NORTHUMBRIAN WATER GROUP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2020

Registered number 04760441

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

ANNUAL REPORT AND FINANCIAL STATEMENTS
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STRATEGIC REPORT

The Directors of Northumbrian Water Group Limited (NWG or the Company) are pleased to present their Strategic Report on the affairs of the Group and Company, along with their Directors' Report, the Independent auditor's report and the audited financial statements for the year ended 31 March 2020.

Principal activities

Northumbrian Water Group Limited
NWG owns a number of companies which, together with NWG, form the Group. The emphasis given to Northumbrian Water Limited (NWL), throughout this report, reflects its importance to the overall performance of the Group, however the Group's other operations also deliver a significant contribution to the overall reported performance.

Northumbrian Water Limited
NWL's principal activities comprise the supply of potable and raw water in both the north east and south east of England and the collection, treatment and disposal of sewage and sewage sludge in the north east of England.

Water and wastewater contracts
NWG holds investments in a number of companies which hold and operate water and wastewater contracts in Scotland, the Republic of Ireland and Gibraltar. NWG also controls a farm based anaerobic digestion plant in West Yorkshire, England.

Cautionary statement
This report contains certain statements with regard to the future operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty, since future events and circumstances can cause results and developments to differ materially from those forecast. Such statements reflect knowledge and information available at the date of preparation of this report and the Company undertakes no obligation to update such statements. Nothing in this report should be construed as a profit forecast. Certain regulatory performance data contained in this report is subject to regulatory audit.

Business overview
NWG is the holding company of NWL and a number of other companies, as reported above.

NWL is one of the ten regulated Water and Sewerage Companies (WASCs) in England and Wales, operating in the north east of England, trading as Northumbrian Water, and in the south east of England, trading as Essex & Suffolk Water. In the north east, the business comprises the supply of both potable and raw water and the collection, treatment and disposal of sewage and sewage sludge, serving approximately 2.7 million people. In the south, NWL supplies water services to approximately 1.6 million people in Essex and approximately 0.3 million in Suffolk.

The Directors of the Company consider that, with effect from 30 December 2019, there has been no ultimate controlling party of the Company. Further details are disclosed in note 29.

Regulatory and legislative developments
NWL operates within a strict regulatory environment. The Water Services Regulation Authority (Ofwat) regulates prices and levels of customer service, while the Drinking Water Inspectorate (DWI) monitors drinking water quality and the Environment Agency (EA) covers environmental protection. NWL's customers' interests are represented by the Consumer Council for Water.

In February 2020, the NWL board decided unanimously to ask Ofwat to refer its Final Determination of prices for 2020–25 (FD) to the Competition and Markets Authority (CMA) for review. This followed discussions at a series of board meetings. The Business Plan was developed taking account of the views of more than 400,000 customers and other stakeholders. NWL's customers' key priorities were efficient costs and assurance that water and wastewater services would be robust, deliverable and resilient for the future. The board agreed that the FD did not properly reflect the views and priorities of customers, or the need for long term operational, environmental and financial sustainability. The board took account of the trade off between lower customer bills in the short-term and long term resilience, but felt strongly that the FD fell well short of what customers clearly stated were their priorities.

Business objectives
The vision of the Directors of NWG is for the Group companies to continue to deliver value to customers and other stakeholders by focussing on their core competencies of water and wastewater management.

STRATEGIC REPORT (continued)

Performance measures
NWL uses a balanced scorecard of Key Performance Indicators (KPIs), reflecting its strategic themes. These are internal measures set at stretching levels so as to drive year on year performance improvements on a path to deliver its 'national leader' vision. This means that they are often more stretching than the regulatory Performance Commitments. Achievement against the balanced scorecard targets accounts for up to 90% of the Short Term Incentive Plan (STIP) of NWL's Executive Leadership Team (ELT), with a further 10% available for the achievement of personal targets.

The following table details actual performance against the KPI targets and future targets. Targets which are measured on a calendar year basis, denoted by "C" in the table, reflect the performance period January to December 2019. Targets which are measured on a regulatory year basis, denoted by "R" in the table, reflect the performance period April 2019 to March 2020.

Scorecard measure	*Performance period*	*Target*	*2019/20 Performance*	*Achieved*
Customer				
Customer satisfaction				
- SIM qualitative score	R	>=4.65	4.5	no
- SIM quantitative score	R	<=75	94.19	no
Water supply interruptions >3 hours (average minutes per property)	R	<=3:45	9:12	no
Mean zonal compliance	C	>=99.97	99.94	no
Repeat sewer flooding (properties)	R	<=60	60	yes
Environment				
Leakage (Mld)				
- NW	R	<=134	136.3	no
- ESW	R	<=66	64.2	yes
Pollution incidents category 1 & 2	C	<=1	1	yes
Discharge permit compliance (EPA) (%)	C	>=99%	98.84	no
Competitiveness				
Group EBIT	C	Budget	not achieved	no
Group cash available for distribution	C	Budget	achieved	yes
People				
Employee engagement score	C	80	67	no
Lost time reportable accidents (no.)	C	<=3	7	no
Communities				
BITC Platinum Plus/Ethisphere/CCW 'Most Trusted Water Company'	R	award	awarded	yes

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

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

The balanced scorecard targets for 2020/21 are shown in the table below, in accordance with the revised policy. These are internal measures and continue to be set at stretching levels so as to drive year on year performance.

Performance measures (continued)

Scorecard measure	*2020/21 Target*
Customer	
C-Mex experience	top 2 company
C-Mex customer service	top 2 company
D-Mex experience	top 2 company
Unplanned interruptions >3 hours (mm:ss per property)	<=5:24
Compliance risk index (number)	<=2
Repeat sewer flooding (number)	<=46
Internal sewer flooding (number)	<=285
Environment	
Leakage – NW (Mld)	<=126.5
Leakage – ESW (Mld)	<=56.4
Discharge permit compliance (EPA)	>=99%
Pollution incidents category 1 & 2	<=1
Greenhouse gas emissions (ktCO2e)	<=57.2
Competitiveness	
Group EBIT	budget
Group distributions	budget
People	
Employee engagement score (Trust Index (%)	>=65
Lost time reportable accidents (number)	<=3
Communities	
BITC Platinum Plus/Ethisphere/CCW ‘Most Trusted Water Company’	Award

To achieve ‘national leader’ status, NWL’s targets are often more stretching than the regulatory performance commitments. It has made further progress towards this vision during 2019/20, and remains one of the leaders in the industry.

NWL remains committed to delivering an unrivalled customer service and to being the national leader in the provision of sustainable water and wastewater services. NWL’s resilience was tested through the Covid-19 lockdown and the significant challenges this brought. However, NWL continued to provide its customers with this essential public service despite the pandemic. Keeping employees safe was NWL’s first priority, and it quickly enabled customer and support teams to work from home, in line with government guidance, as well as taking measures to ensure that operational and field workers could continue to carry out their essential work safely.

NWL implemented a major transformation programme in its customer teams over the past few years. This continued this year; the implementation of a new customer contact and billing system was followed-up with a new operational contact and planning system and the launch of new digital platforms. These systems provide a much improved platform to engage with customers in the way they choose and to address their top priorities. This will enhance NWL’s capacity to deliver against C-Mex, Ofwat’s new more holistic measure of customer experience.

Customers remain at the heart of NWL’s business, with customer satisfaction remaining high in the year. This was supported by independent research and, although the score fell slightly in the year from 8.7 to 8.5, this remains a strong result and is well above the Performance Commitment (PC). As an alternative indicator, NWL also uses Net Promoter Score to measure customer advocacy, the loyalty that exists between a company and its customers, and a strong positive score of +40 ranks NWL alongside leading UK businesses.

Performance measures (continued)
NWL continues to provide a reliable supply of clean water, with overall drinking water compliance remaining extremely high at 99.933%. To put this in context, this represented only 53 failures from around 80,000 tests, and it is important to note that none of the failures represented a risk to health. NWL also continues to make improvements at water treatment works and networks to reduce the accumulation of discolouring material. To continue this improvement journey, NWL has set out a new programme of work, with DWI support, for the discolouration management plans for 2020-25.

In its wastewater business, NWL has a very strong discharge compliance record, with zero failures in 2018, but was disappointed to have two discharge permit failures in 2019, against a challenging background of extreme weather events and third party impacts. NWL continues to plan to meet future new and tighter consent standards through innovative operational management and early warning systems, which enable NWL to better understand and manage risks across its works in real time.

Whilst NWL has maintained its strong environmental performance, it continues to focus on sewer flooding, which is one of the worst service failures customers can experience. Sustained periods of wet weather over the year have impacted performance in this area and, whilst the total number of properties flooding internally has reduced year on year, it was disappointing that the number of properties flooding externally or suffering repeat flooding increased slightly. In order to reduce the risk of sewer flooding, and to help achieve the commitments made in the NWL business plan, a sewer flooding tactical plan was developed to identify and deliver effective near term interventions. The sewer flooding tactical plan includes interventions around the core themes of customer communication, focussed teams, improved operational planning, better use of data and an increased CCTV programme.

In respect of renewable energy, ten years ago NWL committed to a carbon management plan with the aim of reducing greenhouse gas (GHG) emissions by 35% by 2020 against a 2008 baseline. However, through a twin focus on energy efficiency and renewable energy generation, this goal was achieved in 2018/19, ahead of schedule.

The Health and Safety (H&S) of our employees and contractors is a responsibility that the Group takes very seriously. NWL's company-wide campaign 'Everyone home safe every day' continues to reinforce the safety message across all NWL teams. As a result of this campaign, almost 30,000 '60 second checks' have been undertaken and over 3,000 safety conversations completed.

The Group has continued to ensure that its people are fairly treated and we proactively promote diversity and inclusion to reap the benefits of a diverse workforce. NWL's equal opportunity policy seeks to ensure that all current employees and potential employees are treated with respect. Job applications are welcomed from all parts of the community and it is the intention that all job applicants and employees are treated equally, regardless of their age, ability, marital or partnership status, race, religion or belief, gender or sexual orientation. Employment applications are welcome from people with disabilities and, where existing employees develop disabilities, they are supported to remain in employment, wherever practicable, by providing appropriate adjustments to their roles and/or effective redeployments. Occupational health physicians assist this process with professional medical advice. NWL recognises the importance of gender balance and is committed to encouraging more women to join NWL and develop their careers in the water industry. It continues to actively partner with other organisations and inclusion networks to promote diversity in science and engineering.

We put great effort into creating an environment where our people are encouraged to engage and perform to the best of their ability. NWL engages with its employees through the Employee Relations Framework and through a range of communication channels including annual director roadshows, structured team talk briefings every two months, our weekly H2info ebulletin, and digital tools such as the intranet and Yammer.

The Group remains dedicated to building strong relationships with the communities we serve and we ensure that corporate responsibility is embedded in the business. We work with partners across sectors at a range of levels, from making sure we provide effective grassroots support to a large number of organisations in our community, to a small number of larger strategic flagship partners co-delivering with us in line with our vision and values.

NWL held its third Innovation Festival in 2019; the event has become firmly-established industry-wide and attracts participants from across the globe. This year more than 3,000 people joined from 734 organisations. This diversity represents a huge breadth and depth of experience that would not be tapped through business as usual activities. The professional services value of this contribution is estimated to be worth c.£5m. A further joint event, Innovate East, with Anglian Water, was held in a first of its kind for the industry. The event had its own unique character, but was broadly based on the Innovation Festival format.

SECTION 172 STATEMENT
The Directors of the Company have a duty to promote the success of the Company for the benefit of its members as a whole, as set out in section 172 of the Companies Act 2006. In doing so, the Directors must have regard to the needs of, and impact on, our many stakeholders and other matters described in the section. This Section 172(1) Statement has been prepared in accordance with new requirement established by the Companies (Miscellaneous Reporting) Regulations 2018 to describe how the Directors have had regard to the matters set out in section 172(1)(a) to (f) of the Companies Act when performing this duty.

How the Board operates

The Statement of Corporate Governance arrangements on pages 14 to 17 describes how the Board has operated during the year, and describes how the Board has:

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

Long-term planning horizon

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

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

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

The Board closely monitors the financial position of the business through a rolling five year plan, whilst also considering longer term financial resilience over a ten year time horizon.

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

SECTION 172 STATEMENT (continued)
Stakeholder engagement

The Group has a wide range of stakeholders. Engagement with our stakeholders was central to 'Living water: NWL's plan for 2020-25 and beyond', which was shaped by responses from more than 400,000 customers as well as the Water Forum stakeholder bodies for each of NWL's operating regions, regulators, employees and other partners. Through this process, the NWL board agreed stretching performance commitments to deliver improved service to stakeholders across a wide range of measures, which the Board monitors through the balanced scorecard (see page 4).

Much of the stakeholder engagement takes place at an operational level within NWL, the board receiving regular reports in respect of customer service, operational performance, health and safety and key risks, such as data security of customer and employee data.

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

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

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

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

STRATEGIC REPORT (continued)

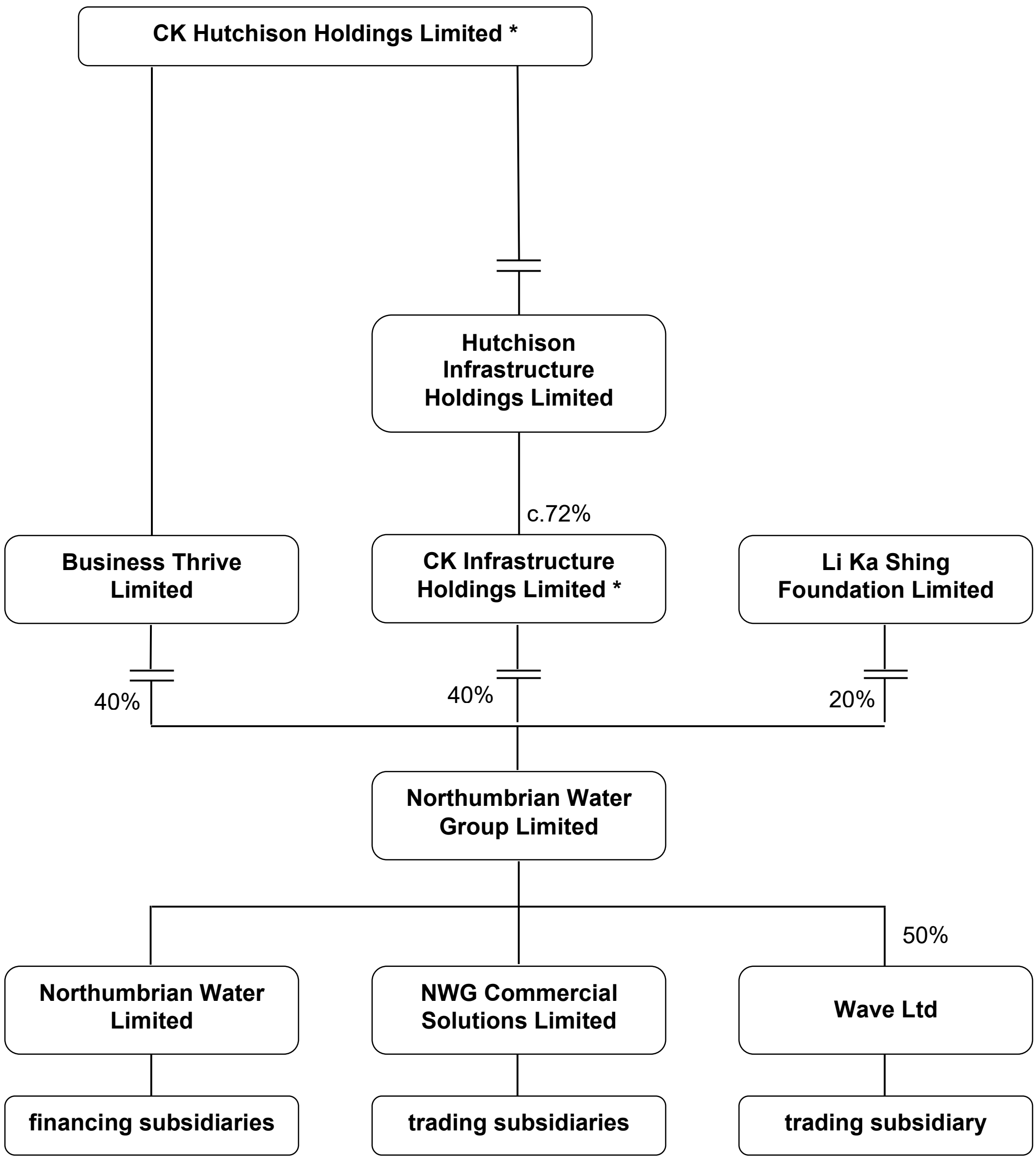
Financial performance and structure

Group structure

In addition to NWL, NWG has one other direct subsidiary; NWG Commercial Solutions Limited (NWGCSL), which acts as a holding company for other non-regulated trading companies. NWG also directly owns 50% of a joint venture company, Wave Ltd (Wave) which, through its trading subsidiary, carries out non-household retail activities in England and Scotland.

Note 29 describes the Group's relationship with CK Hutchison Holdings Limited (CKHH). The Group has been informed by CKHH that, by virtue of contractual arrangements entered into with other parties, with effect from 30 December 2019 it ceased to have a controlling interest in the Company as defined by the applicable accounting standards.

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



* Companies listed on The Stock Exchange of Hong Kong Limited

Financial performance
In addition to the balanced scorecard, the Group uses a range of financial indicators to monitor performance, which focus on the financial covenants underpinning the Group's private placement and committed bank facilities at NWL, which are reported to each Board meeting. These financial KPIs, shown below, remained better than the target for the year.

	Performance				Target	
	2018/19		2019/20		2019/20 & 2020/21	
KPI	NWG	NWL	NWG	NWL	NWG	NWL
Gearing: net debt to RCV (%)[1]	73.5	67.2	73.8	67.8	≤80.0	≤77.5
Interest cover (times)	4.1	3.6	4.7	4	≥2.2	≥2.4

Notes:
1. Regulatory Capital Value (RCV) at 31 March 2020 was £4,316.2m (2019: £4,271.7m).

The Group's gearing has increased marginally from 73.5% to 73.8%, with net debt growing at 0.8% which was slightly behind RCV at 1%. Gearing at NWL, which is measured per the financial covenant for the committed facility and excludes loans receivable, increased from 67.2% to 67.8%. Interest cover at NWL and NWG both improved, with all metrics remaining comfortably better than target.

NWG
Revenue for the year ended 31 March 2020 was £938.9m (2019: £907.6m). Water and sewerage charges at the Group's principal subsidiary, NWL, increased by a 'K factor' of 0.1%, plus RPI of 3.2%, which was applied from 1 April. Income from the Group's continuing water and wastewater contracts continue to increase in line with the provisions of the relevant contracts.

Operating costs are £572.5m for the year ended 31 March 2020 (2019: £557.6m), which principally reflected movements at NWL, which are detailed below. Profit before interest for the year ended 31 March 2020 was £366.4m (2019: £350.0m).

Share of loss in respect of jointly controlled entities for the year ended 31 March 2020 was £5.8m (2019: £2.2m). The year on year increase of £3.6m reflects an improved underlying trading performance, which has been more than offset with the potential Covid-19 impact at Wave, where a c.£7m (NWG's share) bad debt charge has been provided.

Net interest payable was £241.7m for the year ended 31 March 2020 (2019: £266.5m), including £116.4m (2019: £113.7m) on shareholder loan notes. The decrease of £24.8m was principally as a result of favourable mark to market movements on the fair value of financial instruments compared to the prior year (£19.7m), coupled with increased capitalisation of interest (£8.6m).

Profit before tax for the year ended 31 March 2020 was £118.9m (2019: £81.3m). The current tax charge for the year ended 31 March 2020 was £19.7m (2019: £14.5m). The increase of £5.2m mainly reflects an increase of £8.6m in the current year charge offset by an increase of £3.4m in the prior year tax credit. The increase of £40.3m profit before tax includes £19.6m favourable movements in the fair value of derivatives which are disregarded for tax purposes. Deferred tax for the year ended 31 March 2020 was a charge of £55.4m (2019: £12.0m). The increase of £43.4m reflects the restatement of deferred tax from 17% to 19% of £52.2m (2019: £nil), a decrease of £4.0m in the current year charge and a decrease of £4.8m in the prior year charge. Further details of the net tax charge are provided in note 8 to the financial statements. Profit after tax for the year ended 31 March 2020 was £43.8m (2019: £54.8m).

Total intangible asset additions for the Group for the year ended 31 March 2020 were £23.9m (2019: £15.7m) and total fixed asset additions for the year ended 31 March 2020 were £258.8m (2019: £265.3m), representing capital investment to maintain and enhance the Group's asset base.

NWL
Revenue was £901.2m for the year ended 31 March 2020 (2019: £870.2m). This reflects an increase in wholesale charges, set in line with the revenue allowance from the Final Determination (FD) of price controls for 2015-2020, which increased by a 'K factor' of 0.1% plus RPI of 3.2% and an increase in non-regulated revenue related to the recovery of costs under the Kielder Water Resources Operating Agreement (WROA).

Operating costs, including capital maintenance costs for the year ended 31 March 2020 were £532.4m (2019: £521.9m). The increase of £10.5m includes a provision of £6.5m to reflect additional bad debt risk on household revenue as a result of the economic impact of the Covid-19 pandemic on customers, and increases in staff salaries and depreciation charges from capital investment programme, partially offset by cost efficiencies.

Financial performance (continued)

NWL (continued)
During the year, NWL invested £0.8m (2019: £0.9m) in research and development.

Profit before interest for the year ended 31 March 2020 was £368.8m (2019: £348.3m). Capital investment for the year ended 31 March 2020 was £256.5m (2019: £263.8m), reflecting around £187m investment for the maintenance of NWL's asset base to ensure the continued provision of sustainable water and wastewater services. In addition, NWL has enhanced its asset base, in particular reducing the risk of sewer flooding, improving water and wastewater treatment compliance and to support new development activity.

Water and wastewater contracts
The Group's water and wastewater contracts in Scotland, the Republic of Ireland and Gibraltar are all performing well and are broadly in line with expectations. Revenue for the contracts was £37.0m for the year ended 31 March 2020 (2019: £36.8m). Profit before interest was £0.3m (2019: £3.5m).

The Irish based joint venture Coffey Northumbrian Limited (CNL) has two framework contracts with Irish Water (IW). The most significant of these is the framework for water network management, which covers the south-east and south-west regions. The delivery of this contract is challenging and CNL has incurred losses on the contract so far. The second framework is for regional new connections and work on this has been released slower than anticipated, although this contract is expected to deliver profits. A further design and build contract with IW, to upgrade several waste water treatment plants, is now largely complete.

The NWG Bioenergy Limited agricultural based anaerobic digestion plant (AD) at Garforth in West Yorkshire continues to operate and is successfully exporting bio-methane the local gas distribution network. Repairs to the second digester, relating to defects at the time of construction, were completed during the year meaning that all digesters are repaired and fully operable. There is now a period of optimisation so that maximum biogas flows can be achieved and continuously maintained.

Dividends
Total dividends paid in the year ended 31 March 2020 were £9.3m (2019: £26.3m). The Directors do not recommend payment of a final ordinary dividend (2019: £nil). No dividends have been declared or paid post year end.

Accounting policies
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as it applies to the financial statements of the Group for the year ended 31 March 2020.

Capital structure, liquidity and credit rating
The majority of the Group's financing activities are undertaken within the NWL group of companies given the significance of its operations to Group activities.

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

In July 2019, following a reverse enquiry from a large UK Pension Fund, the Group, through NWL's financing subsidiary Northumbrian Water Finance plc, agreed and priced its first UK CPI private placement issuance on a forward settlement basis for a tenor of 20 years, maturing 29 October 2039. The final note purchase agreement was agreed on 2 July 2019 and the notes priced with a CPI real yield of 0.242%.

Interest cover and gearing measures have remained better than target levels. NWL retains strong investment grade credit ratings of BBB+ (watch negative) from S&P Global Ratings (S&P) and Baa1 (rating under review) from Moody's. The Moody's rating takes into account the gearing level of the parent company, whilst recognising the strength of the regulatory ring-fence. The Moody's outlook reflects the challenges presented by the FD and uncertainty around the outcome of a re-determination by the CMA or offsetting mitigating measures by management or shareholders. S&P acknowledge the current strong support the Group receives from its shareholders and has updated its outlook to CreditWatch negative to reflect the uncertain outcome of the CMA review.

Treasury policies
The Board sets high level objectives for the financing strategy of the Group which is determined within treasury policies set by the Board. The treasury function carries out treasury operations on behalf of all Group companies and its main purposes are to assess the ongoing capital requirement, to maintain short term liquidity, ensuring access to medium term committed back up facilities, and to raise funding, taking advantage of any favourable market opportunities. It also invests any surplus funds the Group has in accordance with the Group’s treasury policy. On occasion, derivatives are used as part of this process, but the Group’s policies prohibit their use for speculation.

The detailed financing strategy and dividend policy at NWL is determined independently by the board of NWL.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group requires all Group companies to identify and assess the impact of risks to their business using a standard risk model. The Group’s view of acceptable risk is based on a balanced view of all of the risks in the operating environment and it aims to ensure an appropriate balance between risk aversion and opportunities.

The Board sets the tone for risk management within the Group and determines the appropriate risk appetite. It monitors the management of fundamental risks and approves major decisions affecting the Group’s risk profile. The Board is supported in this by the ARAC from which it receives regular and detailed reports. At NWL, the ELT reviews the approach to risk management in detail every year and reviews the significant risks every month. Any issues are reported by the Chief Executive Officer (CEO) to the boards of NWL and NWG. NWG’s ELT implements policies on risk management and internal control.

Apart from NWL, none of the Group trading companies have risks considered to be significant to the Group's short and long term value.

The system of internal control incorporates risk management. It encompasses a number of elements, including policies and procedures, business planning and budgeting and the maintenance of a risk management framework, that together facilitate an effective and efficient operation, enabling the Group to respond effectively to a variety of challenges.

The ARAC, on behalf of the Board, carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, taking account of both the highest rated risks on our Corporate Risk Register and the Strategic Risk Register identified by the Board sub-group. The risks are not set out in order of priority.

The principal business risks facing the Group are:
- inherent health and safety risk in NWL’s operational and construction workplaces;
- loss of customer trust and confidence;
- loss of supply to a large volume of customers due to failure of the NWL water systems, such as failure of a strategic water main or treatment works or contamination of a service reservoir;
- environmental pollution incidents due to failures in the NWL wastewater network giving rise to potential fines and reputational damage;
- loss of key business systems due to a malicious attack or failure of cyber security;
- breach of Data Protection Act, General Data Protection Regulation or Environmental Information Regulations;
- effects of climate change adversely impacting NWL’s water resources and the integrity of the assets;
- unfavourable changes to the NWL Licence or regulatory methodology that may adversely impact on the balance of risk and return or reduce investor confidence in the stability and predictability of the regulatory framework;
- a change in government could introduce significant changes in policy, including nationalisation, impacting upon NWL and the Group;
- failure to deliver financial plans could impact on expected shareholder returns;
- risk of increased pension deficit at the next actuarial valuation of the Group’s principal defined benefit pension scheme (at 31 December 2019) as a result of market conditions;
- funding and liquidity risk (see note 22 to the financial statements); and
- pandemic outbreak, including loss of staff, significant impact on a number of business areas, financial consequences of reduced revenue, increased operating costs and potential impacts on performance commitments.

Risk management is a dynamic process reflecting changes in the external environment and consequently some of the principal risks have changed from those reported in the previous year.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

New risks

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

However, the unprecedented impact of the Covid-19 pandemic and, in particular the lockdown measures implemented by government, has clearly demonstrated the potential scale and wide-ranging effect of such an occurrence. As a result, the ARAC decided that this should be added to the principal risks of the Group.

Brexit risk

The ARAC has considered risks to NWL's business which could result from the UK leaving the European Union (EU) with no deal, but does not consider this to be a principal risk, other than in relation to future European Investment Bank (EIB) funding. NWL has engaged with government, its supply chain and other stakeholders to review potential impacts of a no deal Brexit. Whilst NWL operates entirely within the UK, it is aware that some of its supply chain does rely on transportation from Europe and it has made appropriate preparations to mitigate against these risks and ensure continuity of service. Risks associated with the Group's activities elsewhere in the EU have been reviewed and appropriate contingency plans have been established.

MParker

Approved for issue by the Board of Directors
M Parker
General Counsel and Company Secretary
30 July 2020

DIRECTORS' REPORT

STATEMENT OF CORPORATE GOVERNANCE ARRANGEMENTS

The Group has in place the robust corporate governance arrangements set out below, but it did not directly apply any external corporate governance code in the year. This is because it is a holding company and its principal subsidiary, NWL (which accounts for around 96% of the Group's turnover) has in place its own extensive corporate governance arrangements, including adhering to external codes, as explained below.

Best practice in corporate governance is evolving and Ofwat has worked with companies in the sector to develop four new corporate governance objectives (the 2019 Objectives) which it expects them to meet. The 2019 Objectives are supported by detailed provisions setting out how Ofwat expects them to be met. Ofwat has now incorporated the 2019 Objectives into each licensed company's Instrument of Appointment (Licence). Along with most others in the sector, NWL consented to the change following discussions with Ofwat, noting Ofwat's acknowledgement that companies will have scope to demonstrate compliance in different ways. NWL has again explained, in its Annual Report and Financial Statements, how it meets the 2019 Objectives and supporting provisions.

In addition to reporting compliance with the 2019 Objectives and the supporting provisions, the NWL board has also applied the Wates Corporate Governance Principles For Large Private Companies (Wates Principles).

Directors
The Directors who served during the year and up to the date of signing were as follows:

A J Hunter	Non-Executive Chairman
H Mottram CBE	Chief Executive Officer (CEO)
L S Chan	Non-Executive Director
F R Frame	Non-Executive Director (retired 31 December 2019)
H L Kam	Non-Executive Director
D N Macrae	Non-Executive Director
W C W Tong-Barnes	Non-Executive Director

Information about Directors' remuneration is contained in note 5 to the financial statements.

Board governance, responsibilities and processes
The Board sets the Group's high level vision, values and strategy and ensures compliance with Group policies and legal and regulatory obligations. Within this framework, NWL operates as a standalone company and its strategy is determined by the NWL board. During the year, the only decisions referred up to the NWG Board were a number of contract and loan approvals and the re-appointment of certain Directors (in each case, the NWG Board approved the recommendations of the NWL board).

The Group has adopted terms of reference which set out the matters reserved to the Board for approval and matters which are, or can be, delegated to its committees and management. The Group has also adopted financial approval rules which set out the authorisation processes and financial limits to be applied to financial transactions within the Group. NWL has adopted its own appropriate guidelines.

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

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

Board balance and independence
The composition of the Board is as follows:

A J Hunter (Chairman) and D N Macrae were appointed by CK Infrastructure Holdings Limited. H L Kam, L S Chan and W C W Tong-Barnes were appointed by Cheung Kong (Holdings) Limited, which is wholly owned by CKHH, and F R Frame by Li Ka Shing Foundation Limited. The CEO, H Mottram was appointed on the recommendation of the Nomination Committee of Northumbrian Water Group plc when it was independently listed.

The Chairman and CEO have clearly defined roles and responsibilities. The Chairman leads the Board and creates the conditions for overall Board and individual Director effectiveness, both inside and outside the boardroom. The CEO is responsible for running the Group's businesses on a day-to-day basis.

Whilst not members of the NWG Board, M Fay, S Lyster, P Rew and M A B Nègre (the Independent Non-executive Directors (INEDs) of NWL) attend Board and Committee meetings of NWG and therefore have visibility over, and are welcome to make observations and suggestions regarding strategic considerations at NWG, with the exception of matters relating to Wave. This ensures that the NWL board is aware of all developments at the NWG level and therefore has full knowledge of the environment in which it is operating and any risks the Group might face. The NWG Board believes that this entirely transparent approach supports compliance with Ofwat's holding company principles.

The General Counsel and Company Secretary, M Parker, assists the Board to ensure that good corporate governance compliance is maintained. He is also Company Secretary of NWL and is Secretary to all NWG and NWL board committees and sub-committees.

NWL has its own Audit, Remuneration and Nomination Committees as well as Risk & Compliance and Assurance Sub-committees of the Audit Committee. NWG has an Audit, Risk & Assurance Committee (ARAC).

Board committees
During the year, the Board was assisted by the ARAC in performing its duties. The Board sets the terms of reference of its Committees and receives regular reports from their chairmen at Board meetings.

Remuneration Committee
H Mottram's remuneration as CEO of NWL and NWG is set by NWL's Remuneration Committee, the members of which, during the year, were A J Hunter (Chairman), P Rew, M Fay, S Lyster and D N Macrae. The Human Resources Director, from the NWL ELT, provides advice to the Committee from time to time.

NWL complies with its obligations under s35A of the Water Act 2003 by disclosing in its financial statements each year a detailed breakdown of remuneration paid to the Executive Directors of NWL which is linked to NWL's standards of performance. For two of the NWL Executive Directors, H Mottram and C I Johns, NWL pays 70% of their remuneration and NWG pays the remaining 30%, which reflects the time spent on activities other than NWL. For F R Frame, NWL paid 30% of his remuneration and NWG paid the remaining 70%. No additional remuneration is paid by the Group or its shareholders.

The work of the NWL Remuneration Committee comprises the adoption of principles and standards in relation to executive remuneration and benefits, as well as agreeing individual remuneration packages.

ARAC
The Chairman of the ARAC is L S Chan. The other members are D N Macrae (or his alternate) and N D Herrington.

During the year, and up to the date of approval of these financial statements, the ARAC assisted both Executive and Non-executive Directors to discharge their individual and collective responsibilities. Its work included the following:

- reviewing the draft financial statements, considering reports from the external and internal auditors setting out the audit approach and plan, significant audit risks and conclusions on the Group's internal controls and risk management;
- reviewing the appropriateness of accounting policies, significant accounting judgements and evidence supporting the going concern basis for the accounts and recommending approval of both statutory and regulatory accounts to the Board;
- confirming the objectivity and independence of the external auditor, and in so doing reviewing the representations made in the audit report on these subjects;
- reviewing and monitoring the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;

ARAC (continued)

- monitoring the effectiveness of the internal audit function;
- approving the external auditor's fees for both audit and non-audit services, by reference to the agreed policy;
- approving the internal audit work programme for the year and reviewing progress against the programme;
- approving arrangements for monitoring compliance with the Company's procedures designed to prevent bribery, having regard to the Bribery Act 2010 and the updated code of conduct 'Our Way at NWG', including receiving reports on any whistleblowing allegations; and
- reviewing the risk and control framework and reporting, including management of tax compliance matters and approval of financial approval rules.

The Chairman has reported formally to the NWG Board following each meeting of the Committee and minutes have been circulated to the Board.

The ARAC is fully cognisant of the need for NWG to manage risk in such a way that NWL is protected from risk elsewhere in the Group. Its work in relation to risk included the following:

- reviewing reports at each meeting on the top rated managed risks and priorities for assurance (being those risks with the biggest reduction between the business (gross) and managed (net) risk scores), representing key control areas for the Company;
- reviewing and updating the dynamic risk management framework and corporate risk register which are based on a detailed bottom-up assessment of risk across the Group;
- reviewing the management of specific areas of risk in relation to health and safety and environmental compliance;
- reviewing cyber security and steps being taken to enhance security;
- advising the Board on risk appetite and exposure and reviewing risk assessment processes as well as keeping the effectiveness of the risk and internal control management systems under review;
- monitoring compliance with covenants and treasury risks; and
- reviewing business continuity arrangements.

The Board is able to monitor the impact of environmental, social and governance matters on the Group's business, to assess the impact of significant risks on the business and to evaluate methods of managing these risks through reports it receives from its subsidiary boards and committees.

Code of Conduct

The Group has a code of ethics, 'Our Code of Conduct', covering Group companies' relationships with customers, employees, suppliers, local communities, shareholders, other investors and regulators.

Ofwat's Holding Company Principles

The Company has reviewed its compliance with the document published by Ofwat in April 2014: "Board leadership, transparency and governance – holding company principles". The principles set out by Ofwat are addressed below (the numbering follows that of the principles):

1.1 As stated in the Strategic Report, at the balance sheet date, NWG is the holding company of NWL. The Directors of the Company consider that, with effect from 30 December 2019, that there has been no ultimate controlling party of the Company since that date.

1.2 NWG discloses detail of its debt structure and how this compares with the Group's policies. It also clearly defines who is the ultimate parent undertaking and controlling party (see 1.1 above) and gives full transparency as to the level of shareholder loan notes within the corporate structure.

1.3 This report (and NWL's Directors' Report) disclose that some of the Directors of each company were appointed by shareholder companies. Directors may also, from time to time, have roles in and/or hold shares or other interests in the shareholder companies and/or other companies within the CKHH group.

1.4 Decisions regarding certain large contract awards, capital projects, substantial funding arrangements and the re-appointment of Directors are referred to the NWG Board. During the year, the NWG Board has endorsed all the recommendations of the NWL board.

1.5 NWG's governance arrangements are set out clearly in the Strategic Report and the Directors' Report.

Ofwat's Holding Company Principles (continued)

2.1, 2.2, 2.3, 2.4 and 3.1

The Directors of NWG are all also Directors of NWL (W C W Tong-Barnes is an alternate director) and NWL's INEDs attend all NWG's Board and Committee meetings, ensuring full transparency between the two companies. The executive management teams of the two companies are the same. The NWG Directors are therefore fully aware of NWL's obligations, under statute, under the Licence (and under the Condition P undertaking required by the Licence). NWL's need to make strategic and sustainable decisions (in its own interests and those of its customers) is seen as fundamental to the Group's strategy and is vigorously supported. Therefore, the flow of information between the two Boards is effective and relevant information regarding the wider CKHH group is freely shared. NWL is given the opportunity to take advantage of business synergies and opportunities available within the CKHH group, but always makes its own business decisions in order to achieve the most favourable terms available.

Within this supportive environment, NWL's board operates autonomously and each NWL Director understands his or her individual responsibility to act in the best interests of NWL. This enables NWL's Board to make sustainable, long-term decisions which take full account of the long term nature of the water sector.

OTHER DISCLOSURES

Results, dividends, capital structure, future developments and research and development

Please refer to the Strategic Report.

Business relationships

The Companies (Miscellaneous Reporting) Regulations 2018, effective for years beginning on or after 1 January 2019, set out revised requirements for reporting on engagement with employees, suppliers, customers and others in a business relationship with the Company. The Group's approach to stakeholder engagement is summarised in our S172 Statement.

Political

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

Energy and Carbon reporting

Through NWL, the Group set out its carbon management plan in 2009 with the aim of reducing GHG emissions by 35% by 2020 against a 2008 baseline of 303 ktonnes. This target was achieved two years early in 2018/19 as a result of the investment in renewable energy and improved energy efficiency, along with lower emissions linked to grid electricity.

NWL's total net operational GHG emissions for the year ended 31 March 2020 reduced further to 139 ktonnes CO_2e (2019: 148 ktonnes CO_2e), which was 54% lower than the 2008 baseline. This included 94 ktonnes CO_2e resulting from the purchase of electricity and 37 ktonnes CO_2e arising from the use of fuels. A total of 532 million kWh of energy was consumed for these purposes.

NWL's energy supply deal and power purchase agreement with Ørsted provides energy from wind farms around the UK and is guaranteed to be emissions free. New protocols on reporting of emissions from electricity means that this can be reflected in reporting and, on this basis, emissions in 2019/20 were just 62 ktonnes CO_2e.

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

Treasury policies

As described in treasury policies section of the Strategic Report.

Financial risk management

Please refer see note 22 to the financial statements.

DIRECTORS' REPORT (continued)

Employment policies and employee engagement
The Group's policies in respect of the employment for disabled persons and employee involvement and engagement are set out in the performance section of the Strategic Report and our S172 Statement.

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

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

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

Financial statements preparation and going concern
The Group has sufficient funding and facilities in place to meet its requirements for the foreseeable future. The Directors believe that the Group is well placed to manage its business risks successfully and, accordingly, they continue to adopt the going concern basis in preparing the annual report and Group financial statements.

In arriving at their decision, the Directors have taken into account:
- the financial strength of the Group at the balance sheet date and financial performance, which is in line with expectations and reviewed at each Board meeting, most recently in July 2020;
- the key financial ratios over the next 12 month planning horizon, as reflected in NWL's investment grade credit ratings;
- the fact that the Group has in place £450m of committed bank facilities as back up liquidity, maturing in December 2024, which was undrawn at 31 March 2020;
- the water and wastewater contracts are expected to be profitable over the term of their respective contracts; and
- the Group's formal risk and governance arrangements which are monitored by the ARAC and Board.

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

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

Directors' responsibilities statement

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with IFRS as adopted by the European Union and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

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

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

MParker

Approved for issue by the Board of Directors
M Parker
General Counsel and Company Secretary
30 July 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN WATER GROUP LIMITED

Opinion

In our opinion:

- the financial statements of Northumbrian Water Group Limited (the 'parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent Company statements of changes in equity;
- the consolidated and parent Company balance sheets;
- the consolidated cash flow statement;
- the related consolidated notes 1 to 29; and
- the related parent Company notes 1 to 12.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Classification of capex, opex and capitalised overhead; • Provision for bad and doubtful debts; • Revenue recognition (valuation of the unbilled revenue accrual); • Going concern and impact of Covid-19; and • Impairment of Wave investment and associated loan balance.
Materiality	The materiality that we used for the Group financial statements was £12.3m which was determined on the basis of 5% of adjusted profit before tax.
Scoping	We performed a full scope audit work on key trading subsidiaries of the Group which represents 96.3% of the Group's total assets (before consolidation adjustments), 95.9% of the Group's revenue and 93.7% of the Group's profit before tax.
Significant changes in our approach	Changes in our approach were limited to raising the impairment of Wave investment and recoverability of associated balances to a key audit matter in light of the recent performance of Wave. Also adding a new key audit matter in relation to the going concern assumption. This is due to the Covid-19 pandemic that has had a significant impact on the UK and a number of countries throughout the world.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN WATER GROUP LIMITED (continued)

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Classification of capital expenditure and operating expenditure (NWL)	
Key audit matter description	The water industry is capital intensive and pipeline assets require regular maintenance and upgrades. There is an inherent risk in the industry that costs included in property, plant and equipment are not capital in nature and/or are not in line with the capitalisation criteria of IAS 16. Annual capital expenditure across PPE and intangibles spend was £282.7m for the year ended 31 March 2020 (2019: £269.6m), together with significant spend on maintenance costs. The classification of expenditure on capital assets also includes the allocation of overheads to capitalised amounts, which is judgemental in nature and the amount capitalised as intangibles. Given the level of capital expenditure forecast by the group and the prior year adjustment in relation to intangible assets being classified to PPE, it is important that appropriate policies are agreed in advance and adhered to. The capitalised labour costs were £43.7m for the year to 31 March 2020 (2019: £41.0m). Given the value involved in fixed asset additions, there being a degree of complexity in what can be capitalised and the allocation to either intangible or tangible assets, we deemed this as a potential fraud risk for our audit. Further details are included in notes 1(f) and 11 to the financial statements.
How the scope of our audit responded to the key audit matter	• We obtained an understanding of management's relevant controls over the processing of accounting entries associated with capital and operating expenditure; • We reviewed the appropriateness of the Group's capitalisation policies and its approach to determining which costs should be capitalised and which expensed; • We compared the actual capitalised expenditure incurred in the period with regulatory targets and make enquiries of management to understand any under/over spend; • We performed substantive testing on both capitalised and expensed amounts to assess whether these are classified in accordance with the group's policies and IAS 16; • We continued to challenge and understand the levels of capitalisation by comparing amounts capitalised by department in the current and prior years; • We performed testing over the completeness of intangibles and additions to this balance given the prior year error noted in 2019; • We tested a sample of capitalised overheads by agreeing to timesheets and project plans to assess whether capitalisation was appropriate and there is consistent application of the policy year on year; and • We assessed whether any there are impairment indicators or underutilised assets exist which would require an impairment to be recognised.

Key observations	The results of our procedures were satisfactory. We concluded that the classification of capex, opex and capitalised overheads are appropriate.

Provision for bad and doubtful debts (NWL)	
Key audit matter description	As stated in the critical accounting judgements and key sources of estimation uncertainty in note 1(t) of the Financial Statements, the value of the bad debt provision is calculated by applying a range of percentages to debt of different ages with higher percentages applied to different categories of debt depending on an assessment of the level of risk of default. There is a significant customer base, and regulations do not allow NWL to interrupt water supply to domestic customers. The valuation of the bad debt provision is sensitive to the specific percentages applied which are judgemental. At 31 March 2020 the bad debt provision was £104.6m (2019: £85.6m) and is therefore a significant balance. Of this £104.6m, we note an increase of £6.5m in the current year due to Covid-19 and expected bad debts as a result. The provision is based on assumptions made on the forecast and historic collectability of debts across both invoiced amounts and accrued revenues. There is a significant customer base and regulations do not allow NWL to interrupt water supply to domestic customers. The provision for bad and doubtful debts is significantly large and subject to high amount of management judgement and hence we have considered this to be a key audit matter. Due to the complexity in calculating the provision, particularly in the current year with the additional considerations around Covid-19, we deemed this as a potential fraud risk for our audit. Further details are included within notes 1(t) and 14 to the Financial Statements.
How the scope of our audit responded to the key audit matter	• We obtained an understanding of management's relevant controls surrounding the estimate; • We compared the assumptions made by management in calculating the provision to evidence provided from historical collection data; • We tested any bad debt write offs and utilisation of the provision during the year; • We tested the accuracy of the aged debtor balance and the ageing categories applied; • We assessed the reasonableness of any judgements made in respect of likely future events, including the effects of Covid-19 on debt collectability; • We tested a sample of credit notes raised to determine whether any were as a result of an event known but not appropriately provided for; • We tested a sample of bills included within the bad debt provision to assess the accuracy of the provision and ageing profile; • We compared current and prior year bad debt provision balances to assess completeness; • We challenged managements assumptions relating to amounts provided in response to Covid-19, referencing external market information where appropriate; • We performed sensitivity analysis on the provision to assess the impact of changes in the cash collection rate; and • We reviewed the receivables ageing report to assess whether overdue debtors are appropriately provided for.
Key observations	The results of our procedures were satisfactory. We have concluded that management's judgements are appropriate, including the additional £6.5m provision made during the year for Covid-19, and that the provision for bad and doubtful debts was appropriately stated.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN WATER GROUP LIMITED (continued)

Revenue recognition (valuation of unbilled revenue accrual) (NWL)	
Key audit matter description	The nature of NWL's business is such that it is not possible to read all water meters at year end. An estimate is therefore made of the unbilled revenue at the year end. At 31 March 2020 this measured income accrual was £110.3m (2019: £85.8m). Management estimates the amount of water and sewerage services that have been supplied to customers and not billed at year end, based on historic water consumption and default consumption rates. The revenue attributable to this unbilled revenue at year end is accrued. The accrual is both material and judgemental and is therefore considered to be a key audit matter. Towards year-end management were unable to physically visit customers' houses due to the UK-wide lockdown and so fewer meter readings were taken than in a normal year. The result of this has been a decrease in meter readings of 53,337 in the year, taking the percentage of unread metres in the year from 13% to 40% which has increased management judgement and estimation included within the balance as at 31 March 2020 compared to previous periods. Given the value of the accrual, the quantum of data and the level of estimation involved in calculating it, we deemed this as a potential fraud risk for our audit. Further details are included within notes 1(j), 2 and 14 to the financial statements.
How the scope of our audit responded to the key audit matter	• We obtained an understanding of management's relevant controls over the unbilled revenue accrual; • We performed substantive testing of the accrued revenue calculation and make an assessment of the appropriateness of accounting estimates made by management; • We re-performed management's retrospective review on the March 2019 balance; • We reviewed the accrued revenue balance for any potential recoverability issues by tracing a sample to subsequent bill and cash payment; and • We performed substantive analytical procedures on the year-end balance by forming an expectation compared to the prior year.
Key observations	The results of our procedures were satisfactory. We concluded that the valuation of unbilled revenue accrual is appropriate and concurred with management on judgements adopted.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN WATER GROUP LIMITED (continued)

<table>
<tr><th colspan="2">Going concern and impact of Covid-19</th></tr>
<tr><td>Key audit matter description</td><td>During the year, there has been the emergence of a global pandemic of a new strain of Coronavirus. The virus and responses taken by organisations and governments to manage its spread in markets to which the group is exposed have led to increased volatility and economic disruption.

Management have ensured that the measurement of assets and liabilities reflects only the conditions that existed at the reporting date and as part of their going concern review have performed procedures to assess the financial and operational impacts of Covid-19, including:
An assessment of operational resilience of Northumbrian Water Limited, challenging internal control and governance, critical business functions ensuring ongoing water supply is maintained throughout the crisis;
An assessment of certain key sources of estimation uncertainty and critical judgements such as the bad debt provision as discussed above;
Considerations of solvency and liquidity projections, including an assessment of the effects on short term and long term cash flow.
In order to fully assess the above, management have made a number of judgements and considered a range of factors. Management have also ran an extensive series of sensitivity analyses, taking into account a number of outcomes and the potential responses to these. Management have placed particular focus on the credit ratings and regulatory gearing, as these are relevant to assessing the covenants in the group's financing arrangements.

From the considerations undertaken, management believes that the group continues to be a going concern due to having robust plans in place to manage liquidity in the short and longer term as well as the stable solvency position of the wider Northumbrian Water Group.

Management has made disclosures throughout the annual report and financial statements to reflect the results of its assessment, in line with applicable accounting standards and the company law. Due to the inherent management judgement in the financial statement disclosures, particularly those relating to going concern, and the increased level of audit effort, we considered these to be a key audit matter. Further details are included in note 1(a) of the financial statements.</td></tr>
<tr><td>How the scope of our audit responded to the key audit matter</td><td>We assessed management's projected cash flows, which include the impact of Covid-19, and have performed sensitivity anlaysis;
We challenged management's estimations and judgements used in the forecasting of future cash flows used in the assessment of the group's liquidity;
We obtained an understanding of relevant controls implemented when forecasting cash flows;
We assessed the operational impact of Covid-19 on the group and have analysed management's assessment of the ability of the group to continue as a going concern;
We considered whether plans are in place to allow the group to assess whether a continued supply of water to customers throughout the impact of the pandemic, including any emergency repair works required;
We reviewed the most recent Board minutes and regulatory correspondence to identify items of interest;
We evaluated management's assessment of the impact of the significant business developments, including the spread of Covid-19 and the resulting actions taken by the UK Government;
We evaluated management's assessment of the impact of recent events on the carrying value of the Group's assets and liabilities including intergroup receivables; and
We assessed the disclosure made by management in the financial statements.</td></tr>
<tr><td>Key observations</td><td>The results of our procedures were satisfactory. We concluded that the adoption of the going concern basis of accounting and the disclosures related to the potential impact of Covid-19 and in respect of the Group's ability to continue as a going concern are appropriate.</td></tr>
</table>

Impairment of Wave investment and associated loan balance	
Key audit matter description	Given the spread of Covid-19 across the United Kingdom and globally, this has negatively impacted the performance of the joint venture (Wave). Specifically, there is an expected decrease in cash collection resulting from short term liquidity issues of customers in the non-household industry due to Covid-19. We focused our risk on the carrying value of the investment in the joint venture and whether this should be impaired due to the recoverable amount being less than the carrying amount of £7.1m (2019: £13.6m). In addition to the investment there are material long term receivables of £15.6m (2019: £15.6m) that have been assessed for recoverability. Management have prepared a paper around this given the complex nature of determining the carrying value as it involves a significant amount of management judgement and assumptions, we have deemed this to be a key audit matter. Further details are included within notes 12 and 14 to the financial statements.
How the scope of our audit responded to the key audit matter	• Obtained an understanding of management's relevant control over the investment carrying value, particularly their review of potential impairment; • Reviewed management's paper assessing the investment and whether an impairment is required in light of Covid-19; and • Reviewed external market data and assessed whether this is in support/contradiction of management's calculations and challenged management's assumptions and calculations, by benchmarking against publically available data.
Key observations	The results of our procedures were satisfactory and we conclude that management's assumptions applied in their impairment assessment on the Wave investment and associated loan balance are appropriate.

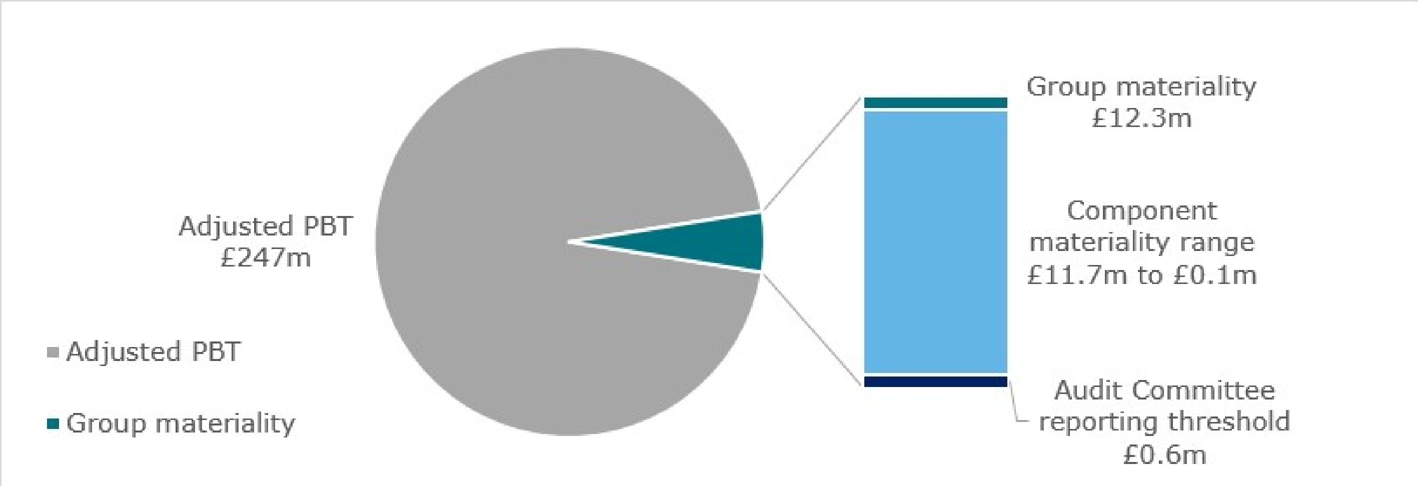
Materiality
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	**Parent Company financial statements**
Materiality	£12.3m (2019: £10.4m)	£11.7m (2019: £10.3m)
Basis for determining materiality	5% (2019: 5%) of adjusted profit before tax. This was adjusted to take account of derivative valuation movements charged to the income statement in the year. This has been excluded due to the level of volatility of such derivative valuation movements, in order to provide a consistent basis year on year.	1% (2019: 1%) of equity Parent Company materiality equates to 1% of net assets, which is capped at 95% of group materiality.
Rationale for the benchmark applied	The shareholders are interested in the financial performance of the Group and as such monitors the business through how profitable the business is in order to maximise their returns. Therefore, profit before tax was determined to be most appropriate, being the stake they hold in the business.	Given the parent Company is a holding company, equity was determined to be the most appropriate method of determining materiality.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN WATER GROUP LIMITED (continued)

Materiality (continued)



Performance materiality
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of group materiality for the 2020 audit (2019: 70%). In determining group performance materiality, we considered the low number of corrected and uncorrected misstatements in the prior years, our cumulative knowledge of the group, the control environment and low turnover within management or key accounting personnel.

Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.6m (2019: £0.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. We performed full scope audit on key trading subsidiaries of the Group which represents 96.3% of the Group's total assets (before consolidation adjustments), 95.9% of the Group's revenue and 93.7% of the Group's profit before tax. Our audit work on the component entities was conducted at levels of materiality applicable to each individual entity which were lower than group materiality and are capped at a range of £0.1m to £11.7m (2019: £0.1m to £10.3m).

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the entities not subject to audit.

Our consideration of the control environment
We involved our IT specialists to assess relevant controls over the company's IT systems. As planned and reported to the Audit Committee, we adopt a fully substantive testing approach in the current and prior years.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN WATER GROUP LIMITED (continued)

Other information
The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception
Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:
- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NORTHUMBRIAN WATER GROUP LIMITED (continued)

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of these matters.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Anthony Matthews

Anthony Matthews FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Newcastle upon Tyne
30 July 2020

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2020

	Note	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Continuing operations			
Revenue	2	**938.9**	907.6
Operating costs	3	**(572.5)**	(557.6)
Profit before interest	2	**366.4**	350.0
Finance costs	7	**(249.6)**	(254.5)
Finance income	7	**2.8**	2.6
Net gain/(loss) on financial instruments	7	**5.1**	(14.6)
Share of loss after tax of jointly controlled entities	12(a)	**(5.8)**	(2.2)
Profit before taxation	2	**118.9**	81.3
Current taxation	8(a)	**(19.7)**	(14.5)
Deferred taxation	8(a)	**(55.4)**	(12.0)
Profit for the year		**43.8**	54.8
Attributable to:			
Equity shareholders of the parent Company		**43.3**	54.3
Non-controlling interests		**0.5**	0.5
		43.8	54.8

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 March 2020

	Note	**Year to 31 March 2020 £m**	Year to 31 March 2019 £m
Profit for the year		**43.8**	54.8
Items that will not be reclassified subsequently to the income statement:			
Actuarial losses	26	**15.5**	(21.3)
Tax on items credited to equity not reclassified	8	**0.8**	3.6
Items that may be reclassified subsequently to the income statement:			
Gains on cash flow hedges taken to equity		**(1.1)**	2.1
Translation differences		**0.3**	-
Tax on items charged to equity that may be reclassified	8	**0.4**	(0.3)
Other comprehensive expense		**15.9**	(15.9)
Total comprehensive income for the year		**59.7**	38.9
Attributable to:			
Equity shareholders of the parent Company		**59.6**	38.6
Non-controlling interests - profit for the year		**0.5**	0.5
Non-controlling interests - other comprehensive expense		**(0.4)**	(0.2)
		59.7	38.9

CONSOLIDATED BALANCE SHEET
As at 31 March 2020

	Note	**31 March 2020 £m**	31 March 2019 £m
Non-current assets			
Intangible assets	10	**154.8**	138.9
Property, plant and equipment	11	**4,589.9**	4,468.7
Investments in jointly controlled entities	12	**11.2**	18.1
Financial assets		**11.5**	11.4
Loan receivables due from associated companies		**31.6**	31.6
		4,799.0	4,668.7
Current assets			
Inventories	13	**6.0**	5.2
Trade and other receivables	14	**243.3**	195.5
Interest bearing loans	14	**18.9**	12.6
Income tax receivable	14	**10.7**	-
Short term cash deposits	15	**1.3**	1.3
Cash and cash equivalents	15	**59.4**	20.9
		339.6	235.5
Total assets		**5,138.6**	4,904.2
Non-current liabilities			
Interest bearing loans and borrowings	18	**4,295.5**	4,205.3
Provisions	20	**1.3**	1.4
Deferred income tax liabilities	8	**466.5**	412.3
Pension liability	26	**83.7**	106.8
Derivatives	22	**71.3**	75.3
Other payables		**1.3**	1.8
Grants and deferred income	21	**408.0**	385.4
		5,327.6	5,188.3
Current liabilities			
Interest bearing loans and borrowings	18	**44.3**	55.8
Provisions	20	**0.2**	0.2
Trade and other payables	17	**284.8**	221.1
Income tax payable		**-**	7.1
		329.3	284.2
Total liabilities		**5,656.9**	5,472.5
Net liabilities		**(518.3)**	(568.3)
Capital and reserves			
Called up share capital	23	-	-
Other reserve		**51.9**	51.9
Share premium reserve		**446.5**	446.5
Cash flow hedge reserve		**(10.6)**	(9.9)
Currency translation		**(0.8)**	(1.1)
Accumulated deficit		**(1,008.3)**	(1,059.0)
Equity shareholders' deficit		**(521.3)**	(571.6)
Non-controlling interests		**3.0**	3.3
Total capital and reserves		**(518.3)**	(568.3)

Approved by the Board of Directors and authorised for issue on 30 July 2020 and signed on its behalf by:

H Mottram
Chief Executive Officer
Registered number 04760441

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Other reserve £m	Share premium reserve £m	Cash flow hedge reserve £m	Currency translation £m	Retained earnings £m	Total equity £m	Non-controlling interests £m	Total £m
At 1 April 2018	51.9	446.5	(11.7)	(1.1)	(1,128.4)	(642.8)	3.4	(639.4)
Profit for the year	-	-	-	-	54.3	54.3	0.5	54.8
Other comprehensive income/(expense)	-	-	1.8	-	(17.5)	(15.7)	(0.2)	(15.9)
Total comprehensive income and expense for the year	-	-	1.8	-	36.8	38.6	0.3	38.9
Adoption of IFRS 15	-	-	-	-	58.9	58.9	-	58.9
Equity dividends paid (see note 9)	-	-	-	-	(26.3)	(26.3)	(0.4)	(26.7)
At 31 March 2019	51.9	446.5	(9.9)	(1.1)	(1,059.0)	(571.6)	3.3	(568.3)
Profit for the year	-	-	-	-	43.3	43.3	0.5	43.8
Gains on cash flow hedges taken to equity	-	-	(1.1)	-	-	(1.1)	-	(1.1)
Tax on items charged to equity	-	-	0.4	-	-	0.4	-	0.4
Other comprehensive (expense)/income	-	-	-	0.3	16.7	17.0	(0.4)	16.6
Total comprehensive income and expense for the year	-	-	(0.7)	0.3	60.0	59.6	0.1	59.7
Equity dividends paid (see note 9)	-	-	-	-	(9.3)	(9.3)	(0.4)	(9.7)
At 31 March 2020	**51.9**	**446.5**	**(10.6)**	**(0.8)**	**(1,008.3)**	**(521.3)**	**3.0**	**(518.3)**

The ‘other reserve’ represents the Company’s reorganisation of its ordinary share capital on 8 March 2013, which the Directors consider to be distributable.

The cash flow hedge reserve arises from the cumulative amount of gains or losses on hedging instruments and associated deferred tax taken directly to equity under the hedge accounting provisions of IAS 39.

The currency translation reserve arises from exchange differences on translation of the net assets of Group’s foreign subsidiaries.

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 March 2020

	Note	**Year to 31 March 2020 £m**	Year to 31 March 2019 £m
Operating activities			
Reconciliation of profit before interest to net cash flows			
Profit before interest		**366.4**	350.0
Depreciation and impairment losses		**145.5**	140.1
Other non-cash charges and credits		**(9.7)**	(7.8)
Net credit for provisions, less payments		**(0.1)**	(0.2)
Difference between pension contributions paid and amounts recognised in the income statement		**(9.8)**	(9.5)
Capital grants received		**14.9**	-
Increase in inventories		**(0.8)**	(0.9)
Increase in trade and other receivables		**(47.6)**	(25.1)
Increase in trade and other payables		**1.2**	14.2
Cash generated from operations		**460.0**	460.8
Interest paid		**(175.1)**	(230.4)
Income taxes paid (including overseas tax paid of £0.2m (2019: £0.2m)		**(37.5)**	(18.9)
Net cash flows from operating activities		**247.4**	211.5
Investing activities			
Interest received		**2.1**	0.9
Capital grants received		**-**	6.2
Proceeds on disposal of property, plant and equipment		**1.1**	3.3
Dividends received from jointly controlled entities		**0.7**	1.0
Short term cash deposits		**-**	0.6
Maturity of investments		**(0.1)**	-
Purchase of property, plant and equipment and intangible assets		**(246.6)**	(248.0)
Net cash flows from investing activities		**(242.8)**	(236.0)
Financing activities			
New borrowings		**103.3**	10.0
Settled hedge instrument		**-**	(0.2)
Dividends paid to minority interests		**(0.4)**	(0.4)
Dividends paid to equity shareholders		**(9.3)**	(26.3)
Repayment of borrowings		**(49.1)**	(39.4)
Net movement in borrowings to joint ventures		**(6.3)**	-
Payment of principal in respect of leases		**(4.3)**	(5.8)
Net cash flows from financing activities		**33.9**	(62.1)
Increase/(decrease) in cash and cash equivalents		**38.5**	(86.6)
Cash and cash equivalents at start of year	15	**20.9**	107.5
Cash and cash equivalents at end of year	15	**59.4**	20.9
Cash and cash equivalents at end of year	15	**59.4**	20.9
Short term cash deposits	15	**1.3**	1.3
Total cash, cash equivalents and short term cash deposits		**60.7**	22.2

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 March 2020

1. ACCOUNTING POLICIES

(a) Statement of compliance
The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union as it applies to the financial statements of the Group for the year ended 31 March 2020 and in accordance with the Companies Act 2006.

The financial statements have been prepared on a going concern basis taking into account the principal risks and uncertainties disclosed in the Directors' Report, which assumes that the Group will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 March 2020, the Group had net current assets of £10.3m (2019: net current liabilities of £48.7m) and net liabilities of £518.3m (2019: £568.3m). The Directors have reviewed cash flow requirements, including reasonably possible changes in trading performance, and are confident that they will be able to meet these from funds available and existing financing facilities. Accordingly, the Directors believe it is appropriate to prepare the financial statements on a going concern basis. Further details can be found in the 'Financial statements preparation and going concern' section in the Directors' Report.

The Directors consider the following accounting policies to be relevant in relation to the Group's financial statements. The financial statements of the Group for the year ended 31 March 2020 were authorised for issue by the Board of Directors on 30 July 2020 and the balance sheet was signed on the Board's behalf by H Mottram (CEO).

NWG is a private company, limited by shares and is registered, incorporated and domiciled in England and Wales.

The Group financial statements are presented in sterling and all values are rounded to the nearest one hundred thousand pounds (£0.1m) except where otherwise indicated.

The Group has adopted a number of standards, amendments to standards and interpretations during the year. There was no material impact on the financial statements.

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

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

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

Former operating leases
IFRS 16 has changed how the Group accounts for leases previously classified as operating leases under IAS 17. In applying IFRS 16 to these leases, the Group has:
- recognised right of use assets and lease liabilities in the balance sheet, initially measured at the present value of future lease payments, with the right of use asset adjusted by any prepayments or accruals in accordance with IFRS 16:C8(b)(ii); and
- recognised depreciation of right of use assets and interest of lease liabilities in the income statement; and.

The Group has used the following practical expedients when applying the cumulative catch up approach to former operating leases:
- applied a single discount rate to portfolios of leases with reasonable similar characteristics; and
- elected not to recognise right of use assets and lease liabilities to leases for which the lease term ends within 12 months of the date of initial application.

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

Impact of initial application of IFRS 16
The weighted average incremental borrowing rate applied to lease liabilities recognised in the balance sheet on 1 April 2019 is 2.6%.

1. ACCOUNTING POLICIES (continued)

(a) Statement of compliance (continued)

Impact of initial application of IFRS 16 (continued)
The table below shows the operating lease commitments disclosed under IAS 17 as at 31 March 2019 discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognised in the balance sheet on 1 April 2019:

	£m
Operating lease commitment at 31 March 2019	14.5
Effect of discounting the above amount	(9.4)
Lease liabilities recognised at 1 April 2019	5.1

The Group has recognised £5.1m as right of use assets in respect of former operating leases.

(b) Basis of consolidation
The consolidated financial statements have been prepared under the historical cost convention as modified by financial instruments recognised at fair value. The consolidated financial statements include the Company and its subsidiary undertakings. The results of subsidiaries acquired during the period are included from the date of their acquisition. The results of subsidiaries disposed of during the period are included to the date of their disposal. Inter-segment revenue and profits are eliminated fully on consolidation. In accordance with IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities, the financial statements of two companies are consolidated as special purpose entities, with effect from 12 May 2004, the date of the transaction which utilised these entities.

Where necessary, adjustments are made to bring the accounting policies used under relevant local GAAP in the individual financial statements of the Company, subsidiaries and jointly controlled entities into line with those used by the Group under IFRS.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented within equity in the consolidated balance sheet, separately from parent shareholders' equity.

(c) Associates and jointly controlled entities
Investments in associates and jointly controlled entities in the Group financial statements are accounted for using the equity method of accounting where the Group exercises significant influence over the associate. Significant influence is generally presumed to exist where the Group's effective ownership is 20% or more. The Group's share of the post tax profits less losses of associates and jointly controlled entities is included in the consolidated income statement and the carrying value in the balance sheet comprises the Group's share of their net assets/liabilities less distributions received and any impairment losses. Goodwill arising on the acquisition of associates and jointly controlled entities, representing the excess of the cost of investment compared to the Group's share of net fair value of the associate's identifiable assets, liabilities and contingent liabilities, is included in the carrying amount of the associate and is not amortised. Where necessary, adjustments are made to bring the accounting policies used into line with those of the Group to take into account fair values assigned at the date of acquisition and to reflect impairment losses where appropriate. Adjustments are also made to the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entities and associates.

(d) Goodwill
Goodwill arising on the acquisition of subsidiary undertakings and businesses represents the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Prior to 1 April 2004, goodwill was amortised over its estimated useful life; such amortisation ceased on 31 March 2004. Goodwill relating to acquisitions since 1 April 2004 is not amortised. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purposes of impairment testing, goodwill is allocated to the related cash-generating units monitored by management. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement. The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

1. ACCOUNTING POLICIES (continued)

(e) Intangible assets other than goodwill
Intangible assets include computer software and are recognised at cost less accumulated amortisation and any provision for impairment. Computer software is amortised evenly to its estimated economic life over a period of 2 to 25 years. Software is not amortised until commissioned.

Other intangible fixed assets represent the right to receive income under the operating agreement with the EA in respect of the Kielder Water transfer scheme. The value of this intangible asset has been assessed with reference to the net monies raised in accordance with the Kielder securitisation on 12 May 2004. The term of the operating agreement is in perpetuity and, accordingly, no amortisation is provided. The value of this intangible is assessed for impairment on an annual basis in accordance with IAS 36 'Impairment of Assets'.

Expenditure on internally developed intangible assets, excluding development costs, is taken to the income statement in the period in which it is incurred. Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Development expenditure is recognised as an intangible asset only after its technical feasibility and commercial viability can be demonstrated, the availability of adequate technical and financial resources and an intention to complete the project have been confirmed and the correlation between development costs and future revenues has been established.

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

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

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

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows: freehold buildings, 30-60 years; operational structures, plant and machinery, 4-92 years; infrastructure assets 4-200 years (see below); and fixtures, fittings, tools and equipment, 4-25 years.

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

Infrastructure assets
In the regulated water services business, infrastructure assets comprise a network of systems being mains and sewers, reservoirs, dams and sea outfalls.

Infrastructure assets were measured at a date prior to transition to IFRS (23 May 2003) at their fair value, which was adopted as deemed historical cost on transition to IFRS. The assets and liabilities were measured at fair value as a result of the acquisition on 23 May 2003.

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

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

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

1. ACCOUNTING POLICIES (continued)

(g) Financial assets
Financial assets comprise loans to third parties recoverable in more than one year and include cash held on long term deposit as a guaranteed investment contract relating to the Kielder securitisation. These assets are recognised at cost and are measured annually based on the ability of the borrower to repay. Any impairment is taken to the income statement in the period in which it arises. Other financial assets are measured at amortised cost using the effective interest rate method. The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(h) Foreign currency transactions
Transactions in foreign currencies are initially recorded in the functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rate of exchange ruling at the balance sheet date. The functional and presentational currency of NWG is United Kingdom sterling (£). Assets and liabilities of subsidiaries and jointly controlled entities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial period and the results of foreign subsidiaries are translated at the average rate of exchange for the period. Differences on exchange arising from the re-translation of the opening net investment in subsidiary companies and jointly controlled entities, and from the translation of the results of those companies at the average rate, are taken to equity. All other foreign exchange differences are taken to the income statement in the period in which they arise.

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes on cash and cash equivalents held or due in a foreign currency is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities, where material, and includes the differences, if any, had those cash flows been reported at end of period exchange rates.

(i) Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs, as well as an element of overheads that have been incurred in bringing the inventories to their present locations and condition.

(j) Revenues
Provision of services
Revenue, which excludes value added tax, represents the fair value of the income receivable in the ordinary course of business for services provided. In accordance with IFRS 15, revenue is recognised as performance obligations to the customer are satisfied.

Revenue is not recognised until the services have been provided to the customer. Revenue for services relates to the period, excluding any amounts paid in advance. Revenue for measured water and wastewater charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information. Wholesale charges for non-household customers are estimated on the basis of market information provided by MOSL. This policy represents no change to the timing of recognition for water and wastewater services upon the adoption of IFRS 15.

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

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

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

1. ACCOUNTING POLICIES (continued)

(k) Dividends
Dividends payable and receivable are recognised when the shareholders' right to receive the revenue is established.

(l) Grants and contributions
Grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Revenue grants are credited to the income statement in the period to which they relate. Capital grants and contributions relating to property, plant and equipment are treated as deferred income and amortised to the income statement over the expected useful economic lives of the related assets. Deferred income relating to assets adopted from customers, recognised in accordance with IFRIC 18, is amortised to the income statement over the expected useful economic lives of the related assets.

(m) Leases
The Group has adopted IFRS 16 with effect from 1 April 2019 (note 1(a)).

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

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

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

The lease liability is presented as a separate line in the balance sheet.

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

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- the lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); or
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

1. ACCOUNTING POLICIES (continued)

(n) Pensions and other post-employment benefits

Defined benefit scheme

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

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

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

Defined contribution scheme

The Group also operates defined contribution schemes. Obligations for contributions to the scheme are recognised as an expense in the income statement in the period in which they arise.

(o) Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

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

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

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

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

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly controlled entities, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

1. ACCOUNTING POLICIES (continued)

(o) Taxation

Deferred tax (continued)

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

(p) Derivative financial instruments

The Group utilises interest and inflation rate swaps, forward power contracts and forward exchange contracts as derivative financial instruments.

The Group designates certain derivatives as hedging instruments in respect of commodity risk and interest rate risk in cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationship meets all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the hedge is effective on a retrospective basis; and
- the hedge is effective on a prospective basis

A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies. Interest rate swap agreements are used to manage interest rate exposures. All derivative fair values are calculated with reference to relevant market rates at the reporting date. Further detail is provided in note 22.

The Group has not applied hedge accounting criteria under IFRS 9 on a retrospective basis. Existing derivative financial instruments, if eligible for hedge accounting, continue to apply the hedging criteria under the provisions of IAS 39.

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

An accounting policy choice is available with regards to applying the hedge accounting requirements of IFRS 9 or retaining the requirements of IAS 39. The Group has elected to retain the requirements of IAS 39.

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

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

1. ACCOUNTING POLICIES (continued)

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

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

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

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

Loans and borrowings acquired at acquisition are restated to fair value. The adjustment arising on acquisition is amortised to the income statement on the basis of the maturity profile of each instrument. Realised gains and losses that occur from the early termination of loans and borrowings are taken to the income statement in that period.

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

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

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

(s) Cash and cash equivalents and short term cash deposits
Cash and cash equivalents disclosed in the balance sheet comprise cash at bank and in hand and short term deposits with a maturity on acquisition of three months or less, which are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. Cash equivalents are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

Short term cash deposits disclosed in the balance sheet comprise cash deposited with a maturity of greater than three months on acquisition, a fixed interest rate and which do not constitute cash equivalents under IAS 7 ‘Statement of Cash Flows’.

For the purpose of the consolidated cash flow statement, cash and cash equivalents are as defined above, net of outstanding bank overdrafts.

1. ACCOUNTING POLICIES (continued)

(t) Trade and other receivables
Trade receivables are measured at fair value on initial recognition. If there is objective evidence that the amount receivable is impaired, it is written down to its recoverable amount, with the irrecoverable amount being recognised as an expense in operating costs.

The Group makes use of a simplified approach in accounting for trade and other receivables and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the trade receivable. In calculating the expected loss, the Group applies expected recovery rates, based on actual historical cash performance and forward looking information.

(u) Fixed asset investments
Investments are initially recorded at the fair value of the consideration given including the acquisition charges associated with the investment. Subsequent to initial recognition, they are valued at original cost less any impairment.

(v) Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required and a reliable estimate can be made of the amount of the obligation.

(w) Impairment of assets
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses on continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(x) De-recognition of financial assets and liabilities
A financial asset or liability is generally de-recognised when the contract that gives rise to it is settled, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

1. ACCOUNTING POLICIES (continued)

(y) Accounting standards
At the date of signing of these financial statements, there are no standards or interpretations in issue but not yet adopted which the Directors anticipate will have a material impact on the Group. The Directors anticipate that the Group will adopt these standards on their effective dates.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
In September 2019, the IASB issued Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures. The application of the amendments impacts the Group's accounting in the following ways:

- The Group has floating rate debt, linked to GBP LIBOR (EIB borrowing), which it cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.
- The Group will not discontinue hedge accounting should the retrospective assessment of hedge effectiveness fall outside the 80-125 per cent range and the hedging relationship is subject to interest rate benchmark reforms. For those hedging relationships that are not subject to the interest rate benchmark reforms the entity continues to cease hedge accounting if retrospective effectiveness is outside the 80-125 per cent range.
- The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to the income statement.

The Group has chosen to early apply the amendments to IAS 39 for the reporting period ending 31 March 2020, which are mandatory for annual reporting periods beginning on or after 1 January 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

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

The significant accounting judgements were:
- the estimation of uncertain tax provisions, which are assessed on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities; and
- the asset lives assigned to property, plant and equipment, details of which can be found in note 1(f).

The significant accounting estimates were:
- those assumptions used in arriving at the pension asset/liability under IAS 19. These key assumptions and their possible impact are disclosed in note 26, 'Pensions and other post-retirement benefits';
- the bad debt provision, which is determined by estimating expected credit losses based on the Group's historical experience of irrecoverable debts. Debt is segmented according to the age of the debt, payment history and type of debt (eg. current or previous occupier). Higher provisioning percentages are applied to categories of debt which are considered to be of greater risk, including those with a poor payment history as well as to those of greater age. Bad debt provisioning rates are reviewed annually to reflect the latest collection performance data. Potential impacts of forward-looking macro-economic factors on collectability are also considered. A reduction of 0.1% in the long term collection rate would increase the provision by £5.9m.

2. SEGMENTAL ANALYSIS

For management purposes, the Group is organised into business units according to the nature of its products and services and has three reportable operating segments. The trading of the business is principally carried out within the UK. Profit is measured at profit before interest.

Northumbrian Water Limited (NWL)
NWL is one of the ten regulated water and sewerage businesses in England and Wales. NWL operates in the north east of England, where it trades as Northumbrian Water, and in the south east of England, where it trades as Essex & Suffolk Water. NWL also has non-regulated activities closely related to its principal regulated activity.

Water and wastewater contracts
NWG owns a number of companies to deliver specific water and wastewater contracts in Scotland, the Republic of Ireland and Gibraltar. NWG also controls a farm based anaerobic digestion plant in West Yorkshire, England.

Other
Central unallocated costs and provisions are included in this segment.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

Revenue

	NWL £m	Water and wastewater contracts £m	Other £m	Total £m
Year ended 31 March 2020				
Segment revenue	**901.2**	**37.1**	**8.0**	**946.3**
Inter-segment revenue	**-**	**(0.1)**	**(7.3)**	**(7.4)**
Revenue from external customers	**901.2**	**37.0**	**0.7**	**938.9**
Year ended 31 March 2019				
Segment revenue	870.2	36.9	7.3	914.4
Inter-segment revenue	-	(0.1)	(6.7)	(6.8)
Revenue from external customers	870.2	36.8	0.6	907.6

Profit before interest

	NWL £m	Water and wastewater contracts £m	Other £m	Total £m
Year ended 31 March 2020				
Segment profit/(loss) before interest	**368.8**	**0.3**	**(2.7)**	**366.4**
Net finance costs				**(241.7)**
Share of loss after tax from jointly controlled entities				**(5.8)**
Profit before taxation				**118.9**
Taxation				**(75.1)**
Profit for the year from continuing operations				**43.8**
Year ended 31 March 2019				
Segment profit/(loss) before interest	348.3	3.5	(1.8)	350.0
Net finance costs				(266.5)
Share of loss after tax from jointly controlled entities				(2.2)
Profit before taxation				81.3
Taxation				(26.5)
Profit for the year from continuing operations				54.8

2. SEGMENTAL ANALYSIS (continued)

Assets and liabilities

	NWL		Water and waste water contracts		Other		Total	
	31 March 2020 £m	31 March 2019 £m	**31 March 2020 £m**	31 March 2019 £m	**31 March 2020 £m**	31 March 2019 £m	**31 March 2020 £m**	31 March 2019 £m
Segment assets	**5,009.7**	4,789.8	**20.6**	20.0	**108.3**	94.4	**5,138.6**	4,904.2
Segment liabilities	**4,395.5**	4,276.6	**8.6**	7.2	**1,252.8**	1,188.7	**5,656.9**	5,472.5

Other comprises head office companies and internal balances.

	NWL		Water and waste water contracts		Other		Total	
	31 March 2020 £m	31 March 2019 £m	**31 March 2020 £m**	31 March 2019 £m	**31 March 2020 £m**	31 March 2019 £m	**31 March 2020 £m**	31 March 2019 £m
Property, plant and equipment additions	**256.5**	263.8	**0.8**	0.7	**1.5**	0.8	**258.8**	265.3
Depreciation	**133.8**	129.5	**2.4**	2.4	**-**	-	**136.2**	131.9

Geographical information

Revenue from continuing operations from external customers from the UK was £918.9m (2019: £887.4m). Revenue from other countries was £20.0m (2019: £20.2m).

Profit before tax from continuing operations from UK activities, which includes the results from joint controlled entities (see note 12a), was £117.0m (2019: £78.2m). Profit before tax from overseas activities was £1.9m (2019: £3.1m).

Non-current assets for operations in the UK were £4,796.4m (2019: £4,664.7m). Non-current assets for operations in other countries were £2.6m (2019: £4.0m).

3. OPERATING COSTS

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Materials and consumables	**21.0**	19.6
Inventories recognised as an expense	**2.8**	3.4
Total employment costs (see note 6)	**162.7**	156.6
Own work capitalised	**(43.8)**	(41.1)
Depreciation of property, plant and equipment (see note 11)	**136.2**	131.9
Amortisation of intangible assets (see note 10)	**9.3**	8.2
Profit on disposal of property, plant and equipment	**(1.0)**	(2.8)
Amortisation of capital grants	**(0.4)**	(0.4)
Costs of research and development	**0.8**	0.9
Operating lease payments	**-**	2.4
Bad debt charge	**22.0**	12.4
Other operating costs	**262.9**	266.5
Operating costs	**572.5**	557.6

4. AUDITOR'S REMUNERATION

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Fees payable for the audit of parent Company and consolidated financial statements	**0.1**	0.1
Other fees to auditor:		
Audit of subsidiaries	**0.2**	0.3
Audit related assurance services	**0.1**	0.1
Other non-audit services	**0.1**	0.1
	0.5	0.6

The prior year costs for the audit of subsidiaries included fees related to the implementation of new accounting standards and a new customer billing system.

5. DIRECTORS' EMOLUMENTS

(a) Directors' remuneration

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

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Emoluments (including benefits in kind)	**870**	977

None of the Directors were members of the defined contribution pension scheme at 31 March 2020 (2019: nil).

Long Term Incentive Plan (LTIP)
Executive Directors participate in a cash based LTIP. The LTIP is designed to operate as a modest retention mechanism only.

The LTIP is payable on financial performance only, with 50% related to delivery of expected distributions to Group shareholders in line with the Board approved plan and 50% related to achievement of the Group profit after tax target. For each element, there will be no vesting if less than 97.5% of the target value is achieved, increasing on a sliding scale to 50% vesting if 100% of the target is achieved and 100% vesting if 105% of the target is achieved. The structure will change in 2020/21 where up to 40% will be payable on financial targets and up to 60% payable on balanced scorecard targets.

The amount disclosed in note 5(b), includes £nil (2019: £63k) in respect of the amount received under the LTIP.

(b) Highest paid Director

The amounts for remuneration shown in note 5(a) include the following in respect of the highest paid Director:

	Year to 31 March 2020 £000	Year to 31 March 2019 £000
Emoluments (including benefits in kind)	**834**	930

6. EMPLOYEE INFORMATION

The total employment costs of all employees (including Directors) of the Group were:

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Wages and salaries	**121.9**	118.4
Social security costs	**12.9**	12.6
Defined benefit pension service cost (see note 26)	**21.0**	19.4
Other pension costs	**6.9**	6.2
Total employment costs	**162.7**	156.6

Total employment costs were charged as follows:		
Capital schemes and infrastructure renewals	**40.3**	37.6
Manpower costs	**122.4**	119.0
	162.7	156.6

The average monthly number of employees (including Directors) of the Group were:

	Year to 31 March 2020 Number	Year to 31 March 2019 Number
NWL	**3,108**	3,146
Water and wastewater contracts	**158**	149
	3,266	3,295

7. FINANCE (INCOME)/COSTS

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Bank, other loans and overdrafts	**242.1**	233.8
Amortisation of discount, fees, loan issue costs and other financing items	**(0.7)**	(0.5)
Interest income in respect of derivatives	**(4.5)**	(4.9)
(Loss)/gain on arising on swaps where hedge accouting is not applied	**(5.1)**	14.6
Capitalisation of interest	**(17.1)**	(8.5)
Accretion on index linked bonds	**24.9**	29.4
Interest cost on pension plan obligations	**2.2**	2.1
Finance costs on leases	**2.7**	3.1
Total finance costs	**244.5**	269.1
Finance income	**(2.8)**	(2.6)
Net finance costs	**241.7**	266.5

8. TAXATION

(a) Tax on profit

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Current tax:		
UK current income tax charge at 19% (2019: 19%)		
- continuing operations	**26.7**	18.3
Adjustment in respect of prior periods	**(7.5)**	(4.1)
UK corporation tax	**19.2**	14.2
Overseas tax	**0.5**	0.3
Total current tax	**19.7**	14.5
Deferred tax:		
Origination and reversal of temporary differences in the year at 19% (2019: 17%)		
- continuing operations	**0.9**	4.9
Effect of changes in tax rates and laws:		
Impact of increase in rate of UK corporation tax	**52.2**	-
Adjustment in respect of prior periods	**2.3**	7.1
Total deferred tax	**55.4**	12.0
Total tax charge in the income statement	**75.1**	26.5

The rate of UK corporation tax for the current year was 19%. The reduction to 17% with effect from 1 April 2020 included in Finance Act 2016 has been cancelled. Accordingly, deferred tax has been restated from 17% to 19% and all movements have been calculated at the higher rate.

A proportion of the Group's interest payable in the current year is considered not to be deductible for tax purposes under the corporate interest restriction (CIR) rules and has increased the current tax charge by £5.1m (2019: £5.7m). The current tax booked in 2019 has been fully reversed in the current year as the interest disallowance has not materialised.

The prior year current tax credit mainly reflects the CIR reversal referred to above (£5.7m), the benefit of R&D and revised capital allowances claims (£2.4m), partially offset by thin capitalisation adjustments (£0.6m).

The prior year deferred tax charge mainly reflects the benefit of R&D and revised capital allowances claims.

Overseas tax relates to the Group's trading activities in the Republic of Ireland and Gibraltar.

(b) Tax relating to items charged or credited outside the income statement

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Deferred tax:		
Actuarial gains and losses on pension schemes	**2.9**	(3.6)
Cash flow hedges	**(0.2)**	0.3
Impact of increase in rate of UK corporation tax	**(3.9)**	-
Tax credit in the statement of comprehensive income	**(1.2)**	(3.3)

Deferred tax:		
Items that will not be reclassified subsequently to the income statement:		
Retirement benefit obligations	**(0.8)**	(3.6)
Cash flow hedges	**(0.4)**	0.3
Total	**(1.2)**	(3.3)

8. TAXATION (continued)

(c) Reconciliation of the total tax charge

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Profit before taxation	**118.9**	81.3
Profit before tax multiplied by standard rate of corporation tax of 19% (2019: 19%)	**22.6**	15.4
Effects at 19% of:		
Expenses not deductible for tax purposes	**4.0**	8.1
Depreciation in respect of non-qualifying items	**1.2**	1.2
Non-taxable income	**(0.2)**	(0.5)
Non-allowable share of jointly controlled entities	**1.1**	0.4
Non-taxable amortisation of financing items	**(0.6)**	(0.6)
Adjustment to tax charge in respect of prior periods	**(5.2)**	3.0
	22.9	27.0
Effect of changes in tax rates and laws:		
Impact on deferred tax balance of increase in rate of UK corporation tax	**52.2**	-
Impact on movement in deferred tax of reduction in main rate of UK corporation	**-**	(0.5)
Total tax charge reported in the income statement	**75.1**	26.5

The effective tax rate for the year ended 31 March 2020 was 63.2% (2019: 32.6%). The increase of 30.6% reflects the restatement of deferred tax from 17% to 19% (43.9%) and other various small differences (1.4%), partially offset by a decrease in expenses not deductible for tax purposes (6.6%) and prior period credits (8.1%).

The tax impact of expenses not deductible for tax purposes includes £3.6m (2019: £7.6m) in respect of non-allowable interest arising from the application of the CIR (see note 8(a) above) and thin capitalisation rules.

(d) Deferred tax

The movements in deferred tax liabilities/(assets) are as follows:

	Accelerated tax depreciation £m	Deferred income £m	Tax losses £m	Retirement benefit obligations £m	Fair value hedging instruments £m	Business combinations £m	Other £m	Total £m
At 1 April 2018	460.7	(57.3)	(0.4)	(17.0)	(10.7)	5.4	10.9	391.6
Opening adjustment re IFRS 15	-	12.0	-	-	-	-	-	12.0
Charge/(credit) in the income statement	7.2	(2.8)	(0.3)	2.3	(2.4)	(0.1)	8.1	12.0
Charge/(credit) in other comprehensive income	-	-	-	(3.6)	0.3	-	-	(3.3)
At 31 March 2019	467.9	(48.1)	(0.7)	(18.3)	(12.8)	5.3	19.0	412.3
Charge/(credit) in the income statement	64.8	(9.7)	(0.1)	3.0	(0.3)	0.4	(2.7)	55.4
Credit in other comprehensive income	-	-	-	(0.8)	(0.4)	-	-	(1.2)
At 31 March 2020	**532.7**	**(57.8)**	**(0.8)**	**(16.1)**	**(13.5)**	**5.7**	**16.3**	**466.5**

Other includes deferred tax liabilities of £12.2m (2019: £10.9m) in respect of intangible assets (see note 10) and £9.8m (2019: £7.4m) in respect of capitalised interest.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

8. TAXATION (continued)

(e) Factors that may affect future tax charges
The Group expects to continue to incur high levels of capital expenditure for the foreseeable future which, under current tax legislation, should result in claims for tax reliefs in excess of depreciation.

9. DIVIDENDS PAID AND PROPOSED

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Declared, paid and in specie during the year:		
Equity dividends on ordinary shares:		
A shares:		
Interim dividend for the year ended 31 March 2020: £46,645 per share (2019: £66,645 per share)	**9.0**	12.9
Second interim dividend for the year ended 31 March 2020: £nil per share (2019: £65,088 per share)	**-**	12.6
B shares:		
Interim dividend for the year ended 31 March 2020: £197 per share (2019: £282 per share)	**0.3**	0.4
Second interim dividend for the year ended 31 March 2020: £nil per share (2019: £275 per share)	**-**	0.4
Dividends paid	**9.3**	26.3

No final dividend is proposed for the year ended 31 March 2020 (2019: £nil).

10. INTANGIBLE ASSETS

	Software £m	Assets in development £m	Other £m	Total £m
Cost:				
At 1 April 2019	97.4	29.7	64.2	191.3
Additions	-	23.9	-	23.9
Schemes commissioned	31.9	(31.9)		-
Transfers from Property, Plant and Equipment	1.3	-	-	1.3
At 31 March 2020	**130.6**	**21.7**	**64.2**	**216.5**
Amortisation:				
At 1 April 2019	52.4	-	-	52.4
Charge for the year	9.3	-	-	9.3
At 31 March 2020	**61.7**	**-**	**-**	**61.7**
Carrying value:				
At 31 March 2020	**68.9**	**21.7**	**64.2**	**154.8**
At 31 March 2019	45.0	29.7	64.2	138.9

The other intangible asset represents the right in perpetuity to receive income under the operating agreement with the EA in respect of the Kielder Water transfer scheme and, therefore, the Directors consider the asset has an indefinite life. Accordingly, future cash flows, which increase in line with inflation and have been assumed at 2.56%, have been discounted at a rate of 2.5% in perpetuity to calculate a value in use. This represents a long term nominal gilt yield and an assumed credit spread. This calculation satisfied the Group that the carrying value at 31 March 2020 had not been impaired. Furthermore, it is improbable that the discount rate would increase to such a level that the carrying value would be impaired.

The Group continues to apply IAS 23 Borrowing Costs (Revised) and has capitalised £1.2m for the year ended 31 March 2020 (2019: £1.9m restated). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.43% (2019: 4.30%).

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Infrastructure assets £m	Operational structures, plant and machinery £m	Fixtures, fittings, tools and equipment £m	Assets in the course of construction £m	Total £m
Cost:						
At 1 April 2018	155.1	2,672.0	2,960.3	230.3	169.6	6,187.3
Additions	-	13.4	5.7	0.3	245.9	265.3
Schemes commissioned	3.6	85.1	101.9	4.0	(194.6)	-
Disposals	-	(1.6)	(3.6)	-	-	(5.2)
At 31 March 2019	158.7	2,768.9	3,064.3	234.6	220.9	6,447.4
Additions	5.1	13.9	0.4	-	239.4	258.8
Schemes commissioned	2.4	81.7	125.7	6.7	(216.5)	-
Reclassifications	-	-	(2.1)	0.8	-	(1.3)
Disposals	-	(3.3)	(2.4)	-	-	(5.7)
At 31 March 2020	**166.2**	**2,861.2**	**3,185.9**	**242.1**	**243.8**	**6,699.2**
Depreciation:						
At 1 April 2018	60.0	260.3	1,341.3	189.9	-	1,851.5
Charge for the year	3.5	28.4	91.1	8.9	-	131.9
Disposals	-	(1.6)	(3.1)	-	-	(4.7)
At 31 March 2019	63.5	287.1	1,429.3	198.8	-	1,978.7
Charge for the year	4.1	30.5	94.0	7.6	-	136.2
Reclassifications	-	-	(0.1)	0.1	-	-
Disposals	-	(3.3)	(2.3)	-	-	(5.6)
At 31 March 2020	**67.6**	**314.3**	**1,520.9**	**206.5**	**-**	**2,109.3**
Net book value at 31 March 2020	**98.6**	**2,546.9**	**1,665.0**	**35.6**	**243.8**	**4,589.9**
Net book value at 31 March 2019	95.2	2,481.8	1,635.0	35.8	220.9	4,468.7
Net book value at 1 April 2018	95.1	2,411.7	1,619.0	40.4	169.6	4,335.8
Right of Use Assets included above:						
Additions in the year	5.1	0.7	0.1	-	-	5.9
Depreciation charge for the year	0.5	2.1	0.8	-	-	3.4
Carrying value at 31 March 2020	**4.6**	**45.4**	**10.8**	**-**	**-**	**60.8**
Carrying value at 31 March 2019	**-**	**46.8**	**11.5**	**-**	**-**	**58.3**

Operational structures, plant and machinery include an element of land and buildings dedicated to those assets. It is not possible to separately identify the value of all land assets. The Group continues to apply IAS 23 Borrowing Costs (Revised) and has capitalised £9.4m for the year ended 31 March 2020 (2019: £6.6m). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 4.43% (2019: 4.30%).

12. INVESTMENTS

	31 March 2020 £m	31 March 2019 £m
Investments in jointly controlled entities	**11.2**	18.1

(a) Investments in jointly controlled entities
The Group, through NWGCSL, holds 50% of the nominal value of issued ordinary £1 shares in Vehicle Lease and Service Limited (VLS). VLS was incorporated in England and Wales and undertakes the business of hiring, leasing and servicing of vehicles and plant.

The Group, through Northumbrian Water Projects Limited (NWP), holds a 50% interest in CNL, a jointly controlled entity incorporated in the Republic of Ireland undertaking a water network management contract. Due to poor performance of this contract, the Group has written-off its carrying value in the jointly controlled entity during the year.

NWG also directly owns 50% of a joint venture company, Wave Ltd (Wave) which, through its trading subsidiary, carries out non-household retail activities in England and Scotland.

	Wave	**VLS**	**CNL**	**Total**	Wave	VLS	CNL	Total
	31 March 2020	**31 March 2020**	**31 March 2020**	**31 March 2020**	31 March 2019	31 March 2019	31 March 2019	31 March 2019
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Revenue	**280.7**	**9.0**	**12.8**	**302.5**	274.3	9.0	12.3	295.6
Operating costs	**(285.9)**	**(7.7)**	**(12.9)**	**(306.5)**	(274.2)	(7.8)	(13.6)	(295.6)
Profit/(loss) before interest	**(5.2)**	**1.3**	**(0.1)**	**(4.0)**	0.1	1.2	(1.3)	-
Finance costs payable	**(2.3)**	**(0.3)**	**-**	**(2.6)**	(2.2)	(0.3)	-	(2.5)
Finance income receivable	**0.3**	**-**	**-**	**0.3**	0.3	-	-	0.3
Profit/(loss) before taxation	**(7.2)**	**1.0**	**(0.1)**	**(6.3)**	(1.8)	0.9	(1.3)	(2.2)
Taxation	**0.7**	**(0.2)**	**-**	**0.5**	0.2	(0.2)	-	-
Profit/(loss) for the year	**(6.5)**	**0.8**	**(0.1)**	**(5.8)**	(1.6)	0.7	(1.3)	(2.2)
Non-current assets	**11.8**	**10.7**	**-**	**22.5**	13.3	9.3	-	22.6
Current assets	**90.5**	**9.0**	**2.0**	**101.5**	97.1	8.9	4.0	110.0
Share of gross assets	**102.3**	**19.7**	**2.0**	**124.0**	110.4	18.2	4.0	132.6
Current liabilities	**(64.4)**	**(7.3)**	**(1.6)**	**(73.3)**	(58.5)	(6.1)	(3.5)	(68.1)
Non-current liabilities	**(30.8)**	**(8.3)**	**-**	**(39.1)**	(38.3)	(8.1)	-	(46.4)
Share of gross liabilities	**(95.2)**	**(15.6)**	**(1.6)**	**(112.4)**	(96.8)	(14.2)	(3.5)	(114.5)
Share of net assets	**7.1**	**4.1**	**0.4**	**11.6**	13.6	4.0	0.5	18.1

Where, for commercial reasons, the accounting reference date of a joint venture is a date other than that of the Company, management accounts made up to the Company's accounting reference date have been used.

The Group has impaired its carrying value of its investment in CNL to £nil as at 31 March 2020.

12. INVESTMENTS (continued)

(b) The Group's interests in subsidiaries at 31 March 2020 were as follows:

Name of undertaking	Country of incorporation or registration and operation	Description of shares held	Proportion of nominal value of issued shares held by Group (%)	Business activity
NWG Commercial Solutions Limited[1]	England and Wales	Ordinary shares of £1	100	Holding of investments and loans
Northumbrian Water Limited[1]	England and Wales	Ordinary shares of £1	100	Water and sewerage services
Northumbrian Water Finance plc[1]	England and Wales	Ordinary shares of £1	100	Holding of finance instruments
Caledonian Environmental Levenmouth Treatment Services Limited[1]	England and Wales	Ordinary shares of £1	100	Wastewater services
Ayr Environmental Services Operations Limited[2]	Scotland	Ordinary shares of £1	100	Wastewater services
AquaGib Limited[3]	Gibraltar	Ordinary shares of £1	67	Water and sewerage services
Northumbrian Water Projects Limited[1]	England and Wales	Ordinary shares of £1	100	Wastewater services
Analytical & Environmental Services Limited[1, 5]	England and Wales	Ordinary Shares of £1	100	Dormant
Essex and Suffolk Water Limited[1]	England and Wales	Ordinary Shares of £1	99.6	Holder of loan note
Northumbrian Holdings Limited[1, 5]	England and Wales	Ordinary Shares of £1	100	Dormant
Northumbrian Water Mexico Limited[1, 5]	England and Wales	Ordinary Shares of £1	100	Dormant
Northumbrian Water Pension Trustees Limited[1]	England and Wales	Ordinary Shares of £1	100	Pension trustee company
Northumbrian Water Share Scheme Trustees Limited[1, 5]	England and Wales	Ordinary Shares of £1	100	Dormant
NWG Bioenergy Limited[1]	England and Wales	Ordinary Shares of £1	100	Advanced digestion operation
Reiver Finance Limited[1]	England and Wales	Ordinary Shares of £1	100	Finance
Reiver Holdings Limited[1]	England and Wales	Ordinary Shares of £1	100	Holding company
Three Rivers Insurance Company Limited[4]	Isle of Man	Ordinary Shares of £1	100	Insurance
Europa Environments Limited[6, 7]	Gibraltar	Ordinary shares of £1	100	Dormant

1. Registered office: Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ, UK.
2. Registered office: Meadowhead Wastewater Treatment Works and Sludge Treatment Centre, Meadowhead Road, Irvine, Ayrshire, KA11 5AY, UK.
3. Registered office: 10B Leanse Place, 50 Town Range, Gibraltar.
4. Registered office: 1st Floor, Goldie House, 1-4 Goldie Terrace, Upper Church Street, Douglas, Isle of Man, IM1 1EB.
5. The company is entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies.
6. Registered office: Suite 23, 10 Portland House, Glacis Road, Gibraltar.
7. The company is entitled to exemption from audit under section 259 of the Gibraltar Companies Act, 2014 relating to the reporting requirements for a small company.

NWG Commercial Solutions Limited and Northumbrian Water Limited are directly held. All other subsidiaries listed above are indirectly held.

13. INVENTORIES

	31 March 2020	31 March 2019
	£m	£m
Raw materials and consumables	**6.0**	5.2

14. TRADE AND OTHER RECEIVABLES

	31 March 2020	31 March 2019
	£m	£m
Trade receivables	**191.8**	162.9
Doubtful debt provision	**(104.6)**	(85.8)
Amounts owed by jointly controlled entities	**18.9**	27.6
Interest bearing loans	**18.9**	12.6
Prepayments and accrued income	**116.4**	80.7
Income tax receivable	**10.7**	-
Other receivables	**20.8**	10.1
	272.9	208.1

Other debtors principally reflect amounts receivable in respect of value added tax and contractor gain sharing contracts. As at 31 March 2020, interest bearing loans were owed by jointly controlled entities.

As at 31 March 2020, trade receivables at nominal value of £104.6m (2019: £85.8m) were impaired. Movements in the provision for impairment of trade receivables were as follows:

	£m
At 1 April 2018	80.2
Charge for the year	12.4
Utilised	(6.8)
At 31 March 2019	85.8
Charge for the year	22.0
Utilised	(3.2)
At 31 March 2020	**104.6**

The analysis of trade receivables overdue but not impaired on a net basis is as follows:

	0-3 months	3-12	12-24	24-36	36-48	Total
	£m	£m	£m	£m	£m	£m
At 31 March 2020	**0.2**	**24.6**	**31.0**	**19.6**	**14.1**	**89.5**
At 31 March 2019	1.4	18.2	27.8	17.9	11.4	76.7

15. CASH AND CASH EQUIVALENTS AND SHORT TERM DEPOSITS

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise the following:

	31 March 2020	31 March 2019
	£m	£m
Cash at bank and in hand	**29.2**	12.6
Cash equivalent deposits	**30.2**	8.3
Cash and cash equivalents	**59.4**	20.9
Short term cash deposits >3 months	**1.3**	1.3

Cash at bank in hand includes £13.3m of restricted cash in respect of the Kielder securitisation and is therefore unavailable for general use by the Group. This is in addition to the £11.5m financial asset disclosed on the face of the balance sheet, which represents cash held on long term deposit as a guaranteed investment contract relating, also relating to the Kielder securitisation.

17. TRADE AND OTHER PAYABLES

	31 March 2020	31 March 2019
	£m	£m
Trade payables	**31.5**	28.7
Other payables	**13.1**	15.1
Interest payable	**46.8**	43.8
Amounts payable to related parties	**105.2**	48.0
Accruals and deferred income	**88.2**	85.5
	284.8	221.1

Other creditors includes amounts due in respect of payroll related liabilities, insurance liabilities, deposits held, holiday pay accrual and contract retentions.

18. INTEREST BEARING LOANS AND BORROWINGS

	31 March 2020 £m	31 March 2019 £m
Current:		
Current instalments on borrowings (principal £39.1m, 2019: £50.8m)	**39.9**	51.8
Current obligations under leases (see note 19)	**4.4**	4.0
	44.3	55.8
Non-current:		
Non-current obligations on leases (principal £60.3m, 2019: £57.1m) (see note 18)	**60.1**	56.9
Non-current instalments on borrowings (principal £4,256.9m, 2019: £4,167.4m)	**4,235.4**	4,148.4
	4,295.5	4,205.3
Borrowings comprise the following:		
Shareholder loan notes (principal £1,033.2m, 2019: £1,033.2m)	**1,033.2**	1,033.2
Loans (principal £540.5m, 2019: £578.8m)	**539.1**	577.3
Eurobonds - due 6 February 2023 bearing interest rate of 6.875% (principal £350.0m, 2019: £350.0m)	**358.3**	360.9
Eurobonds - due 29 April 2033 bearing interest rate of 5.625% (principal £350.0m, 2019: £350.0m)	**347.7**	347.7
Eurobonds - due 23 January 2042 bearing interest rate of 5.125% (principal £360.0m, 2019: £360.0m)	**344.6**	343.9
Eurobonds - due 11 October 2026 bearing interest rate of 1.625% (principal £300.0m, 2019: £300.0m)	**298.4**	298.2
Eurobonds - due 5 October 2027 bearing interest rate of 2.375% (principal £300.0m, 2019: £300.0m)	**297.7**	297.4
Eurobonds - due 23 January 2034 bearing interest rate of 5.87526% (principal £240.7m, 2019: £243.1m)	**239.0**	241.3
Index linked Eurobonds – due 15 July 2036 bearing interest rate of 2.033% (principal £229.9m, 2019: £223.7m)	**227.3**	220.9
Index linked Eurobonds – due 30 January 2041 bearing interest rate of 1.6274% (principal £90.4m, 2019: £88.0m)	**90.3**	87.9
Index linked Eurobonds – due 16 July 2049 bearing interest rate of 1.7118% (principal £149.7m, 2019: £145.7m)	**149.8**	145.8
Index linked Eurobonds – due 16 July 2053 bearing interest rate of 1.7484% (principal £149.7m, 2019: £145.7m)	**149.8**	145.8
Index linked Private Placement – due 29 October 2039 bearing interest rate of 0.242% (principal £100.4m, 2019: £0.0m)	**100.1**	-
US Private Placement (USPP) notes - due 14 April 2021 bearing interest rate of 5.82% (principal £100.0m, 2019: £100.0m)	**100.0**	99.9
	4,275.3	4,200.2
Less current instalments due on bank loans (principal £39.1m, 2019: £50.8m)	**(39.9)**	(51.8)
	4,235.4	4,148.4

The difference between the principal value of £4,255.2m (2019: £4,167.4m) and the carrying value of £4,234.9m (2019: £4,148.4m) is unamortised issue costs of £26.1m (2019: £27.6m) and a credit of £5.8m (2019: £8.6m) in excess of the original loan proceeds to reflect the fair value of loans owed by subsidiaries acquired in 2003.

The Eurobonds – due 23 January 2034 are secured on the income receivable under the Kielder Water transfer scheme for the period to 23 January 2034.

The value of the capital and interest elements of the index linked Eurobonds are linked to movements in the UK RPI (see note 1(q)).

19. LEASES

(a) Lease obligations under IFRS 16
At 1 April 2019, the Group adopted IFRS 16 and has applied the standard retrospectively with the cumulative effect recognised at the date of initial application (note 1(a)). Prior years have not been restated.

The Group holds leases in respect of land and buildings, and to acquire plant, machinery and motor vehicles.

Land and building rent reviews are triggered by the lessor and typically take place every 3 to 5 years, at which point there may be an increase in rental payments. There are no purchase options or escalation clauses in respect of these leases and the terms of renewal are governed by Landlord and Tenant legislation. There are no restrictions imposed by these lease arrangements. There are no contingent rents, escalation clauses or material renewal or purchase options. The leases impose no restrictions in respect of dividends or raising additional debt. The obligations are as follows:

	31 March 2020 £m	31 March 2019 £m
Maturity analysis:		
Year 1	**4.5**	-
Year 2	**3.8**	-
Year 3	**3.1**	-
Year 4	**2.2**	-
Year 5	**1.6**	-
Onwards	**49.3**	-
	64.5	-

(b) Finance lease and operating lease commitments under IAS 17:

Leases previously classified as finance leases under IAS 17:

	31 March 2019 £m
Future minimum lease payments	
Amounts due:	
Not later than one year	6.0
After one year but not more than five years	18.9
Later than five years	70.9
	95.8
Less finance charges allocated to future periods	(34.9)
Present value of minimum lease payments	60.9
Present value minimum lease payments	
Amounts due:	
Not later than one year	4.0
After one year but not more than five years	10.6
Later than five years	46.3
	60.9
Disclosed as due:	
Current liability	4.0
Non-current liability	56.9
	60.9

Leases previously classified as operating leases under IAS 17:

The future minimum rentals payable under non-cancellable operating leases:

	31 March 2019 £m
Not later than one year	0.5
After one year but not more than five years	1.0
After five years	11.1
	12.6

20. PROVISIONS

	Decommissioning £m	Other £m	Total £m
At 1 April 2019			
Current	-	0.2	0.2
Non-current	0.5	0.9	1.4
At 1 April 2019	0.5	1.1	1.6
Utilised	-	(0.1)	(0.1)
At 31 March 2020	**0.5**	**1.0**	**1.5**
Analysed as:			
Current	-	0.2	0.2
Non-current	0.5	0.8	1.3
	0.5	**1.0**	**1.5**

The other provision represents outstanding pension liabilities that have been awarded on a discretionary basis. These pension liabilities have been calculated by an independent actuary, using the same actuarial assumptions as applied to the defined benefit pension scheme (see note 26), and are expected to be paid over the remaining lives, which is approximately three years. The decommissioning provision relates to an anaerobic digestion plant which is expected to be utilised at the end of the lease related to the plant in 2036.

21. GRANTS AND DEFERRED INCOME

	Capital grants and contributions £m	Revenue from contracts £m	Total £m
At 1 April 2019	383.6	1.8	385.4
Additions	28.4	-	28.4
Amortised during the year	(5.5)	(0.3)	(5.8)
At 31 March 2020	**406.5**	**1.5**	**408.0**

22. FINANCIAL INSTRUMENTS

(a) Group strategy and funding risk

The level of capital expenditure which the Group is obliged to incur is such that it cannot be wholly financed by internally generated sources. As a result, the Group must rely upon raising additional finance on a regular basis, to be principally used to fund the long term assets required in its regulated business. The Group's strategy is to finance such investment by raising medium to long term debt, to provide a balance sheet match with long term assets and to fix a major proportion of interest rates. In order to raise this finance efficiently, the Board's aim is to retain a prudent investment grade credit rating. A reduction in the credit rating would likely restrict future sources of funding and increase the associated cost of new borrowing.

(b) Treasury operations

The main purpose of the Group's treasury function is to assess the Group's ongoing capital requirement and to raise funding on a timely basis, taking advantage of any favourable market opportunities. It also invests any surplus funds the Group may have, based upon its forecast requirements and in accordance with the Group's treasury policy. On occasions, derivatives are used as part of this process but the Group's policies prohibit their use for speculation.

(c) Risks arising from the Group's financial instruments

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. All treasury activities are conducted in accordance with these policies.

(d) Liquidity risk

As regards day to day liquidity, the Group's policy is to have available committed bank borrowing facilities with a value of no less than £50m and with a bank agreement availability period of no less than three months. At 31 March 2020, the Group had £450m (2019: £450m) of undrawn committed bank facilities (maturing in 2023).

22. FINANCIAL INSTRUMENTS (continued)

(e) Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. It borrows at both fixed and variable rates of interest and, accordingly, uses interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations. The Group's policy is to keep a minimum 60% of its borrowings at fixed rates of interest. At 31 March 2020, 66% (2019: 67%) of the Group's borrowings were at fixed rates of interest. Index linked borrowings are treated as variable rate debt.

The Group is exposed to the GBP LIBOR interest rate benchmarks within its hedge accounting relationships, which are subject to interest rate benchmark reform. As listed in note 1y, the hedged items include sterling variable rate debt.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates. This includes announcements made by LIBOR regulators (including the Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission) regarding the transition away from GBP LIBOR to the Sterling Overnight Index Average Rate (SONIA). The FCA has made clear that, at the end of 2021, it will no longer seek to persuade, or compel, banks to submit to LIBOR.

In response to the announcements, a transition project is being undertaken to mange and respond to all aspects of IBOR reform across the business, comprised of the following work streams: risk management, tax, treasury, legal, accounting and systems. The aim of the project is to understand where IBOR exposures are within the business and prepare and deliver on an action plan to enable a smooth transition to alternative benchmark rates. The Group aims to have its transition and fall back plans in place by the end of 2020.

None of the Group's current GBP LIBOR linked contracts include adequate and robust fall back provisions for a cessation of the referenced benchmark interest rate. Different working groups in the industry are working on fall back language for different instruments and different IBORs, which the Group is monitoring closely and will look to implement these when appropriate.

For the Group's derivatives, the International Swaps and Derivatives Association's (ISDA) fall back clauses were made available at the end of 2019 and the Group will begin discussion with its banks with the aim to implement this language into its ISDA agreements in 2020.

Below are details of the hedging instruments and hedged items in scope of the IAS 39 amendments due to interest rate benchmark reform, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Termination	Notional	Hedged item
Cash flow	Receive 3-month GBP LIBOR, pay GBP fixed interest rate swap	15 March 2022	£100m	GBP LIBOR EIB borrowing of the same maturity and nominal of the swap
Cash flow	Receive 3-month GBP LIBOR, pay GBP fixed interest rate swap	15 October 2025	£150m	GBP LIBOR EIB borrowing of the same maturity and nominal of the swap

(f) Foreign currency risk

The Group's policy is that any foreign currency exposure in excess of £100k sterling equivalent of a transactional nature, or £3m sterling equivalent of a translation nature, should be covered immediately on identification. Any exposures are covered through the use of forward foreign exchange contracts.

Increase in basis points	£m
Year ended 31 March 2020	
+50	**0.2**
+100	**0.3**
+150	**0.5**
Year ended 31 March 2019	
+50	0.2
+100	0.3
+150	0.5

22. FINANCIAL INSTRUMENTS (continued)

(g) Market price risk
The Group's exposure to market price risk principally comprises interest rate exposures. The Group's policy is to accept a degree of interest rate risk. The following table shows the impact on profit and equity of an increase in the variable cost of borrowing. The range is considered reasonable based on the forecast variable rates of borrowing and all other elements being consistent for the next 12 months and highlights this is not material to the Group:

(h) Credit risk
There are no significant concentrations of credit risk within the Group. Management's assessment of the maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date (see 22(o)). A significant proportion of the trade debtor balances are with domestic customers who are unlikely to have a published credit rating (see note 14).

(i) Counterparty risk
The treasury strategy, which is approved by the Board, requires that investments are limited to certain money market and treasury instruments, and that the Group's exposure to any single bank, building society or market is controlled, with maximum deposits allowed with any single counterparty. The investment criteria cover credit rating and asset size, including sovereign and political risk. Current market conditions have resulted in closer monitoring of counterparties.

(j) Capital risk
The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy credit ratios in order to support its business and maximise shareholder value.

The Group monitors capital using gearing ratios for the Group and NWL. The Group's policy is to keep the gearing ratio less than 80% and 77.5% for the Group and NWL, respectively. The RCV at 31 March 2020 was £4,316.2m (2019: £4,271.7m). On this basis and excluding shareholder loan notes, the gearing ratios were 74% for the Group and 68% for NWL. As at 31 March 2020, none of the Group's covenants had been breached.

(k) Contractual maturity of financial liabilities (principal and future interest payments)
The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 31 March 2020

	Less than 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Interest bearing loans and borrowings	74.7	235.9	1,432.3	5,890.7	7,633.6
Derivative financial instruments in hedge relationships	1.9	-	-	-	1.9
Derivative financial instruments not in hedge relationships	0.3	1.0	5.0	26.7	33.0
Trade and other payables	192.6	20.9	-	-	213.5
	269.5	**257.8**	**1,437.3**	**5,917.4**	**7,882.0**

Year ended 31 March 2019

	Less than 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Interest bearing loans and borrowings	75.6	209.2	1,423.1	5,775.6	7,483.5
Derivative financial instruments in hedge relationships	0.2	0.6	0.1	-	0.9
Derivative financial instruments not in hedge relationships	-	0.8	5.0	31.2	37.0
Trade and other payables	129.1	20.2	-	-	149.3
	204.9	230.8	1,428.2	5,806.8	7,670.7

22. FINANCIAL INSTRUMENTS (continued)

(l) Maturity profile of financial assets and liabilities (carrying value)
Year ended 31 March 2020

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Fixed rate:							
Shareholder loan notes	-	-	-	-	-	(1,033.2)	(1,033.2)
Eurobonds	(4.4)	(5.1)	(354.4)	(2.2)	(2.4)	(1,517.2)	(1,885.7)
USPP notes	-	(100.0)	-	-	-	-	(100.0)
Bank loans	(25.3)	(25.5)	(15.5)	(15.5)	(15.5)	(41.4)	(138.7)
Leases	(4.0)	(3.1)	(2.4)	(1.6)	(0.8)	(4.3)	(16.2)
Other loans	-	(0.2)	-	-	-	-	(0.2)
Loans receivable	-	-	-	-	-	50.5	50.5
Fixed rate as at 31 March 2020	**(33.7)**	**(133.9)**	**(372.3)**	**(19.3)**	**(18.7)**	**(2,545.6)**	**(3,123.5)**
Variable rate:							
Cash and cash equivalents	59.4	-	-	-	-	-	59.4
Short term cash deposits	1.3	-	-	-	-	-	1.3
Financial investments	-	-	-	-	-	11.5	11.5
Eurobonds	0.2	0.2	0.2	0.2	0.2	(618.2)	(617.2)
Bank loans	(10.5)	(10.3)	(10.3)	(10.3)	(10.5)	(348.3)	(400.2)
Leases	(0.4)	(0.5)	(0.6)	(0.7)	(0.9)	(45.2)	(48.3)
Private Placement	0.1	-	-	0.1	-	(100.3)	(100.1)
Variable rate as at 31 March 2020	**50.1**	**(10.6)**	**(10.7)**	**(10.7)**	**(11.2)**	**(1,100.5)**	**(1,093.6)**
Net borrowings as at 31 March 2020							**(4,217.1)**

Year ended 31 March 2019

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Fixed rate:							
Shareholder loan notes	-	-	-	-	-	(1,033.2)	(1,033.2)
Eurobonds	(5.2)	(4.3)	(5.1)	(354.2)	(2.2)	(1,518.4)	(1,889.4)
USPP notes	-	0.1	(100.0)	-	-	-	(99.9)
Bank loans	(26.1)	(24.9)	(25.5)	(15.5)	(15.5)	(56.6)	(164.1)
Leases	(3.5)	(2.9)	(2.4)	(1.7)	(0.9)	(0.6)	(12.0)
Other loans	-	-	-	-	-	(0.2)	(0.2)
Loans receivable	-	-	-	-	-	44.2	44.2
Fixed rate as at 31 March 2019	(34.8)	(32.0)	(133.0)	(371.4)	(18.6)	(2,564.8)	(3,154.6)
Variable rate:							
Cash and cash equivalents	20.9	-	-	-	-	-	20.9
Short term cash deposits	1.3	-	-	-	-	-	1.3
Financial investments	-	-	-	-	-	11.4	11.4
Eurobonds	0.2	0.2	0.2	0.2	0.2	(601.4)	(600.4)
Bank loans	(20.7)	(10.1)	(10.3)	(10.3)	(10.4)	(351.2)	(413.0)
Leases	(0.5)	(0.4)	(0.5)	(0.6)	(0.7)	(46.2)	(48.9)
Variable rate as at 31 March 2019	1.2	(10.3)	(10.6)	(10.7)	(10.9)	(987.4)	(1,028.7)
Net borrowings as at 31 March 2019							(4,183.3)

The variable rate net borrowings comprise sterling denominated bank borrowings and deposits that bear interest at rates based upon up to 12 months LIBOR, CPI and RPI.

(m) Currency exposures
At 31 March 2020, after taking into account the effects of forward foreign exchange contracts, with the exception of the impact of translating the net assets of foreign operations into sterling, the Group had no material currency exposures (2019: £nil). At 31 March 2020, the Group held forward foreign exchange contracts with a future transaction value of £nil (2019: £4.5m) for the purpose of hedging the foreign currency risk of committed future purchases. At 31 March 2020, the fair value gain on the Company's outstanding foreign exchange contracts was £nil (2019: £0.3m).

22. FINANCIAL INSTRUMENTS (continued)

(n) Borrowing facilities

The Group has various undrawn committed borrowing facilities. The facilities available in respect of which all conditions precedent have been met, are as follows:

	31 March 2020	31 March 2019
	£m	£m
Expiring in more than two years but not more than five years	**450.0**	450.0

(o) Fair values of financial assets and financial liabilities

A comparison by category of book values, which are all recognised at amortised cost except for interest rate swaps which are recognised at fair value, and fair values of the Group's financial assets and liabilities is set out below:

	Book value		Fair value	
	31 March 2020	31 March 2019	**31 March 2020**	31 March 2019
	£m	£m	**£m**	£m
Financial assets:				
Cash and cash equivalents	**59.4**	20.9	**59.4**	20.9
Short term cash deposits	**1.3**	1.3	**1.3**	1.3
Financial investments	**11.5**	11.4	**11.5**	11.4
Loans receivable	**50.5**	44.2	**50.5**	44.2
Trade and other receivables	**254.0**	195.5	**254.0**	195.5
	376.7	**273.3**	**376.7**	**273.3**
Financial liabilities:				
Shareholder loan notes (principal £1,033.2m, 31 March 2019: £1,033.2m)	**(1,033.2)**	(1,033.2)	**(1,033.2)**	(1,033.2)
Bank loans (principal £540.5m, 31 March 2019: £578.8m)	**(539.1)**	(577.3)	**(518.9)**	(556.9)
Eurobonds (principal £2,520.4m, 31 March 2019: £2,506.2m)	**(2,502.9)**	(2,489.8)	**(2,859.2)**	(3,062.5)
Private Placement (principal £100.4m, 31 March 2019: £0.0m)	**(100.1)**	-	**(91.0)**	-
USPP notes (principal £100.0m, 31 March 2019: £100.0m)	**(100.0)**	(99.9)	**(105.7)**	(106.7)
Leases (principal £64.7m, 31 March 2019: £61.1m)	**(64.5)**	(60.9)	**(64.5)**	(60.9)
Derivatives	**(71.3)**	(75.3)	**(71.3)**	(75.3)
Trade and other payables	**(284.8)**	(221.1)	**(284.8)**	(221.1)
	(4,695.9)	(4,557.5)	**(5,028.6)**	(5,116.6)
	(4,319.2)	(4,284.2)	**(4,651.9)**	(4,843.3)

The fair values of the derivatives and sterling denominated long term fixed rate and index linked debt with a book value of £2,839.3m (2019: £2,725.9m), have been determined by reference to prices available from the markets on which the instruments involved are traded. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

In the absence of an openly traded market value for the index linked bonds with a book value of £539.1m (2019: £577.3m), the fair value at the balance sheet date has been calculated by considering the remaining debt maturity, the relevant UK index linked gilt rate and an appropriate credit spread by reference to market evidence for conventional bonds.

The difference between the principal value of £4,359.4m (2019: £4,279.3m) and the carrying value of £4,339.8m (2019: £4,261.1m) is unamortised issue costs of £28.2m (2019: £29.7m) and a credit of £8.6m (2019: £11.5m) in excess of the original loan proceeds to reflect the fair value of loans owed by subsidiaries acquired in 2003.

22. FINANCIAL INSTRUMENTS (continued)

(p) Hedges

Cash flow hedges – currency forward contracts

At 31 March 2020, the Group held no forward exchange contracts.

At 31 March 2019, the Group held the following forward exchange contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £m
USD 1,245,000.00	4 April 2019	1.4550	0.9
USD 1,240,404.33	30 April 2019	1.4069	0.9
USD 1,112,000.00	31 May 2019	1.2645	0.9
USD 1,245,000.00	13 March 2020	1.4600	0.9
USD 1,240,404.33	30 March 2020	1.4293	0.9
			4.5

Cash flow hedges – interest rate swap

At 31 March 2020 and at 31 March 2019, the Group held two interest rate swaps, designated as hedges of future interest cash flows, for which the Group has firm commitments. These swaps were used to convert variable rate interest payments to a fixed rate basis. The terms of these swaps were as follows:

Notional amount	Start date	Termination date	Fixed rate %
£100.0m	**15 September 2008**	**15 March 2022**	**4.79**
£150.0m	**15 October 2015**	**15 October 2025**	**2.36**

The swaps were designated as highly effective.

Inflation swaps

As at 31 March 2020 and at 31 March 2019, the Group held three inflation swaps. The first is a hedge of future inflation linked cash flows and was used to convert variable inflation-linked revenues on a contract with the EA, to a fixed income stream. The second and third swaps are economical hedges of future interest payments to convert fixed rate interest payments to index linked interest payments.

The inflation-linked revenues are accounted for in the consolidated income statement on an accruals basis. However, the long-term inflation swap that fixes these variable cash flows is measured at fair value with changes in fair value recognised in the income statement. The changes in the fair value reflects the change in the present value of the future cash flows which incorporates future expectations of inflation over the full term of the swap.

Notional amount	cash flow paid	Start date	Termination date	rate %
£2.9m	**£1.0 million**	**12 May 2004**	**9 January 2034**	**2.56**
£150.0m	**n/a**	**15 October 2015**	**15 October 2025**	**(0.42)**
£100.0m	**n/a**	**22 June 2017**	**22 June 2027**	**(1.10)**

Cash flow hedges: power forward contracts

At 31 March 2020, the Group held no forward power contracts.

At 31 March 2019, the Group held forward power contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The terms of these contracts are as follows:

Notional amount	Start date	Termination date	Price per MWH £
116,827 MWH	**1 April 2019**	**30 September 2019**	**52.2**
116,827 MWH	**1 October 2019**	**31 March 2020**	**56.8**

Cash flow hedges: diesel forward contracts

At 31 March 2020, the Group held no forward diesel contracts.

At 31 March 2019, the Group held forward diesel contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The terms of these contracts are as follows:

Notional amount	Start date	Termination date	Price per litre £
3,000,000 litres	1 April 2019	31 March 2020	0.3562

22. FINANCIAL INSTRUMENTS (continued)

(q) Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All of the Group's liabilities are measured at level 2.

Liabilities measured at fair value
Year ended 31 March 2020

	31 March 2020 **£m**
Interest rate swaps	**(13.2)**
Inflation swaps	**(58.2)**
Currency forward contracts	**0.1**
	(71.3)

Year ended 31 March 2019

	31 March 2019 £m
Interest rate swaps	(10.9)
Inflation swap	(63.4)
Power forward contracts	(1.4)
Diesel forward contracts	0.1
Currency forward contracts	0.3
	(75.3)

During the year to 31 March 2020, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

All other financial assets and liabilities are carried at amortised cost.

The fair values of forward exchange contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swaps are determined by estimating the future cash flows from observable yield curves, which are discounted at a rate which reflects the counterparty credit risk. The fair values of inflation swaps are determined by estimating the future cash flows from observable forward inflation indices, which are discounted at a rate which reflects the counterparty credit risk.

(r) Categories of financial assets/(liabilities)
Other financial assets

	31 March 2020 **£m**	31 March 2019 £m
Short term cash deposits	**1.3**	1.3
Cash and cash equivalents	**59.4**	20.9
Financial investments	**11.5**	11.4
Loans receivable	**50.5**	44.2
Trade and other receivables	**254.0**	195.5
	376.7	273.3
Other financial liabilities		
Shareholder loan notes	**(1,033.2)**	(1,033.2)
Bank loans	**(539.1)**	(577.1)
Eurobonds	**(2,502.9)**	(2,489.8)
USPP notes	**(200.1)**	(99.9)
Leases	**(64.5)**	(60.9)
Trade and other payables	**(284.8)**	(221.1)
	(4,624.6)	(4,482.0)

23. AUTHORISED AND ISSUED SHARE CAPITAL

	Number	£
Allotted, called up and fully paid:		
At 31 March 2019 and 31 March 2020	**1,614**	**161**
Analysis of class of shares:		
A shares (10 pence each)	194	19
B shares (10 pence each)	1,420	142
At 31 March 2019 and 31 March 2020	**1,614**	**161**

24. ADDITIONAL CASH FLOW INFORMATION

Analysis of net debt as at 31 March 2020

	As at 1 April 2019 £m	Cash flow £m	Other non-cash movements £m	**As at 31 March 2020 £m**
Cash and cash equivalents	20.9	38.5	-	**59.4**
Loans receivable	44.2	6.3	-	**50.5**
Short term cash deposits	1.3	-	-	**1.3**
Financial investments	11.4	0.1	-	**11.5**
Loans (principal of £4,294.7m, 2019: £4,218.2m)	(4,200.2)	(50.9)	(24.2)	**(4,275.3)**
Leases (principal of £64.7m, 2019: £61.1m)	(60.9)	1.0	(6.5)	**(66.4)**
	(4,183.3)	(5.0)	(30.7)	**(4,219.0)**

The difference between the principal value of £4,359.4m (2019: £4,279.3m) and the carrying value of £4,339.8m (2019: £4,261.1m) is unamortised issue costs of £28.2m (2019: £29.7m) and a credit of £8.6m (2019: £11.5m) in excess of the original loan proceeds to reflect the fair value of loans owed by subsidiaries acquired in 2003.

Non-cash movements on loans relate to the principal uplift on index linked borrowings and the amortisation of loan issue costs, offset by the amortisation of debt fair value for the year. Non-cash movements on leases relate to the inception of new leases on the acquisition of plant and machinery during the year.

Analysis of net debt as at 31 March 2019

	As at 1 April 2018 £m	Cash flow £m	Other non-cash movements £m	As at 31 March 2019 £m
Cash and cash equivalents	107.5	(86.6)	-	20.9
Loans receivable	44.0	-	0.2	44.2
Short term cash deposits	1.9	(0.6)	-	1.3
Financial investments	11.4	-	-	11.4
Loans (principal of £4,218.2m, 2018: £4,216.7m)	(4,200.7)	29.4	(28.9)	(4,200.2)
Leases (principal of £61.1m, 2018: £59.7m)	(59.5)	5.8	(7.2)	(60.9)
	(4,095.4)	(52.0)	(35.9)	(4,183.3)

The difference between the principal value of £4,279.3m (2018: £4,276.4m) and the carrying value of £4,261.1m (2018: £4,260.2m) is unamortised issue costs of £29.7m (2018: £30.6m) and a credit of £11.5m (2018: £14.4m) in excess of the original loan proceeds to reflect the fair value of loans owed by subsidiaries acquired in 2003.

25. FINANCIAL COMMITMENTS

	31 March 2020	31 March 2019
	£m	£m
(a) Acquisition of property, plant and equipment	**120.2**	145.3

(b) In addition to these commitments, the Group has longer term expenditure plans, which include investment to meet shortfalls in performance and condition, and to provide for new demand and growth within the water and sewerage business.

(c) The Group has entered into performance bonds and guarantees in the normal course of business. No liability is expected to arise (2019: £nil).

(d) In 2018/19, NWL signed a power purchase agreement (PPA) with Ørsted, to purchase renewable energy from an offshore wind farm which will meet around 25% of its energy demand. The agreement is for a 10 year term at a fixed commodity price, increasing annually by CPI. The Group has concluded that the 'own use exception' applies, meaning that the PPA contract is not within the scope of IFRS 9 and therefore no further disclosures are necessary.

26. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Group operates two defined benefit pension schemes. Northumbrian Water Pension Scheme (NWPS or the Scheme), providing benefits based on final pensionable remuneration to 31 December 2015 and on a career average revalued earnings (CARE) basis from 1 January 2016, to 1,117 active members at 31 March 2020 (2019: 1,200) and AquaGib Limited Pension Plan (AGPP), providing benefits based on final pensionable remuneration to 55 active members at 31 March 2020 (2019: 56).

The assets of the NWPS and the AGPP are held separately from those of the Group in independently administered funds.

The most recent actuarial valuation of the NWPS was at 31 December 2016. At that date, the value of assets amounted to £954.6m and the liabilities were £1,245.2m, resulting in a deficit of £290.6m and a funding level of 76.7%. The most recent actuarial valuation of the AGPP was at 1 July 2018. At that date, the value of assets amounted to £21.9m and the liabilities were £22.4m, resulting in a deficit of £0.5m and a funding level of 97.7%.

The following text and disclosures below refers to the NWPS, unless otherwise stated.

Under the revised schedule of contributions the future service contribution rate, jointly payable by members and the employers, remained at 29.4% of pensionable salaries until 31 December 2017. With effect from 1 January 2018, the employers' contribution was set at £12.3m per annum, increasing annually by RPI. Employee contribution rates remained at between 6% and 8% of pensionable salary, dependent upon which section of the Scheme the employee is a member of.

In addition, the employers continue to make deficit reduction payments of £11m per annum, with effect from 1 April 2015, increasing annually by RPI. Deficit reduction payments will increase by £2.6m per annum with effect from 1 April 2021. The deficit reduction payments have been set with the objective of removing the deficit by 31 March 2031, which has been the long-term aim.

Employer contributions of £30.0m were paid in the year to 31 March 2020, of which £12.2m related to deficit reduction. For the year to 31 March 2021, employer contributions are projected to be £29.9m, including £12.5m in respect of deficit reduction.

Since 1 June 2019, the Group has participated in the LifeSight master trust, a defined contribution pension arrangement for non-associated employers. Prior to 1 June 2019, the Group contributed to the defined contribution section of the NWPS. Defined contribution members and assets were transferred from the NWPS to LifeSight during 2019. There were 2,027 active members in defined contribution pension arrangements at 31 March 2020 (2019: 1,957). Members can choose to contribute either 3%, 4% or 5% of salary, with employers contributing at either 6%, 7% or 8% depending on the member contribution rate. The contributions paid to defined contribution pension arrangements by the Group in the year totalled £6.9m (2019: £6.0m).

The Group has not disclosed the actuarial assumptions for the AGPP on grounds of materiality. The additional disclosures regarding the NWPS defined benefit scheme as required under IAS 19 Employee benefits and the relevant impact on the financial statements are set out below. A qualified actuary, using revised assumptions that are consistent with the requirements of IAS 19, has updated the actuarial valuations described above as at 31 March 2020. Investments have been valued, for this purpose, at fair value.

26. PENSIONS AND OTHER POST-RETIREMENT BENEFITS (continued)

	31 March 2020	31 March 2019
Pay increases[1]	**3.00%**	3.15%
RPI inflation	**2.55%**	3.15%
CPI inflation	**2.05%**	2.05%
Pension increases linked to RPI	**2.55%**	3.15%
Pension increases linked to CPI	**2.05%**	2.05%
Discount rate	**2.15%**	2.40%
Mortality assumptions[2]	**VitaCurves**	VitaCurves
- Life expectancy for a member aged 65 – female (years)	**23.8**	23.8
- Life expectancy for a member aged 65 – male (years)	**22.1**	22.0

Notes:

1. Including promotional salary scale.
2. Bespoke "VitaCurves" reflecting scheme characteristics. CMI 2018 (2019: CMI 2018) series of longevity improvement factors with a long term rate of improvement of 1.25% pa.

The fair value of the assets, in the NWPS and the AGPP, and the present value of the liabilities in the schemes at the balance sheet date were:

	31 March 2020 £m	31 March 2019 £m
Equities	**218.4**	302.8
Corporate bonds	**48.2**	47.0
Government bonds	**535.4**	466.5
Property	**47.8**	60.1
Cash	**19.5**	17.7
Insurance contract (with profits)	**21.5**	-
Other (includes listed infrastructure)	**152.1**	159.7
Total fair value of assets	**1,042.9**	1,053.8
Present value of liabilities	**(1,126.6)**	(1,160.6)
Deficit	**(83.7)**	(106.8)

The discount rate at 31 March 2020 has been set by reference to the yield on AA corporate bonds at that date, extrapolated forward on a yield curve approach to a duration of 19 years which reflects the duration of the expected benefit payments.

The amounts recognised in the income statement and in the statement of comprehensive income, in respect of the NWPS and the AGPP, are analysed as follows:

	31 March 2020 £m	31 March 2019 £m
Recognised in the income statement:		
Current service cost	**17.2**	16.3
Administration costs	**2.3**	1.9
Past service cost	**1.5**	0.8
Scheme amendments	**-**	0.4
Recognised in operating costs in arriving at profit before interest	**21.0**	19.4
Net interest cost on plan obligations	**2.2**	2.1
Recognised in finance costs payable	**2.2**	2.1
Recognised in the statement of comprehensive income:		
Changes in demographic assumptions	**-**	21.6
Changes in financial assumptions	**26.7**	(82.8)
Return on assets (excluding amounts included in finance costs)	**(14.5)**	40.9
Other actuarial gains and losses	**3.3**	(1.0)
Net actuarial losses	**15.5**	(21.3)

26. PENSIONS AND OTHER POST-RETIREMENT BENEFITS (continued)

Changes in the present value of the defined benefit pension obligations for the NWPS and the AGPP are analysed as follows:

	31 March 2020	31 March 2019
	£m	£m
At 1 April	**1,160.6**	1,103.0
Current service cost	**17.2**	16.3
Administration costs	**2.3**	1.9
Past service cost	**1.5**	1.2
Interest cost on plan obligations	**27.2**	28.6
Contributions by plan participants	**0.1**	0.1
Benefits paid	**(52.3)**	(52.7)
Remeasurement:		
Changes in demographic assumptions	**-**	(21.6)
Changes in financial assumptions	**(26.7)**	82.8
Other actuarial gains and losses	**(3.3)**	1.0
At 31 March	**1,126.6**	1,160.6
Present value of funded defined benefit obligations	**1,126.6**	1,160.6

Changes in the fair value of plan assets for the NWPS and the AGPP are analysed as follows:

	31 March 2020	31 March 2019
	£m	£m
At 1 April	**1,053.8**	1,010.1
Interest income on Scheme assets	**25.0**	26.5
Contributions by employer	**30.8**	28.9
Contributions by plan participants	**0.1**	0.1
Benefits paid	**(52.3)**	(52.7)
Remeasurement:		
Return on assets (excluding amounts included in finance costs)	**(14.5)**	40.9
At 31 March	**1,042.9**	1,053.8

Nature of benefits, regulatory framework and other entity's responsibilities for governance of the Scheme
The Scheme is a registered defined benefit scheme subject to the UK regulatory framework for pensions, including the scheme specific funding requirements. The Scheme is operated under trust and as such, the Trustee of the Scheme is responsible for operating the Scheme and they have a statutory responsibility to act in accordance with the Scheme's Trust Deed and Rules, in the best interest of the beneficiaries of the Scheme, and UK legislation (including Trust law). The Trustee has the power to set the contributions that are paid to the Scheme.

Risks to which the Scheme exposes the Group
The nature of the Scheme exposes NWL, as the principal employer, to the risk of paying unanticipated additional contributions to the Scheme in times of adverse experience. The most financially significant risks are likely to be:

- members living for longer than expected;
- higher than expected actual inflation and salary increase experience,
- lower than expected investment returns, and
- the risk that movements in the value of the Scheme's liabilities are not met by corresponding movements in the value of the Scheme's assets.

The sensitivity analysis disclosed is intended to provide an indication of the impact on the value of the Scheme's liabilities of the risks highlighted. Approximate adjustments are made to the defined benefit obligation, reflecting the mean term of the liability. There has been no change in methodology in the year.

Policy for recognising gains and losses
The Group recognises actuarial gains and losses immediately, through the re-measurement of the net defined benefit liability.

26. PENSIONS AND OTHER POST-RETIREMENT BENEFITS (continued)

Asset-liability matching strategies used by the Scheme or the Company
Neither the Scheme nor the Group use any asset-liability matching strategies. The Trustee's current investment strategy having consulted with NWL is to invest the majority of the Scheme's assets in a mix of equities and corporate bonds, in order to strike a balance between:

- maximising the returns on the Scheme's assets, and
- minimising the risks associated with the lower than expected returns on the Scheme's assets.

The Trustee is required to regularly review their investment strategy in light of the revised term and nature of the Scheme's liabilities.

Description of funding arrangements and funding policy that affect future contributions
The main risk to the Group is that additional contributions are required if the investment returns are not sufficient to pay for the benefits (which will be mainly influenced by inflation and the longevity of members). The level of corporate bond and equity returns will be a key factor in the overall investment return. The investment portfolio is also subject to a range of other risks typical of the assets held, in particular credit risk on bonds and exposure to the property market.

Methods and assumptions used in preparing the sensitivity analyses
The sensitivities disclosed were calculated using methods taking into account the duration of the Scheme's liabilities. Assumptions were provided by the Group.

Sensitivity to key assumptions
IAS 1 Presentation of Financial Statements requires disclosure of the sensitivity of the results to the methods and assumptions used.

The costs of a pension arrangement require estimates regarding future experience. The financial assumptions used for IAS 19 reporting are the responsibility of the Directors of the Company. These assumptions reflect market conditions at the balance sheet date. Changes in market conditions which result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increases of salaries, deferred pension revaluation or pensions in payment), can have a significant effect on the value of the liabilities reported.

Change in assumptions compared with actuarial assumptions for the NWPS:

	Increase in liabilities on 31 March 2020 £m	Increase in liabilities on 31 March 2019 £m
0.25% decrease in discount rate	**50.8**	54.3
1 year increase in life expectancy	**38.7**	38.7
0.25% increase in inflation	**46.7**	48.7

Maturity profile of the NWPS defined benefit obligation

Year ended 31 March 2020

	Number of members	Liability split %	Duration years
Active members	1,404	40	24
Deferred members	1,193	14	21
Pensioners	3,163	46	12
Total/weighted average duration	**5,760**	**100**	**18**

Year ended 31 March 2019

	Number of members	Liability split %	Duration years
Active members	1,200	37	25
Deferred members	1,095	14	23
Pensioners	3,193	49	13
Total/weighted average duration	**5,488**	**100**	**19**

27. SPECIAL PURPOSE ENTITIES

As noted under accounting policy 1(b), in accordance with IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities, the financial statements of two companies are consolidated as special purpose entities. The principal special purpose entity is Bakethin Holdings Limited, the shares in which are owned by Bakethin Charitable Trust. The other special purpose entity is Bakethin Finance Plc, which is a wholly owned subsidiary of Bakethin Holdings Limited.

Bakethin Finance Plc was established for the purpose of issuing guaranteed secured Eurobonds. On 12 May 2004, Bakethin Finance Plc issued £248m of guaranteed secured bonds maturing January 2034. Bakethin Finance Plc used the proceeds of the bond issue to make a loan to Reiver Finance Limited to fund the consideration given by that company to Northumbrian Water Limited for the securitisation of the cash flows receivable from the EA under the Water Resources Operating Agreement relating to Kielder Water transfer scheme. The assignment is for a period of 30 years.

The summarised combined financial statements of the special purpose entities are as follows:

	Unaudited 31 March 2020 £m	Audited 31 March 2019 £m
Income statement:		
Finance costs receivable	**20.4**	17.7
Finance costs payable	**(20.4)**	(17.7)
Profit for the year	**-**	-
Balance sheet:		
Investments	**237.0**	239.1
Non-current assets	**27.2**	33.0
Current assets	**4.9**	4.9
Non-current liabilities	**(261.5)**	(270.0)
Current liabilities	**(5.3)**	(4.8)
Net assets	**2.3**	2.2

28. RELATED PARTIES

During the year, the Group entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into and trading balances outstanding at the balance sheet date between the Group and its associates, joint ventures and companies within the CKHH group, are as follows:

Trading transactions

	Recharges to related party £m	Recharges from related party £m	Interest £m	Amounts owed by related party £m	Amounts owed to related party £m
Related party:					
Year ended 31 March 2020					
Northern Gas Networks Limited	**-**	**(0.9)**	**-**	**-**	**-**
CK Infrastructure Holdings Limited	**-**	**-**	**46.6**	**-**	**43.1**
Cheung Kong (Holdings) Limited	**-**	**-**	**46.6**	**-**	**43.1**
Li Ka Shing Foundation Limited	**-**	**-**	**23.3**	**-**	**21.6**
Year ended 31 March 2019					
Hutchison Whampoa Limited	-	(0.1)	-	-	-
UK Power Networks (Operations) Limited	-	(0.1)	-	-	-
CK Infrastructure Holdings Limited	-	-	45.5	-	19.2
Cheung Kong (Holdings) Limited	-	-	45.5	-	19.2
Li Ka Shing Foundation Limited	-	-	22.7	-	9.6
Jointly controlled entities					
Year ended 31 March 2020	**152.4**	**13.0**	**-**	**53.5**	**11.6**
Year ended 31 March 2019	159.9	13.2	-	55.9	12.0

28. RELATED PARTIES (continued)

Sales to jointly controlled entities include £150.3m (2019: £158.0m) in respect of non household wholesale charges, £nil (2019: £0.1m) in respect of rent receivables and £2.1m (2019: £1.8m) in respect of the provision of guarantees and interest.

Purchases from jointly controlled entities include £3.3m (2019: £4.8m) in respect of capital purchases under leases, £nil (2019: £0.1m) in respect of operating leases, £8.3m (2019: £6.8m) in respect of costs payable under leases and £1.4m (2019: £1.5m) in respect of other purchases.

Outstanding balances due to related parties in respect of interest is payable semi-annually in arrears.

For jointly controlled entities, outstanding balances due from related parties are expected to be settled within 60 days and amounts due to related parties are in respect of leasing and loan arrangements, wholesale charges and the provision of guarantees, where the amounts owed will relate specifically to the terms of the respective agreements.

Remuneration of key management personnel
Key management personnel comprise all Directors of the Group and the executive directors of NWL. The remuneration of the key management personnel is included within the amounts disclosed below.

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Short term employee benefits	**1.5**	1.6
Post employment benefits	**0.1**	0.1
Other long-term employee benefits	**-**	0.1
	1.6	1.8

29. ULTIMATE PARENT COMPANY

The Company has been informed by the former ultimate parent and controlling party, CK Hutchison Holdings Limited (CKHH) (incorporated in the Cayman Islands) that by virtue of contractual arrangements entered into with other parties, with effect from 30 December 2019, it ceased to have a controlling interest in the Company and, as required by the applicable accounting standards, it has ceased accounting for the Company as a subsidiary from that date.

The results of the Company prior to 30 December 2019 are consolidated in the financial statements of CKHH. The Directors of the Company consider that CKHH was the ultimate parent and controlling party of the Company prior to 30 December 2019.

The Directors of the Company consider that, with effect from 30 December 2019, there has been no ultimate controlling party of the Company.

COMPANY BALANCE SHEET
As at 31 March 2020

	Notes	**31 March 2020 £m**	31 March 2019 £m
Non-current assets			
Investments in subsidiary undertakings	3	**2,481.0**	2,481.0
Investments in joint ventures	4	**7.1**	13.6
Loan receivables	5	**44.8**	44.8
		2,532.9	2,539.4
Current assets			
Trade and other receivables	6	**33.5**	25.6
Cash and cash equivalents		**1.5**	-
		35.0	25.6
Total assets		**2,567.9**	2,565.0
Current liabilities			
Trade and other payables	7	**(113.4)**	(57.9)
Total assets less current liabilities		**2,454.5**	2,507.1
Non-current liabilities			
Borrowings	8	**(1,292.2)**	(1,292.1)
Total liabilities		**(1,405.6)**	(1,350.0)
Net assets		**1,162.3**	1,215.0
Equity			
Called up share capital		**-**	-
Other reserve		**51.9**	51.9
Share premium account		**446.5**	446.5
Retained earnings		**663.9**	716.6
Equity attributable to owners of the Company		**1,162.3**	1,215.0

The loss dealt with in the financial statements of the parent Company is £43.4m (2019: profit of £18.0m).

Approved by the Board on 30 July 2020 and signed on its behalf by:

H Mottram

H Mottram
Chief Executive Officer
Registered number 04760441

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Called up share capital	Other reserve £m	Share premium account £m	Retained earnings £m	Total £m
At 1 April 2018	-	51.9	446.5	724.9	1,223.3
Profit for the year and total comprehensive income	-	-	-	18.0	18.0
Dividends paid (see note 2)	-	-	-	(26.3)	(26.3)
31 March 2019	-	51.9	446.5	716.6	1,215.0
Loss for the year and total comprehensive expense	-	-	-	(43.4)	(43.4)
Dividends paid (see note 2)	-	-	-	(9.3)	(9.3)
At 31 March 2020	**-**	**51.9**	**446.5**	**663.9**	**1,162.3**

The ‘other reserve’ represents the Company’s reorganisation of its ordinary share capital on 8 March 2013, which the Directors consider to be distributable.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
For the year ended 31 March 2020

1. ACCOUNTING POLICIES

(a) Basis of accounting
The Company meets the definition of a qualifying entity under FRS 101 issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, financial instruments, standards not yet effective and remuneration of key management personnel. As permitted by section 408 of the Companies Act 2006, no profit and loss account has been presented for the parent Company.

Where relevant, equivalent disclosures have been given in the group accounts of NWG.

The financial statements have been prepared under the historical cost convention for the parent Company only. The Company is a private company, limited by shares and is registered, incorporated and domiciled in England and Wales.

The principal accounting policies adopted are set out below.

The financial statements have been prepared on a going concern basis which assumes that the Company will have adequate funding to meet its liabilities as they fall due in the foreseeable future. The Directors have taken specific account of the impacts of the Covid-19 pandemic when making this assessment. The Directors' assessment included consideration regarding the degree of flexibility in the Group as to the level of dividends received from NWL and potential further delay to payments of interest on the shareholder loan notes if the level of dividends received is insufficient to cover such payments. As at 31 March 2020, the Company had net current liabilities of £78.4m (2019: £32.3m). The Directors have also reviewed the Company's cash flow requirements and available resources and believe it is appropriate to prepare the financial statements on a going concern basis.

Adoption of new and revised Standards
Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year
In the current year, the Company has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

(b) Fixed asset investments
Fixed asset investments are stated at their purchase cost, less any provision for impairment.

(c) Loan receivables
Loan receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through the income statement or available for sale. Gains and losses are recognised in income when the investments are de-recognised or impaired, as well as through the amortisation process.

(d) Interest bearing loans and borrowings
All loans and borrowings are initially stated at the amount of the net proceeds, being fair value of the consideration received net of issue costs associated with the borrowing. Finance costs (including issue costs) are taken to the income statement over the term of the debt at a constant rate on the balance sheet carrying amount. The carrying amount is increased by the finance charges amortised and reduced by payments made in respect of the accounting period.

(e) Employees
Excluding the Directors, there are no employees of the Company (2019: nil).

1. ACCOUNTING POLICIES (continued)

(f) Taxation
Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

(g) Significant accounting judgements and key sources of estimation uncertainty
There are no significant accounting estimates. The significant accounting judgements were:

- the estimation of uncertain tax provisions, which are assessed on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities; and
- the carrying values of investments, where the cash generating unit is impaired if its carrying amount exceeds its recoverable amount.

2. DIVIDENDS PAID AND PROPOSED

	Year to 31 March 2020 £m	Year to 31 March 2019 £m
Declared and paid during the year:		
Equity dividends on ordinary shares:		
A shares:		
Interim dividend for the year ended 31 March 2020: £46,645 per share (2019: £66,645 per share)	**9.0**	12.9
Second interim dividend for the year ended 31 March 2020: £nil per share (2019: £65,088 per share)	**-**	12.6
B shares:		
Interim dividend for the year ended 31 March 2020: £197 per share (2019: £282 per share)	**0.3**	0.4
Second interim dividend for the year ended 31 March 2020: £nil per share (2019: £275 per share)		0.4
Dividends paid	**9.3**	26.3

No final dividend is proposed for the year ended 31 March 2020 (2019: £nil).

3. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£m
At 31 March 2019 and 31 March 2020	2,481.0

Name of undertaking	Country of incorporation or registration and operation	Description of shares held	Proportion of nominal value of issued shares held by Group (%)	Business activity
NWG Commercial Solutions Limited[1]	England and Wales	Ordinary shares of £1	100	Holding of investments and loans
Northumbrian Water Limited[1]	England and Wales	Ordinary shares of £1	100	Water and sewerage services
Northumbrian Water Finance plc[1]	England and Wales	Ordinary shares of £1	100	Holding of finance instruments
Caledonian Environmental Levenmouth Treatment Services Limited[1]	England and Wales	Ordinary shares of £1	100	Wastewater services
Ayr Environmental Services Operations Limited[2]	Scotland	Ordinary shares of £1	100	Wastewater services
AquaGib Limited[3]	Gibraltar	Ordinary shares of £1	67	Water and sewerage services
Northumbrian Water Projects Limited[1]	England and Wales	Ordinary shares of £1	100	Wastewater services
Analytical & Environmental Services Limited[1, 5]	England and Wales	Ordinary Shares of £1	100	Dormant
Essex and Suffolk Water Limited[1]	England and Wales	Ordinary Shares of £1	99.6	Holder of loan note
Northumbrian Holdings Limited[1, 5]	England and Wales	Ordinary Shares of £1	100	Dormant
Northumbrian Water Mexico Limited[1, 5]	England and Wales	Ordinary Shares of £1	100	Dormant
Northumbrian Water Pension Trustees Limited[1]	England and Wales	Ordinary Shares of £1	100	Pension trustee company
Northumbrian Water Share Scheme Trustees Limited[1, 5]	England and Wales	Ordinary Shares of £1	100	Dormant
NWG Bioenergy Limited[1]	England and Wales	Ordinary Shares of £1	100	Advanced digestion operation
Reiver Finance Limited[1]	England and Wales	Ordinary Shares of £1	100	Finance
Reiver Holdings Limited[1]	England and Wales	Ordinary Shares of £1	100	Holding company
Three Rivers Insurance Company Limited[4]	Isle of Man	Ordinary Shares of £1	100	Insurance
Europa Environments Limited[6, 7]	Gibraltar	Ordinary shares of £1	100	Dormant

1. Registered office: Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ, UK.
2. Registered office: Meadowhead Wastewater Treatment Works and Sludge Treatment Centre, Meadowhead Road, Irvine, Ayrshire, KA11 5AY, UK.
3. Registered office: 10B Leanse Place, 50 Town Range, Gibraltar.
4. 1st Floor, Goldie House, 1-4 Goldie Terrace, Upper Church Street, Douglas, Isle of Man, IM1 1EB.
5. The company is entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies.
6. Registered office: Suite 23, 10 Portland House, Glacis Road, Gibraltar.
7. The company is entitled to exemption from audit under section 259 of the Gibraltar Companies Act, 2014 relating to the reporting requirements for a small company.

NWG Commercial Solutions Limited and Northumbrian Water Limited are directly held. All other subsidiaries listed above are indirectly held.

4. INVESTMENTS IN JOINT VENTURES

	£m
At 1 April 2018 and 31 March 2019	13.6
Share of loss after tax	(6.5)
At 31 March 2020	7.1

5. LOAN RECEIVABLES

	31 March 2020 £m	31 March 2019 £m
Amounts owed by subsidiary undertakings	**29.2**	29.2
Amounts owed by joint venture	**15.6**	15.6
	44.8	44.8

6. TRADE AND OTHER RECEIVABLES

	31 March 2020 £m	31 March 2019 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**7.9**	11.6
Amounts owed by joint venture	**19.0**	12.7
Other	**6.6**	1.3
	33.5	25.6

Amounts owed by subsidiary undertakings include amounts receivable for the provisional surrender of tax losses amounting to £5.5m (2019: £9.6m).

7. TRADE AND OTHER PAYABLES

	31 March 2020 £m	31 March 2019 £m
Amounts owed to subsidiary undertakings	**2.3**	6.9
Interest payable	**110.6**	50.8
Accruals and deferred income	**0.5**	0.2
	113.4	57.9

Amounts owed to subsidiary undertakings reflects cross-charging trading and amounts due under the cross guarantee arrangement with other Group companies in respect of bank facilities. Trading amounts are expected to be settled within 30 days of the invoice date and cross guarantee arrangements will fluctuate on a daily basis depending on the overall cash position.

8. BORROWINGS

	31 March 2020 £m	31 March 2019 £m
Shareholder loan notes	**1,033.2**	1,033.2
Loans	**100.0**	99.9
Amounts owed to subsidiary undertakings	**159.0**	159.0
	1,292.2	1,292.1

	31 March 2020 £m	31 March 2019 £m
Shareholder loan notes, loans and amounts owed to subsidiary undertakings are repayable as follows:		
Repayable after more than five years	**1,292.2**	1,292.1

In April 2011, the Company issued £100m USPP notes, maturing April 2021, with an annual coupon of 5.82%.

Amounts owed to subsidiary undertakings bear rates of interest linked to LIBOR. The loans will continue until such time as terminated by mutual agreement.

9. AUTHORISED AND ISSUED SHARE CAPITAL

	Number	£
Authorised, issued and fully paid:		
At 31 March 2019 and 31 March 2020	**1,614**	**161**
Analysis of class of shares:		
A shares (10 pence each)	194	19
B shares (10 pence each)	1,420	142
At 31 March 2019 and 31 March 2020	**1,614**	**161**

10. COMMITMENTS

(a) The Company has issued letters of continuing support to subsidiary companies with net liabilities amounting to £8.3m (2019: £7.0m) and net current liabilities of £nil (2019: £nil). These subsidiary companies are expected to meet their working capital requirements from operating cash flows.

(b) The Company is guarantor to the EIB in respect of borrowings by NWL. The loan principal outstanding at 31 March 2020 amounted to £538.9m (2019: £566.2m).

(c) The Company is party to a cross guarantee arrangement with other Group companies in respect of bank facilities. Overdrafts outstanding at 31 March 2020 in respect of the arrangement amounted to £7.4m (2019: £10.5m). The Directors do not expect any loss to arise as a result of this arrangement.

11. RELATED PARTIES

During the year, the Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into and trading balances outstanding at the balance sheet date between the Company and companies within the CKHH group, are as follows:

Trading transactions

	Interest	Amounts owed to related party
	£m	£m
Related party:		
Year ended 31 March 2020		
CK Infrastructure Holdings Limited[1]	**46.6**	**43.1**
Cheung Kong (Holdings) Limited[1]	**46.6**	**43.1**
Li Ka Shing Foundation Limited[1]	**23.3**	**21.6**

1. Outstanding balances due to related parties in respect of interest is payable semi-annually in arrears.

12. ULTIMATE PARENT COMPANY

The Company has been informed by the former ultimate parent and controlling party, CK Hutchison Holdings Limited (CKHH) (incorporated in the Cayman Islands) that by virtue of contractual arrangements entered into with other parties, with effect from 30 December 2019, it ceased to have a controlling interest in the Company and, as required by the applicable accounting standards, it has ceased accounting for the Company as a subsidiary from that date.

The results of the Company prior to 30 December 2019 are consolidated in the financial statements of CKHH. The Directors of the Company consider that CKHH was the ultimate parent and controlling party of the Company prior to 30 December 2019.

The Directors of the Company consider that, with effect from 30 December 2019, there has been no ultimate controlling party of the Company.