

NORTHUMBRIAN WATER GROUP LIMITED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 DECEMBER 2012

Registered number 4760441

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

FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 DECEMBER 2012

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DIRECTORS' REPORT

for the nine months ended 31 December 2012

The Directors of Northumbrian Water Group Limited (NWG or the Company) are pleased to present their report on the affairs of the Group and Company, along with the audited financial statements and the auditor's report for the nine months ended 31 December 2012.

On 23 January 2013, the Board approved the change of the Company's accounting reference date from 31 March to 31 December, therefore, the report relates to the period from 1 April 2012 to 31 December 2012.

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.

Northumbrian Water Limited

NWL's principal activities comprise the supply of potable 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 waste water contracts

NWG holds investments in a number of companies which hold and operate water and waste water contracts in Scotland, Ireland and Gibraltar.

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 REVIEW

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 businesses 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 1.5 million people in Essex and approximately 0.3 million in Suffolk.

During the period, the Company's ultimate parent undertaking and controlling party was UK Water (2011) Limited (UKW).

Regulatory and legislative

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 monitors drinking water quality and the Environment Agency (EA) covers environmental protection. NWL's customers' interests are represented by the Consumer Council for Water.

Throughout the period, NWL has engaged constructively with Ofwat on the development of price controls and the licence changes required for the next price review. Ofwat published revised proposals for licence changes on 21 December 2012, which NWL accepted, and NWL is now moving forward in the preparation of its business plan for the next price review, which will come into effect from 1 April 2015.

Ofwat published its proposed methodology, "Setting price controls for 2015-20 – framework and approach", in January 2013, for consultation. NWL has made good progress with the development of its business plan for 2015-2020; comprehensive customer research has been conducted and stakeholder engagement groups have been formed in the three operating areas.

DIRECTORS' REPORT (continued)

Regulatory and legislative (continued)

The draft Water Bill has undergone a process of pre-legislative scrutiny. The key elements of the Bill are proposals to introduce retail competition for business customers and outline plans for introducing upstream competition. The UK Government intends to introduce this Bill during the next Parliamentary session, although this could be delayed. Water companies are working with Government and regulators to prepare for business retail competition with a target implementation date of 2017.

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 waste water management.

Performance measures

In order to measure its performance against its business plan and goals, NWL uses a balanced scorecard of Key Performance Indicators (KPIs), reflecting the strategic themes. Achievement against the balanced scorecard targets accounts for up to 90% of the annual bonuses of NWL's management team, with a further 10% available for the achievement of personal targets.

The table below details performance against the KPI targets set for 2012 and shows the targets for 2013. NWL's financial targets are set by its Board.

Scorecard measure	Target 2012	Performance	Achieved	Target 2013
Customer satisfaction				
- SIM quantitative score	<84	117	No	<115
- SIM qualitative score	>4.50	4.43	No	>4.60
Unplanned interruptions >6 hours (no.)	1,500	606	Yes	-
Unplanned interruptions >3 hours (mins)	n/a	n/a	n/a	7.30
Coliform incidents (no.)	7	27	No	10
Employee engagement score	1* Best Companies	1* Best Companies	Yes	81%
Lost time reportable accidents (no.)	10	10	Yes	9
Leakage (Mld)				
- north	147.0	129.5	Yes	141.0
- south	66.0	59.1	Yes	66.0
STW failing LUT consent (%)	0	0	Yes	0
Pollution incidents (categories 1 & 2)	3	3	Yes	3
BITC Platinum Plus accreditation	Retain status	Status retained	Yes	Retain status
Just an Hour (employee participation)	50.0%	54.4%	Yes	50.0%
Bespoke	Bespoke	n/a	n/a	Bespoke

NWL is striving to improve customer service, which is reflected in Ofwat's Service Incentive Mechanism (SIM) score, whilst maintaining operational excellence. It has sustained its industry-leading performance on unplanned interruptions and continued to focus on reducing coliform incidents.

NWL has achieved 1* status in the Sunday Times' Best Companies survey and has delivered an industry-leading health and safety performance with 10 lost time reportable injuries to its workforce. In the period, NWL received a Gold Award from the Royal Society for the Prevention of Accidents, recognising its high level performance in demonstrating well developed occupational health and safety management systems and culture, underpinned by an outstanding control of risks and very low levels of error, harm and loss. A health and safety policy is maintained and implemented at each subsidiary.

NWL has sustained its exceptional performance for sewage treatment with all numerically consented works remaining compliant for the year. Its sewage sludge strategy delivered a second Advanced Anaerobic Digestion (AAD) plant in the north east of England, and thus 100% of the sludge remaining after sewage treatment is used to produce renewable energy. The project to expand Abberton Reservoir has continued in the period and will be completed in 2013. The additional capacity will secure future water supplies to more than 1.5 million people in Essex.

NWL's carbon management plan will help reduce its carbon footprint and its integrated quality and environmental management systems are certified under ISO 9001, ISO 14001 and OHSAS 18001.

The Group is dedicated to building strong relationships with the communities it serves and ensures that corporate responsibility is embedded in all the Group's businesses.

NWL has been re-accredited as a Platinum Plus company by Business in The Community (BITC).

In the period, the Group gave £99,370 as charitable donations.

DIRECTORS' REPORT (continued)

Financial performance

In addition to the balanced scorecard, the Group uses a range of financial indicators to monitor performance. All financial KPIs remained better than the target for the period.

KPI	Target 2012		Performance				Target 2013	
	NWG	NWL	Current period		Previous year		NWG	NWL
			NWG	NWL	NWG	NWL		
Gearing to RCV (%)	<75	<70 ¹	72	63 ²	74	64	<75	<70 ¹
Cash interest cover (times)	>2.5	>3.0	4.3	6.1	3.3	4.2	>2.5	>3.0
Cash flow to net debt (%)	>13	>13	17	20	15	18	>13	>13

Notes:

1. Less than 65% for the appointed business of NWL.
2. Regulatory Capital Value (RCV) for the period is calculated by interpolating the actual March 2012 and March 2013 published RCV.

The Group's gearing has decreased from 74% to 72%, with net debt increasing by £38.0 million to £2,689.5 million over the year, while RCV has increased by 4% due principally to the increase in RPI.

Gearing at NWL, and for the regulated business, has decreased slightly to 63% and 62%, respectively, from 64% and 63%.

The Group also prepares detailed medium term business plans and annual budgets, based on the business plans of the Group companies, which are reviewed and submitted to the Board for approval. Business plans and budgets include an assessment of the key risks and success factors facing each business unit. On a monthly basis, management of the Group compares the actual operational and financial performance of each business with plan and budget and this is reported to their respective Boards.

NWG

Revenue for the nine months ended 31 December 2012 was £611.2 million (for the year ended 31 March 2012: £789.5 million). Water and sewerage charges at the Group's principal subsidiary, NWL, increased in line with the price review (final determination) allowance of 0.9% plus the November 2011 RPI of 5.2%. Income from the Group's water and waste water contracts was £32.4 million (year ended 31 March 2012: £42.1 million).

Operating costs for the nine months ended 31 December 2012 were £336.6 million (year ended 31 March 2012: £458.5 million), which principally reflected movements at NWL, which are detailed below. Profit on ordinary activities before interest for the period was £274.6 million (year ended 31 March 2012: £331.0 million).

Net interest payable was £117.4 million for the nine months ended 31 December 2012 (year ended 31 March 2012: £137.9 million). This reflected higher interest payable, due to the nine month impact of a £360.0 million bond issue in January 2012. Following the Group restructuring, detailed in note 29, NWG will pay interest on the shareholder loan and loan notes from 8 March 2013. Up to this date, such payments were borne by UK Water (2011) Limited, the Company's ultimate parent undertaking and controlling party at the balance sheet date.

Profit on ordinary activities before tax for the nine months ended 31 December 2012 was £157.5 million (year ended 31 March 2012: £193.9 million). The current tax charge of £37.4 million and deferred tax credit of £25.7 million are explained in note 8 to the financial statements. Profit for the financial period was £145.8 million (year ended 31 March 2012: £186.4 million).

Capital investment for the Group was £175.9 million (year ended 31 March 2012: £310.2 million).

NWL

Revenue was £578.1 million for the nine months ended 31 December 2012 (year ended 31 March 2012: £737.4 million). This reflected the application of the Ofwat price review in 2009, of 0.9% plus 5.2% in respect of the November 2011 RPI, on water and sewerage charges. However, volumes of measured supplies to both household and non-household customers declined, primarily as a result of the difficult prevailing economic conditions in the UK.

Operating costs, including capital maintenance costs, for the nine months ended 31 December 2012 were £310.0 million (year ended 31 March 2012: £398.6 million). This reflected increases in manpower costs, rates, depreciation and general inflationary increases, partially offset by the benefits of an efficiency programme. During the period, NWL invested £0.9 million (year ended 31 March 2012: £1.1 million) in research and development.

Profit on ordinary activities before interest for the period was £268.1 million (year ended 31 March 2012: £338.8 million).

DIRECTORS' REPORT (continued)

Financial performance (continued)

NWL (continued)

Capital investment in the regulated business for the period was £181.2 million, under regulatory accounting guidelines (year ended 31 March 2012: £292.0 million). Investment in the Abberton reservoir scheme continued in the period and remains on target for completion in 2013 whilst the Howdon AAD project was completed in the period.

Water and waste water contracts

The Group's water and waste water contracts in Scotland, Ireland and Gibraltar are all performing well and are in line with expectations. Revenue for the contracts was £32.4 million for the nine months ended 31 December 2012 (year ended 31 March 2012: £42.1 million), which reflects higher volumes in Scotland. Profit on ordinary activities before interest was £7.9 million (year ended 31 March 2012: £10.0 million), reflecting the increased revenue partially offset by higher operating costs, particularly power.

Dividends

The Directors do not recommend payment of a final ordinary dividend (year ended 31 March 2012: £nil). Total dividends paid in the nine months ended 31 December 2012 were £144.2 million (year ended 31 March 2012: £281.6 million).

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 period ended 31 December 2012.

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. In November 2012, NWL drew the second £50.0 million tranche of a £150.0 million facility from the European Investment Bank at a fixed rate of 3.23%. The remaining £50.0 million will be drawn in 2013. NWL has cash resources and substantial undrawn committed five year bank facilities available to maintain general liquidity. The undrawn bank committed facilities amounted to £450.0 million at 31 December 2012.

Cash interest cover has remained stable for the year as have the credit ratings for NWL at BBB+ (stable)/Baa1 (stable).

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. At NWL, the management team 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 respective Boards. NWL's management team implements policies on risk management and internal control.

Apart from NWL, none of the Group companies has 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 register, that together facilitate an effective and efficient operation, enabling the Group to respond to a variety of risks.

The Audit Committee oversees internal audit, external audit and management, as required, in its review of internal controls and reports to the NWG and NWL Boards on internal controls, alerting the Boards to any emerging issues.

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The key business risks facing the Group are:

- funding and liquidity risk (see note 20 to the financial statements);
- unfavourable changes to the regulatory structure as a result of the Water White Paper;
- unfavourable outcome of the 2014 Price Review;
- unexpected shift in climate change impact;
- sewer flooding failures;
- loss of income through closure of large customers or lower industrial volumes; and
- risk of increasing pension contributions resulting from increasing longevity and the impact of economic conditions on investment returns.

The main risks arising from the Group's financial instruments are liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks and they are summarised in note 20 to the financial statements. All treasury activities are conducted in accordance with the treasury policies of the Group.

CORPORATE GOVERNANCE

Notwithstanding that the Group is privately owned and therefore not subject to the UK Corporate Governance Code (the Code), both the Group and NWL maintain high standards of corporate governance and endeavour to comply with the main principles of the Code, wherever appropriate.

Directors

The directors who served during the year were as follows:

A J Hunter	Non-Executive Chairman
H Mottram OBE	Chief Executive Officer
C M Green	Finance Director (resigned 31 December 2012)
M Fay CBE	Independent Non-Executive Director
Dr S Lyster	Independent Non-Executive Director
L S Chan	Non-Executive Director
F R Frame	Non-Executive Director
T C E Ip	Non-Executive Director
H L Kam	Non-Executive Director
S H Luk	Alternate Director (resigned 8 October 2012)
D N Macrae	Non-Executive Director
M A B Nègre	Independent Non-Executive Director
P F Rew	Independent Non-Executive Director
W C W Tong-Barnes	Non-Executive Director (appointed 8 October 2012)

M Fay, Dr S Lyster, M A B Nègre and P F Rew resigned on 8 March 2013.

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

Board 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 period, no decisions were referred up to the NWG Board (except for a number of contract approvals and, 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 the 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 version of these guidelines.

The Standing Committee, which is a sub-set of the Board, 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 every two months.

DIRECTORS' REPORT (continued)

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), D N Macrae and L S Chan were appointed by Cheung Kong Infrastructure Holdings Limited. H L Kam, T C E Ip and W C W Tong-Barnes were appointed by Cheung Kong (Holdings) Limited 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 since 8 March 2013, the four independent non-executive directors of NWL also attend Board and Committee meetings of NWG and therefore have visibility over, and play a full part in, strategic decisions at both the NWL and NWG levels.

The General Counsel and Company Secretary, Martin Parker, assists the Board to ensure that good corporate governance compliance is achieved. He is also Company Secretary of NWL and is secretary to all NWG and NWL Board Committees.

Board committees

The Board has Audit, Risk and Remuneration Committees to assist it in the performance of its duties. The Board sets the terms of reference of the committees and receives regular reports from their chairmen at Board meetings. The majority of the work of the committees relates to the activities of NWL and independent non-executive directors of NWL therefore sit on the Remuneration, Audit, and Risk Committees.

Remuneration Committee

The members of the Remuneration Committee for both NWG and NWL are A J Hunter (Chairman), P Rew, M Fay and D N Macrae. H Mottram attends the meetings of the Committee and S Salter, Human Resources Director at NWL, provides advice to the Committee from time to time.

NWL complies with its obligations under Section 35A of the Water Act 2003 by disclosing in its regulatory accounts each year a detailed breakdown of remuneration paid to the executive directors of NWL which is linked to NWL's standards of performance. Executives receive no remuneration other than that disclosed in NWL's regulatory accounts. No additional remuneration is paid by the Group or its shareholders.

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

Audit Committee

The Chairman of the Audit Committee for both NWG and NWL is P Rew, who is an Independent Non-executive Director of NWL. The other members are Dr S Lyster, M Nègre, D N Macrae and L S Chan. All other Directors of NWL and NWG are also invited to attend this Committee.

The purpose of the Audit Committee is to assist both Executive and Independent Non-executive Directors to discharge their individual and collective responsibilities in relation to:

- ensuring the financial and accounting systems of NWG, NWL and their subsidiaries are providing accurate and up-to-date information on their current position;
- ensuring the published financial statements represent a true and fair reflection of this position; and
- assessing the scope and effectiveness of the Group's risk management systems and the integrity of its internal financial controls.

The Committee has now assumed responsibility for the practical work being done to ensure that the Group's procedures designed to prevent bribery are adequate (having regard to the provisions of the Bribery Act 2010 and the official guidance published in relation to that Act). This builds on significant work done by the NWG Board, with advice from the Company Secretary and Internal Audit Manager, to assess the bribery risk faced by the Group, clarify policies and map the procedures to be put in place.

DIRECTORS' REPORT (continued)

Audit Committee (continued)

The Audit Committee also reviews the Company's arrangements for assuring the content and balance of the annual regulatory Risk and Compliance Statement and reports to the Board.

The Audit Committee Chairman reports formally to the NWG and NWL Boards following each meeting of the Committee and Committee minutes are circulated to both Boards.

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 the subsidiary Boards and the Audit Committee.

In May 2013, the NWG Board introduced a Risk and Compliance Committee in order to further strengthen the Group's management of risk and compliance generally and to enhance the assurance provided to the Board. This was previously undertaken by the Audit Committee. The Chairman of this Committee is P Rew, who is an Independent Non-executive Director of NWL. The other members are Dr S Lyster, M Nègre, D N Macrae and L S Chan. All other Directors of NWL and NWG are also invited to attend this Committee.

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.

Review of Corporate Governance arrangements

On 8 March 2013, the Group completed a significant restructuring to simplify its structure (see note 29). Further to this exercise, the Group will be reviewing its governance processes and committee structures and will, in so doing, take careful account of the provisions of NWL's Instrument of Appointment.

OTHER DISCLOSURES

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. The costs associated with these activities during the period were as follows:

Name of political party	£
Conservative	1,850
Labour	1,348
Liberal Democrats	1,150
Total	4,348

Company payment policy

The Company's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. The Company's policy is to make payment not more than 30 days after receipt of a valid invoice, except as otherwise agreed. The ratio, expressed in days, between the amount invoiced by its suppliers during the period and the amount owed to its trade creditors at 31 December 2012, was 18 days (31 March 2012: 19 days).

Indemnification of directors

UKW, the Company's ultimate parent undertaking in the period to 31 December 2012, had in place directors' and officers' insurance for the period. On 28 November 2005, the Company entered into a deed of indemnity to grant the Directors further protection against liability to third parties, subject to the conditions set out in the Companies Act, 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.

DIRECTORS' REPORT (continued)

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 financial statements.

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

- NWL's Instrument of Appointment which is in place on a rolling 25 year basis;
- the certainty on customer tariffs to March 2015 provided by the 2009 Final Determination of prices by the Water Services Regulation Authority, following its acceptance by the Board;
- the financial strength of the Group at the balance sheet date and performance for the nine months to 31 December 2012, which is in line with expectations and reviewed at each Board meeting, most recently in May 2013;
- the key financial ratios over the planning horizon of the Group's one year budget and medium term plan to 2017 as reflected in ratings on stable outlook and strong investment grade, which was approved by the Board in November 2012;
- the fact that NWL has in place £450.0 million of five year committed bank facilities as back up liquidity (maturing in 2016), and that these remained undrawn at 31 December 2012;
- the water and waste water 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 Audit and Risk Committees and Board.

Statement of directors' responsibilities

The Directors are responsible for preparing the annual report and the Group financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Directors are required to prepare Group financial statements for each financial period. Under Company Law, the Directors must not approve the financial statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing these Group financial statements the Directors are required to:


- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and
- make judgements and estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records which are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Responsibility statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.



By order of the Board
M Parker, General Counsel and Company Secretary, 17 June 2013

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

We have audited the financial statements of Northumbrian Water Group Limited for the period ended 31 December 2012 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, consolidated cash flow and related notes 1 to 30, and the Company balance sheet and related notes 1 to 10. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) 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 (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2012 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Paul Feechan (Senior Statutory Auditor) *P Feechan*
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle upon Tyne, 18 June 2013

CONSOLIDATED INCOME STATEMENT

For the period ended 31 December 2012

		Nine months to 31 December 2012	Year to 31 March 2012
	Note	£m	£m
Continuing operations			
Revenue	2	611.2	789.5
Operating costs	3	(336.6)	(458.5)
Profit on ordinary activities before interest	2	274.6	331.0
Finance costs payable	7	(148.5)	(189.2)
Finance income receivable	7	31.1	51.3
Share of profit after tax of jointly controlled entities		0.3	0.8
Profit on ordinary activities before taxation	2	157.5	193.9
– current taxation	8	(37.4)	(30.8)
– deferred taxation	8	25.7	23.3
Profit for the period		145.8	186.4
Attributable to:			
Equity shareholders of the parent Company		145.0	185.9
Non-controlling interests		0.8	0.5
		145.8	186.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 December 2012

		Nine months to 31 December 2012	Year to 31 March 2012
	Note	£m	£m
Profit for the period		145.8	186.4
Other comprehensive income			
Actuarial losses	25	(7.4)	(83.5)
Losses on cash flow hedges taken to equity		(0.4)	(22.5)
Translation differences		(2.0)	-
Tax on items charged or credited to equity	8	0.1	18.8
Total other comprehensive gain/(loss)		(9.7)	(87.2)
Total comprehensive income for the period		136.1	99.2
Attributable to:			
Equity shareholders of the parent Company		135.3	98.7
Non-controlling interests		0.8	0.5
		136.1	99.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 31 December 2012

	Equity share capital £m	Share premium reserve £m	Cash flow hedge reserve £m	Treasury shares £m	Currency translation £m	Retained earnings £m	Total equity £m	Non- controlling interests £m	Total £m
At 1 April 2011 restated¹	51.9	446.5	(6.6)	(1.7)	0.9	(53.6)	437.4	2.3	439.7
Profit for the year	-	-	-	-	-	185.9	185.9	0.5	186.4
Other comprehensive income	-	-	(21.6)	-	-	(65.6)	(87.2)	-	(87.2)
Total comprehensive income and expense for the year	-	-	(21.6)	-	-	120.3	98.7	0.5	99.2
Share-based payment	-	-	-	-	-	1.1	1.1	-	1.1
Exercise of LTIP awards	-	-	-	1.7	-	(1.7)	-	-	-
Equity dividends paid	-	-	-	-	-	(281.6)	(281.6)	(0.3)	(281.9)
At 31 March 2012 restated¹	51.9	446.5	(28.2)	-	0.9	(215.5)	255.6	2.5	258.1
Profit for the period	-	-	-	-	-	145.0	145.0	0.8	145.8
Other comprehensive income	-	-	(0.5)	-	(2.0)	(7.2)	(9.7)	-	(9.7)
Total comprehensive income and expense for the period	-	-	(0.5)	-	(2.0)	137.8	135.3	0.8	136.1
Transfer of settled derivative	-	-	16.9	-	-	-	16.9	-	16.9
Equity dividends paid	-	-	-	-	-	(144.2)	(144.2)	-	(144.2)
At 31 December 2012	51.9	446.5	(11.8)	-	(1.1)	(221.9)	263.6	3.3	266.9

1. The prior year balances have been restated to reflect the hedge effectiveness of an inflation hedge (see note 22).

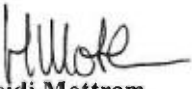
CONSOLIDATED BALANCE SHEET

As at 31 December 2012

		31 December 2012	restated ¹ 31 March 2012	restated ¹ 31 March 2011
	Note	£m	£m	£m
Non-current assets				
Goodwill	10	3.6	3.6	3.6
Other intangible assets	10	64.2	64.2	64.2
Property, plant and equipment	11	3,910.1	3,822.9	3,626.8
Investments in jointly controlled entities	12	3.3	4.3	4.0
Financial assets		11.3	11.5	12.0
Amounts receivable relating to consortium relief		1.7	1.7	1.7
		3,994.2	3,908.2	3,712.3
Current assets				
Inventories	13	3.5	3.2	3.3
Trade and other receivables	14	168.7	167.3	153.9
Short term cash deposits	15	1.8	4.3	1.4
Cash and cash equivalents	15	113.8	168.5	141.7
		287.8	343.3	300.3
Total assets		4,282.0	4,251.5	4,012.6
Non-current liabilities				
Interest bearing loans and borrowings	17	2,772.0	2,746.9	2,295.8
Provisions	19	2.0	2.2	2.4
Deferred income tax liabilities	8	518.1	543.9	586.0
Pension liability	25	101.8	84.1	46.0
Hedging instruments	20	63.9	63.8	58.7
Other payables		4.7	5.1	6.8
Grants and deferred income		287.8	281.9	255.1
		3,750.3	3,727.9	3,250.8
Current liabilities				
Interest bearing loans and borrowings	17	44.8	89.4	163.7
Provisions	19	0.2	0.2	0.2
Trade and other payables	16	206.1	175.9	155.6
Amounts payable relating to group relief		13.7	-	-
Income tax payable		-	-	2.6
		264.8	265.5	322.1
Total liabilities		4,015.1	3,993.4	3,572.9
Net assets		266.9	258.1	439.7
Capital and reserves				
Issued capital	21	51.9	51.9	51.9
Share premium reserve		446.5	446.5	446.5
Cash flow hedge reserve		(11.8)	(28.2)	(6.6)
Treasury shares		-	-	(1.7)
Currency translation		(1.1)	0.9	0.9
Retained earnings		(221.9)	(215.5)	(53.6)
Equity shareholders' funds		263.6	255.6	437.4
Non-controlling interests		3.3	2.5	2.3
Total capital and reserves		266.9	258.1	439.7

1. The prior year balance sheets have been restated to reflect the hedge effectiveness of an inflation hedge (see note 22).

Approved by the Board on 17 June 2013 and signed on its behalf by:


Heidi Mottram
 Chief Executive Officer
 Registered number 4760441

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 31 December 2012

	Note	Nine months to 31 December 2012 £m	Year to 31 March 2012 £m
Operating activities			
Reconciliation of profit before interest to net cash flows from operating activities			
Profit on ordinary activities before interest		274.6	331.0
Depreciation		87.6	113.8
Other non-cash charges and credits		(7.8)	(5.6)
Net credit for provisions, less payments		(0.2)	(0.2)
Difference between pension contributions paid and amounts recognised in the income statement		9.9	9.7
(Increase)/decrease in inventories		(0.3)	0.1
Increase in trade and other receivables		(7.7)	(11.5)
Increase in trade and other payables		18.1	5.8
Cash generated from operations		374.2	443.1
Advance contributions in respect of retirement benefits		-	(47.1)
Interest paid		(84.1)	(123.2)
Income taxes paid		(29.4)	(37.2)
Income taxes repaid in respect of prior years		7.5	-
Net cash flows from operating activities		268.2	235.6
Investing activities			
Interest received		3.8	2.1
Capital grants received		7.2	9.9
Proceeds on disposal of property, plant and equipment		3.0	1.0
Cash outflow on disposal of subsidiary undertakings		(0.8)	-
Dividends received from jointly controlled entities		0.4	0.5
Short term cash deposits		2.5	(2.9)
Maturity of investments		0.3	0.9
Purchase of property, plant and equipment		(176.0)	(273.3)
Net cash flows from investing activities		(159.6)	(261.8)
Financing activities			
New borrowings		52.8	510.2
Settled hedge instrument		-	(17.5)
Dividends paid to minority interests		-	(0.3)
Dividends paid to equity shareholders		(144.2)	(281.6)
Repayment of borrowings		(66.1)	(150.6)
Payment of principal under hire purchase contracts and finance leases		(6.4)	(7.2)
Net cash flows from financing activities		(163.9)	53.0
(Decrease)/increase in cash and cash equivalents		(55.3)	26.8
Cash and cash equivalents at start of period	15	167.1	140.3
Cash and cash equivalents at end of period	15	111.8	167.1
Cash and cash equivalents at end of period	15	111.8	167.1
Short term cash deposits	15	1.8	4.3
Total cash, cash equivalents and short term cash deposits		113.6	171.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the period ended 31 December 2012

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 nine months ended 31 December 2012 and in accordance with the Companies Act 2006.

The financial statements have been prepared on a going concern basis which assumes that the Group will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 December 2012, the Group had net current assets of £23.0 million (31 March 2012 restated: £77.8 million). 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.

The Group is party to an inflation swap to hedge inflation-linked revenue which commenced in May 2004 as part of the issue of the Eurobonds due in January 2034. The Group had previously accounted for the fair value of this instrument as a cash flow hedge in the financial statements for the year ended 31 March 2012. At 31 March 2012, the cash flow hedge was designated as highly effective, however, it has since been determined that the appropriate hedging documentation was not in place on inception (12 May 2004) or thereafter. The prior year income statement has not been restated as the effect of a restatement would not be material, though the amounts in the cash flow hedge reserve have been restated to retained earnings to reflect that cash flow hedge accounting is not applied. Current and non-current liabilities have also been restated to disclose the fair value on the derivatives as non-current as the terms of the instruments are long term. The impact of this change is explained in note 22.

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 nine months ended 31 December 2012 were authorised for issue by the Board of directors on 17 June 2013 and the balance sheet was signed on the Board's behalf by Heidi Mottram (Chief Executive Officer).

The Group has adopted the following standards and interpretations during the period:

- IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

The adoption of the standards and interpretations listed above does not have a material impact on the Group.

Northumbrian Water Group Limited is a limited company 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 (£0.1 million) except where otherwise indicated.

(b) Basis of consolidation

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. Where, for commercial reasons, the accounting reference date of a subsidiary is a date other than that of the Company, management accounts made up to the Company's accounting reference date have been used. In accordance with SIC 12 'Consolidation – Special Purpose 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.

1. ACCOUNTING POLICIES (continued)

(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. Financial statements of jointly controlled entities and associates are prepared for the same reporting period as the Group. 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.

(e) Intangible assets other than goodwill

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).

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.

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, 4-10 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.

1. ACCOUNTING POLICIES (continued)

(f) Property, plant and equipment (continued)

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

(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. Loans and receivables 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 Northumbrian Water Group Limited 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 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. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

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 waste water 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.

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) Hire purchase and leasing

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership to the Group, the assets are treated as if they had been purchased at their fair value or, if lower, at the present value of the minimum lease payments. Rentals or leasing payments are treated as consisting of a capital element and finance charges, the capital element reducing the outstanding liability and the finance charges being charged to the income statement over the period of the leasing contract at a constant rate on the reducing outstanding liability.

Rentals under operating leases (where the lessor retains a significant proportion of the risks and rewards of ownership) are expensed in the income statement on a straight line basis over the lease term.

(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.

The interest element of the defined benefit cost represents the change in present value of scheme obligations resulting from the passage of time, and is determined by applying the discount rate to the opening present value of the benefit obligation, taking into account material changes in the obligation during the year. The expected return on plan assets is based on an assessment made at the beginning of the year of long term market returns on scheme assets, adjusted for the effect on the fair value of plan assets of contributions received and benefits paid during the year.

The service cost is disclosed in employment costs and the expected interest income and interest cost on obligations are disclosed within finance costs payable/(income receivable).

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 a defined contribution scheme. 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.

1. ACCOUNTING POLICIES (continued)

(o) Taxation (continued)

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.

Deferred tax is recognised in the income statement unless it relates to items accounted for outside profit or loss, in which case it is recognised in correlation with the underlying transaction either in other comprehensive income or directly in equity.

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 rate swaps, forward rate agreements and forward exchange contracts as derivative financial instruments.

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

Under IAS 39, derivative financial instruments are always measured at fair value, with hedge accounting employed in respect of those derivatives fulfilling the stringent requirements for hedge accounting as prescribed under IAS 39. In summary, these criteria relate to initial designation and documentation of the hedge relationship, prospective testing of the relationship to demonstrate the expectation that the hedge will be highly effective throughout its life and subsequent retrospective testing of the hedge to verify effectiveness.

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

1. ACCOUNTING POLICIES (continued)

(p) Derivative financial instruments (continued)

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

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in profit or loss. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest bearing financial instrument, the adjustment is amortised to the net profit and loss such that it is fully amortised by maturity.

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

When the hedged firm commitment results in the recognition of a non-financial asset or a non-financial liability then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity 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 equity are transferred to the income statement in the same periods in which the hedged firm commitment affects the net profit and loss.

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 equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity 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 April RPI (31 March 2012: July), 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 current and non-current liabilities 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.

The Group capitalises borrowing costs for all eligible assets when construction commenced on or after 1 April 2009 and continues to expense borrowing costs relating to construction projects that commenced prior to that date.

(s) Loans and receivables

Loans and 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 profit and loss 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.

1. ACCOUNTING POLICIES (continued)

(t) 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.

(u) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. Invoices for unmeasured water and waste water charges are due on fixed dates; other receivables generally have 30 day payment terms. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. Trade and other receivables do not carry any interest.

(v) 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.

(w) 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.

(x) 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.

(y) 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)

(z) Accounting standards

The International Accounting Standards Board and International Financial Reporting Interpretation Committee (IFRIC) have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS/IFRS)

IFRS 9: Financial Instruments

IFRS 10: Consolidated Financial Statements

IFRS 11: Joint arrangements

IFRS 12: Disclosure of Interests in Other Entities

IFRS 13: Fair Value Measurement

Amendment to the following standards:

IFRS 1: Government Loans

IFRS 7: Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

IAS 19: Employee Benefits

IAS 27: Separate Financial Statements

IAS 28: Investments in Associates and Joint Ventures

IAS 32: Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

Improvements to IFRSs (2009 - 2011)

IFRS 10, IFRS 11 and IFRS 12: Investment entities

IFRS 10, IFRS 11 and IFRS 12: Transition guidance

Of these, IAS 19 revised is expected to have the most significant impact on the financial statements. Adopting amendments to IAS 19 Employee Benefits, would have increased operating costs and net finance costs payable by £1.2m and £2.6m, respectively.

(aa) Key assumptions

The directors consider that the key assumptions applied at the balance sheet date, which may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

- those assumptions used in arriving at the pension asset/liability under IAS 19. These key assumptions and their possible impact are disclosed in note 25, 'Pensions and other post-retirement benefits';
- the bad debt provision which is calculated by applying a range of percentages to debt of different ages. These percentages also vary between different categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age. The value of the bad debt provision is sensitive to the specific percentages applied; and
- the asset lives assigned to property, plant and equipment, details of which can be found in note 1(f).

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 on ordinary activities 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 waste water contracts

NWG owns a number of companies for specific water and waste water contracts in Scotland, Ireland and Gibraltar.

Other

Up to date of disposal on 3 May 2012, Agrer provided overseas aid funded project work in developing countries through a number of funding agencies. Central unallocated costs and provisions are also 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.

2. SEGMENTAL ANALYSIS (continued)

Revenue	NWL	Water and waste water contracts	Other	Total
	£m	£m	£m	£m
Nine months ended 31 December 2012				
Segment revenue	578.1	32.4	5.1	615.6
Inter-segment revenue	-	-	(4.4)	(4.4)
Revenue from external customers	578.1	32.4	0.7	611.2
Year ended 31 March 2012				
Segment revenue	737.4	42.1	16.1	795.6
Inter-segment revenue	-	-	(6.1)	(6.1)
Revenue from external customers	737.4	42.1	10.0	789.5

Profit on ordinary activities before interest	NWL	Water and waste water contracts	Other	Total
	£m	£m	£m	£m
Nine months ended 31 December 2012				
Segment profit/(loss) on ordinary activities before interest	268.1	7.9	(1.4)	274.6
Net finance costs				(117.4)
Share of profit from jointly controlled entities				0.3
Profit on ordinary activities before taxation				157.5
Taxation				(11.7)
Profit for the period from continuing operations				145.8
Year ended 31 March 2012				
Segment profit/(loss) on ordinary activities before interest	338.8	10.0	(17.8)	331.0
Net finance costs				(137.9)
Share of profit from jointly controlled entities				0.8
Profit on ordinary activities before taxation				193.9
Taxation				(7.5)
Profit for the year from continuing operations				186.4

Assets and liabilities

	NWL		Water and waste water contracts		Other		Total	
	31 December 2012	31 March 2012	31 December 2012	31 March 2012	31 December 2012	31 March 2012	31 December 2012	31 March 2012
	£m	£m	£m	£m	£m	£m	£m	£m
Segment assets	4,027.9	3,929.5	107.7	109.9	132.7	212.1	4,268.3	4,251.5
Segment liabilities	536.7	495.2	15.1	15.9	3,449.6	3,482.3	4,001.4	3,993.4

Other comprises taxation, interest and net debt.

	NWL		Water and waste water contracts		Total	
	31 December 2012	31 March 2012	31 December 2012	31 March 2012	31 December 2012	31 March 2012
	£m	£m	£m	£m	£m	£m
Property, plant and equipment additions	175.4	308.2	0.5	2.0	175.9	310.2
Depreciation	83.4	107.1	4.2	6.7	87.6	113.8

2. SEGMENTAL ANALYSIS (continued)

Geographical information

Revenue from external customers from the UK was £597.9 million (31 March 2012: £762.9 million). Revenue from other countries was £13.3 million (31 March 2012: £26.6 million).

Non-current assets for operations in the UK were £3,985.2 million (31 March 2012: £3,896.5 million). Non-current assets for operations in other countries were £9.0 million (31 March 2012: £11.7 million).

3. OPERATING COSTS

	Nine months to 31 December 2012	Year to 31 March 2012
	£m	£m
Materials and consumables	18.5	24.8
Manpower costs (see note 6)	88.9	115.6
Own work capitalised	(21.9)	(28.3)
Depreciation of property, plant and equipment	87.6	113.8
Profit on disposal of property, plant and equipment	(2.0)	(0.7)
Amortisation of capital grants	(3.7)	(4.8)
Costs of research and development	0.9	1.1
Operating lease payments	0.9	1.1
Bad debt charge	6.0	6.4
Other operating costs	161.4	229.5
Operating costs	336.6	458.5

4. AUDITOR'S REMUNERATION

	Nine months to 31 December 2012	Year to 31 March 2012
	£m	£m
Audit of the financial statements ¹	0.3	0.3
Other fees to auditors:		
Taxation services	0.2	0.1

Note:

1. £50,000 of this relates to the Company (year ended 31 March 2012: £8,000).

5. DIRECTORS' EMOLUMENTS

(a) Directors' remuneration

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

	Nine months to 31 December 2012	Year to 31 March 2012
	£000	£000
Emoluments (including benefits in kind)	1,015	1,470

One of the directors at 31 December 2012 was a member of a defined benefit pension scheme where the Group makes contributions towards the cost (31 March 2012: 1).

One of the directors at 31 December 2012 was a member of a defined contribution scheme where the Group makes contributions towards the cost (31 March 2012: 1).

Long Term Incentive Plan (LTIP)

A new cash-based LTIP was introduced with effect from 1 January 2012. The new LTIP targets relate to financial performance, SIM (customer services performance) and serviceability (asset performance). Payments which are approved by the Remuneration Committee will be paid three years after the start of the performance period.

5. DIRECTORS' EMOLUMENTS (continued)

(b) Highest paid director

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

	Nine months to 31 December 2012 £000	Year to 31 March 2012 £000
Emoluments (including benefits in kind)	520	595

In the nine months ended 31 December 2012, the highest paid director was a member of the defined contribution scheme and the payments made to that scheme of £39.7k (year ended 31 March 2012: £64.1k) are included within the emoluments figure above.

6. EMPLOYEE INFORMATION

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

	Nine months to 31 December 2012 £m	Year to 31 March 2012 £m
Wages and salaries	70.8	93.0
Social security costs	6.4	7.9
Defined benefit pension service cost (see note 25)	10.2	12.8
Other pension costs	1.5	1.9
Total employment costs	88.9	115.6
Total employment costs were charged as follows:		
Capital schemes and infrastructure renewals	21.9	28.3
Manpower costs	67.0	87.3
	88.9	115.6

Included in wages and salaries is a total expense of share-based payments of £nil (year ended 31 March 2012: £0.4 million) which arises from transactions accounted for as equity-settled share-based payments.

The average monthly number of employees of the Group during the period was:

	Nine months to 31 December 2012 Number	Year to 31 March 2012 Number
NWL	2,951	2,894
Water and waste water contracts	157	156
Other	26	26
	3,134	3,076

7. FINANCE COSTS PAYABLE/(RECEIVABLE)

	Nine months to 31 December 2012	Year to 31 March 2012
	£m	£m
Finance costs payable on debentures, bank and other loans and overdrafts	104.4	124.9
Amortisation of discount, fees, loan issue costs and other financing items	(2.8)	(2.8)
Capitalisation of interest	(3.1)	(3.2)
Accretion on index linked bonds	16.7	23.8
Interest cost on pension plan obligations	29.3	41.3
Finance costs payable on hire purchase contracts and finance leases	4.0	5.2
Total finance costs payable	148.5	189.2
Expected return on pension plan assets	(28.9)	(49.3)
Finance income receivable	(2.2)	(2.0)
Net finance costs payable	117.4	137.9

8. TAXATION

(a) Tax on profit on ordinary activities

	Nine months to 31 December 2012	Year to 31 March 2012
	£m	£m
Current tax:		
Current income tax charge at 24% (year ended 31 March 2012: 26%)	37.3	31.2
Adjustment in respect of prior periods	-	(0.6)
UK corporation tax	37.3	30.6
Overseas tax	0.1	0.2
Total current tax	37.4	30.8
Deferred tax:		
Origination and reversal of temporary differences in the period at 23% (year ended 31 March 2012: 24%)	0.2	19.5
Effect of changes in tax rates and laws:		
– Impact of reduction in rate of UK corporation tax	(24.3)	(47.5)
Recycled from equity on cash flow hedges	(0.1)	-
Adjustment in respect of prior periods	(1.5)	4.7
Total deferred tax credit	(25.7)	(23.3)
Tax charge in the income statement	11.7	7.5

The rate of UK corporation tax was reduced from 24% to 23% by Finance Act 2012 with effect from 1 April 2013. As a result, deferred tax was re-measured at the rate at which timing differences are expected to reverse. Adjustments in respect of prior periods arise from the recognition of deferred tax on losses which have arisen in the Group's Gibraltar subsidiary in prior periods.

(b) Tax relating to items charged or credited outside of profit or loss

	Nine months to 31 December 2012	Year to 31 March 2012
	£m	£m
Deferred tax:		
Actuarial gains and losses on pension schemes	(1.7)	(20.0)
Deferred tax recycled to income statement on cash flow hedges	0.1	-
Hedging instruments	(0.2)	(1.3)
Impact of reduction in rate of UK corporation tax	1.7	2.4
Tax charge in the statement of comprehensive income	(0.1)	(18.9)
Deferred tax:		
Share-based payment	-	0.1
Tax credit in the statement of changes in equity	-	0.1

8. TAXATION (continued)

(c) Reconciliation of the total tax charge

	Nine months to 31 December 2012	Year to 31 March 2012
	£m	£m
Accounting profit before tax	157.5	193.9
Accounting profit multiplied by standard rate of corporation tax of 24% (year ended 31 March 2012: 26%)	37.8	50.4
Effects of:		
Expenses not deductible for tax purposes	0.5	2.6
Depreciation in respect of non-qualifying items	1.1	1.8
Non-taxable income and enhanced tax reliefs	(1.0)	(1.0)
Non-taxable amortisation of financing items	(0.8)	(1.3)
Adjustment to tax charge in respect of prior periods	(1.5)	4.1
Other	(0.1)	-
	36.0	56.6
Effect of changes in tax rates and laws:		
– Impact of rate reduction on opening deferred tax	(24.3)	(47.5)
– Impact of rate reduction on movement in deferred tax	-	(1.6)
Total tax expense reported in the income statement	11.7	7.5

The effective tax rate for the period to 31 December 2012 was 7.4% (year ended 31 March 2012: 3.9%). The increase of 3.5% is mainly due to a lower deferred tax credit relating to the reduction in the UK corporation tax rate and prior year items. In the absence of the rate change and prior year items, the effective rate would have been 23.9%.

(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 2011	643.4	(46.4)	(5.5)	(16.4)	(15.2)	9.9	16.2	586.0
(Credit)/charge in the income statement	(42.4)	3.2	3.6	12.1	-	(0.9)	1.1	(23.3)
Credit in other comprehensive income	-	-	-	(18.8)	(0.1)	-	-	(18.9)
Reported in equity on cash flow hedges	-	-	-	-	-	-	0.1	0.1
At 1 April 2012	601.0	(43.2)	(1.9)	(23.1)	(15.3)	9.0	17.4	543.9
(Credit)/charge in the income statement	(23.7)	1.6	(0.7)	(2.0)	0.7	(0.6)	(1.0)	(25.7)
(Credit)/charge in other comprehensive income	-	-	-	(0.2)	(0.1)	-	0.2	(0.1)
At 31 December 2012	577.3	(41.6)	(2.6)	(25.3)	(14.7)	8.4	16.6	518.1

Other includes a deferred tax liability of £14.8 million in respect of other intangible assets (see note 10).

(e) Factors that may affect future tax charges

The Government has stated its intention to reduce the UK rate of corporation tax to 21% by 1 April 2014 and to 20% by 1 April 2015. Had the 20% rate applied in the period to 31 December 2012, the closing deferred tax liability would have been reduced by £67.6 million to £450.5 million and the current year's UK corporation tax charge would have been reduced by £6.2 million to £31.1 million.

9. DIVIDENDS PAID AND PROPOSED

	Nine months to 31 December 2012 £m	Year to 31 March 2012 £m
Declared and paid during the year:		
Equity dividends on ordinary shares:		
Final dividend for the year ended 31 March 2012: nil (year ended 31 March 2011: 9.57 pence)	-	49.6
Interim dividend for the period ended 31 December 2012: 15.86 pence (year ended 31 March 2012: nil)	82.2	-
Second interim dividend for the period ended 31 December 2012: 11.95 pence (year ended 31 March 2012: nil)	62.0	-
Special dividend for the period ended 31 December 2012: nil (year ended 31 March 2012: 44.73 pence)	-	232.0
Dividends paid	144.2	281.6

No final dividend is proposed for the period ended 31 December 2012 (year ended 31 March 2012: nil).

10. INTANGIBLE ASSETS

	Goodwill £m	Other £m	Total £m
Cost:			
At 1 April 2011, 1 April 2012 and 31 December 2012	3.8	64.2	68.0
Impairment:			
At 1 April 2011, 1 April 2012 and 31 December 2012	(0.2)	-	(0.2)
Net book value at 31 December 2012	3.6	64.2	67.8
Net book value at 1 April 2011 and 31 March 2012	3.6	64.2	67.8

Goodwill has been allocated to the water and waste water cash-generating unit and the other intangible asset has been allocated to the NWL cash-generating unit, which are also the operating segments.

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, have been discounted at a rate of 4.93% in perpetuity. This represents a long term nominal gilt yield and an assumed credit spread. This calculation satisfied the Group that the carrying value at 31 December 2012 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.

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 2011	121.6	1,895.7	2,324.3	221.3	148.4	4,711.3
Additions	0.1	13.2	3.5	0.6	292.8	310.2
Schemes commissioned	0.5	119.8	92.9	11.6	(224.8)	-
Reclassifications	-	(0.1)	0.1	-	-	-
Disposals	-	(7.5)	(2.4)	-	-	(9.9)
At 1 April 2012	122.2	2,021.1	2,418.4	233.5	216.4	5,011.6
Additions	0.1	4.1	2.2	0.5	169.0	175.9
Schemes commissioned	5.0	77.5	82.9	5.5	(170.9)	-
Disposal of subsidiary	-	-	-	(0.6)	-	(0.6)
Disposals	(1.0)	(5.5)	(4.8)	-	-	(11.3)
At 31 December 2012	126.3	2,097.2	2,498.7	238.9	214.5	5,175.6
Depreciation:						
At 1 April 2011	38.2	118.3	779.4	148.6	-	1,084.5
Charge for the year	2.3	24.3	75.8	11.4	-	113.8
Disposals	-	(7.5)	(2.1)	-	-	(9.6)
At 1 April 2012	40.5	135.1	853.1	160.0	-	1,188.7
Charge for the period	1.7	18.9	57.8	9.2	-	87.6
Disposal of subsidiary	-	-	-	(0.5)	-	(0.5)
Reclassifications	0.6	-	-	(0.6)	-	-
Disposals	(0.5)	(5.4)	(4.4)	-	-	(10.3)
At 31 December 2012	42.3	148.6	906.5	168.1	-	1,265.5
Net book value at 31 December 2012	84.0	1,948.6	1,592.2	70.8	214.5	3,910.1
Net book value at 31 March 2012	81.7	1,886.0	1,565.3	73.5	216.4	3,822.9
Net book value at 1 April 2011	83.4	1,777.4	1,544.9	72.7	148.4	3,626.8

Operational structures, plant and machinery include an element of land and buildings dedicated to those assets. The Group continues to apply IAS 23 Borrowing Costs (Revised) in the period and has capitalised £3.1 million for the period to 31 December 2012 (year to 31 March 2012: £3.2 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 5.96% (March 2012: 5.96%).

It is not possible to separately identify the value of all land assets.

The net book value of property, plant and equipment held under hire purchase contracts and finance leases was as follows:

	31 December 2012 £m	31 March 2012 £m
Infrastructure assets	46.4	46.8
Operational structures, plant and machinery	21.8	21.8
	68.2	68.6

12. INVESTMENTS

	31 December 2012 £m	31 March 2012 £m
Investments in jointly controlled entities	3.3	4.3

(a) Investments in jointly controlled entities

The Group, through Northumbrian Services Limited, holds 50% of the nominal value of issued ordinary £1 shares in Vehicle Lease and Service Limited (VLS), the Group's principal jointly controlled entity. VLS was incorporated in England and Wales and undertakes the business of hiring, leasing and servicing of vehicles and plant.

The Group, through Agrer up to the date of disposal on 3 May 2012, also held a 50% interest in Agreco, a jointly controlled entity incorporated in Belgium.

12. INVESTMENTS (continued)

(a) Investments in jointly controlled entities (continued)

	VLS 31 December 2012 £m	VLS 31 March 2012 £m	Agreco 31 March 2012 £m
Revenue	5.4	6.9	3.3
Operating costs	(4.7)	(5.9)	(2.9)
Profit on ordinary activities before interest	0.7	1.0	0.4
Finance costs payable	(0.3)	(0.5)	-
Profit on ordinary activities before taxation	0.4	0.5	0.4
Current taxation	(0.1)	-	-
Profit for the period	0.3	0.5	0.4
Non-current assets	9.0	8.5	-
Current assets	7.3	7.2	3.2
Share of gross assets	16.3	15.7	3.2
Current liabilities	(5.0)	(5.8)	(2.3)
Non-current liabilities	(8.0)	(6.5)	-
Share of gross liabilities	(13.0)	(12.3)	(2.3)
Share of net assets	3.3	3.4	0.9

(b) The Group's interests in principal subsidiaries at 31 December 2012 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
Northumbrian Services Limited	England and Wales	Ordinary shares of £1	100	Holding of investments and loans
Northumbrian Water Limited	England and Wales	Ordinary shares of £1	100	Water and sewerage services
Northumbrian Water Finance plc	England and Wales	Ordinary shares of £1	100	Holding of finance instruments
Caledonian Environmental Services plc	Scotland	Ordinary shares of £1	100	Waste water services
Caledonian Environmental Levenmouth Treatment Services Limited	Scotland	Ordinary shares of £1	100	Waste water services
Ayr Environmental Services Limited	Scotland	Ordinary shares of £1	75	Waste water services
Ayr Environmental Services Operations Limited	Scotland	Ordinary shares of £1	100	Waste water services
AquaGib Limited	Gibraltar	Ordinary shares of £1	67	Water and sewerage services
Northumbrian Water Projects Limited	England and Wales	Ordinary shares of £1	100	Waste water services

All subsidiaries listed above are indirectly held. The directors consider that to give full particulars of all subsidiary and associated undertakings would lead to a statement of excessive length. The above information relates to those subsidiary and associated undertakings or groups of undertakings whose results or financial position, in the opinion of the directors, principally affect the figures of the Group. A full list of the Company's subsidiaries is attached to the Company's latest annual return filed at Companies House.

13. INVENTORIES

	31 December 2012 £m	31 March 2012 £m
Raw materials and consumables	3.5	3.2

14. TRADE AND OTHER RECEIVABLES

	31 December 2012	31 March 2012
	£m	£m
Trade receivables	79.0	84.4
Amounts owed by jointly controlled entities	0.6	0.6
Prepayments and accrued income	75.6	67.9
Financial assets	0.4	2.0
Other receivables	13.1	12.4
	168.7	167.3

As at 31 December 2012, trade receivables at nominal value of £56.3 million (31 March 2012: £50.8 million) were impaired. Movements in the provision for impairment of trade receivables were as follows:

	£m
At 1 April 2011	44.5
Charge for the year	17.8
Utilised	(11.5)
At 1 April 2012	50.8
Charge for the period	14.5
Disposal of subsidiary	(0.5)
Utilised	(8.5)
At 31 December 2012	56.3

The analysis of trade receivables overdue but not impaired is as follows:

	0-3 months	3-12 months	12-24 months	24-36 months	36-48 months	>48 months	Total
	£m	£m	£m	£m	£m	£m	£m
At 31 December 2012	0.1	22.5	17.3	9.2	4.2	-	53.3
At 31 March 2012	0.3	29.7	13.8	7.1	3.0	-	53.9

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 December 2012	31 March 2012
	£m	£m
Cash at bank and in hand	58.6	75.3
Cash equivalent deposits	55.2	93.2
	113.8	168.5
Bank overdrafts	(2.0)	(1.4)
Cash and cash equivalents	111.8	167.1

	31 December 2012	31 March 2012
	£m	£m
Short term cash deposits >3 months	1.8	4.3

16. TRADE AND OTHER PAYABLES

	31 December 2012	31 March 2012
	£m	£m
Trade payables	6.5	13.6
Other payables	16.9	23.3
Interest payable	72.5	46.0
Accruals and deferred income	110.2	93.0
	206.1	175.9

17. INTEREST BEARING LOANS AND BORROWINGS

	31 December 2012	31 March 2012
	£m	£m
Current:		
Bank overdrafts	2.0	1.4
Current instalments due on borrowings (principal £31.1 million, 31 March 2012: £76.2 million)	35.5	80.7
Current obligations under finance leases and hire purchase contracts (see note 18)	7.3	7.3
	44.8	89.4
Non-current:		
Non-current obligations under finance leases and hire purchase contracts (principal £104.5 million, 31 March 2012: £105.0 million) (see note 18)	104.5	105.0
Non-current instalments on borrowings (principal £2,670.4 million, 31 March 2012: £2,624.1 million)	2,667.5	2,641.9
	2,772.0	2,746.9
Borrowings comprise the following:		
Loans (principal £410.9 million, 31 March 2012: £427.0 million)	412.6	429.1
Subordinated loan stock (principal £1.9 million, 31 March 2012: £1.9 million)	1.9	1.9
Eurobonds – due 11 October 2017 bearing interest rate of 6.0% (principal £300.0 million, 31 March 2012: £300.0 million)	305.5	306.3
Eurobonds – due 6 February 2023 bearing interest rate of 6.875% (principal £350.0 million, 31 March 2012: £350.0 million)	378.9	381.1
Eurobonds – due 29 April 2033 bearing interest rate of 5.625% (principal £350.0 million, 31 March 2012: £350.0 million)	346.5	346.5
Eurobonds – due 23 January 2042 bearing interest rate of 5.125% (principal £360.0 million, 31 March 2012: £360.0 million)	339.6	356.4
Eurobonds – due 23 January 2034 bearing interest rate of 5.87526% (principal £248.0 million, 31 March 2012: £248.0 million)	241.9	241.7
Eurobonds – due 31 March 2037 bearing interest rate of 6.627% (principal £61.5 million, 31 March 2012: £61.5 million)	58.6	58.6
US Private Placement (USPP) Notes – due 14 April 2021 bearing interest rate of 5.82% (principal £100.0 million, 31 March 2012: £100.0 million)	99.6	100.0
Index linked Eurobonds – due 15 July 2036 bearing interest rate of 2.033% (principal £192.6 million, 31 March 2012: £186.3 million)	191.7	185.4
Index linked Eurobonds – due 30 January 2041 bearing interest rate of 1.6274% (principal £75.8 million, 31 March 2012: £73.0 million)	75.6	73.2
Index linked Eurobonds – due 16 July 2049 bearing interest rate of 1.7118% (principal £125.4 million, 31 March 2012: £121.3 million)	125.3	121.2
Index linked Eurobonds – due 16 July 2053 bearing interest rate of 1.7484% (principal £125.4 million, 31 March 2012: £121.3 million)	125.3	121.2
	2,703.0	2,722.6
Less current instalments due on bank loans (principal £31.1 million, 31 March 2012: £76.2 million)	(35.5)	(80.7)
	2,667.5	2,641.9

The difference between the principal value of £2,670.4 million (31 March 2012: £2,624.1 million) and the carrying value of £2,667.5 million (31 March 2012: £2,641.9 million) are unamortised issue costs of £34.6 million (31 March 2012: £17.2 million) and a credit of £31.7 million (31 March 2012: £35.0 million) 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)).

18. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASES

	31 December 2012	31 March 2012
	£m	£m
Amounts due:		
Not later than one year	7.3	7.3
After one year but not more than five years	73.6	25.0
Later than five years	80.6	147.5
	161.5	179.8
Less finance charges allocated to future periods	(49.7)	(67.5)
Present value of minimum lease payments	111.8	112.3
Disclosed as due:		
Not later than one year	7.3	7.3
After more than one year	104.5	105.0
	111.8	112.3

Lease commitments

The Group has entered into non-cancellable operating leases in respect of land and buildings, plant, machinery and motor vehicles. The future minimum rentals payable under non-cancellable operating leases are as follows:

	31 December 2012	31 March 2012
	£m	£m
Not later than one year	0.9	0.8
After one year but not more than five years	2.6	2.3
After five years	35.4	31.9
	38.9	35.0

19. PROVISIONS

	£m
At 1 April 2012	
Current	0.2
Non-current	2.2
At 1 April 2012	2.4
Utilised	(0.2)
At 31 December 2012	2.2
Analysed as:	
Current	0.2
Non-current	2.0
	2.2

The 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 25), and are expected to be paid over the remaining lives, which is approximately 9 years.

20. FINANCIAL INSTRUMENTS

(a) Group strategy

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.

(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.

20. FINANCIAL INSTRUMENTS (continued)

(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 £50.0 million and with a bank agreement availability period of no less than three months. At 31 December 2012, the Group had £450.0 million (31 March 2012: £450.0 million) of undrawn committed bank facilities (maturing in 2016).

(e) Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. It borrows at both fixed and floating 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 December 2012, 74% (31 March 2012: 75%) of the Group's borrowings were at fixed rates of interest. Index linked borrowings are treated as variable rate debt.

(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 £3.0 million sterling equivalent of a translation nature, should be covered immediately on identification. Any exposures are covered through the use of forward foreign exchange contracts.

(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:

Increase in basis points	Decrease in profit/equity £m
Nine months ended 31 December 2012	
+50	0.7
+100	1.5
+150	2.2
Year ended 31 March 2012	
+50	1.2
+100	2.5
+150	3.7

(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 (o)). A significant proportion of the trade debtor balances are with domestic customers who are unlikely to have a published credit rating.

(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 and cancellation or suspension of deposits.

20. FINANCIAL INSTRUMENTS (continued)

(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. For NWL and the Group, this is net debt divided by the RCV as determined and published by Ofwat. The Group's policy is to keep the gearing ratio less than 75% and 70% for the Group and NWL, respectively.

The RCV at 31 December 2012 was £3,695.6 million, which was calculated interpolating the actual March 2012 and March 2013 published RCV. On this basis, the gearing ratios were 72% for the Group and 63% for NWL.

(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:

Nine months ended 31 December 2012

	On demand £m	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	2.0	65.3	123.3	1,113.6	4,721.3	6,025.5
Hedging instruments	-	1.4	3.7	16.0	42.8	63.9
Trade and other payables	-	85.5	27.4	-	-	112.9
	2.0	152.2	154.4	1,129.6	4,764.1	6,202.3

Year ended 31 March 2012

	On demand £m	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	1.4	77.9	159.6	773.2	5,084.1	6,096.2
Hedging instruments	-	1.3	3.8	15.6	43.1	63.8
Trade and other payables	-	101.5	51.8	-	-	153.3
	1.4	180.7	215.2	788.8	5,127.2	6,313.3

(l) Maturity profile of financial assets and liabilities (carrying value)

Nine months ended 31 December 2012

	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:							
Eurobonds	(4.0)	(4.3)	(4.4)	(4.5)	(304.2)	(1,349.6)	(1,671.0)
USPP notes	-	-	-	-	-	(99.6)	(99.6)
Subordinated loan stock	-	-	-	-	-	(1.9)	(1.9)
Bank loans	(21.2)	(21.0)	(21.8)	(25.7)	(25.9)	(150.3)	(265.9)
Obligations under finance leases and hire purchase contracts	(2.8)	(2.3)	(2.1)	(1.6)	(52.0)	(0.3)	(61.1)
Other loans	(0.3)	(0.4)	(0.3)	(0.4)	(0.3)	-	(1.7)
Fixed rate at 31 December 2012	(28.3)	(28.0)	(28.6)	(32.2)	(382.4)	(1,601.7)	(2,101.2)
Variable rate:							
Cash and cash equivalents	115.6	-	-	-	-	-	115.6
Financial investments	0.4	-	-	-	-	11.3	11.7
Eurobonds	-	-	-	-	-	(517.9)	(517.9)
Bank loans	(10.0)	(11.7)	(13.4)	(13.5)	(13.5)	(82.9)	(145.0)
Overdrafts	(2.0)	-	-	-	-	-	(2.0)
Obligations under finance leases and hire purchase contracts	(4.5)	(4.8)	(4.8)	(4.8)	(4.8)	(27.0)	(50.7)
Variable rate at 31 December 2012	99.5	(16.5)	(18.2)	(18.3)	(18.3)	(616.5)	(588.3)
Net borrowings at 31 December 2012							(2,689.5)

20. FINANCIAL INSTRUMENTS (continued)

(l) Maturity profile of financial assets and liabilities (carrying value) (continued)

Year ended 31 March 2012

	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:							
Eurobonds	(4.0)	(4.2)	(4.3)	(4.2)	(5.0)	(1,668.9)	(1,690.6)
USPP notes	-	-	-	-	-	(100.0)	(100.0)
Subordinated loan stock	-	-	-	-	-	(1.9)	(1.9)
Bank loans	(20.9)	(21.3)	(21.3)	(22.1)	(22.0)	(124.0)	(231.6)
Obligations under finance leases and hire purchase contracts	(2.8)	(2.1)	(1.9)	(1.3)	(0.9)	(0.4)	(9.4)
Other loans	(0.3)	(0.3)	(0.4)	(0.3)	(0.3)	(0.4)	(2.0)
Fixed rate at 31 March 2012	(28.0)	(27.9)	(27.9)	(27.9)	(28.2)	(1,895.6)	(2,035.5)
Variable rate:							
Cash and cash equivalents	172.8	-	-	-	-	-	172.8
Financial investments	0.5	0.2	-	-	-	11.3	12.0
Eurobonds	-	-	-	-	-	(501.0)	(501.0)
Bank loans	(55.5)	(10.0)	(11.7)	(13.5)	(13.4)	(91.4)	(195.5)
Overdrafts	(1.4)	-	-	-	-	-	(1.4)
Obligations under finance leases and hire purchase contracts	(4.5)	(4.6)	(4.8)	(4.8)	(4.8)	(79.4)	(102.9)
Variable rate at 31 March 2012	111.9	(14.4)	(16.5)	(18.3)	(18.2)	(660.5)	(616.0)
Net borrowings at 31 March 2012							(2,651.5)

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

(m) Currency exposures

At 31 December 2012, 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 currency exposures (31 March 2012: £nil).

(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 December 2012 £m	31 March 2012 £m
Expiring in more than two years but not more than five years	450.0	450.0

20. FINANCIAL INSTRUMENTS (continued)

(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 December 2012	31 March 2012	31 December 2012	31 March 2012
	£m	£m	£m	£m
Financial assets:				
Cash and cash equivalents	115.6	172.8	115.6	172.8
Financial investments	11.7	12.0	11.7	12.0
Trade and other receivables	168.7	167.3	168.7	167.3
Financial liabilities:				
Overdraft	(2.0)	(1.4)	(2.0)	(1.4)
Bank loans (principal of £410.9 million, 31 March 2012: £427.0 million)	(412.6)	(429.1)	(432.2)	(445.7)
Subordinated loan stock (principal of £1.9 million, 31 March 2012: £1.9 million)	(1.9)	(1.9)	(1.9)	(1.9)
Eurobonds (principal of £2,188.7 million, 31 March 2012: £2,171.4 million)	(2,188.9)	(2,191.6)	(2,517.2)	(2,474.0)
USPP notes (principal of £100.0 million, 31 March 2012: £100.0 million)	(99.6)	(100.0)	(118.6)	(111.8)
Obligations under finance leases and hire purchase contracts (principal of £111.8 million, 31 March 2012: £112.3 million)	(111.8)	(112.3)	(111.8)	(112.3)
Interest rate swaps	(63.9)	(63.8)	(63.9)	(63.8)
Trade and other payables	(219.8)	(175.9)	(219.8)	(175.9)
	(2,804.5)	(2,723.9)	(3,171.4)	(3,034.7)

Trade and other payables includes £13.7m in respect of amounts payable relating to group relief.

The fair values of the interest rate swaps and sterling denominated long term fixed rate and index linked debt with a book value of £2,352.4 million (31 March 2012: £2,355.4 million), 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 £517.9 million (31 March 2012: £501.0 million), 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 £2,813.3 million (31 March 2012: £2,812.6 million) and the carrying value of £2,814.8 million (31 March 2012: £2,834.9 million) are unamortised issue costs of £34.6 million (31 March 2012: £17.2 million) and a credit of £36.1 million (31 March 2012: £39.5 million) in excess of the original loan proceeds to reflect the fair value of loans owed by subsidiaries acquired in 2003.

(p) Hedges

Cash flow hedges – currency forward contracts

At 31 December 2012, 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
HKD 9,711,000	15.4.2013	12.471
HKD 9,711,000	15.4.2014	12.401
HKD 9,711,000	15.4.2015	12.311

At 31 March 2012, the Group held no forward exchange contracts.

Cash flow hedges – interest rate swap

At 31 December 2012 and 31 March 2012, the Group held one interest rate swap, designated as a hedge of future interest cash flows, for which the Group has firm commitments. The swap was used to convert variable rate interest payments to a fixed rate basis. The terms of this swap were as follows:

20. FINANCIAL INSTRUMENTS (continued)

(p) Hedges

Cash flow hedges – interest rate swap (continued)

Notional amount	Start date	Termination date	Fixed rate%
£100.0 million	15 September 2008	15 March 2022	4.79

The swap was designated as highly effective.

Cash flow hedges – inflation swap

As at 31 December 2012 and 31 March 2012, the Group held an inflation swap, designated as a hedge of future inflation linked cash flows. The swap was used to convert variable inflation-linked revenues on a contract with the EA, to a fixed income stream.

At 31 March 2012, the cash flow hedge was designated as highly effective. However, as this derivative was recognised for the first time in year ended 31 March 2012, it has since been determined that the appropriate hedging documentation was not in place on inception (12 May 2004) or thereafter, and accordingly, the movement on the fair value of the inflation swap was taken to the income statement for the period ended 31 December 2012. The prior year income statement has not been restated as the effect of a restatement would not be material, though the amounts in the cash flow hedge reserve have been restated to retained earnings to reflect that cash flow hedge accounting is not applied. See note 22 for more detail.

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.

(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.

Liabilities measured at fair value

Nine months ended 31 December 2012

	31 December 2012 £m	Level 1 £m	Level 2 £m	Level 3 £m
Interest rate swap	(16.0)	-	(16.0)	-
Inflation swap	(47.9)	-	(47.9)	-

Year ended 31 March 2012

	31 March 2012 £m	Level 1 £m	Level 2 £m	Level 3 £m
Interest rate swaps	(15.1)	-	(15.1)	-
Inflation swap	(48.7)	-	(48.7)	-

During the period to 31 December 2012, 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.

21. AUTHORISED AND ISSUED SHARE CAPITAL

	31 December 2012	31 March 2012
	£m	£m
Authorised:		
700 million ordinary shares of 10 pence each	70.0	70.0
Allotted, called up and fully paid:		
518.6 million ordinary shares of 10 pence each	51.9	51.9

22. PRIOR YEAR ADJUSTMENT

The Group is party to an inflation swap to hedge inflation-linked revenue which commenced in May 2004 as part of the issue of the Eurobonds due in January 2034. The Group had previously accounted for the fair value of this instrument as a cash flow hedge in the financial statements for the year ended 31 March 2012. At 31 March 2012, the cash flow hedge was designated as highly effective, however, it has since been determined that the appropriate hedging documentation was not in place on inception (12 May 2004) or thereafter. The prior year income statement has not been restated as the effect of a restatement would not be material, though the amounts in the cash flow hedge reserve have been restated to retained earnings to reflect that cash flow hedge accounting is not applied. Current and non-current liabilities have also been restated to disclose the fair value on the derivatives as non-current as the terms of the instruments are long term.

Comparative information has been restated in the consolidated balance sheet and consolidated statement of changes in equity, in accordance with IAS 1 Presentation of Financial Statements.

The impact of the restatement on the consolidated balance sheet is as follows:

	31 March 2012	change	restated	31 March 2011	change	restated
	£m	£m	£m	£m	£m	£m
Non-current liabilities						
Hedging instruments	59.1	4.7	63.8	53.7	5.0	58.7
Non-current liabilities	3,723.2	4.7	3,727.9	3,245.8	5.0	3,250.8
Current liabilities						
Hedging instruments	4.7	(4.7)	-	5.0	(5.0)	-
Current liabilities	270.2	(4.7)	265.5	327.1	(5.0)	322.1
Capital and reserves						
Cash flow hedge reserve	(65.2)	37.0	(28.2)	(42.8)	36.2	(6.6)
Retained earnings	(178.5)	(37.0)	(215.5)	(17.4)	(36.2)	(53.6)

23. ADDITIONAL CASH FLOW INFORMATION

Analysis of net debt as at 31 December 2012

	As at 1 April 2012 £m	Cash flow £m	Other non- cash movements £m	As at 31 December 2012 £m
Cash and cash equivalents	167.1	(55.3)	-	111.8
Short term cash deposits	4.3	(2.5)	-	1.8
Financial investments	12.0	(0.3)	-	11.7
Loans (principal of £2,701.5 million, 31 March 2012: £2,700.3 million)	(2,722.6)	16.2	3.4	(2,703.0)
Finance leases (principal of £111.8 million, 31 March 2012: £112.3 million)	(112.3)	3.6	(3.1)	(111.8)
	(2,651.5)	(38.3)	0.3	(2,689.5)

The difference between the principal value of £2,813.3 million (31 March 2012: £2,812.6 million) and the carrying value of £2,814.8 million (31 March 2012: £2,834.9 million) are unamortised issue costs of £34.6 million (31 March 2012: £17.2 million) and a credit of £36.1 million (31 March 2012: £39.5 million) 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 amortisation of loan issue costs offset by the amortisation of debt fair value for the period. Non-cash movements on finance leases relate to the inception of new finance leases on the acquisition of plant and machinery during the period.

Analysis of net debt as at 31 March 2012

	As at 1 April 2012 £m	Cash flow £m	Other non- cash movements £m	As at 31 March 2012 £m
Cash and cash equivalents	140.3	26.8	-	167.1
Short term cash deposits	1.4	2.9	-	4.3
Financial investments	12.9	(0.9)	-	12.0
Loans (principal of £2,700.3 million, 2011: £2,317.3 million)	(2,347.4)	(355.6)	(19.6)	(2,722.6)
Finance leases (principal of £112.3 million, 2011: £110.7 million)	(110.7)	3.2	(4.8)	(112.3)
	(2,303.5)	(323.6)	(24.4)	(2,651.5)

The difference between the principal value of £2,812.6 million (2011: £2,428.0 million) and the carrying value of £2,834.9 million (2011: £2,458.1 million) are unamortised issue costs of £17.2 million (2011: £14.3 million) and a credit of £39.5 million (2011: £44.4 million) 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 amortisation of loan issue costs offset by the amortisation of debt fair value for the year. Non-cash movements on finance leases relate to the inception of new finance leases on the acquisition of plant and machinery during the year.

24. FINANCIAL COMMITMENTS

	31 December 2012 £m	31 March 2012 £m
Expenditure contracted for	103.3	172.8

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.

25. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Group operates a defined benefit pension scheme, Northumbrian Water Pension Scheme (NWPS or the Scheme), providing benefits based on final pensionable remuneration to 1,782 active members at 31 December 2012 (31 March 2012: 1,830).

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

The most recent actuarial valuation of the scheme was at 31 December 2010. At that date the value of assets amounted to £680.1 million and the funding level was 84.7%.

The future service contribution rate jointly payable by members and the employers from 31 December 2010 was 24.2% of pensionable salaries. Members' contributions are 7.3% on average with the employers paying 16.9%.

The employer contribution rate was assessed using the projected unit method and the following actuarial assumptions:

	%
Pre-retirement discount rate	5.80
Post-retirement discount rate	4.90
Pay increases	3.85
Price inflation (RPI)	3.60
Price inflation (CPI)	2.90
Pension increases linked to RPI	3.60
Price inflation linked to CPI	2.90

With the agreement of the NWPS Trustee, the employers have made capital contributions of £70.0 million to cover the period 1 January 2011 to 31 March 2015. These payments comprise employers' contributions, the deficit recovery funding assumed in the final determination and employees contributions under a salary sacrifice arrangement. Further payments of £3.1 million relating to early retirements were paid prior to 31 March 2012. Contributions for the current period amounted to £0.3 million and are expected to be £0.5 million for the year to 31 December 2013.

The Scheme also has a defined contribution section which had 594 active members at 31 December 2012 (31 March 2012: 542). 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 the defined contribution section by the Group in the period totalled £0.9 million (year ended 31 March 2012: £0.9 million).

The additional disclosures regarding the 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 valuation described above as at 31 December 2012. Investments have been valued, for this purpose, at fair value.

	31 December 2012	31 March 2012
Pay increases ¹	3.55%	3.85%
RPI inflation	2.90%	3.20%
CPI inflation	2.20%	2.50%
Pension increases linked to RPI	2.90%	3.20%
Pension increases linked to CPI	2.20%	2.50%
Discount rate	4.30%	4.80%
Mortality assumptions ²	PCMA/PCFA00	PCMA/PCFA00
- Life expectancy for a member aged 65 – female (years)	24.3	24.3
- Life expectancy for a member aged 65 – male (years)	22.0	22.0

Notes:

- Including promotional salary scale.
- 115% of PCMA00/PCFA00 (year of birth with medium cohort improvements).

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

The fair value of the assets in the NWPS, the present value of the liabilities in the scheme and the long term expected rate of return at 31 December 2012 were:

	Long term expected rate of return		Long term expected rate of return	
	31 December 2012	31 December 2012	31 March 2012	31 March 2012
	%	£m	%	£m
Equities	7.0	354.3	6.3	441.8
Corporate bonds	4.3	161.6	4.8	128.1
Government bonds	3.0	85.5	3.3	80.4
Property	4.5	75.8	4.8	76.0
Cash	1.9	32.6	2.5	12.0
Other (includes listed infrastructure)	4.5	35.6	-	-
Total fair value of assets		745.4		738.3
Present value of liabilities		(847.2)		(822.4)
Deficit		(101.8)		(84.1)

The discount rate at 31 December 2012 has been set by reference to the yield on AA corporate bonds at that date, extrapolated forward to a duration of 18 years which reflect the duration of the expected benefit payments. The expected rate of return on equities represents a 4.0% premium of the yield on long term Government bonds at 31 December 2012. The gross redemption yield on index linked UK Government stocks was 0.1%. The long term inflation rate implied by these yields is 2.9% which has been reduced by 0.1% to allow for an inflation risk premium. Post-retirement mortality assumptions use a base table of 115% of PCMA00/PCFA00 with an allowance for future improvements in line with the medium cohort projections, lagged to apply 10 years later, based on each individual's year of birth. This is subject to a minimum improvement of 1.0% per annum.

The amounts recognised in the income statement and in the statement of comprehensive income are analysed as follows:

	31 December 2012	31 March 2012
	£m	£m
Recognised in the income statement:		
Current service cost	10.0	12.5
Past service cost	0.2	0.3
Recognised in operating costs in arriving at profit on ordinary activities before interest	10.2	12.8
Interest cost on plan obligations	29.3	41.3
Expected return on plan assets	(28.9)	(49.3)
Recognised in finance costs payable/(income receivable)	0.4	(8.0)
Recognised in the statement of comprehensive income:		
Actual return on scheme assets	31.2	7.1
Less expected return on scheme assets	(28.9)	(49.3)
	2.3	(42.2)
Other actuarial gains and losses	(9.7)	(41.3)
Net actuarial losses	(7.4)	(83.5)
Cumulative amounts recognised since adopting the standard	(97.4)	(90.0)

History of experience gains and losses:

	31 December 2012	31 March 2012	31 March 2011	31 March 2010	31 March 2009
	£m	£m	£m	£m	£m
Fair value of assets	745.4	738.3	713.3	663.4	478.6
Present value of defined benefit obligation	(847.2)	(822.4)	(759.3)	(796.5)	(598.0)
Deficit	(101.8)	(84.1)	(46.0)	(133.1)	(119.4)
Experience adjustments arising on plan assets	2.3	(42.2)	10.7	177.4	(205.3)
Experience adjustments arising on plan liabilities	-	31.0	-	-	18.7

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

Changes in the present value of the defined benefit pension obligations are analysed as follows:

	31 December 2012	31 March 2012
	£m	£m
At 1 April	822.4	759.3
Current service cost	10.0	12.5
Past service cost	0.2	0.3
Interest cost on plan obligations	29.3	41.3
Contributions by plan participants	0.2	0.1
Actuarial loss on obligations	9.7	41.3
Benefits paid	(24.6)	(32.4)
At 31 December	847.2	822.4
Present value of funded defined benefit obligations	847.2	822.4

Changes in the fair value of plan assets are analysed as follows:

	31 December 2012	31 March 2012
	£m	£m
At 1 April	738.3	713.3
Expected return on plan assets	28.9	49.3
Actuarial gain/(loss) on plan assets	2.3	(42.2)
Contributions by employer	0.3	50.2
Contributions by plan participants	0.2	0.1
Benefits paid	(24.6)	(32.4)
At 31 December	745.4	738.3

The Group, through its subsidiary AquaGib, also operates a non-contributory defined benefit scheme. The deficit at 31 December 2012, under local GAAP, was £2.6 million (31 March 2012: £3.6 million). The Group made contributions amounting to £0.7 million (year ended 31 March 2012: £0.9 million) to the defined benefit scheme.

Sensitivity to key assumptions

IAS 1 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.

A reduction in the net discount rate will increase the assessed value of liabilities, as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude. The overall effect of a change in the net discount rate of 0.1% would change the liabilities by around £15.0 million.

There is also uncertainty around life expectancy for the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment.

The disclosures have been prepared using the mortality assumptions used in the 2010 formal valuation. Specifically, the post-retirement mortality assumptions use a base table of 115% of PCMA00/PCFA00 with an allowance for future improvements in line with the medium cohort projections, lagged to apply 10 years later, based on each individual's year of birth. This is subject to a minimum improvement of 1.0% per annum. These assumptions imply an assumed life expectancy for a member aged 65 at 31 December 2012 of 22.0 years (31 March 2012: 22.0 years) for males and 24.3 years (31 March 2012: 24.3 years) for females.

The effect of increasing the assumed life expectancies by one year would be to increase the value of liabilities by around £23.0 million.

26. LONG TERM INCENTIVE PLAN

Prior to the change of control and delisting on 14 October 2011, the Company operated a share based LTIP. Accordingly, the accounting treatment is only relevant up to this date and was not in place at 31 March 2012 or 31 December 2012.

Under the LTIP, executive directors and senior managers received, at the discretion of the Remuneration Committee, annual conditional awards of shares in the Company.

The following table illustrates the movements in conditional share awards during the period.

	31 December 2012	31 March 2012
	Number	Number
Outstanding at 1 April	-	1,120,941
Forfeited/lapsed during the period	-	(340,222)
Exercised	-	(780,719)
Outstanding	-	-

The weighted average exercise price throughout the period was £nil (year ended 31 March 2012: £nil). The fair value of conditional share awards granted during the period was £nil (year ended 31 March 2012: £nil).

No conditional share awards were exercised during the period. The weighted average share price at the date of exercise for the conditional share awards for the year ended 31 March 2012 was 465.00 pence.

No conditional share awards were outstanding as at 31 December 2012 and 31 March 2012.

Share Incentive Plan

Prior to delisting on 14 October 2011, the Group operated a SIP. Accordingly, the accounting treatment is only relevant up to this date and was not in place at 31 March 2012 or 31 December 2012.

The SIP scheme provided one free matching share for every three shares purchased by an employee. Shares for the SIP were purchased at market price by the Trustee and dividends were paid in cash directly to participants.

The following table illustrates the movements in conditional share awards:

	31 December 2012	31 March 2012
	Number	Number
Outstanding at 1 April	-	160,182
Granted during the period	-	150,596
Forfeited during the period	-	(1,497)
Exercised	-	(309,281)
Outstanding	-	-

27. SPECIAL PURPOSE ENTITIES

As noted under accounting policy 1(b), under SIC 12, 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 £248.0 million 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.

27. SPECIAL PURPOSE ENTITIES (continued)

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

	31 December 2012	31 March 2012
	£m	£m
Income statement:		
Finance costs receivable	14.9	14.9
Finance costs payable	(14.9)	(14.9)
Balance sheet:		
Investments	241.9	241.7
Current assets	8.5	4.8
Non-current liabilities	(243.8)	(243.6)
Current liabilities	(6.4)	(2.7)
Net assets	0.2	0.2

28. RELATED PARTIES

During the period, 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 and joint ventures, are as follows:

Trading transactions

	Sales to related party £m	Purchases from related party £m	Group relief £m	Amounts owed by related party £m	Amounts owed to related party £m
Related party:					
UK Water (2011) Limited					
Nine months ended 31 December 2012			20.5		13.7
Jointly controlled entities					
Nine months ended 31 December 2012	-	8.1		0.6	9.2
Year ended 31 March 2012	0.1	11.2		0.6	8.7

Purchases from jointly controlled entities include £2.7 million (year ended 31 March 2012: £3.6 million) in respect of capital purchases under finance leases, £0.1 million (year ended 31 March 2012: £0.1 million) in respect of operating leases, £4.8 million (year ended 31 March 2012: £6.7 million) in respect of costs payable under finance leases and £0.5 million (year ended 31 March 2012: £0.8 million) in respect of other purchases.

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 arrangements, where the amounts owed will relate specifically to the terms of the lease.

Remuneration of key management personnel

The remuneration of the directors is included within the amounts disclosed below. Further information about the remuneration of directors is provided in note 5.

	Nine months to 31 December 2012	Year to 31 March 2012
	£m	£m
Short term employee benefits	1.2	1.6
Post employment benefits	-	0.2
Other long-term employee benefits	-	0.6
Termination benefits	-	0.1
	1.2	2.5

29. POST-BALANCE SHEET EVENT

At the balance sheet date, the Company's ultimate parent undertaking and controlling party was UK Water (2011) Limited (UKW). On 8 March 2013, UKW undertook a Group restructuring which included the distribution of its 100% shareholding in Northumbrian Water Group Limited (NWGL) to its shareholders. On the same date, Northumbrian Services Limited (NSL) also became a directly wholly owned subsidiary of NWGL.

The new Group structure is simpler, comprising a single holding company (NWGL), with one regulated subsidiary (NWL) and one non-regulated subsidiary (NSL).

On 8 March 2013, the Company also undertook a reorganisation of its ordinary share capital by redesignating its ordinary shares to class A ordinary shares and effecting a reduction of capital of the Company by cancelling and extinguishing certain of the class A ordinary shares. A new class of B ordinary shares were also issued, which were settled by way of capitalisation of reserves. Certain of these new class B ordinary shares were redesignated as Class A ordinary Shares. The consequence of this reorganisation was a reduction in the total share capital of the Company from £51,862,739.50 (comprised of 518,627,395 ordinary shares with a nominal value of £0.10) to £161.40 (comprised of 194 class A ordinary shares with a nominal value of £0.10 each and 1,420 class B ordinary shares with a nominal value of £0.10 each).

30. ULTIMATE PARENT COMPANY

In the directors' opinion, the Company's ultimate parent undertaking and controlling party, at the balance sheet date, was UKW, which is incorporated in England and Wales. UKW is indirectly wholly owned by a consortium comprising Cheung Kong Infrastructure Holdings Limited, Cheung Kong (Holdings) Limited and Li Ka Shing Foundation Limited.

As a consequence of the Group restructuring described in note 29, which was effected on 8 March 2013, at the signing date of these financial statements, the Company is indirectly wholly owned by the consortium noted above. The Company has no ultimate controlling party.

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RELATION TO THE PARENT COMPANY FINANCIAL STATEMENTS

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 period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 those financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

COMPANY BALANCE SHEET

As at 31 December 2012

	Notes	31 December 2012 £m	31 March 2012 £m
Fixed assets			
Investments in subsidiary undertakings	4	1,101.4	1,101.4
		1,101.4	1,101.4
Current assets			
Debtors: receivable within one year	5	6.1	7.1
Debtors: receivable in greater than one year	5	100.0	100.0
Cash at bank		1.5	13.4
		107.6	120.5
Creditors: amounts falling due within one year	6	(7.1)	(8.3)
Net current assets		100.5	112.2
Total assets less current liabilities		1,201.9	1,213.6
Creditors: amounts falling due after more than one year	7	(659.6)	(660.0)
Net assets		542.3	553.6
Capital and reserves			
Called up share capital	8	51.9	51.9
Share premium account	9	446.5	446.5
Profit and loss account	9	43.9	55.2
Shareholders' funds		542.3	553.6

Approved by the Board on 17 June 2013 and signed on its behalf by:


Heidi Mottram
 Chief Executive Officer

NOTES TO THE COMPANY FINANCIAL STATEMENTS for the period ended 31 December 2012

1. ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The accounting policies have been reviewed in accordance with the requirements of FRS 18: Accounting Policies. The directors consider the following accounting policies to be relevant in relation to the Company's financial statements. The Company's financial statements are included in the consolidated financial statements of Northumbrian Water Group Limited. Accordingly, the Company has taken advantage of the exemption from publishing a profit and loss account and cash flow statement and from disclosing related party transactions with its wholly-owned subsidiaries. The Company is also exempt from disclosing the information otherwise required by FRS 29 Financial Instruments: Disclosures, as the consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 Financial Instruments: Disclosures.

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. As at 31 December 2012, the Company had net current assets of £100.5 million (31 March 2012: £112.2 million). The directors have reviewed cash flow requirements and believe it is appropriate to prepare the financial statements on a going concern basis.

(b) Fixed asset investments

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

(c) Taxation

Corporation tax is based on the profit for the period as adjusted for taxation purposes using the rates of tax enacted at the balance sheet date. Provision is made for deferred tax in respect of all timing differences that have originated but not reversed at the balance sheet date that will result in an obligation to pay more, or a right to pay less, tax in future periods. Deferred tax is calculated at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(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.

2. AUDITOR'S REMUNERATION

Auditor's remuneration for the nine months ended 31 December 2012 was £50k (year ended 31 March 2012: £8k).

Fees paid to Deloitte LLP for non-audit services to the Company itself are not disclosed in the individual financial statements of the Company because Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

3. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the financial statements of the parent Company is £132.9 million (year ended 31 March 2012: £253.3 million).

4. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

				£m
At 1 April 2012				1,101.4
At 31 December 2012				1,101.4
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
Northumbrian Services Limited	England and Wales	Ordinary shares of £1	100	Holding of investments and loans
Northumbrian Water Limited	England and Wales	Ordinary shares of £1	100	Water and sewerage services
Northumbrian Water Finance plc	England and Wales	Ordinary shares of £1	100	Holding of finance instruments
Caledonian Environmental Services plc	Scotland	Ordinary shares of £1	100	Waste water services
Caledonian Environmental Levenmouth Treatment Services Limited	Scotland	Ordinary shares of £1	100	Waste water services
Ayr Environmental Services Limited	Scotland	Ordinary shares of £1	75	Waste water services
Ayr Environmental Services Operations Limited	Scotland	Ordinary shares of £1	100	Waste water services
AquaGib Limited	Gibraltar	Ordinary shares of £1	67	Water and sewerage services
Northumbrian Water Projects Limited	England and Wales	Ordinary shares of £1	100	Waste water services

All subsidiaries listed above are indirectly held. The directors consider that to give full particulars of all subsidiary and associated undertakings would lead to a statement of excessive length. A full list of the Company's subsidiaries is attached to the Company's latest annual return filed at Companies House.

5. DEBTORS

	31 December 2012	31 March 2012
	£m	£m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	5.9	7.0
Other	0.2	0.1
	6.1	7.1
Amounts falling due after one year:		
Amounts owed by subsidiary undertakings	100.0	100.0
	100.0	100.0

Amounts owed by subsidiary undertakings include amounts receivable for the provisional surrender of tax losses amounting to £1.9 million (31 March 2012: £2.8 million).

6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2012	31 March 2012
	£m	£m
Trade creditors	-	0.1
Amounts owed to subsidiary undertakings	4.9	5.5
Interest payable	1.2	2.7
Accruals and deferred income	1.0	-
	7.1	8.3

7. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	31 December 2012	31 March 2012
	£m	£m
Loans	99.6	100.0
Amounts owed to subsidiary undertakings	560.0	560.0
	659.6	660.0

	31 December 2012	31 March 2012
	£m	£m
Loans are repayable as follows:		
Repayable after more than five years	659.6	660.0

In April 2011, the company issued £100 million 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.

8. AUTHORISED AND ISSUED SHARE CAPITAL

	31 December 2012	31 March 2012
	£m	£m
Authorised:		
700 million ordinary shares of 10 pence	70.0	70.0
Allotted, called up and fully paid:		
518.6 million ordinary shares of 10 pence	51.9	51.9

On 8 March 2013, the Company also undertook a reorganisation of its ordinary share capital by redesignating its ordinary shares to class A ordinary shares and effecting a reduction of capital of the Company by cancelling and extinguishing certain of the class A ordinary shares. A new class of B ordinary shares were also issued, which were paid for by way of capitalisation of reserves. Certain of these new class B ordinary shares were redesignated as Class A ordinary Shares. The consequence of this reorganisation was a reduction in the total share capital of the Company from £51,862,739.50 (comprised of 518,627,395 ordinary shares with a nominal value of £0.10) to £161.40 (comprised of 194 class A ordinary shares with a nominal value of £0.10 each and 1,420 class B ordinary shares with a nominal value of £0.10 each).

9. RESERVES

	Treasury shares £m	Share premium account £m	Profit and loss account £m
At 1 April 2011	(1.7)	446.5	84.1
Profit for the year	-	-	253.3
Share-based payment	-	-	1.1
Exercise of LTIP awards	1.7	-	(1.7)
Dividends paid	-	-	(281.6)
At 1 April 2012	-	446.5	55.2
Profit for the period	-	-	132.9
Dividends paid	-	-	(144.2)
At 31 December 2012	-	446.5	43.9

10. COMMITMENTS

The Company has issued letters of continuing support to subsidiary companies with net liabilities amounting to £19.0 million (31 March 2012: £16.0 million) and net current liabilities of £nil (31 March 2012: £nil). These subsidiary companies are expected to meet their working capital requirements from operating cash flows.

The Company is guarantor to the EIB in respect of borrowings by NWL. The loan principal outstanding at 31 December 2012 amounted to £357.0 million (31 March 2012: £371.7 million).

The Company is party to a cross guarantee arrangement with other Group companies in respect of bank facilities. Overdrafts outstanding at 31 December 2012 in respect of the arrangement amounted to £2.0 million (31 March 2012: £1.0 million). The directors do not expect any loss to arise as a result of this arrangement.

