page 58
	Discharge permit compliance (%) <i>The industry wide target is 99% or greater</i>	100	99.38	A high level of compliance maintained	See page 56
Our finances are sound, stable and achieve a fair balance between customers and investors	Satisfactory sludge recycling (%) <i>The industry wide target is 100%</i>	100	100	100% of our sludge was recycled	See page 56
	Return on Regulatory Capital Value (post tax) (%)	5.2	5.3		See page 64
	Credit rating	BBB+ (stable) Baa1 (stable)	BBB+ (stable) Baa1 (stable)	A robust and stable financial position	See page 64
	Gearing (%)	62.0	61.1		See page 65
	Interest Cover (ACIC post capital charges) (number)	1.9	1.9		See page 65



Personal Digital Assistant (PDA) supporting an efficiency work schedule

HOW WE MANAGE OUR BUSINESS - DATA INTEGRITY

ENSURING OUR DATA IS RIGHT

It is essential that the Company, our customers, regulators and other stakeholders have accurate and complete performance data that they can rely on. We have robust and comprehensive processes in place to ensure we can do this.

We meticulously record our activities. If there is a leak, we record when a customer calls to let us know and then record each stage from preparation to completion of work. To ensure the consistency and quality of our activities and records we have wide ranging processes and procedures with robust control and assurance measures in place.

We use our operational records to create data which can be used in many different ways. This includes reporting to customers, regulators and stakeholders on the service we are providing (as in this review), helping us to take action to avoid service failures before they happen and planning efficient and effective operations.

All our records and data are managed carefully and the integrity of our published data is of paramount importance to us. We work hard to ensure that we never knowingly or unknowingly provide data that is not fit for purpose so that we maintain the confidence of our customers and regulators.

ACTIVITIES TO ENSURE THE INTEGRITY OF DATA IN 2013-14

As well as the robust assurance processes and procedures in place, we also ensure our employees understand the importance of accurate and consistent data.

During the year, we have heightened our employees' awareness of their responsibilities and the role of our Board and Audit and Risk & Compliance Committees.

We are also carrying out a 'data integrity' awareness campaign to ensure that everyone involved in the data collection chain (including our contractors) knows their responsibilities and how their information is used to produce company performance data.



**OVERVIEW OF
PERFORMANCE
2013-14**

STRONG PERFORMANCE FOR 2013-14

We are pleased to report strong performance for 2013–14 with improvements to performance and service in a number of key areas. There was improved customer service with our best-ever customer satisfaction scores (as measured by Ofwat’s ‘SIM’ measure), a reduction in sewer flooding incidents, and our best-ever microbiological performance at our service reservoirs. The health (serviceability) of our assets remained satisfactory and we met our leakage targets in both and NW and ESW. We also expect to maintain (by a substantial margin) our leading industry position in relation to supply interruptions and sewage treatment.


Our performance is described in detail on the following pages.




**THE NORTHUMBRIA REGIONS
HAVE THE HIGHEST LEVELS OF
SATISFACTION WITH VALUE FOR
MONEY (CCWATER RESEARCH).**

**PERFORMANCE
2013-14:
CUSTOMER**

 High levels of customer satisfaction with overall service

 Nationally, customers in the Northumbria region have the highest level of trust with their water and sewerage company (CCWater research)

 Most improved company on SIM qualitative measure

 Number of abandoned calls reduced by 40% in 2013-14

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

ENSURING WE MEET CUSTOMER EXPECTATIONS

Regular customer research helps us understand what our customers want and expect from us. Meeting customers' expectations is a key theme in our corporate planning framework and being 'customer focused' is one of the five values embedded in our culture.

To help ensure we meet customers' expectations we have two independent panels of people known as 'The Water Forums' (covering the NW and ESW operating areas respectively) who challenge the company on behalf of our customers and other stakeholders. The Water Forums were formed to help us deliver a customer focused business plan for the period 2015-2020.

The Forum approach brings together people from the wide range of different organisations relevant to water and sewerage planning to help ensure our decisions reflect customers' views, particularly on issues that may impact on standards of service or the level of customers' bills. The Water Forums also recognise and take into account the legal obligations faced by the company (e.g. new drinking water quality and environmental standards).

The Water Forums advised and rigorously challenged us in the development of our plan for the period 2015-20 which was submitted to our economic regulator, Ofwat in December 2013.

Because the challenge made our plan better we want to build on this success and, with the agreement of the Water Forums, plan to maintain the input from external stakeholders in the future.

OVERALL CUSTOMER SATISFACTION WITH SERVICE AND VALUE FOR MONEY

CCWater has published the results of its survey of water and sewerage customers in 2013. This shows that Northumbria region has continued to be the number one water company for satisfaction with value for money for water and sewerage services.

The CCWater survey also asked customers how much they trusted their water and/or sewerage company on a scale of one to ten (1 = no trust and 10 = complete trust). Nationally, customers in the Northumbria region have the highest level of trust with their water and sewerage company at 7.74.

A high level of customer satisfaction has also been confirmed through our quarterly tracking research, undertaken for us by an independent expert company. Companywide customer satisfaction with both overall service and value for money was high in 2013-14 with net satisfaction levels of 88% and 80% respectively.

There isn't a single measure that will provide us with the full picture of our customers satisfaction. So, to benchmark ourselves outside the water industry we have been measuring our Net Promoter Score (NPS) which measures customer advocacy (the loyalty that exists between us and our customers) and have seen our score improve from 24% in 2011 to 32% in 2013. Our results for the first quarter of 2014 show further improvement; our NPS has risen by 6% from 2013 to 38%.

This ranks us alongside the likes of Sony and Samsung who have excellent reputations for exceeding customer expectations in the service they provide.

We have also recently started measuring our UK Customer Satisfaction Index (UK CSI) ranking through the Institute of Customer Service. This survey measures the customer's actual experience with us and allows us to then benchmark ourselves against the wider utility sector and other customer service industries. The latest survey results show the company as being one of the leading utility companies in this measure.

SERVICE INCENTIVE MECHANISM (SIM)

Ofwat's SIM survey measures our customers experience of dealing with us and provides a good indication of how well we are serving our customers.

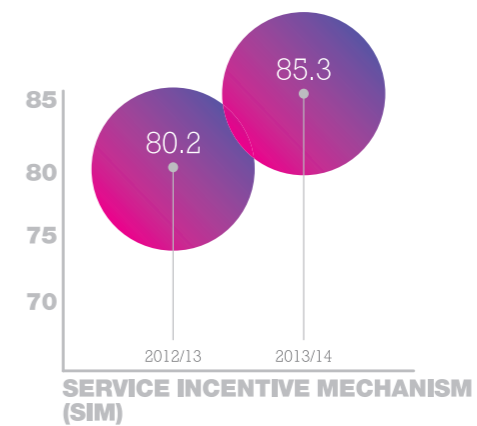
It includes a survey of customers who have had recent dealings with us to understand how well we performed in meeting their expectations. We achieved second in industry ranking, and most improved company, for both our water and sewerage operational services. Scores increased from 4.46 to 4.62 out of 5.

SIM also includes an assessment of unwanted customer contact and this has reduced significantly in the last year by 25%.

We are pleased that our overall SIM score (a combination of survey results and unwanted customer contact performance) reflects the effort we have been putting into improving the experience for our customers. This score increased from 80.15 in 2012-13 to 85.29 in 2013-14.

We believe that we can only truly claim to be the national leader if we are providing exceptional, industry leading customer service. In today's world that includes an online solution. For us, going online is about offering additional choices to customers about how they contact us or pay their bill alongside the existing options.

Customer research has been carried out to understand what services our customers want to access online. We continue to explore ways of improving the customer service we provide while also offering our customers choice of how to interact with us. During 2013 we have improved our web self-service offerings and have enabled our website to be mobile device responsive allowing greater access for our customers.



GUARANTEED SERVICE STANDARD (GSS) PERFORMANCE

We are proactive in our customer communications. We use text and voice messaging to help keep customers informed. This could be reminders on appointments or updates on operational incidents. We sent over 500,000 separate text messages in the last year. After success in our operational teams we are now extending this approach to our billing area. We are also working to introduce a web based chat facility as well as extending our coverage on social media. Social media allows us to keep our customers up-to-date, and also helps us identify and solve customers' concerns before they come to us with a problem.

We recognise that many of our customers really value the ability to talk to us directly and we have worked hard to improve service in our contact centres. Over the year we have reduced the total number of abandoned calls by over 40%, meaning more of our customers have been able to contact us when they wanted.

We always seek to provide excellent service and impress our customers. When things occasionally go wrong, the Water Supply and Sewerage Services (Customer Service Standards) Regulations 2008 require companies to provide compensation payments to customers in certain circumstances.

We do whatever we can to minimise service failures and aim to pay promptly should we fail to meet guaranteed standards. GSS payments totalled £941,158 for 2013-14. This represents a 13% decrease from 2012-13 (£1,084,579). The fall is largely due to fewer sewer flooding incidents.



CASE STUDY: CUSTOMER COMMUNICATION AND DIGITAL MEDIA

Customer communication can always be improved. NWL now uses a mixture of conventional communications such as letter, phonecall and email and also more modern methods including online, text and social media. Our aim is to enhance the service that we provide to proactively let customers know about issues and anticipate their needs. We want to communicate with customers in a way that suits them and for them to interact with us 24/7 if they wish.

We have carried out a lot of research to understand what services our customers want to use online. For instance customers are more inclined to use web based self service for billing items than for emergencies, when they prefer to speak to someone on the phone.

We've launched a 'my account' facility on our website and we have integrated our solutions with back office systems so that customers are truly self serving in real time using web services. This is in contrast to many organisations where the reality is that in the back office companies are still manually re-entering information provided by customers into their systems so customers may not be viewing real time data.

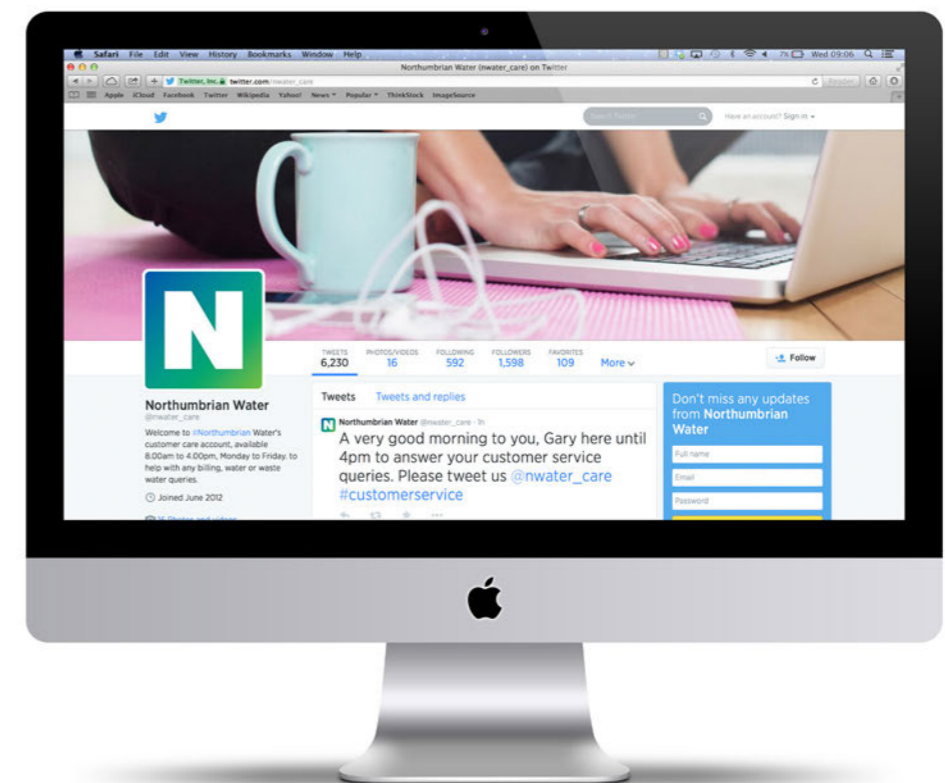
Customers can register to view their account online and see their account balance, details of how they pay, leave a meter reading, apply for a meter, set up a direct debit, register for e-billing and make a payment online. They can also ask a question, view useful 'how to' videos on the website and understand what operational work may be going on in their area.

We are about to launch a pilot web chat facility. We have also created a version of our website that recognises whether it is being accessed from a phone or a tablet and displays correctly. This great new service provides customers with easy navigation, minimum scrolling, panning and resizing, without the hassle of having to download and install an app.

We use social media to keep customers up-to-date, and to proactively identify and deal with customer queries. We are also using text and voice messaging to keep customers informed; this could be reminders on appointments or updates on operational incidents.

Interactive Voice Recognition is also a key digital channel. Customer feedback suggested that they become frustrated with voice recognition telephone solutions so we delivered a keypad solution for customers to make a payment, leave a meter reading or set up a direct debit.

What really sets NWL apart is we haven't just thrown technology at our existing processes we have considered the types of things that customers want to do online, and tailored our solutions accordingly. These solutions are being delivered in a phased approach so we can reflect and learn after each solution is delivered to ensure an exceptional experience for customers ultimately enabling us to operate more efficiently. We will keep this under review and continually seek to impress customers.





THE NUMBER OF SAMPLES PASSING DRINKING WATER QUALITY STANDARDS REMAINED VERY HIGH IN 2013 WITH 99.95% OF SAMPLES PASSING FOR NW AND 99.91% FOR ESW

Laboratory testing at Hanningfield.

PERFORMANCE 2013-14: DRINKING WATER QUALITY



Excellent drinking water quality performance maintained (99.95% compliance for NW, and 99.91% compliance for ESW)



The number of iron failures in drinking water reduced significantly in the North East in 2013



Best-ever microbiological performance at our service reservoirs



Significant and sustainable improvements in reducing discoloured water contacts

**WE SUPPLY CLEAN, CLEAR
DRINKING WATER THAT
TASTES GOOD**

OVERALL COMPLIANCE WITH DRINKING WATER STANDARDS

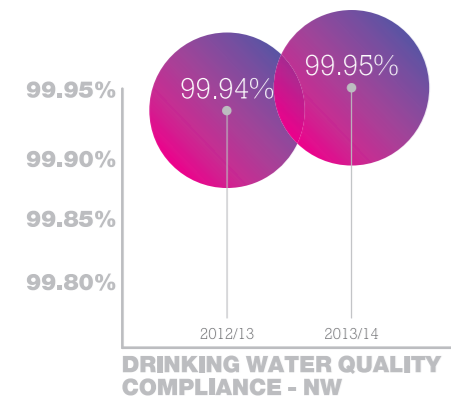
Providing drinking water and supplying customers with clear water remains of critical importance to us.

The number of samples passing drinking water quality standards remained very high in 2013 with 99.95% of samples passing for NW and 99.91% for ESW.

In total, we carried out 126,361 tests companywide at customer taps and 126,190 passed our strict quality standards.

In Essex, the main reason for the small percentage of failures was pesticides from agriculture. In the North East, 2013 performance was strong with a significant reduction in the number of chemical failures, such as iron and manganese, compared to 2012.

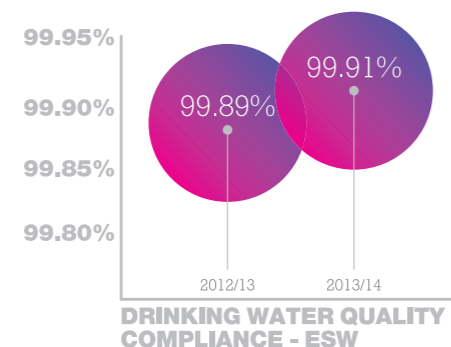
It is important to note that the levels of pesticides, iron and manganese, recorded are extremely small and pose no risk to public health.



PESTICIDES IN RAW WATER

We have formal agreements (undertakings) with the Drinking Water Inspectorate (DWI) regarding eleven water treatment works relating to the pesticides metaldehyde or clopyralid. The presence of these pesticides at the points where we take raw water from the natural environment (abstraction points) is linked to farming and other land management activities, which result in pollution of rivers and streams.

These pesticides cannot be treated to levels that would pass quality standards. To solve this we are working with farmers and other land managers to reduce or stop pesticides entering the rivers supplying our treatment works. This is called 'catchment management' and includes delivering direct advice to farmers and working in partnership with Defra's Catchment Sensitive Farming initiative. This approach also delivers associated benefits for wildlife and fish.



Our catchment management approach is expected to deliver long term sustainable benefits and, to date, activities have been relatively successful in minimising the presence of pesticides at abstraction points in the North East. However, in Essex in 2012-2013, farmers significantly increased their use of metaldehyde to treat slugs due to the wet conditions. This, together with the high volume of rain water flowing off already saturated land, resulted in widespread pollution causing a high concentration of metaldehyde in some of our water sources.

Catchment activities have been extended this year to include proactive abstraction management to help protect water resources. We have developed a new faster method for detection of metaldehyde in raw water. This, coupled with more raw water storage at Abberton Reservoir, means we can choose when to take water into storage and avoid peaks in metaldehyde. We have seen evidence that metaldehyde concentration is reducing in reservoirs and we are detecting less metaldehyde in final water. We therefore believe our compliance will improve as the full benefits of this initiative are felt.

IRON COMPLIANCE

In the North East, the level of iron in drinking water sometimes exceeds the required standard.

We've delivered a number of schemes to replace iron water mains to help increase iron compliance across the NW operating area, some of which were a regulatory commitment (under Regulation 28). In addition, we've made flushing of smaller distribution mains a priority as this removes sediment and ensures it does not cause iron problems or discoloured water incidents.

The number of failures recorded in 2013 reduced significantly compared to the previous year with only nine failures recorded. The water network overall serviceability (the ability to deliver service) performance remained stable.

DISCOLOURED DRINKING WATER

Discoloured water is a particular problem for some of our NW customers, caused by a build up of iron and manganese in the network over many years. When the sediment is disturbed, for example by a burst water main, this can cause discoloured water at the tap.

A programme to reduce discoloured water contacts was initiated in 2005 supported by an agreement with the DWI. A further agreement with the DWI to deliver water mains cleaning in Newcastle and Gateshead aims to reduce these contacts to less than 4,000 per year. The work consists of a combination of large diameter trunk main cleansing followed by local network flushing. We are making great progress in moving towards this target and the annual number of contacts has reduced to 4,443 (in 2013) from around 14,000 in 2005.

Work is progressing well with the current cleaning scheme which is set to continue until 2017 due to unforeseeable delays because of weather, difficult working conditions and planning requirements.

To deliver an equivalent level of improved service and a reduction in contacts before this we've identified a number of actions which will enable us to achieve our regulatory commitment of 4,000 complaints, despite the delay to the programme.

The key activity to deliver improved performance during 2014 and into 2015 will be our programme of flushing our district metering areas in one direction only. This innovative and more effective method for flushing local distribution mains will deliver better performance and longer term benefit to our customers and we are confident it will also allow us to meet our target during 2014-15.

Between 2015 and 2020, we intend to install or improve manganese removal at a number of our water treatment works to help protect the network from future sediment build up and improve operability. This will ensure that we can reliably achieve new tighter internal standards.

ESW has excellent compliance on iron levels in water and low levels of discoloration. This is partly due to the different characteristics of the water sources used in the South East.

MEETING THE NEW STANDARD FOR LEAD IN DRINKING WATER

In 2010, the DWI reached agreement with water companies, including ESW and NW, about lead in drinking water with the objective to replace lead communication pipes (which link water mains with customer pipes) in 11 prioritised 'hot-spot' geographical areas. The number of lead communication pipes found in these areas was less than originally assumed, and so the replacement work is mainly complete.

We are currently in the process of recruiting a lead liaison officer to make communication with external agencies and customers on lead matters easier and help promote awareness and identify opportunities for lead replacement schemes in our operational areas. In addition, we will improve the stability of water leaving our treatment works during the period 2015-2020. This will make the water less likely to dissolve lead from the pipes and ensure lead control measures, such as adding phosphate, are fully effective.

MICROBIOLOGICAL PERFORMANCE AT TREATMENT WORKS AND SERVICE RESERVOIRS

The microbiological performance at our treatment works and service reservoirs is generally very high, and in 2013 our performance improved with only 16 failures recorded from 50,792 samples taken during the year. This is our best annual performance and a significant improvement on our 2012 performance. However, it is our aim to have zero failures and we have developed robust action plans to help us meet this ambitious target.

The number of treatment works with microbiological failures in the final (treated) water remained stable in 2013. Inspection and maintenance regimes on our treated water tanks, process units and sample points has been sustained at an enhanced level to manage the risk of failure and, where appropriate, treatment was enhanced to increase the effectiveness of disinfection. This included the installation of ultraviolet (UV) disinfection at three groundwater sites to support the existing chlorination disinfection arrangements.

Service reservoir microbiological performance significantly improved in 2013 with every site achieving the required 95% annual compliance to satisfy drinking water standards. Only seven failures were recorded across the 300+ tanks within the North East, Essex and Suffolk. This is our best ever performance and the achievement underlines the importance of the enhanced inspection and cleaning regime implemented in 2009, with all service reservoirs now inspected either every three or five years.

FURTHER INFORMATION

Additional information on our performance with respect to drinking water quality can be found in the DWI Chief Inspectors Report for 2013 by visiting: <http://dwi.defra.gov.uk/about/annual-report/index.htm>



CASE STUDY: INNOVATION - ICE PIGGING

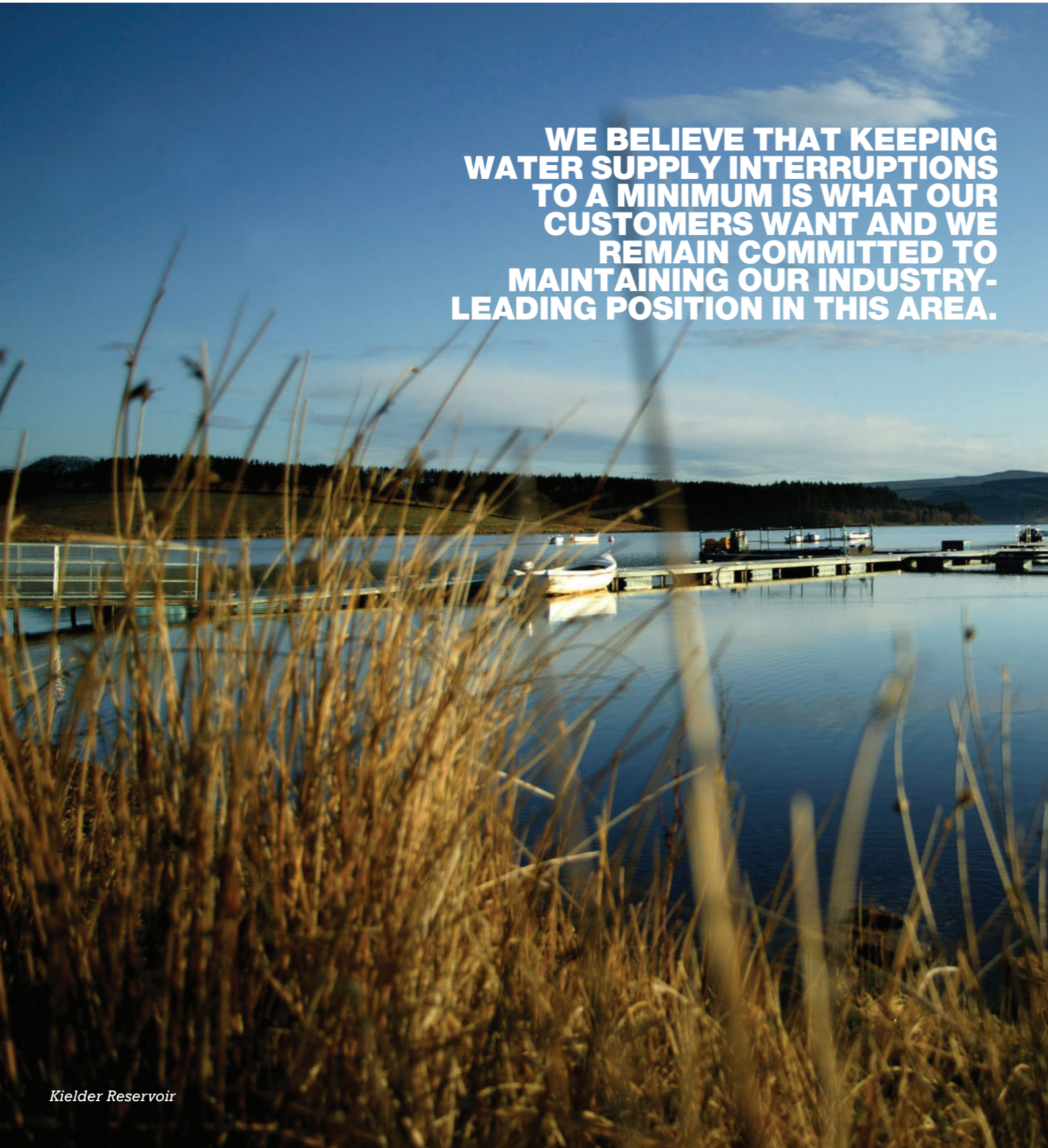
Conventional cleaning of water mains to remove sediment and biofilms is intensive, time consuming and disruptive to water supply operations, customers and the general public (road works, traffic, landowners, etc). In addition, the lengths achieved by conventional cleaning machinery is constrained by the configuration of the pipe (valve, t-junctions, bends, etc.).

What makes ice pigging different is that it uses slush like ice to clean pipes. The ice pig, due to its slushy consistency, can adapt its shape to travel through the most complex configuration of pipes, including bends and t-junctions. This means that longer sections of pipe can be cleaned over a shorter period of time without the need for the excavation and removal of bends and t-junctions – so reducing time, disruption and inconvenience to all concerned.

It reduces the time to isolate, decommission and clean a length of pipe, for example, a two kilometre section of pipe can be cleaned in around two hours compared to three weeks using conventional methods. It uses much smaller excavation and working areas and it can be used at night to keep disruption to supply and customers to a minimum. It also costs £70 less per metre compared to other cleaning techniques.

Ice pigging has revolutionised NWL's approach to water mains cleaning and, as a company, we will be using ice pigging wherever possible in the future because of the benefits to customers. This includes much less disruption and improved value for money.






WE BELIEVE THAT KEEPING WATER SUPPLY INTERRUPTIONS TO A MINIMUM IS WHAT OUR CUSTOMERS WANT AND WE REMAIN COMMITTED TO MAINTAINING OUR INDUSTRY-LEADING POSITION IN THIS AREA.

Kielder Reservoir

**PERFORMANCE
2013-14:
MEETING CUSTOMERS
DEMANDS FOR WATER**

 Water supply interruptions reduced once again; our industry-leading position is likely to be maintained by a substantial margin

 We have achieved our leakage targets for the third consecutive year

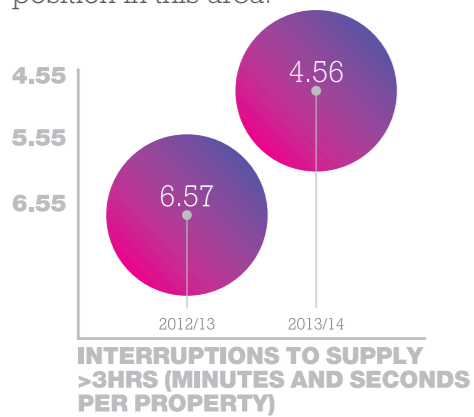
 We have achieved the maximum Security of Supply Index (SOSI) of 100 for the first time in ESW

WE PROVIDE A RELIABLE AND SUFFICIENT SUPPLY OF WATER

WATER SUPPLY INTERRUPTIONS

To measure our performance, we monitor the amount of time we interrupt our customers water supply for planned maintenance or during an incident such as a burst water main. We know a constant supply of water is important to our customers and we have made substantial reductions in supply interruptions in recent years. We have done this through the provision of alternative temporary supplies and improved operational practices.

Our performance has improved once again in 2013-14 with an average interruption time of only 4 minutes and 56 seconds per property served. This is better than last year's performance of 6 minutes and 57 seconds. Only 216 of the 1.96 million properties we supply experienced longer unplanned interruptions of over 12 hours in 2013-14. We believe we will remain industry-leading in this area by a long way when results are published in the summer and we remain committed to maintaining our industry-leading position in this area.



Our performance target, set in 2012, was to reach an average customer water supply interruption of 5 minutes for 2014-15. We have met this target a year early and our aim is to maintain the current performance level. We believe that keeping interruptions to a minimum provides an excellent service to our customers.

LEAKAGE

For the third consecutive year we have beaten our leakage targets in both NW and ESW.

In NW, we achieved 134.03 MI/d, which is significantly better than the target of 141MI/d and in ESW, we achieved 58.39 MI/d, which again is significantly better than the target set of 66 MI/d.

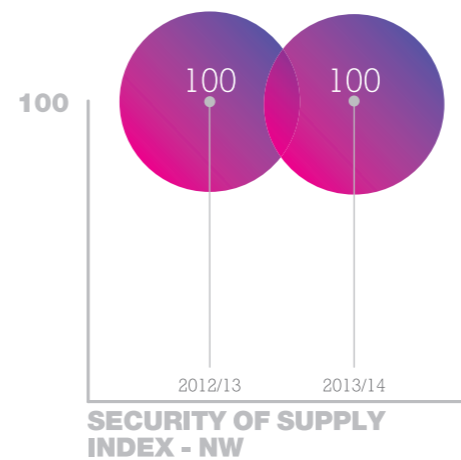
This excellent performance highlights our commitment to maintain low levels of leakage across our water supply networks.

PROMOTING WATER EFFICIENCY

We continue to promote water efficiency and have achieved water savings of 2.03 MI/d for 2013-14, almost 10% better than our water efficiency target of 1.86 MI/d.

H₂eco is ESW's leading large scale retrofit project, which since it began has delivered 14,999 water audits to metered and un-metered customers. H₂eco involves a trained plumber visiting a customer's home to install/ provide a range of water saving devices free of charge. The project won the Domestic Retrofit award at the Sustainable Water Industry Group Awards in 2013 and ESW continues to be regarded as the industry leader in promoting water efficiency.

Northumbrian Water's 'save a bucket load for allotments' water efficiency award is detailed in the case study on page 40.

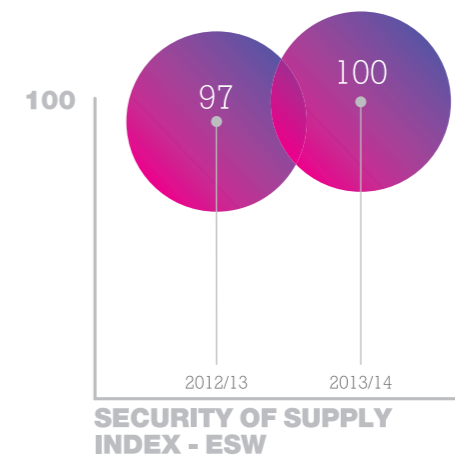


SECURITY OF SUPPLY INDEX (SOSI)

The SOSI is a measure of how during periods of drought we can ensure that we meet our customers' demands for a reliable and sufficient supply of water. Leakage control, water efficiency and metering together with appropriate resource all contribute to security of supply.

The SOSI for the NW continued to be 100 for 2013-14, reflecting the sufficiency of water in that region, including Kielder Reservoir. However, we do need to improve supply arrangements in one small area (Berwick and Fowberry). We have recently completed an investigation and are working closely with the EA to find a sustainable solution. We are also liaising with our customers in this area to minimise demand until a permanent solution is in place.

In Essex the SOSI increased to 100 as a result of completing the Abberton Reservoir scheme.



METERING

We have continued to offer water meters, free of charge, on request companywide and pursued household selective metering (where the law allows us to install a meter) on change of occupier in the Essex area only. All new properties are metered.

The numbers of meters installed on request exceeded the total assumed in the 2009 price review (PR09) final determination (FD). Selective meter installations, despite a rise in numbers installed between September and December 2013, continue to be lower than assumed for two reasons:

1. The slow housing market is limiting house moves and, therefore, metering on change of ownership; and
2. Secondly, a growing number of properties which are selling have previously changed hands in the period of our selective metering programme and, therefore, are already metered.

As of 2013-14, 39% of household properties supplied by the Company were metered. This compares to the forecast of 41% made at the 2009 price review (PR09).

CASE STUDY: SAVE A BUCKETLOAD FOR ALLOTMENTS

We took the top prize in the Landscape and Gardening category of the Water Efficiency Awards 2014 for our Saltersgill Allotments project, a joint initiative with Middlesbrough Council and Middlesbrough Environment City which helped to reduce the water usage of Saltersgill allotments by over 20,000 litres.

Historically garden water use at Saltersgill Allotments in Middlesbrough had ranged from between 2,500 and 5,000 litres per day depending on the season, but in March 2013 it had increased to a staggering 17,000 litres or 60 litres per plot per day.

Concerned about escalating costs Middlesbrough Council and Middlesbrough Environment City asked for NWL help to drive down consumption at the Saltersgill Allotment sites which houses 260 allotments.

Working together the partners created the 'save a bucket load for allotments' campaign. The project would encourage using water wisely on allotments and promote behaviour change by introducing simple water reducing measures to help prepare the plot holders for the transfer of management of the site to the community in autumn 2013. The 'save a bucket load for allotments' campaign ran from early summer to autumn 2013.

The partners devised a localised campaign to educate allotment holders about the importance of wise garden watering, leakage control and dripping outside tap repairs.

The benefits of using water more wisely at home and in the garden to the wider community were also promoted.

Following effective stakeholder engagement by the partners, the allotment association incorporated the following statement into their site rules: "The tenant shall not waste, misuse, abuse or contaminate water and the Committee encourages the use of water saving devices such as water butts." The rules were signed by all plot holders to ensure real commitment to water saving and protection of the local environment.

Raising awareness about unsustainable water use also led to the identification of a leak and subsequent replacement of the existing connection. Allotment holders received advice leaflets, gardening products and opportunities to take part in demonstrations to learn how to install water butts and use ground mulches. Water butts were available as part of the free prize draw to those that attended the event. The site hut was also fitted with a downpipe diverter and a recycled industrial bulk container and hose tap to collect surplus rainwater, a visible, cheap and easily replicable system.

The campaign really got allotment plot holders thinking differently about using water wisely on their allotment and average water use reduced from 60 to 23 litres per plot.



**WE ARE WORKING HARD
TO PROTECT ALL OUR
CUSTOMERS' HOMES AGAINST
THE POTENTIAL RISK OF
SEWER FLOODING IN THE
NORTH EAST.**

**PERFORMANCE
2013-14:
INTERNAL SEWER
FLOODING**



The total number of properties flooded internally from sewers was 346 from all causes (excluding severe weather) in 2013-14. This is a significant decrease on 2012-13



Repeat sewer flooding incidents also reduced significantly to 351



Industry-leading approach to drainage partnerships extended

**WE PROVIDE A SEWERAGE
SERVICE THAT DEALS
EFFECTIVELY WITH SEWAGE
AND HEAVY RAINFALL**

SEWER FLOODING PERFORMANCE

We are determined to protect customers' homes against the potential risk of sewer flooding. The situation is improving although it remains a significant problem for NW. It can happen when rainfall is so heavy that there is more water than the sewers are designed to carry and they become 'overloaded'. It may also occur when sewers become blocked or broken. In either case, sewage escapes from our network and may find its way into our customers' gardens, business premises and homes.

Having set out our plans to reduce the risk of sewer flooding our performance significantly improved in 2010-11 and was maintained in both 2011-12 and 2012-13. Our programme of work to address sewer flooding continued in 2013-14 and our performance has again improved.

Following the extremely high levels of rainfall in 2012, 2013 has again seen periods of extreme rainfall across the whole of the UK with the South of the country particularly affected. In the North East there were a number of significant rainfall events, mainly between the May and September 2013, leading to a combination of flooding incidents from rainfall, rivers and streams across our Northern operational area.

The total number of properties in our area which were flooded internally from sewers for all reasons except severe weather fell from 566 (2012-13) to 346 (2013-14). This improvement is largely because of investment and operational activity but has also been influenced by the weather.

The total number of properties flooded internally in the year from all causes (including severe weather) was 515 compared with 1,797 for 2012-13.

The 'repeat flooding measure' (which includes sewer flooding from severe weather) reduced considerably in 2013-14 with a total of 351 properties experiencing repeat flooding. In 2012-13 1,196 properties experienced repeat flooding; this figure was greatly affected by the intense storms in summer 2012.

ACTIONS TO ADDRESS SEWER FLOODING

We are delivering a comprehensive programme, investing a lot more than assumed in our regulatory contract to reduce the risk of sewer flooding for our customers.

The exceptional weather patterns experienced in 2012 led to many properties, flooded for the first time, being added to our flooding registers. We forecast that the total number of newly flooded properties we will need to address by the end of 2014-15 has increased to 864 from the 476 assumed back in 2009. These will be included in our programme of improvements by the end of 2014-15.

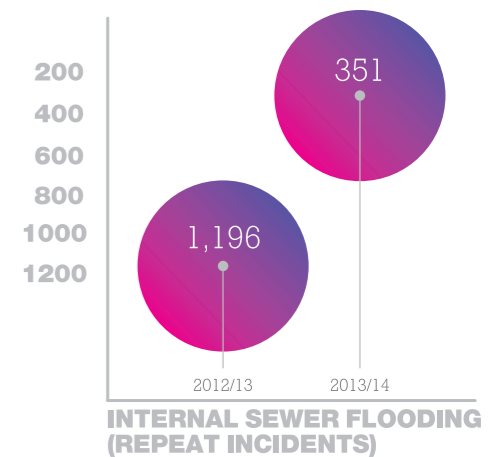
Since April 2010 we have carried out improvement works to reduce the risk of flooding from our sewers at 590 properties and during 2014-15 we plan to reduce this risk at over 500 further properties. To do this in one year will be an industry-leading achievement. To enable us to deliver this we have put a detailed and robust plan in place. We have also increased available funding and have committed additional contractor resources to ensure we are able to do what is needed. We are currently on track to deliver the necessary schemes (those to protect 80 properties are already complete) and all planned works will be completed or under construction by December 2014.

In order to improve customer service and complete work faster, we set up an improvement project in 2013 to review the end to end customer experience for sewer flooding. This will significantly improve the service we provide our customers following a flooding incident, as well as removing unnecessary delays and rework in our processes.

As well as conventional schemes providing additional storage to reduce the risk of sewer flooding, we are undertaking pilot studies, which involve the identification and delivery of more innovative sustainable solutions to reduce flood risk, e.g. rainwater storage ponds. We are also investing more than assumed in our regulatory contract to reduce risks at many more properties affected by, or at future risk of, flooding. We are also further increasing sewer cleansing and inspection and sewer lining to address tree root intrusion into sewers, to reduce the risk from blockages.

PERFORMANCE TARGET

We are working hard to protect our customers' homes against the potential risk of sewer flooding and have prioritised sewer flooding as an area for continued improvement. In 2012-13, a year of exceptional weather, there were 1,196 incidents. We set a challenging target for 2013-14 of 269 incidents. Performance in this measure for 2013-14 improved to 351. We will continue to address this area of high importance to our customers in 2014-15 and for the period 2015-20.



PLANNING FOR THE FUTURE

Following the successful completion of the Tyneside Sustainable Sewerage Study we have engaged with the Environment Agency (EA) and the 13 Local Authorities covering the North East to share the principles of a proactive approach to integrated drainage area planning to reduce the risk of flooding. This collaborative and leading approach has developed a way of prioritising risk that can be used to identify a candidate list for the delivery of jointly funded drainage studies. This list presents an opportunity for an ongoing programme of activity targeting those areas of highest risk of flooding with up to 13 areas identified for progression in 2014. We believe this to be a leading approach in partnership working that brings greater benefits to our customers and the environment.

We are also continuing to work closely with our drainage 'partners' to promote and deliver sustainable solutions to surface water management.

TRANSFERRED DRAINS AND SEWERS: PROGRESS

The government transferred ownership of private sewers and lateral drains (connected to the current public sewerage system on 1 July 2011) from individuals to water and sewerage companies on 1 October 2011.

In the NW area, we took responsibility for an additional 13,500 kms of sewer pipes, on top of the 16,368 kms of public sewers we already maintained.

Our customers have received an excellent service. Our contractors, who attend the vast majority of all jobs, receive an average score of 4.98 out of 5.0 from our customers in terms of satisfaction with the service they deliver.

Water and sewerage companies must also adopt certain sewage pumping stations which are currently in private ownership. Companies have until 1 October 2016 to identify and adopt these assets. Our latest estimate of the number of pumping stations that will transfer is around 300. In many cases there are legal difficulties in adopting these assets before the legislative deadline and we have begun on a programme of operation and maintenance agreements for these pumping stations, where we look after them at no cost to the owner. We have 18 agreements in place to date with a further 40 planned during 2014-15.

TRANSFERRED DRAINS AND SEWERS: INVESTMENT

The transfer of the sewers and pumping stations into our ownership is a significant new obligation. It is necessary to build an understanding of the assets and develop maintenance plans whilst, at the same time, dealing with customers' day-to-day problems.

Our aim is to ensure capital investment is undertaken based on sound information and carried out at the appropriate time to minimise the impact on customers' bills. Reactive work such as for blockages, flooding or pollution incidents continues and the transferred network has introduced some challenging reactive job locations such as school fields and playgrounds, graveyards and golf courses.

We are also proactive and carry out investigative work and any necessary corrective action to improve service or protect the environment.

DUTY TO MAP THE SEWERAGE SYSTEM

Under the Water Industry Act (1991), Section 199, we are required to indicate on a map the sewers and lateral drains for which we are responsible. No water and sewerage companies yet have maps showing the recently transferred assets and it would be extremely expensive to map all transferred assets in the short to medium term.

Our current approach is to capture information from new development plans in our possession, map assets on an opportunistic basis (e.g. when investigating a persistent problem on the network) and capture information where this is needed to help with sound investment planning. In addition to this we have established a programme of works to survey areas identified as potential service failure 'hotspots' prior to the transfer and also new 'hotspots' which are identified as a result of reactive work e.g. repeat blockages.

This approach satisfies our current requirements, it provides best value for customers and we believe it is in line with Ofwat and Government expectations.



CASE STUDY: LOVE YOUR DRAIN

Northumbrian Water launched its 'Love your drain' campaign, with mascot Dwaine Pipe, in August 2012 to educate customers on how to prevent a blocked drain.

The campaign was developed after a steady increase in the number of blocked drains and sewers in recent years, costing Northumbrian Water and therefore its customers more than £1.2m each year to clear. This issue was compounded with the October 2011 transfer of private drains and sewers to water companies, with an additional 1,100 blockages being reported each month.


More than half of blockages were caused by the growing use of 'disposable' products, such as wipes, nappies and sanitary items. These items don't break down like toilet paper when flushed and can cause a blockage. More than a third of people admit to flushing these items down the toilet instead of putting them in a bin.


Research suggested that customers would be more likely to change their behaviour via nudge tactics than using negative "don't" straplines. The 'Love your drain' campaign was developed, with the loveable Dwaine Pipe mascot used to emphasize that only toilet paper pee and poo go down the loo and that everything else makes him poorly.

This is an integrated campaign that highlights a serious issue in a lighthearted and appealing way, provides advice and aims to change long-term behaviour.

The campaign used two-way communication and partnership working to reach its target audiences. Public relations activity was supported by a website, social media, radio and print advertising, customer roadshows, events, an education programme with puppet show, a pantomime appearance, children's books and an internal marketing campaign.

The campaign has led to a change in behaviour, reduced blockage clearance costs and got the people of the North East talking about what they put down the loo! The project won marketing campaign of the year at the Utility Week Achievement Awards 2013.

 *"Is that the greatest jingle ever written? Only toilet paper pee and poo go down the loo! Love it."*

 *"Aw man I thought it was ok because some of the packets tell u 2 do it! Well I certainly wont b doing it from now on! My boyfriend is always telling me they block the toilet but I never listened."*





OPERATING AND MAINTAINING OUR ASSETS TO ENSURE THEY ARE ABLE TO PROVIDE GOOD SERVICE NOW AND IN THE FUTURE IS KNOWN AS THEIR 'SERVICEABILITY'.

Upgrade works at Ryal Tunnel

PERFORMANCE 2013-14: SERVICEABILITY OF ASSETS



Serviceability has been maintained at 'stable' in all areas of our business



The number of 'other causes' flooding incidents significantly improved during 2013-14

WE DELIVER WATER AND WASTE WATER SERVICES THAT MEET THE NEEDS OF CURRENT AND FUTURE GENERATIONS IN A CHANGING WORLD

SEWERAGE INFRASTRUCTURE SERVICEABILITY

As a company we are expected to make sure our assets are able to provide good service now and in the future. There are four 'serviceability' categories; water infrastructure, water non infrastructure, sewerage infrastructure and sewerage non infrastructure.

Infrastructure assets include our assets below ground such as water mains and sewers. Non infrastructure assets include assets above ground such as pumping stations and water and sewage treatment works.

Our asset health or 'serviceability' has been maintained at 'stable' for all four serviceability categories in 2013-14. Sewerage infrastructure has been a challenge for the company over the last few years, and an update on our progress follows.

Stable indicators

Our sewer collapse performance is excellent. There is a lower regulatory control limit for sewer collapses which we have beaten for the last three years. The sewer flooding incidents because of incapacity, sewer pollution, blockages and equipment failure indicators are all stable.

Sewer flooding 'other causes' indicator

In 2013-14 we continued to have a very strong focus on improving our sewer flooding performance. We delivered a further increase in operational activities including a larger sewer cleaning programme, additional sewer lining and more sewer inspections. Our innovative 'Love your drain' campaign has continued to reach our customers and inform them about the correct use of sewers.

The number of flooding incidents from 'other causes' significantly improved during 2013-14 and is within the upper control limit. We continue to consider this indicator to be 'marginal' and have planned additional activities for 2014-15 in a drive to reach stable 'serviceability' for flooding asset health or from 'other causes'.

Overall serviceability for sewerage infrastructure

With five of the measures stable (sewer collapse performance, sewer flooding because of incapacity, sewer blockages, equipment failure and sewer pollution) and one at marginal (sewer flooding from 'other causes'), we assess the overall sewerage infrastructure area as 'stable'.

The new approach - Asset health

The current 'serviceability' approach, described above, and used by Ofwat, will cease to apply from 2015-16.

We want to ensure that we deliver our outcome of 'delivering water and sewerage services that meet the needs of current and future generations in a changing world'. An innovative and sophisticated approach has been developed to ensure excellent long-term ownership and management of our assets in the interests of customers today and into the future. This will be known by the more understandable term of 'asset health'.



OUR CUSTOMERS WANT OUR ACTIVITIES TO PROTECT AND ENHANCE COASTAL WATERS, RIVERS, LAKES AND STREAMS ACROSS OUR AREAS.

PERFORMANCE 2013-14: ENVIRONMENT



Continuing high levels of Sewage Treatment Works (STW) compliance



Excellent performance for bathing water quality



The total number of pollution incidents decreased from 198 in 2012 to 133 in 2013



Winner of the Utility Week Environment Award



In 2013-14, we achieved our target for 20% of our energy to come from renewable sources



We reduced our greenhouse gas emissions in 2013-14 by a further 7% to 199.7 kilo tonnes of CO₂e

WE PROTECT AND ENHANCE THE ENVIRONMENT IN DELIVERING OUR SERVICES, LEADING BY EXAMPLE

SEWAGE TREATMENT WORKS (STW) COMPLIANCE

A problem at one of our treatment works can lead to treated waste water having an impact on the water environment. This is why it is important to monitor discharges coming from our STWs.

In 2013, the EA's report shows three failed STWs for NW. Although reduced from a perfect 100%, our performance still remains very high at 99.4%. Of the three failed works only one was a true failure (at Seahouses STWs for suspended solids). The other two were 'technical' failures caused by samples being taken from unrepresentative points at Hendon and Howdon STWs. This resulted in insufficient samples being taken at the correct location. There is no suggestion that the treatment provided ever fell below the required standard.

We passed all 'Look Up Table' consent and permit conditions for the sixth consecutive year.

All of our sludge is recycled to a satisfactory standard.

UPDATE ON THE 2010-2015 NATIONAL ENVIRONMENT PROGRAMME (NEP) WATER QUALITY SCHEMES

A scheme was included in our 2010-15 investment programme to improve the discharge to the watercourse from Sedgelecth Water Treatment Works (WTW). The original proposal was to transfer the flows but this would leave little remaining flow in the watercourse. The EA are now in favour of keeping the flow from Sedgelecth WTW in the receiving watercourse for ecology reasons and finding a more sustainable method of treatment. Further improvements at this works are also required during 2015-20 to reduce the discharge of phosphorous and it was acknowledged that this would make all, or the majority of, the original work unnecessary. It has therefore been agreed with the EA to combine the schemes, carrying out feasibility and design in 2014-15 to allow construction in 2015-20.

The 2015-20 NEP also includes three other schemes for the removal of phosphorous at Barkershaugh, Chester-le-Street, and Chilton and Windlestone STWs. The EA have now requested that these schemes be completed in 2014-15.

We are therefore carrying out the necessary work as soon as possible. Barkershaugh and Chester-le-Street will be completed before the end of 2014. The remaining site will be completed by March 2015.

COASTAL BATHING WATER PERFORMANCE

In 2013, of the 34 bathing waters in the North East, all passed the 'mandatory' standard (100% compliance) and 30 also passed the more stringent 'guideline' standard of the current Bathing Waters Directive (88% compliance). The good summer weather had a positive influence on bathing water performance and only the poorer weather during late September 2013 prevented this being our best ever set of results. We are continuing to invest in schemes to improve bathing water performance through increasing storm water storage.

In 2013, we introduced 'Real Time Monitoring' to 31 of the bathing waters in the North East (the remaining three have no NWL assets which might affect them). This information is sent to Local Authorities, the EA and Surfers Against Sewage at the same time and is also available on our website. A number of innovative web pages have been developed to provide interested customers with ready access to easily understood up-to-date real time information about the bathing water. We continued this beyond the bathing season and it is our intention to continue to provide this all-year round to beach users.

UPDATE ON THE 2010-2015 NEP BATHING WATER QUALITY SCHEMES

A scheme was included in the 2010-15 investment programme to improve the bathing water quality at Newbiggin North beach to meet the revised Bathing Waters Directive (rBWD) 'Sufficient' standard. In September 2007 a breakwater was constructed by the local authority for flood/coastal defence purposes and 500,000 tonnes of sand imported to recharge the beach. The performance at Newbiggin North has since improved significantly so that recent performance against the revised directive is now forecast as 'Good'. The EA has since agreed that the proposed NWL investment is therefore no longer required.

The 2015-20 NWL investment programme also includes schemes to improve the bathing waters at Seaham and Saltburn. These schemes are also required to meet the rBWD 'Sufficient' standard and have a required completion date of March 2016. Working with the EA, we have agreed to start early and the work has is now underway so that the schemes can be completed in time for the 2016 bathing season.

THE WIDER ENVIRONMENT

Our customers expect the way we run our business to bring environmental benefit rather than harm; they also believe that, as a large organisation, we should be setting an example to others. We build environmental considerations into all our activities and processes and have a number of environmental duties relating to the protection of designated sites, species and the enhancement or maintenance of biodiversity on our landholdings.

The Government Public Service Agreement target said that by 2020, 50% of Sites of Special Scientific Interest (SSSI's) should be in favourable condition and at least 95% in favourable or recovering condition. We have already met that target.

We continue to demonstrate best practice in the delivery of our capital investment programme to ensure minimal environmental impacts. An example in how we have delivered a major capital scheme to raise the level of Abberton Reservoir in Essex. This site is internationally designated as a Ramsar site (a wetland of international importance) and Special Protection Area for various bird species.

Through our excellent partnership approach with relevant stakeholders we are now in the final stages of the project and have demonstrated that there have been no detrimental effects on the bird species. On completion we will not only have improved the habitat for wildlife, we will also have improved recreational facilities with an additional network of linked footpaths. This work has been recognised by awards such as the Green Apple Award.

In 2013, we installed the world's first natural reed bed system for the sustainable management of water treatment sludge to recycle the valuable water at Hanningfield, near Chelmsford, Essex. Please see the case study on page 60.

POLLUTION INCIDENTS

In 2013, the total number of pollution incidents (including from transferred adopted assets and water-related assets) decreased to 133 (against 198 for 2012).

We improved significantly in the less serious category (known as category 3). The number reduced from 195 in 2012 to 128 category 3 pollution incidents in 2013. Of the 128 category 3 incidents, 19 were deemed by the EA to be discharges made within the terms of their permits. Five of the less serious category 3 incidents relate to water assets in our ESW operating area and one was due to a transferred asset.

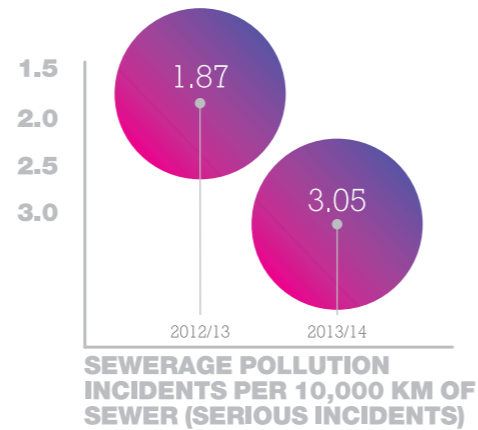
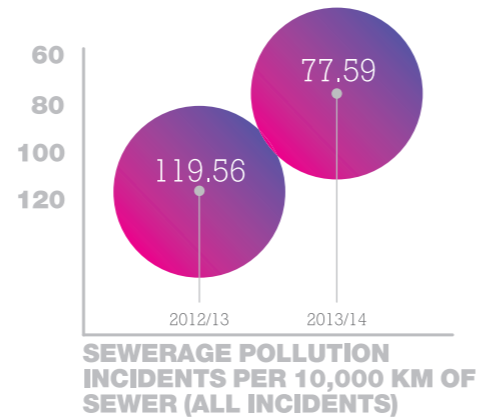
However, the number of more serious pollution incidents (known as category 1 and 2 incidents) increased from three in 2012 to five in 2013.

To improve our performance we continued to invest in sewer level monitoring (SLM) technology in 2013 to try to predict where pollutions might occur and to detect and resolve problems before they cause an overflow. We have installed SLMs to over 80% of our discharge points to help predict and detect pollution incidents. For 264 cases in 2013, operators were alerted and attended the site to clear the problem before there was any overflow.

In 2013, this activity resulted in far fewer pollution incidents from our Combined Sewer Overflows (CSOs). Further activities were introduced in 2013 to reduce pollution. Examples include the use of Trigger Management for SLMs to highlight the frequency of spills, the extension of our 'Love Your Drain' campaign to pollution incidents and pro-active surface water investigations to detect misconnections to surface water rather than foul sewers.

Work towards increasing the coverage of our SLMs continues and we are aiming to have SLM at all our CSOs by 2020. We are continuing to work hard in 2014 to reduce pollution incidents from foul sewers further.

The EA has asked water companies to ensure that all Combined Sewer Overflows have an appropriate consent in place. NWL is carrying out a thorough review of its asset base. This is identifying a small number of CSOs that are not currently consented. By the end of 2014 we will have identified and investigated each of these assets and applied for an appropriate consent.



GREENHOUSE GAS EMISSIONS

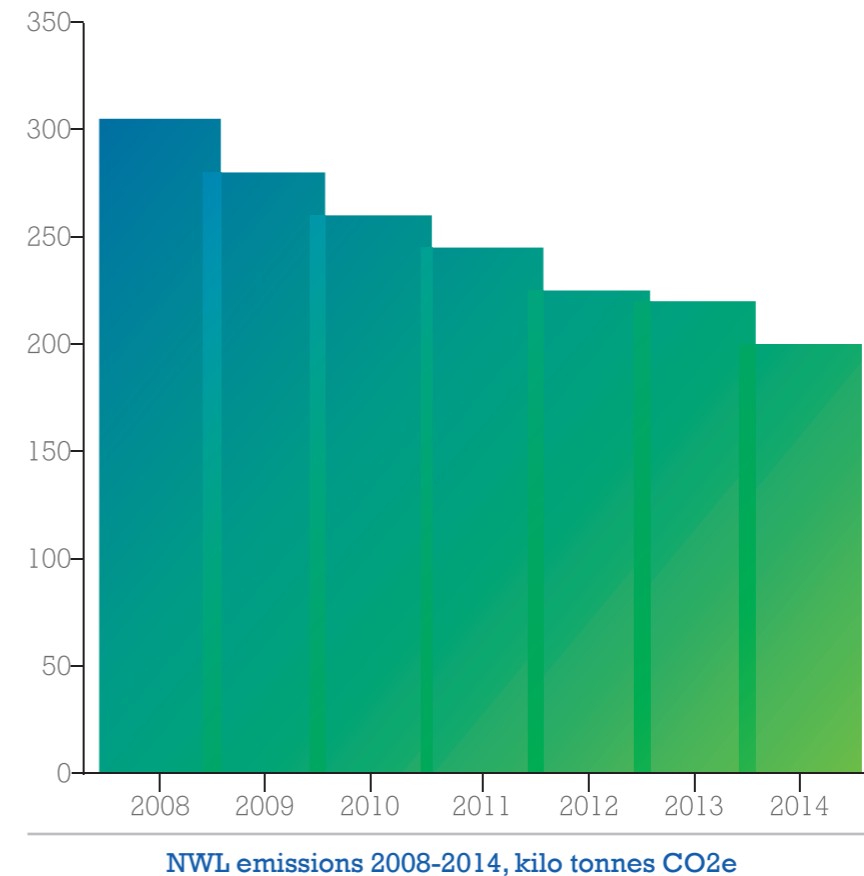
The water industry is a large user of energy and it is important that we play our part in helping to reduce greenhouse gasses (GHG).

In 2013-14, our GHG emissions fell again compared with the year before and totalled 199.7 kilo tonnes CO₂e, compared with 214.8 kilo tonnes in 2012-13. This represents a reduction of 7%. This latest figure means that this is the sixth consecutive year in which emissions have reduced.

In 2009, we developed a carbon management plan with the aim that by 2020 we will have reduced our GHG emissions by 35% against a 2008 baseline, which would mean that total emissions would fall by 50% if government expectations on grid emissions reduction were met. We are now well ahead of target, and emissions are down by 33% compared to the 2008 baseline. The graph below clearly shows the great progress we have made in this area.

Our ambition goes beyond government targets for emissions reductions. We also set ourselves a target to increase our use of renewable energy to 20% by 2015, and in 2013 we achieved this target ahead of time. The pace at which we have been able to make these changes puts us at the forefront of emissions management within the water industry.

In 2013, for the first year ever, our award winning Advanced Anaerobic Digestion (AAD) plants treated 100% of our sewage sludge to produce biogas for energy generation and class A biosolids for agricultural reuse.



CASE STUDY: HANNINGFIELD REED BED SYSTEM

When the original lagoon systems used in the process for recycling water treatment sludge at Hanningfield, near Chelmsford, Essex, were at the end of their useful life, an alternative solution was required for water production to continue on site. Hanningfield Water Treatment Works is Essex's largest water treatment works producing drinking water for a large part of Essex and parts of East London. Without a method of sludge treatment, water production would have to stop at Hanningfield creating a major impact on thousands of customers and the business.

It has been a significant risk for NWL to progress with the reed bed system when it could have used a tried and tested, energy intensive mechanical solutions such as a centrifuge, but we believed there must be a more sustainable solution.

After three years of research and trials, we installed the world's first natural reed bed system for the sustainable management of water treatment sludge to recycle the valuable water at Hanningfield. Raw sludge, loaded onto the surface of each bed in turn, filters through the reed and media layers to produce clear filtrate water. This flows by gravity into the main raw water reservoir for re-use, via the newly created 14 hectare Great Prestons managed reed bed habitat. This was formed as part of this project in one of the redundant settlement lagoons.

The system has provided many benefits:

- A new wildlife habitat of reeds, field boundaries, trees and hedges.
- More water recovery.
- Fewer lorry movements for sludge disposal due to the lower water content of the residual sludge. This is a benefit for local communities and reduces emissions.
- Lower energy use as once sludge is pumped to site, nature does the rest.
- Lower cost (capital, operational and carbon): The construction cost is approximately two thirds of the centrifuge estimation and very little maintenance or attendance is required – just a weekly visit.
- Less river water extraction and pumping is required to replenish the reservoir as more water is returned through the reed beds.
- Great Prestons lagoon is designated a Site of Special Scientific Interest (SSSI) and attracts a wide variety of wildlife including a nesting pair of rare marsh harriers. The second lagoon (Whitelilies) will soon be transformed in a similar manner.

In recognition of this initiative, the Hanningfield Sludge Treatment Reed Bed System was named as the 2013 winner of the Utility Week Environment Awards and also winner of an international Green Apple Gold Award.





LOOKING ACROSS ALL THE KEY FINANCIAL INDICATORS, THE COMPANY RETAINS A ROBUST AND STABLE POSITION.

Abberton Reservoir

**PERFORMANCE
2013-14:
FINANCIAL
OVERVIEW**



The company has maintained a robust and stable financial position

OUR FINANCES ARE SOUND, STABLE AND ACHIEVE A FAIR BALANCE BETWEEN CUSTOMERS AND INVESTORS

FINANCIAL POSITION

Looking across all the key financial indicators, including return on Regulatory Capital Value (RCV), credit ratings, gearing and interest cover, the Company retains a robust and stable financial position. This is important because the Company needs to maintain this stability in order to continue to deliver excellent water and sewerage services for customers into the future. It is also hugely important because providing water services requires a significant financial investment (over £1bn for ESW and NW in the five years 2010-2015) and we need to be able to attract available funding at low rates so that customer bills can be kept as low as possible.

Further details follow. Explanations of the financial terms used in this section can be found in the Glossary towards the back of this performance review.

RETURN ON INVESTMENT

Our RCV was £3,883m at 31 March 2014. The RCV started at £3,747m at 31 March 2013 and was increased by £92m due to inflation (2.5%) with a further £44m increase due to net capital expenditure (capital expenditure less capital charges).

The post tax return on RCV was 5.3% compared to 5.2% in 2012-13 and is above the PR09 FD assumption of 4.9%, post revenue adjustments. The increase in return is primarily due to the lower current taxation charge.

CREDIT RATING AND SECURING FINANCE

Credit ratings are independent assessments of company financial risk. Stable strong investment grade ratings are very important as lower credit ratings will lead to higher borrowing costs and limit future access to borrowing. Our credit ratings remain at BBB+ (Standard & Poor's and Fitch) and Baa1 (Moody's) all with a "stable" outlook. This means the Company is in a robust and stable financial position and retains the capability to deliver its financial obligations.

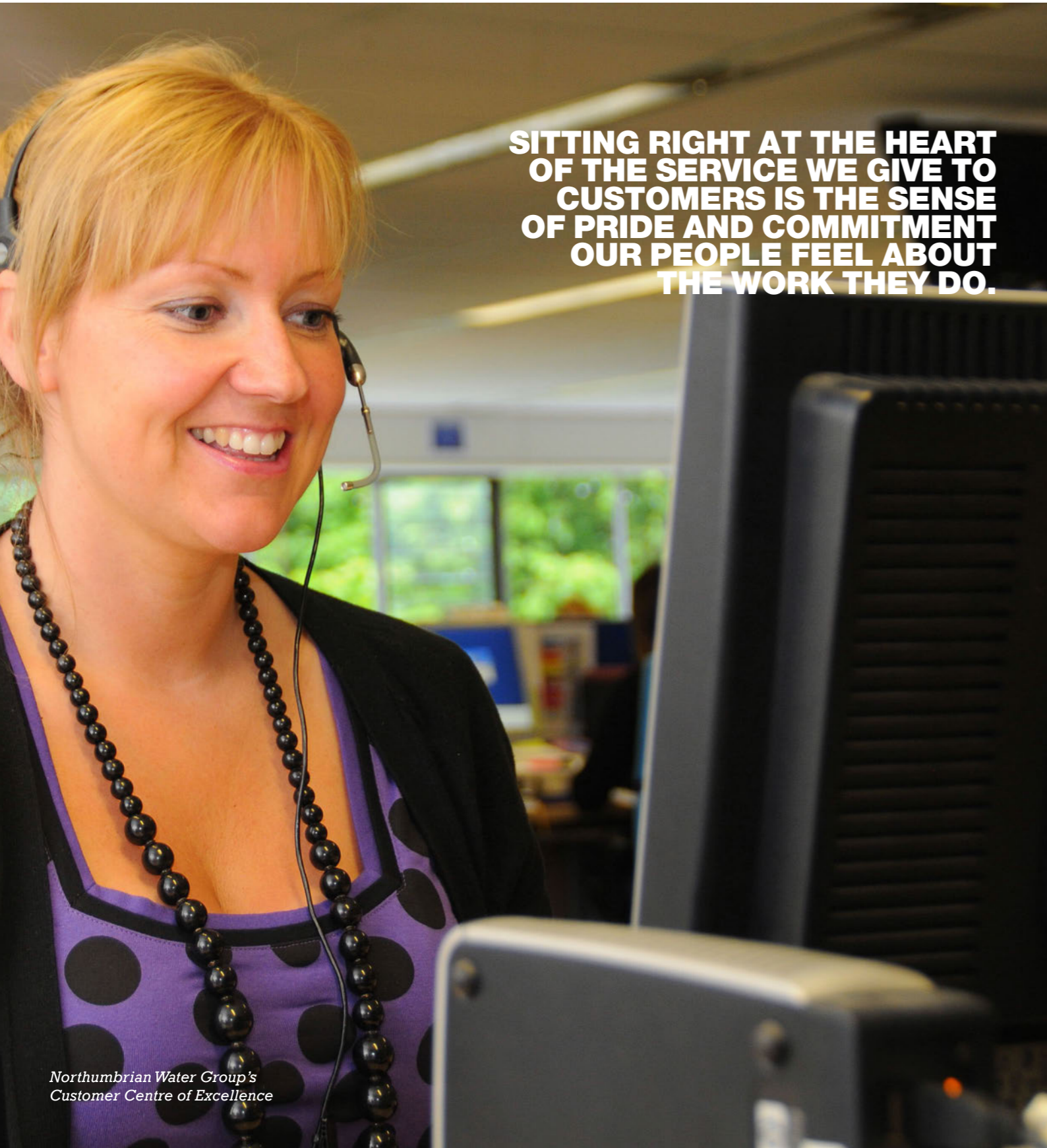
In June 2011, we secured a further £150m loan facility with the European Investment Bank (EIB) towards funding the future capital investment programme. The final £50m tranche was drawn in April 2013. In December 2013 we secured a further £100m loan facility with the EIB, of which £50m was drawn in January 2014 and the other £50m drawn in April 2014. We have also £450m of committed bank facilities maturing in July 2016 as back up liquidity, and these remained undrawn at 31 March 2014.

GEARING

Gearing measures the level of debt a company has relative to its total value (measured by the RCV). The Company's gearing of 61.1% is below our current internal targeted level of 65% for 2010-2015.

INTEREST COVER

Interest cover is a measure of how comfortably a company can afford its interest charges. Adjusted Cash Interest Cover (post maintenance charges) in 2013-14 remained unchanged from the previous year at 1.9 times and remains comfortably above investment grade thresholds.





SITTING RIGHT AT THE HEART OF THE SERVICE WE GIVE TO CUSTOMERS IS THE SENSE OF PRIDE AND COMMITMENT OUR PEOPLE FEEL ABOUT THE WORK THEY DO.


Northumbrian Water Group's Customer Centre of Excellence

**PERFORMANCE
2013-14:
PEOPLE**

 One-star rating in the Sunday Times Best Companies Survey: officially a 'first class' company to work for

 High participation in the Employee Survey (75%) and high satisfaction index (75%)

 We achieved our target of less than 10 reportable accidents for the year

 Royal Society for the Prevention of Accidents (RoSPA) gold award for Health and Safety (third year in a row)

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

OUR EMPLOYEES

Sitting right at the heart of the service we give to customers is the sense of pride and commitment our people feel about the work they do.

We employ over 3,000 people and our people really make the difference to the overall customer experience. Over the last few years, we have worked with a leading organisation to develop a bespoke training programme called 'Our Way', which gives our people the skills, techniques and language to deliver excellent customer service. All employees have now attended tailored training events and feedback from customers shows that this has made a difference in how well we deliver our services. Results from the latest Customer Experience Survey (SIM) show that we have received our highest ever score for qualitative customer experience.

We measure our success through the following internal measures:

- Employee turnover: this is 4.6%, lower than 2012-13 and lower than the industry average of 9.4%.
- Attendance: we achieved a high level of attendance (96.9%, the same as 2012-13).
- Reportable accidents: we achieved our internal target of 10 or less for the year.
- Employee Survey: 75% of our employees participated.
- Employee satisfaction index: 75% (compared to 76% in 2012-13).
- ViVa Awards: Our ViVa awards are our way of recognising examples of people and teams who are embracing our vision and values and making them part of how they do business every day. In 2013, 331 people were peer nominated for an award (238 in 2012-13).

In 2011, we took a strategic decision to enter the Sunday Times Best Companies Survey to benchmark ourselves against leading employers in the country. In 2013, on our second entry, we achieve a one-star rating. What this means is that our employees have officially rated us a 'first class' company to work for based on the different employment factors in the survey. Our score was 10% higher than our 2011 result and was recognised as a 'remarkable improvement'.

Our engagement strategy continues to be developed following feedback through the survey, employee roadshows and benchmarking with other organisations. Each employee every year has the opportunity to discuss the results of the survey with a Senior Manager in the business at our 'Our Survey Said' workshops. Action plans are developed corporately and at a local level to act upon the feedback given.

We are also delighted to have received external recognition for our approach to engaging our people through winning the following awards in 2013:

- Business in the Community (BITC) national annual workwell award reaccreditation following our example of excellence award for our health and wellbeing programme; and
- Royal Society for the Prevention of Accidents (RoSPA) gold award for Health and Safety (third year in a row).



**CASE STUDY:
RAY ARMSTRONG
VIVA AWARD
WINNER 2013**

Ray Armstrong was our overall ViVa Award 2013 winner of the year. It was a tough decision for the judges due to the outstanding quality of all our category winners. Ray was chosen as winner as he embraced all our values.

The sewer litter basket is a device conceived and designed by Ray as the evolution of some earlier work he did to trial the use of an array of wires to capture sewer litter from overflowing Combined Sewer Overflows (CSOs), thereby reducing the resulting customer complaints and clean-up operations. The basket captured in excess of 20kg of litter following a single overflow incident at a CSO in Sunderland.

Although the device is in itself a creative solution that warranted recognition through a ViVa nomination, it's the way in which Ray has taken personal responsibility for driving the idea forward over the last year that has really impressed his colleagues. Ray designed the first prototype, had it fabricated, identified a suitable problem site to test it and undertook trials to prove the concept. This is above and beyond the requirements of the day job. Having proved the idea works, Ray has secured ongoing support from his managers for a larger trial, targeting a number of problem CSOs to reduce pollution incidents.

Throughout this period Ray has been focussed on the outcome for the customer (i.e. reducing complaints from customers faced with pollution from sewer litter), improving business results (reducing costs of handling customer complaints and undertaking clean up operations), and improving the environment (reducing pollution).

Ray carried off the top £3,000 prize and was absolutely delighted to be chosen as our ViVa award winner of the year!





**WE ARE A LOCAL COMPANY
AND BEING PART OF THE
LOCAL COMMUNITIES THAT WE
WORK IN IS IMPORTANT TO US.**

'Just an hour' volunteering scheme

PERFORMANCE 2013-14: COMMUNITY



We won Community Initiative of the Year at the Utility Week Achievement Awards



We were awarded three Business in the Community's (BITC) Big Ticks for our work in the community



An impressive 55% of workforce participated in our 'Just an hour' employee volunteering scheme

**WE ARE PROUD TO CONTRIBUTE
TO THE SUCCESS OF LOCAL
COMMUNITIES**

**WE WORK IN PARTNERSHIP
TOWARDS COMMON GOALS**

We are a local company and being part of the local communities that we work in is important to us. We support our communities in many different ways and are widely recognised as leaders in our support for projects that make the areas we service better places in which to live, work or invest.

We have been awarded three Business in the Community's (BITC) Big Ticks for our work in the community and at the 2013 Utility Week Achievement Awards we were the winner for the Community Initiative of the Year, for our employee volunteering programme, 'Just an hour'. 55% of our employees took part in the programme in 2013 and have supported a wide range of community, environmental and charitable initiatives.

An example of a recent initiative is shown in the case study on page 76.

In order to promote drinking tap water as part of a healthy lifestyle, we have a number of initiatives which we run under our 'water for health' campaign. As part of this we gave out over 52,000 bottles of our tap water under the name of 'tap into' to charity groups organising outdoor events to keep people attending the event hydrated. Alongside this we donated 18 water coolers to local schools and community groups.

In 2013, we again worked in partnership with Chelmsford City Council and Chelmsford School Sports Partnership, to support the Chelmsford mini games. The event is a three-day athletics extravaganza, which provides new and competitive sporting opportunities for around 2,000 six and seven year olds, and supports our 'Water for Health' programme.

This year saw the Lindisfarne Gospels, one of the greatest landmarks of human cultural achievement, return to Durham in the North East for a three month exhibition. The exhibition took visitors on a journey of exploration, learning how and why this masterpiece was created, its influence on Medieval Europe and how artistic traditions from Britain and the Mediterranean mainland came together in North East England. As part of our partnership with Durham Cathedral and University, we supported the exhibition and employees volunteered to assist with the 90,000 visitors, who flocked to see the Gospels during its stay in Durham.

We measure our success in supporting the communities we serve through the following measures:

- In 2013, 1,651 of our employees actively volunteered in their community through our 'Just an hour' programme, this equates to an impressive 55% of the workforce and beats the internal target we set of 50%.
- In 2013, 16,132 hours were spent volunteering on 728 different organisations/projects in our local communities.
- Over 681 organisations were given financial or in kind support in 2013 which equates to giving back the equivalent of 1% of our annual pre-tax profits to our communities. This is achieved through donating money, our people's time and expertise, or the use of our facilities.



Employees clearing a river as part of 'Just an hour'.

CASE STUDY: THE CAVE

The biggest project ever undertaken as part of our 'Just an hour' employee volunteering programme took place at a youth project called 'The Cave' in South Shields. The Cave (formerly Tyne Dock Youth Centre) specialises in music, dance and drama. They have a wide variety of projects that allow young people to get involved in creative and expressive activities.

The centre, which was under threat of closure due to local council cuts and the poor condition of the building, provides vital youth services. The music, dance and drama activities keep children off the street and it also houses the South Tyneside Youth Action Volunteers, an independent organisation which helps young people back to education or employment, when school or family circumstances have made the normal routes too complicated. The Youth Action Volunteers offer activities and basic skills training to increase confidence and competence. The Vision youth drama group also run from the Cave, and have a well established reputation for quality work with a wide cross-section of young people.

To save the Cave, Northumbrian Water employees spent 386 hours volunteering on the project and we also levered an additional 506 hours of support from several of our contractors. Esh Construction, Seymours Civil Engineering, MWH Global, Interserve, Kwikflow, Grontmij and Lucion worked alongside Northumbrian Water colleagues from investment delivery, networks, finance, internal audit, corporate affairs, electrical maintenance and leakage. The value of the work in time and materials has been estimated at over £35,000.

The Cave run youth work sessions around most performing arts work and will shortly be able to offer more informal social activities using their café and chill-out areas. Their aim is to let young people speak for themselves and to promote their active participation in both the management of the centre and the wider community through events and courses.

The project has secured the future of 'The Cave' for at least the next 10 years and demonstrates the value of working in partnership to ensure sustainable change in our communities.





**AT NWL WE ARE NOT
COMPLACENT AND RECOGNISE
THERE ARE NEW CHALLENGES
AND OPPORTUNITIES AHEAD.**

Langford recycling plant

PERFORMANCE 2013-14: LOOKING TO THE FUTURE



We have continued our partnership working to deliver leading-edge technical solutions



We are currently carrying out research to understand our customers' views on social tariffs



We support the opening of the retail market for business customers in 2017



We have been awarded a retail licence to supply business customers

**OUR FINANCES ARE SOUND,
STABLE AND ACHIEVE A
FAIR BALANCE BETWEEN
CUSTOMERS AND INVESTORS**

**WE ARE AN EFFICIENT AND
INNOVATIVE COMPANY**

**WE ARE THE RETAILER OF
CHOICE FOR BUSINESS
CUSTOMERS**

FUTURE HORIZONS

We are not complacent and recognise there are new challenges and opportunities ahead. This includes challenges from climate change and a growing and ageing population as well as opportunities from technology and competition. In 2013, we published our longer term vision document, Future Horizons which can be found at <http://nwplanningforthefuture.co.uk> and <http://eswplanningforthefuture.co.uk>.

In Future Horizons we describe our plans for 2015-2020 and beyond and how we expect to achieve them in light of the changes we are likely to face in the future.

INNOVATION

It is essential for us to innovate in order to improve service, maintain our efficiency, reduce our impact on the environment, maintain our vast asset base and meet challenges such as climate change, all at a cost our customers can afford. We are determined to drive the development, and make the best use of, technologies and business processes to achieve our goals.

We have a great track record of applying innovative and creative solutions, which is a reflection of the willingness of our people and partners to continuously strive for better and more efficient ways to deliver our key services. We continue to work in partnership with universities, research organisations and the wider industry to develop and implement leading-edge technical solutions. In September 2013, the British Science Festival was held in Newcastle upon Tyne and we took the opportunity to showcase a range of innovative projects, including energy generation using microbial fuel cells and gene sequencing of waste water (or sewage) bacteria.

New methods of identifying and understanding micro biology are being studied to shed light on sources of bacterial pollution and improve treatment processes. We are working with Newcastle University to investigate the potential for the uses of next-generation DNA sequencing, including bathing water quality and the management of the activated sewage sludge treatment process.

In addition to applying new technologies, we are enabling our people to innovate and find innovative solutions to problems or new ways of working. An example is shown in the following case study on page 82.

Thinking differently about operation and maintenance of our assets is delivering efficiencies and carbon reduction.

IF OUR CUSTOMERS ARE STRUGGLING TO PAY

We support our customers who struggle to pay their water bills. We help them find the best tariff for their circumstances and contact organisations that may help them check if they are receiving all the Government support they are eligible for. We also provide debt advice.

To further help, we could potentially give some customers a lower bill, however, we could only do this if the rest of our customers support the idea. A social tariff is a charge for customers who are billed a lower amount than other customers because they cannot afford their bill. We are currently carrying out some research to understand our customers' views on a social tariff.

If the results of the research show there is broad support among customers we will introduce a social tariff from 1 April 2015.

THE FUTURE FOR RETAIL COMPETITION

We support the opening of the retail market for business customers planned for 2017. The means that all businesses, charities and public bodies will have the opportunity to choose their retailer and preferred service package. Our aim is to provide excellent customer service at a competitive price to make us the retailer of choice for business customers.

Members of our Board have been very active in the Market Reform High Level Group and Programme Delivery Board respectively. We are also represented on all Open Water Working groups assessing the detailed implementation of market opening and participating in pilot studies on central customer registration.

On 22 April 2014, we obtained a Section 17A Water Supply Licence (Retail) for NWG Business Limited, part of the Northumbrian Water Group.

CASE STUDY: INNOVATION - 'WARMING UP' MEMBRANES

NWL has developed many innovative ways of working such as being the first to use 100% of its sewage sludge to produce energy and the world's first use of reedbeds for water treatment sludge. Another example was in response to a real problem at one of our activated sludge treatment works which use air and bacteria to treat sewage.

At Seaton Carew STW, we found that the diffusers had reached their end of life after only 3.5 years even though their expected life should normally be up to seven years. (Diffusers are part of the aeration system; they comprise a membrane with fine pores, through which fine bubbles are generated by the supply of air through blowers).

In response to the problem we developed and implemented a new approach to diffuser management. Commissioning now involves gently passing air through the diffusers to increase the flexibility of the membrane - in essence 'warming them up'. This prevents long-term damage which can cause 'coarse-bubble' air production which has low oxygen transfer rates and requires more energy to ensure enough oxygen is transferred into the activated sludge. An automated weekly 'flex' cycle has also been incorporated to ensure the membranes are extended and contracted to prevent the build up of fouling.

The aeration control valves have also been altered to limit the maximum air flow, ensuring the diffusers don't become overstretched, resulting in 'coarse-bubble' air.

Results have been excellent. Power consumption of the aeration system at Seaton Carew has been reduced by over 50% (over £100,000 a year) and the expected life of the membranes has been doubled whilst the number of failures experienced at the STW has been reduced to zero.



**REGULATORY
STATEMENT
AND
EXPLANATORY
NOTE**



STATEMENT BY THE NORTHUMBRIAN WATER LIMITED BOARD

It is confirmed that the Northumbrian Water Limited (NWL or the Company) Board members have endorsed this Risk and Compliance Statement.

The Board confirms that:

- it considers the Company has a full understanding of, and is meeting, its obligations and has taken steps to understand and meet customer expectations;
- it has satisfied itself that the Company has sufficient processes and internal systems of control to fully meet its obligations; and
- the Company has appropriate systems and processes in place to allow it to identify, manage and review its risks.

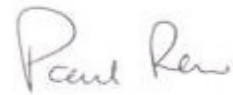
Note: Obligations in this context relate to those areas where Ofwat is the relevant enforcement authority.

Each NWL Board member has reviewed this document and has had the opportunity to provide comments.

The NWL Board has given Heidi Mottram (Chief Executive Officer) and Paul Rew (Senior Independent Non- Executive Director) authority to sign this statement on its behalf.



Heidi Mottram
Chief Executive Officer



Paul Rew
Senior Independent Non-Executive Director

Date: 15 July 2014

BOARD STATEMENT: EXPLANATORY NOTES

The Board has confirmed that the Company has 'sufficient processes and internal systems of control to fully meet the Company's obligations' and 'appropriate systems and processes in place to identify, manage and review its risks'. This has required the Board to take a view on the meaning of these statements.

The Company has strong systems of internal control and ongoing processes for identifying, evaluating and managing the risks it faces and to ensure its obligations are met. These systems and processes are embedded in the organisation and reviewed on a regular basis by the Board. It is important to note, however, that the systems are designed to manage rather than eliminate the risk of non-compliance, and can only provide reasonable and not absolute assurance of compliance. For example, a sound system of internal control can reduce, but not eliminate, the possibility of poor judgement in decision-making, human error or the occurrence of unforeseeable circumstances. The statements as to the sufficiency and appropriateness of the Company's systems and processes should be interpreted accordingly.

We also note that the compliance statement relates to 'material' non compliance or risk of non compliance.

We have reported if the delivery of outputs is materially different to the PR09 FD.

STATEMENTS LICENCE CONDITIONS K AND F6A AND SECTION 35A OF THE WATER INDUSTRY ACT

Licence Condition K

The Directors confirm that, as at 31 March 2014, the Company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment by which the Appointee had available to it sufficient rights and assets to enable a special administrator to manage the affairs, business and property of the Appointee, should a special administrative order be made.

Ofwat Instrument of Appointment – Condition F6A.2A Certificate (Financial & Management resources to carry out the appointed business)

The Directors of NWL confirm that, in their opinion:

- The Appointee will have available to it sufficient financial resources and facilities to enable it to carry out for at least the next 12 months the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment);
- The Appointee will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions; and

- All contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

In providing this certificate, the Directors have taken into account:

- the Company's Licence, which is in place on a rolling 25 year basis;
- the certainty on customer tariffs to March 2015 provided by the 2009 Final Determination of prices by Ofwat, following its acceptance by the Board;
- the financial strength of the Company at the balance sheet date and performance during the year;
- the key financial ratios over the planning horizon of the Company's one year budget and medium term plan to 2015 as reflected in strong investment grade credit ratings;

- the fact that the Company has arranged £450.0m of five year committed bank facilities as back up liquidity (maturing in 2016), and that these remained undrawn at 31 March 2014;
- and financial ratios over the planning horizon of the Company's one year budget and medium term plan to 2015 as reflected in strong investment grade credit ratings; and

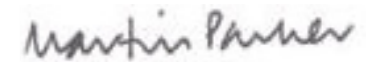
- the Company's formal risk and governance arrangements which are monitored by the Audit, Risk and Compliance Committees and Board.

Licence Condition F6A.6

The Directors also confirm that throughout 2013-14 the Appointee has ensured that it, or an Associated Company as issuer of debt on its behalf, has maintained at all times an issuer credit rating which is an Investment grade rating.

Statement on directors' pay and standards of performance

It is confirmed that a statement on Directors' remuneration and standards of performance has been published in the NWL regulatory accounts in accordance with Section 35A of the Water Industry Act. Our Regulatory Accounts are available on our website or by application.



Martin Parker
Company Secretary

GOVERNANCE OVERVIEW



GOVERNANCE OVERVIEW

Throughout the business we operate to exacting standards with strong governance, assurance and risk management arrangements in place, which are overseen by the NWL Board of Directors and its Audit and Risk & Compliance Committees. In discharging its duties, the Board has regard to the UK Corporate Governance Code, as appropriate to the sector and the company's ownership structure. The Board has also put in place a bespoke Board Leadership, Transparency and Governance Code, following the publication by Ofwat of a set of principles for governance.

We have a clear commitment to continuous improvement and business excellence. The Company has set clear corporate objectives, which are embedded in the business and consistent with meeting its obligations.

We continue to actively support Ofwat's move to risk-based and proportionate regulation. We are committed to maintaining excellent governance and assurance arrangements and the Company and its owners are working constructively with Ofwat to develop enhanced governance arrangements in the sector. As well as preparing the NWL Governance Code referred to above, the Company's owners have responded in detail to Ofwat's consultation on holding company governance principles.

Our mature assurance arrangements provide the Board with the evidence it needs to sign off the Compliance statement. In the following sections we set out the assurance arrangements on which the Board has relied in signing the compliance statement.

BOARD, AUDIT AND RISK AND COMPLIANCE COMMITTEES OVERSIGHT

Monitoring and control at business management team level

This includes specifying and agreeing objectives, regular scrutiny of performance (e.g. through balanced scorecard and Executive Director reports), regular scrutiny of the risk registers, scrutiny of assurance arrangements, agreement of the internal audit plan, review of audit outcomes and review of compliance statement content.

ONGOING OPERATIONS

Monitoring and control at business management team level

This includes development of objectives, planning to meet obligations and objectives, ensuring sufficient and suitable resources – human and financial – are applied to meet obligations, scrutiny of performance, management of escalated issues and identification and management of risk.

Monitoring and control at department management team level

This includes annual business unit planning, continuous improvement and performance review/control through Monitoring, Control and Reporting Systems (MCRS).

Monitoring and control by formal management team sub-groups (with management team and executive director membership)

This includes, for example, the Asset Policy Steering Group, which signs off asset management policies and monitors/controls the delivery of investment aspects of the PR09 FD, including serviceability.

Operational systems and processes

This includes comprehensive systems and processes designed to meet our obligations and objectives with controls in-built.

Policies and guidelines

This includes, for example, water safety plans, service policies and treatment management guidelines aimed at meeting our key obligation to supply wholesome water, including meeting water quality regulations.

Quality systems

Our Integrated Management System (IMS) provides coordinated management of our quality systems. This process is managed by our Health, Safety, Environment and Quality team covering ISO 9001, ISO 14001 and OHSAS 18001.

POSITIVE ASSURANCES ON SYSTEMS AND CONTROLS

Quality systems (IMS) audits

Our quality processes are subject to internal audits and external accreditation. There is continuous improvement, including monitoring the resolution of issues identified in audits (corrective actions and improvement actions).

Internal audit and external audit

We have an Internal Audit department supported by external professional co-sourcing arrangements with KPMG LLP, reporting directly into the Board's Audit Committee to maintain its independence. Scrutiny of financial areas consists of an internal audit programme plus external audit of our Statutory and Regulatory Accounts by Deloitte LLP, our Financial Auditor. This is a mature and well tested approach. Over the last few years, Internal Audit has extended its role further into the scrutiny of non-financial areas. We have developed and implemented a risk-based approach (the higher the risk, the greater the scrutiny) to systems and data audits, which uses a targeted mix of Internal Audit and external Technical Auditor resource on a best-fit basis. The Technical Auditor is always external and typically used for specialist areas such as leakage and serviceability.

Risk register and maintenance and review

The Company maintains a strategic risk register and a detailed risk register. The strategic register captures risks that are typically in the future and uncertain, such as potential EU legislation, Government policy changes or unconfirmed regulatory reform. The detailed register captures unmanaged and managed risk of failing our objectives and obligations. It documents the risk owner, management actions in place and is updated and reviewed on a monthly basis by the Management Team. Work is now underway to refresh the risk registers, using a 'bottom up' re-assessment of risk being developed by each department in the Company.

A Risk & Compliance Committee has been created by the Board to increase the focus on risk and compliance matters formerly dealt with by the Audit Committee. This includes advising the Board on overall risk appetite, tolerance, strategy and any risk exposures, monitoring and reviewing risk assessment processes and keeping the effectiveness of the risk and internal control management systems under review. In addition, this Committee considers business continuity arrangements and monitors treasury risks and compliance with covenants.

PROCESSES AND INTERNAL SYSTEMS OF CONTROL TO MEET OBLIGATIONS

We keep our assurance processes continually under review to ensure they remain appropriate. A key emphasis is on ensuring the Company has sufficient processes and internal systems of control to fully meet its obligations, in addition to demonstrating compliance through actual performance.

For the 2011–12 Risk and Compliance Statement we mapped Company processes against our statutory obligations and completed a risk assessment for each. The assessment against each obligation was assembled in a common format including:

- Responsible member of the management team;
- Formal description of the duty;
- Description of the duty in 'plain English';
- Details of policies, procedures and responsible departments;
- Governance and assurance arrangements;
- Risk assessment (including assurance gap assessment); and
- Any material performance departures in the report year.

We built on this approach for 2012–13 by reviewing the risk assessments in-depth for all 'medium' and 'high' risk obligations and undertaking audits of the arrangements in place to meet obligations. For 2013-14 we have extended this work to cover all 'low risk' obligations.

The Board based its assessment for the 2013-14 compliance statement on the assurance arrangements described in the governance overview and the additional assurance provided by the assessment described above.

APPENDIX:

GLOSSARY OF TERMS

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CREDIT RATING

The credit rating shows the company's ability to comply with our licence requirement to maintain an investment grade credit rating.

Credit rating assessments are defined from rating agencies.

DISCHARGE PERMIT COMPLIANCE

Discharge permit compliance measures the performance of sewerage assets to treat and dispose of sewage in line with the discharge permit conditions imposed on sewage treatment works.

DRINKING WATER QUALITY

The Drinking Water Inspectorate (DWI) provides independent reassurance that water supplies in England and Wales are safe and drinking water quality is acceptable to consumers.

Legal standards for drinking water are set down in national regulations which come directly from European law. The health based standards are based on expert global opinion documented in World Health Organisation guidelines. These standards are very strict.

There are also additional national standards set to maintain the high quality of drinking water in England and Wales.

The measure is for overall drinking water quality which consists of the average compliance values for various parameters.

GEARING

This is the net debt as a percentage of the total RCV at the financial year end.

GREENHOUSE GAS (GHG) EMISSIONS

Managing carbon to lower levels is good for health and the environment and helps reduce the impacts of climate change. We measure the annual operational GHG emissions of our regulated business.

Companies report their annual operational net GHG emissions as determined by Defra's 'Guidance on how to measure and report your greenhouse gas emissions' (September 2009).

INTEREST COVER

This ratio is used to determine how easily a company is able to pay interest on outstanding debt.

LEAKAGE

Total leakage measures the sum of distribution losses and supply pipe losses in megalitres per day (Ml/d). The leakage measure includes any uncontrolled losses between the treatment works and the customer's stop tap. However, it does not include internal plumbing losses.

LOOK UP TABLE

Sewage treatment works must meet discharge consent conditions imposed by the regulator (the Environment Agency). Generally samples of the effluent discharged must meet certain quality conditions on more than 95 percent of occasions. Look-up tables are used by the regulator to enable this performance to be measured in a simple way by giving the maximum number of samples that can fail in a year.

MI/d (MEGALITRES PER DAY)

A megalitre is one million litres or approximately 220,000 gallons. For comparison an Olympic swimming pool holds 2.5 Ml (2,500,000 litres).

POLLUTION INCIDENTS

This is a measure of the number of incidents where an escape from our sewage network or sewage treatment works has caused damage to the environment.

The indicator measures the total number of pollution incidents (categories 1 to 3) per 10,000km of sewer length for which a sewerage company is responsible in a calendar year as recorded on the Environment

RETURN ON REGULATORY CAPITAL VALUE (RCV) (POST TAX)

The RCV is determined by Ofwat and is the value of the capital base on which a return is allowed for price setting. The return is calculated as current cost operating profit less tax divided by RCV.

SATISFACTORY SLUDGE RECYCLING

Companies determine their own definitions of satisfactory sludge disposal; as a minimum, companies are expected to adhere to the Safe Sludge Matrix and comply with any legal obligations.

SECURITY OF SUPPLY INDEX (SOSI)

This specifies the extent to which a company is able to guarantee provision of its levels of service for restrictions of supply and measures security of supply for two scenarios:

- under dry year annual average conditions; and
- peak demand conditions.

SERVICEABILITY

The ability of our networks to provide a good service and ensure customers' long-term interests are protected is critical.

Serviceability assesses recent historical trend in serviceability to customers, as measured by movements in service and asset performance indicators.

We make judgement about the overall serviceability in each sub-service and update the serviceability status as improving, stable, marginal or deteriorating.

When making the assessments, we refer to the serviceability assessment toolkit and the 2009 price review final determination, which states the reference level and control limits for each indicator.

SERVICE INCENTIVE MECHANISM

The service incentive mechanism (SIM) is an incentive mechanism designed to encourage companies to provide better service to customers. It also allows customers to compare the performance of their company with others. It measures the following aspects of customer service delivery;

- Where customers have made contact when something has gone wrong or appears to have gone wrong, for example about a billing error or writing to complain about a water supply problem.
- A customer survey measures how well companies have handled all types of customer contacts, not just when things have gone wrong.

SEWER FLOODING

This indicator measures the number of incidents of internal sewer flooding for properties that have flooded within the last ten years.

Each Company must count any incident of internal flooding of a property in the year where a flooding incident, either internal or external, has been reported by the property in the previous ten years. All incidents of repeat flooding must be counted, including those the company assesses to be caused by severe weather.

Every repeat internal incident at a property in the year must be counted and included in the reported figure.

If there has been no incident of flooding, either internal or external, in the last ten years, but multiple incidents are reported at the property in the year, then the first incident is not counted but all other subsequent internal incidents are included in the reported figure.

SEWERAGE

The system of pipes (sewers) that takes waste water from properties or highways to our treatment works or a river or watercourse.

WASTE WATER (SEWAGE)

Water that has been used for washing, bathing or flushing toilets etc or rainwater from roofs, drives or highways etc or a combination of the two.

WATER SUPPLY INTERRUPTIONS

This measure reflects the number of hours lost per property served in the year with supply interruption greater than three hours.

This is irrespective of whether the interruption was planned, unplanned or caused by a third party.

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