

Appendix to the directors' report and business review

Group financial KPIs

Gearing to RCV

Definition and calculation: The ratio of Group net debt to NWL's Regulatory Capital Value (RCV) plus a pro forma RCV for the Kielder securitisation and the PFI contracts (at the level of associated debt included in the Group's net debt relating to those assets). The NWL RCV represents the total capital value of the appointed water and sewerage business on which The Water Services Regulation Authority (Ofwat) allows a rate of return at price reviews based on its view of the cost of capital.

Purpose: The RCV generates most of the revenue stream of the Group and regulatory gearing is an important factor in credit ratings.

Source of underlying data: NWL's RCV is calculated by Ofwat and published each year. Ofwat also publishes anticipated values up to five years ahead, based on its last price determination. Group net debt is disclosed in the audited financial statements.

Cash interest cover

Definition and calculation: Cash generated from operations less tax divided by net interest paid.

Purpose: Measures the ability of the Group to service its debt.

Source of underlying data: Audited financial statements.

Cash flow to net debt

Definition and calculation: Cash generated from operations less tax paid divided by net debt.

Purpose: Indicates the Group's ability to reduce debt in the absence of need for additional investment, without resorting to asset disposal.

Source of underlying data: Audited financial statements.

NWL financial KPIs

Regulatory gearing

Definition and calculation: The ratio of NWL net debt (including loans to Group subsidiaries) to NWL's RCV. The RCV represents the total capital value of the appointed water and sewerage business on which Ofwat allows a rate of return at price reviews based on its view of the cost of capital.

Purpose: The RCV generates most of the revenue stream of the Group and regulatory gearing is an important factor in credit ratings.

Source of underlying data: NWL's RCV is calculated by Ofwat and published each year. Ofwat also publishes anticipated values up to five years ahead, based on its last price determination. NWL's net debt is published in the audited regulatory accounts and Ofwat annual reports on financial performance.

NWL non-financial KPIs

Water

Drinking water quality

Definition and calculation: Compliance with drinking water regulations as monitored by the Drinking Water Inspectorate (DWI).

Purpose: To monitor drinking water quality.

Source of underlying data: Samples recorded by NWL and audited by the DWI.

Environment

Sewage treatment works

Definition and calculation: Percentage of population equivalent served by non-compliant works failing Look Up Tables' consents.

Purpose: To monitor the performance of NWL's sewage treatment works and their impact on the environment.

Source of underlying data: Information recorded by NWL and the Environment Agency (EA) and reported on by the latter.

Bathing waters Mandatory Standard

Definition and calculation: Percentage of bathing waters complying with Mandatory Standards.

Purpose: To monitor the impact of NWL's coastal treatment works on the environment.

Source of underlying data: Information recorded and reported by the EA.

Pollution incidents

Definition and calculation: Number of category 1, 2 and 3 pollution incidents in the calendar year as defined by the EA.

Purpose: To monitor the performance of NWL's sewerage system and its impact on the environment.

Source of underlying data: Information recorded and reported to Ofwat by the EA.

Customer

Customer – levels of service

Definition and calculation: Customer service standards are established by Ofwat and calculated using source data in the company.

Purpose: To monitor customer service performance of NWL.

Source of underlying data: Information collected by the company and submitted to Ofwat. It is independently certified.

Customer satisfaction

Definition and calculation: Domestic customers' satisfaction with overall service and overall value for money, expressed as satisfaction averaged over the surveys carried out during the year. Average satisfaction is based on a scale of 1 to 10 using the score of 6 and above as satisfied. Net scores are used to show true satisfaction by taking into consideration those who are dissatisfied who score between 1 and 3.

Purpose: To enable tracking of perception of reputation, service and value for money over time.

Source of underlying data: Independent surveys of 500 customers (300 north, 200 south) chosen at random, but representative of the customer base, carried out each quarter – a total of 2,000 customers.

Employee

Lost time reportable accidents

Definition and calculation: Injury accidents that are reported to the Health & Safety Executive as required by the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995. Calculated as number of accidents reported in financial year per 1,000 employees.

Purpose: To monitor the safety performance of NWL over time.

Source of underlying data: Completed NWL accident/incident report forms. Employee numbers provided by the human resources department.

Sickness absence

Definition and calculation: Sickness absence days as a percentage of total working days multiplied by the end of month headcount.

Purpose: To track and trend sickness absence levels across the organisation.

Source of underlying data: Statement of Fitness for Work (fit note), return to work interviews and weekly returns by managers.

Employee turnover

Definition and calculation: Number of leavers within the year as a percentage of average headcount.

Purpose: To track the employee turnover within the business to ensure that it is within benchmark data.

Source of underlying data: Current employees' details are held within the human resources management system – reports show leavers against headcount.