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NORTHUMBRIAN WATER GROUP LIMITED
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 MARCH 2015

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FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 MARCH 2015

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STRATEGIC REPORT

for the period ended 31 March 2015

The Directors of Northumbrian Water Group Limited (NWG or the Company) are pleased to present their strategic report on the affairs of the Group and Company, along with their Directors' report, the auditor's report and the audited financial statements for the 15 months ended 31 March 2015.

On 20 November 2014, the Board approved the change of the Company's accounting reference date from 31 December to 31 March, therefore, the strategic report, Directors' report and statutory accounts relate to the period from 1 January 2014 to 31 March 2015.

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 and raw water in both the north east and south east of England and the collection, treatment and disposal of sewage and sewage sludge in the north east of England.

Water and waste water contracts

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

At the balance sheet date, the Company was indirectly wholly owned by Cheung Kong Infrastructure Holdings Limited (CKI), Cheung Kong (Holdings) Limited (CKH) and Li Ka Shing Foundation Limited.

On 3 June 2015, CK Hutchison Holdings Limited (CKHH), a company listed on the Hong Kong Stock Exchange, acquired CKH and (indirectly) Hutchison Whampoa Limited (HWL). As a consequence, CKHH gained control of both CKH and HWL's controlling interest in CKI, meaning that, in the Directors' opinion, CKHH became the ultimate parent undertaking and controlling party of NWG.

Regulatory and legislative developments

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

Periodic review of prices for 2015 to 2020 (PR14)

In March 2014, NWL was commended by the regulator, Ofwat, for the high quality of its initial business plan, submitted in December 2013. After receiving further guidance from Ofwat, particularly in respect of their expectations on the balance of risk and reward, NWL resubmitted some elements of its plan in early May 2014. As a result, NWL received an early Draft Determination in late May 2014, to which they responded in July 2014. Throughout all this process, NWL retained the support of the Water Forums, stakeholder challenge groups which were established to provide constructive challenge to plans. Both the NWL and Group boards were fully involved and committed throughout the process.

STRATEGIC REPORT (continued)

Periodic review of prices for 2015 to 2020 (PR14) (continued)

NWL received the Final Determination of prices in December 2014, setting four separate price controls for 2015-20, for wholesale water and waste water and for household and non household retail. Average household bills will rise by less than inflation over the 2015-20 period.

Retail competition for non households

The 2014 Water Bill was passed in May 2014. The most significant provision is the legislation to create a competitive market for retail water and waste water services for all non households with a target date for market opening of April 2017.

The development of a retail market has been led through the period by a high level steering group, on which NWL is represented. The delivery body, known as Open Water, has held many workshops throughout the period, in which we have actively participated, and has published a series of studies, consultations and an ongoing market blueprint on the design of the market.

Ofwat has published an integrated plan for opening of the retail water market on its website. The plan sets out the various key activities that need to be undertaken by Department for Environment, Food and Rural Affairs, Ofwat, Open Water and water companies in order to implement the new market. This plan will be updated as the programme develops.

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 actual performance against the KPI targets and future targets. Targets which are measured on a calendar year basis, denoted by C in the table below, reflect the performance period January to December 2014. Targets which are measured on a regulatory year basis, denoted by R in the table below, reflect the performance period April 2014 to March 2015. NWL's financial targets are set by its board.

Scorecard measure	Performance period	2014-15			2015-16
		Target	Performance	Achieved	Target
Competitiveness					
Group EBIT	C	budget	achieved	Yes	budget
Group cash available for distribution	C	budget	achieved	Yes	budget
Customer					
Customer satisfaction					
- SIM qualitative score	R	>=4.7	4.59	No	>=4.65
- SIM quantitative score	R	<=90	91.66	No	<=63.75
Water supply interruptions >6 hours (average per property (minutes))	R	<=7.30	4.56	Yes	<=5.00
Coliform incidents (no.)	C	<=8	13	No	N/A
Mean zonal compliance	C	N/A	N/A	N/A	>=99.9
Repeat sewer flooding (properties)	R	N/A	N/A	N/A	<=269
People					
Employee engagement score	C	2*	1*	No	81%
Lost time reportable accidents (no.)	C	<=4	7	No	<=3
Environment					
Leakage (Mld)					
- NW	R	<=144	134.0	Yes	<=141
- ESW	R	<=66	58.4	Yes	<=66
STW failing LUT consent (%)	C	0	0	Yes	0
Pollution incidents (categories 1 & 2)	C	<=2	3	No	N/A
Communities					
BITC Platinum Plus accreditation	R	retain status	status retained	Yes	retain status
Just an Hour (employee participation)	C	>=50%	55%	Yes	>=50%

NWL remains committed to its aspiration to deliver unrivalled customer service and to be the national leader in the provision of sustainable water and waste water services. It continues to make excellent progress towards this aim, making significant improvements to service in 2014-15.

STRATEGIC REPORT (continued)

Performance measures (continued)

Since 2005, NWL have had an ongoing programme of work in place with the DWI to reduce the number of discoloured water contacts received from consumers and the required target was achieved in 2014, earlier than the undertaking commitment. This has been delivered through a major programme of large diameter trunk main cleansing, supported by a number of other innovations.

NWL continues to deliver a comprehensive investment programme to reduce the risk of sewer flooding and have also improved operational processes as well as increasing operational activity and providing property protection measures. This has helped to deliver a significant reduction in properties flooded over the past five years.

In 2014, NWL refreshed its 'Our Vision, Our Values, Our Way' booklet to align with the business outcomes developed as part of the PR14 business planning process. This was communicated to everyone in NWL at one of the 55 employee roadshows. Supported by an internal newspaper, a weekly newssheet and the CEO's blog, NWL's employee survey showed that 86% of people felt that they were kept up to date with news and information. NWL maintains constructive employee relations through collaborative working with trade union and employee representatives and actively engages with employees through an annual employee survey.

The Group has continued to ensure that our people are fairly treated and we proactively promote diversity and inclusion to reap the benefits of a diverse workforce. NWL's equal opportunity policy seeks to ensure that all current employees and potential employees are treated with respect. Job applications are welcomed from all parts of the community and it is the intention that all job applicants and employees are treated equally, regardless of their age, ability, marital or partnership status, race, religion or belief, gender or sexual orientation. Employment applications are welcome from people with disabilities and, where existing employees develop disabilities, they are supported to remain in employment, wherever practicable, by providing appropriate adjustments to their roles and/or effective redeployments. Occupational health physicians assist this process with professional medical advice. In recognition, NWL has been recognised with a gold award in the Business in the Community (BiTC) 'Opportunity Now' benchmarking index for gender equality and a silver award in the BiTC Race for Opportunity benchmarking index.

Within our Group, we put great effort into creating an environment where people are encouraged to engage and perform to the best of their ability. A key part of this is being recognised as a great place to work. In 2014, NWL again entered the prestigious Sunday Times Best Companies survey and achieved One Star status. Whilst it was slightly disappointing not to achieve the target of Two Star status, NWL continue to work with employees to develop action plans to build on the current strong level of engagement. NWL's target for 2015-16 is to achieve an employee engagement score of 81%, measured by an internal employee survey, which is believed to be in line with leading company performance.

NWL continues to be the industry leader in sewage treatment operations with a seventh consecutive year of full compliance with consent standards. With two advanced anaerobic digestion plants, NWL remains the first and only waste water company in the UK to use 100% of the sludge remaining after sewage treatment to produce renewable energy. The process has been further improved by cleaning and then injecting the generated gas direct to the gas grid, making the first injection of biomethane into the gas network in December 2014.

The Group remains dedicated to building strong relationships with the communities we serve and we ensure that corporate responsibility is embedded in the business. We support our communities in a number of ways focussing on five broad areas; investment in our communities, participation in our communities, educating our communities about their environment, supporting healthy communities and supporting developing communities through WaterAid.

Financial performance

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

KPI	Target 2014-15		Performance				Target 2015-16	
	NWG	NWL	2014-15		2013		NWG	NWL
			NWG	NWL	NWG	NWL		
Gearing to RCV (%)	≤75	<70	75	68 ¹	71	63	<80	<72 ¹
Cash interest cover (times)	>2.5	>3.0	4.0	3.3	3.2	3.8	>2.5	>3.0
Cash flow to net debt (%)	>13	>13	20	20	16	18	>13	>13

Notes:

1. Regulatory Capital Value (RCV) at 31 March 2015 was £3,915.3 million (31 December 2013: £3,851.6 million).

STRATEGIC REPORT (continued)

Financial performance (continued)

The Group's gearing has increased from 71% to 75%, with net debt increasing by £171.5 million to £2,943.4 million over the period (excluding £1,033.2 million in respect of the shareholder loan notes), which was impacted by the timing of a dividend payment being advanced by a month from April 2015 to March 2015, as detailed below. RCV has increased by 2% due principally to the increase in Retail Price Index (RPI).

Gearing at NWL and for the regulated business both increased at 68% and 67%, respectively, from 63% and 61% at the end of 2013, again partly due to the timing of dividend payments.

NWG

As a result of the change in accounting reference date, the current period values relate to a 15 month period and are, therefore, not directly comparable to the prior year values which reflect 12 months trading. However, once current period performance is adjusted for the impact of an exceptional asset impairment, described below, and the extended time period, the underlying operating profit performance for the current period is broadly in line with performance in the previous period.

Revenue for the 15 months ended 31 March 2015 was £1,050.2 million (year ended 31 December 2013: £826.8 million). Water and sewerage charges at the Group's principal subsidiary, NWL, increased in line with RPI of 2.6% less 1% in respect of the 2009 price review, which was applied from 1 April 2014. Income from the Group's water and waste water contracts continue to increase in line with the provisions of the relevant contracts.

Operating costs are £633.3 million for the 15 months ended 31 March 2015 (year ended 31 December 2013: £465.9 million), which principally reflected movements at NWL, which are detailed below. Profit on ordinary activities before interest for the 15 months ended 31 March 2015 was £416.9 million (year ended 31 December 2013: £360.9 million).

Net interest payable was £306.9 million for the 15 months ended 31 March 2015 (year ended 31 December 2013: £241.1 million), including £141.7 million (year ended 31 December 2013: £92.8 million) on shareholder loan notes, which were novated to NWG as part of a restructuring on 8 March 2013.

Profit on ordinary activities before tax for the 15 months ended 31 March 2015 was £114.0 million (year ended 31 December 2013: £120.2 million). Current tax for the 15 months ended 31 March 2015 was a credit of £54.7 million (year ended 31 December 2013: charge of £18.9 million), including an exceptional credit of £64.5 million made in respect of prior period capital allowances claims agreed with HM Revenue & Customs (HMRC). The current and deferred tax credits are explained in note 8 to the financial statements. Profit for the 15 months ended 31 March 2015 was £169.8 million (year ended 31 December 2013: £171.6 million).

Total fixed asset additions for the Group for the 15 months ended 31 March 2015 was £311.2 million (year ended 31 December 2013: £220.3 million), representing capital investment to maintain and enhance the Group's asset base.

NWL

Revenue was £994.7 million for the 15 months ended 31 March 2015 (year ended 31 December 2013: £782.1 million). This reflected the application of the Ofwat price review in 2009, of 2.6% in respect of RPI less 1%, on water and sewerage charges. The average demand for measured supplies to household customers and total volumes supplied to non-household customers broadly stabilised in the period, after declines in prior years due to the difficult economic conditions.

Operating costs, including capital maintenance costs for the 15 months ended 31 March 2015 were £588.1 million (year ended 31 December 2013: £429.4 million), including an exceptional one-off asset impairment charge of £30.7 million in relation to sludge drying plant abandoned as a result of the successful implementation of advanced anaerobic digestion (AAD) and is explained further in note 3. Other cost movements include increases in manpower costs, power prices, depreciation and general inflationary increases, partially offset by the benefits of the ongoing efficiency programme. During the period, NWL invested £1.0 million (year ended 31 December 2013: £1.1 million) in research and development.

Profit on ordinary activities before interest for the 15 months ended 31 March 2015 was £406.6 million (year ended 31 December 2013: £352.7 million).

Capital investment for the 15 months ended 31 March 2015 was £309.8 million under International Financial Reporting Standards (IFRS) (year ended 31 December 2013: £219.3 million), reflecting continued investment in maintaining the condition of NWL's assets, ensuring that stable serviceability was achieved and delivering an extensive programme in the prevention of sewer flooding.

STRATEGIC REPORT (continued)

Financial performance (continued)

Water and waste water contracts

The Group's water and waste water contracts in Scotland, the Republic of Ireland and Gibraltar are all performing well and are in line with expectations. Revenue for the contracts was £55.3 million for the 15 months ended 31 March 2015 (year ended 31 December 2013: £44.5 million). Profit on ordinary activities before interest was £12.9 million (year ended 31 December 2013: £10.5 million).

The three year 'Domestic Water Metering Services and Works' contract for the north east region of the Republic of Ireland, through the Group's joint venture Coffey Northumbrian Limited, is well ahead of the planned projection of installations. Despite some significant public and media campaigns within Ireland against the Government's introduction of water charges, the contract is performing well with the issues encountered being well managed locally.

Dividends

The Directors do not recommend payment of a final ordinary dividend (year ended 31 December 2013: £nil). Total dividends paid in the 15 months ended 31 March 2015 were £158.0 million (year ended 31 December 2013: £68.8 million). Following a change in the Company's statutory accounting reference date, the timing of dividend payments has been amended, with the payment scheduled for April 2015 advanced by one month and paid in March 2015. As a consequence, a third interim dividend has been paid in the current period. This does not change the underlying dividend policy, and does not change the total dividend planned to be paid to shareholders in the calendar year to 31 December 2015.

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 15 months ended 31 March 2015.

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 January 2014, NWL drew the first £50.0 million tranche of a £100.0 million facility from the European Investment Bank (EIB) on an index linked basis with a coupon of 0.34%. The remaining £50.0 million was drawn in April 2014 on an index linked basis with a coupon of 0.38%. NWL is also in preliminary discussions with the EIB regarding the provision of further investment funding over the next five year period. NWL has cash resources and substantial undrawn committed five year bank facilities (maturing in 2019) available to maintain general liquidity. The undrawn bank committed facilities amounted to £258.0 million at 31 March 2015.

Cash interest cover and gearing measures have remained better than target levels, with our strong investment grade credit ratings for NWL reaffirmed 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. The Board is supported in this by the Risk & Compliance Committee. 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 boards of NWL and NWG. NWG'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.

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

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

The 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. The Board, supported by the Risk & Compliance Committee, has overseen the development of a more resilient risk management framework, based on a bottom-up risk assessment. The Risk & Compliance Committee receives regular updates on the top-rated risks and priorities for assurance and conducts deep-dives into key areas of risk. Time has been set aside outside of the regular meeting schedule to consider strategic risk and the Committee is working with the Board to articulate the Group's risk appetite more clearly.

The key business risks facing the Group are:

- funding and liquidity risk (see note 20 to the financial statements);
- unfavourable changes to the NWL regulatory structure as a result of the Water Act 2014, such as upstream competition, a move away from Regulatory Capital Value (RCV) based regulation or a move away from RPI for indexation of RCV and allowed wholesale revenues;
- delivery of the NWL change programme for readiness for the opening of the non-household retail market in 2017;
- loss of key business systems due to a malicious attack or failure of cyber security;
- breach of Data Protection Act or Environmental Information Regulations;
- loss of supply to a large volume of customers due to failure of the NWL water systems, such as failure of a strategic water main or treatment works or contamination of a service reservoir; and
- environmental pollution incidents due to failures in the NWL waste water network giving rise to potential fines and reputational damage.

Risk management is a dynamic process reflecting changes in the external environment and consequently some of the principal risks have changed from those reported in the previous year. In some cases, this is an increase in an existing risk, such as the loss of key business systems due to a malicious attack or failure of cyber security, whilst others relate to legal changes, such as the water industry being brought into scope of the Environmental Information Regulations. The risk related to non-household retail competition has been refined to reflect the development of the change programme.

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 as summarised in note 20 to the financial statements. All treasury activities are conducted in accordance with the treasury policies of the Group.



By order of the Board

M Parker

General Counsel and Company Secretary

17 August 2015

DIRECTORS' REPORT

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 period were as follows:

A J Hunter	Non-executive Chairman
H Mottram OBE	Chief Executive Officer (CEO)
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
D N Macrae	Non-executive Director
W C W Tong-Barnes	Non-executive Director

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

Board 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, the only decisions referred up to the NWG Board were a number of contract and loan approvals and the re-appointment of certain Directors (in each case, the NWG Board approved the recommendations of the NWL board).

The Group has adopted terms of reference which set out the matters reserved to the Board for approval and matters which are, or can be, delegated to 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 appropriate 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 five times each year.

Authorisation of Directors' conflicts of interest

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

Board balance and independence

The composition of the Board is as follows:

A J Hunter (Chairman), 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 CKH, which is now wholly owned by CKHH, and F R Frame by Li Ka Shing Foundation Limited. The CEO, H Mottram was appointed on the recommendation of the Nomination Committee of Northumbrian Water Group plc when it was independently listed.

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

DIRECTORS' REPORT (continued)

Board balance and independence (continued)

Whilst not members of the NWG Board, M Fay, Dr Lyster, P Rew and M Nègre (the independent non-executive Directors of NWL) continue to 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, M 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 & Compliance 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 Audit, Risk & Compliance and Remuneration committees.

Remuneration Committee

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

NWL complies with its obligations under s35A of the Water Act 2003 by disclosing in its 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 the Senior Independent Non-executive Director of NWL. The other members are Dr S Lyster, M Nègre, D N Macrae and L S Chan.

During the period, and up to the date of approval of these financial statements, the Audit Committee assisted both executive and non-executive Directors to discharge their individual and collective responsibilities. Its work included the following:

- reviewing the draft statutory and regulatory accounts, considering reports from the external auditor setting out the audit approach and plan, significant audit risks and conclusions on the Group's internal controls and risk management;
- reviewing the appropriateness of accounting policies, significant accounting judgements and evidence supporting the going concern basis for the accounts and recommending approval of both statutory and regulatory accounts to the Board;
- reviewing and commenting on NWL's annual performance review, including the underlying assurance, reviewing evidence to support the Condition F6A.2A certificate (statement of sufficiency of financial resources) and recommending its approval to the Board;
- reviewing the approach to Board assurance for the NWL regulatory price review process, monitoring progress of the assurance for all submissions after the initial business plan and receiving reports from the independent assurance advisor;
- monitoring the development of the effectiveness of the internal audit function, following a report carried out by an external co-sourcing partner, and continuing implementation of an action plan to build on the existing strong base;
- approving the external auditor's fees for both audit and non-audit services, by reference to the agreed policy;
- approving the internal audit work programme for the year and reviewing progress against the programme;
- approving arrangements for monitoring compliance with the Company's procedures designed to prevent bribery, having regard to the Bribery Act 2010 and the updated code of conduct 'Our Way at NWG', including receiving reports on any whistleblowing allegations;
- reviewing the risk and control framework and reporting, including management of tax compliance matters and approval of financial approval rules; and
- conducting an internal review of the effectiveness of the Audit Committee (jointly with the Risk & Compliance Committee). The findings were generally very positive and identified only a small number of items requiring further action.

The Audit Committee chairman has reported formally to the NWG and NWL Boards following each meeting of the Committee and committee minutes have been circulated to both boards.

DIRECTORS' REPORT (continued)

Risk & Compliance Committee

The members of the Risk & Compliance Committee are P Rew (Chairman), Dr S Lyster, M Nègre, D N Macrae and L S Chan.

During the period, and up to the date of approval of these financial statements, the Risk & Compliance Committee assisted the Board to discharge its responsibilities. Its work included the following:

- reviewing and approving the implementation of a significantly enhanced risk management framework and corporate risk register, based on a detailed bottom-up assessment of risk across the Group and at NWL, departmental risk registers developed by risk champions in each department;
- reviewing reports at each meeting on the top rated managed risks and priorities for assurance (being those risks with the biggest reduction between the business (gross) and managed (net) risk scores), representing key control areas for the Company;
- reviewing the management of specific areas of risk in relation to health and safety, the vehicle operator's licence and environmental compliance;
- reviewing cyber security and steps being taken to enhance security;
- advising the Board on risk appetite and exposure and reviewing risk assessment processes as well as keeping the effectiveness of the risk and internal control management systems under review;
- monitoring compliance with covenants and treasury risks;
- reviewing management of customer debt;
- reviewing business continuity arrangements; and
- conducting an internal review of the effectiveness of the Risk & Compliance Committee (jointly with the Audit Committee and with similar positive findings as noted above).

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

Code of conduct

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

Governance Code

In March 2014, following discussions with Ofwat, the NWL board put in place a bespoke Governance Code (the NWL Code), which is available on the NWL website. NWL complied with this Code, including the statements regarding the composition of the Board as at 1 April 2015 and the commencement of performance evaluations in 2015.

Ofwat's Holding Company Principles

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

- 1.1 As stated in the strategic report, at the balance sheet date, NWG is the holding company of NWL. As a consequence of the transaction on 3 June 2015, detailed in note 28 'Post-balance sheet event', CKHH became the ultimate parent undertaking and controlling party of NWG and, therefore, NWL. The transaction and ultimate change of control was duly notified to Ofwat.
- 1.2 NWG discloses detail of its debt structure and how this compares with the Group's policies. It also clearly defines who is the ultimate parent undertaking and controlling party (see 1.1 above) and gives full transparency as to the level of shareholder loan notes within the corporate structure.
- 1.3 This report (and NWL's directors' report) disclose that some of the Directors of each company were appointed by shareholder companies. Directors may also, from time to time, have roles in and/or hold shares or other interests in the shareholder companies and/or other companies within the CKHH group.
- 1.4 Decisions regarding certain large contract awards, capital projects and substantial funding arrangements are referred to the NWG Board. During the period, the NWG Board has endorsed all the recommendations of the NWL Board.
- 1.5 NWG's governance arrangements are set out clearly in the Strategic Report and the Directors' Report.

DIRECTORS' REPORT (continued)

Ofwat's Holding Company Principles (continued)

2.1, 2.2, 2.3, 2.4 and 3.1

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

Within this supportive environment, NWL's Board operates autonomously and each NWL Director understands his or her individual responsibility to act in the best interests of NWL.

OTHER DISCLOSURES

Results and dividends

Please refer to the financial performance heading of the Strategic report.

Post-balance sheet event

A change in the Company's ultimate parent undertaking and controlling party, which occurred after the balance sheet date, is explained in the strategic report, on page 1, and in note 28.

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	1,185
Labour	4,488
Liberal Democrats	1,758
Total	7,431

Financial instruments and treasury policies

As described in the Strategic report.

Employment policies

The Group's policies in respect of the employment for disabled persons and employee involvement are set out in the performance section of our strategic report.

Indemnification of Directors

NWG 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.

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.

DIRECTORS' REPORT (continued)

Financial statements preparation and going concern

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

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

- NWL's Instrument of Appointment which is in place on a rolling 25 year basis;
- the certainty on wholesale and household retail price controls to March 2020 provided by the 2014 Final Determination by Ofwat, following its acceptance by the Board;
- the financial strength of the Group at the balance sheet date and performance for the period ended 31 March 2015, which is in line with expectations and reviewed at each Board meeting, most recently in April 2015;
- the key financial ratios over the planning horizon of the Group's one year budget and medium term plan to 2019 as reflected in ratings on stable outlook and strong investment grade, which was approved by the Board in November 2014;
- the fact that NWL has in place £350.0 million of five year committed bank facilities as back up liquidity (maturing in 2019), of which £258 million remains undrawn at 31 March 2015;
- 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 & Compliance Committees and Board.

Directors' responsibility statement

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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Company will continue in business;
- 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.



By order of the Board

M Parker

General Counsel and Company Secretary

17 August 2015

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 March 2015 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 28 and the Company balance sheet and related notes 1 to 14. 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 March 2015 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 Strategic Report and 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.



P Feechan (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

Newcastle upon Tyne

17 August 2015

CONSOLIDATED INCOME STATEMENT

For the period ended 31 March 2015

	Note	15 months to 31 March 2015 £m	Year to 31 December 2013 £m
Continuing operations			
Revenue	2	1,050.2	826.8
Operating costs	3	(633.3)	(465.9)
Profit on ordinary activities before interest	2	416.9	360.9
Finance costs payable	7	(312.9)	(242.4)
Finance income receivable	7	6.0	1.3
Share of profit after tax of jointly controlled entities	12(a)	4.0	0.4
Profit on ordinary activities before taxation	2	114.0	120.2
– current taxation	8	54.7	(18.9)
– deferred taxation	8	1.1	70.3
Profit for the period		169.8	171.6
Attributable to:			
Equity shareholders of the parent Company		169.4	171.1
Non-controlling interests		0.4	0.5
		169.8	171.6

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period ended 31 March 2015

	Note	15 months to 31 March 2015 £m	Year to 31 December 2013 £m
Profit for the period		169.8	171.6
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains	24	17.8	32.3
Tax on items credited to equity not reclassified	8	(3.5)	(11.0)
Items that may be reclassified subsequently to profit or loss:			
(Losses)/gain on cash flow hedges taken to equity		(4.8)	6.8
Translation differences		(0.4)	0.1
Tax on items credited to equity that may be reclassified	8	0.9	(1.5)
Other comprehensive income		10.0	26.7
Total comprehensive income for the period		179.8	198.3
Attributable to:			
Equity shareholders of the parent Company		180.0	198.0
Non-controlling interests - profit for the period		0.4	0.5
Non-controlling interests - other comprehensive income		(0.6)	(0.2)
		179.8	198.3

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the period ended 31 March 2015

	Equity share capital £m	Other reserve £m	Share premium reserve £m	Cash flow hedge reserve £m	Currency translation £m	Retained earnings £m	Total equity £m	Non- controlling interests £m	Total £m
At 1 January 2013	51.9	-	446.5	(11.8)	(1.1)	(223.3)	262.2	2.6	264.8
Profit for the year	-	-	-	-	-	171.1	171.1	0.5	171.6
Other comprehensive income	-	-	-	5.3	0.1	21.5	26.9	(0.2)	26.7
Total comprehensive income and expense for the year	-	-	-	5.3	0.1	192.6	198.0	0.3	198.3
Transfer of settled derivative	-	-	-	(0.8)	-	-	(0.8)	-	(0.8)
Restructuring	(51.9)	51.9	-	-	-	-	-	-	-
Equity dividends paid (see note 9)	-	-	-	-	-	(1,142.7)	(1,142.7)	-	(1,142.7)
31 December 2013	-	51.9	446.5	(7.3)	(1.0)	(1,173.4)	(683.3)	2.9	(680.4)
Profit for the period	-	-	-	-	-	169.4	169.4	0.4	169.8
Other comprehensive income	-	-	-	(3.9)	(0.4)	14.9	10.6	(0.6)	10.0
Total comprehensive income and expense for the period	-	-	-	(3.9)	(0.4)	184.3	180.0	(0.2)	179.8
Equity dividends paid (see note 9)	-	-	-	-	-	(158.0)	(158.0)	(0.7)	(158.7)
At 31 March 2015	-	51.9	446.5	(11.2)	(1.4)	(1,147.1)	(661.3)	2.0	(659.3)

CONSOLIDATED BALANCE SHEET

As at 31 March 2015

		31 March 2015	31 December 2013
	Note	£m	£m
Non-current assets			
Goodwill	10	3.6	3.6
Other intangible assets	10	64.2	64.2
Property, plant and equipment	11	4,128.4	4,007.6
Investments in jointly controlled entities	12	6.5	3.3
Financial assets		11.3	11.3
Amounts receivable relating to consortium relief		1.7	1.7
		4,215.7	4,091.7
Current assets			
Inventories	13	3.0	3.4
Trade and other receivables	14	252.3	177.2
Short term cash deposits	15	3.2	1.7
Cash and cash equivalents	15	44.8	110.8
		303.3	293.1
Total assets		4,519.0	4,384.8
Non-current liabilities			
Interest bearing loans and borrowings	17	3,897.5	3,834.0
Provisions	19	1.6	1.8
Deferred income tax liabilities	8	462.3	460.8
Pension liability	24	91.0	89.3
Hedging instruments	20	42.3	52.3
Other payables		3.2	4.0
Grants and deferred income		328.8	300.1
		4,826.7	4,742.3
Current liabilities			
Interest bearing loans and borrowings	17	138.4	95.0
Provisions	19	0.2	0.2
Trade and other payables	16	213.0	227.7
		351.6	322.9
Total liabilities		5,178.3	5,065.2
Net liabilities		(659.3)	(680.4)
Capital and reserves			
Other reserve		51.9	51.9
Share premium reserve		446.5	446.5
Cash flow hedge reserve		(11.2)	(7.3)
Currency translation		(1.4)	(1.0)
Accumulated deficit		(1,147.1)	(1,173.4)
Equity shareholders' deficit		(661.3)	(683.3)
Non-controlling interests		2.0	2.9
Total capital and reserves		(659.3)	(680.4)

Approved by the Board and authorised for issue on 17 August 2015 and signed on its behalf by:



H Mottram
Chief Executive Officer
Registered number 4760441

CONSOLIDATED CASH FLOW STATEMENT

For the period ended 31 March 2015

	Note	15 months to 31 March 2015 £m	Year to 31 December 2013 £m
Operating activities			
Reconciliation of profit before interest to net cash flows from operating activities			
Profit on ordinary activities before interest		416.9	360.9
Depreciation and impairment losses		190.4	121.8
Other non-cash charges and credits		(8.2)	(6.5)
Net credit for provisions, less payments		(0.2)	(0.2)
Difference between pension contributions paid and amounts recognised in the income statement		14.5	12.7
Decrease in inventories		0.4	0.1
Increase in trade and other receivables		(10.4)	(2.5)
Decrease in trade and other payables		(23.4)	(6.0)
Cash generated from operations		580.0	480.3
Interest paid		(315.3)	(215.7)
Income taxes paid (including overseas tax of £0.2m (2013: £0.1m))		(12.0)	(30.8)
Income taxes repaid in respect of prior periods		4.3	-
Net cash flows from operating activities		257.0	233.8
Investing activities			
Interest received		1.1	1.0
Capital grants received		29.0	13.2
Proceeds on disposal of property, plant and equipment		0.9	2.4
Dividends received from jointly controlled entities		0.8	0.4
Short term cash deposits		(1.5)	0.1
Maturity of investments		0.1	0.3
Purchase of property, plant and equipment		(281.8)	(203.4)
Net cash flows from investing activities		(251.4)	(186.0)
Financing activities			
New borrowings		100.0	80.0
Dividends paid to minority interests		(0.7)	-
Dividends paid to equity shareholders		(158.0)	(68.8)
Net movements in Revolving Credit Facility		62.0	-
Repayment of borrowings		(43.5)	(71.9)
Payment of principal under hire purchase contracts and finance leases		(11.8)	(7.7)
Net cash flows from financing activities		(52.0)	(68.4)
Decrease in cash and cash equivalents		(46.4)	(20.6)
Cash and cash equivalents at start of period	15	91.2	111.8
Cash and cash equivalents at end of period	15	44.8	91.2
Cash and cash equivalents at end of period	15	44.8	91.2
Short term cash deposits	15	3.2	1.7
Total cash, cash equivalents and short term cash deposits		48.0	92.9

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS for the period ended 31 March 2015

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 15 months ended 31 March 2015 and in accordance with the Companies Act 2006.

The financial statements have been prepared on a going concern basis taking into account the principal risks and uncertainties disclosed in the directors' report, which assumes that the Group will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 March 2015, the Group had net current liabilities of £48.3 million (31 December 2013: £29.8 million) and net liabilities of £659.3 million (31 December 2013: £680.4 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. Further details can be found in the 'Financial statements preparation and going concern' section in the Directors' report.

The Directors consider the following accounting policies to be relevant in relation to the Group's financial statements. The financial statements of the Group for the 15 months ended 31 March 2015 were authorised for issue by the Board of Directors on 17 August 2015 and the balance sheet was signed on the Board's behalf by H Mottram (CEO).

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

-
- IFRS 10 Consolidated Financial Statements
 - IFRS 11 Joint Arrangements
 - IFRS 12 Disclosure of Interests in Other Entities
 - Amendment to the following standards:
 - IAS 27 Separate Financial Statements
 - IAS 28 Investments in Associates and Joint Ventures
 - IAS 32 Offsetting Financial Assets and Financial Liabilities
 - IAS 36 Impairment of assets – Recoverable Amount Disclosures for Non-Financial Assets
 - IAS 39 Novation of Derivatives and Continuation of Hedge Accounting
 - IFRS 10, IFRS 11 and IFRS 12: Investment entities
 - IFRS 10, IFRS 11 and IFRS 12: Transition guidance
-

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

NWG 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 have been prepared under the historical cost convention, except where adopted IFRS require an alternative treatment. The consolidated financial statements include the Company and its subsidiary undertakings. The results of subsidiaries acquired during the period are included from the date of their acquisition. The results of subsidiaries disposed of during the period are included to the date of their disposal. Inter-segment revenue and profits are eliminated fully on consolidation. In accordance with IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities, the financial statements of two companies are consolidated as special purpose entities, with effect from 12 May 2004, the date of the transaction which utilised these entities.

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

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

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. 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 next page); 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 NWG is United Kingdom sterling (£). Assets and liabilities of subsidiaries and jointly controlled entities in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial period and the results of foreign subsidiaries are translated at the average rate of exchange for the period. Differences on exchange arising from the re-translation of the opening net investment in subsidiary companies and jointly controlled entities, and from the translation of the results of those companies at 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. Net interest is calculated by applying the discount rate to the net defined asset or liability.

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

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

Defined contribution scheme

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

(o) Taxation

Current tax

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

Deferred tax

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

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

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

1. ACCOUNTING POLICIES (continued)

(o) Taxation (continued)

Deferred tax (continued)

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

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

Value added tax

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

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

(p) Derivative financial instruments

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

A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the 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.

Hedge accounting is employed in respect of those derivative financial instruments fulfilling the 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.

Under IFRS 13, derivative financial instruments are measured at fair value, which is considered to be the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction reflecting the credit risk of the counterparties in the principal (or most advantageous) market under market conditions as at the balance sheet date.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps 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 the income statement.

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in 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 relevant RPI, with the accretion being charged to the income statement as finance costs payable. Other borrowing costs are recognised as an expense when incurred.

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

Net debt is the sum of all 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 the income statement or available for sale. Gains and losses are recognised in income when the investments are de-recognised or impaired, as well as through the amortisation process.

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)

IFRIC 21 Levies

Amendment to the following standards:

IAS 19 Employee Benefits: Defined Benefit Plans: Employee Contributions

Improvements to IFRSs (2010 - 2012)

Improvements to IFRSs (2011 - 2013)

IFRS 10, IFRS 11 and IFRS 12: Investment entities

IFRS 10, IFRS 11 and IFRS 12: Transition guidance

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

(aa) Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the Group's accounting policies, the Group is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. The Directors consider that the significant judgements 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 24, 'Pensions and other post-retirement benefits';
- the estimation of income for measured water and sewerage services supplied but not billed at the end of the financial period. Measured income is billed periodically in arrears with large commercial customers being billed monthly and smaller commercial customers and domestic customers being billed on quarterly or six-monthly cycles. Income is accrued based upon the average billing for previous periods, adjusted for tariff changes where appropriate. The accrual is also adjusted for any growth in the number of measured properties and to take account, on an exception basis, of any known variations in usage;
- 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;
- the estimation of uncertain tax provisions, which are assessed on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities; and
- the asset lives assigned to property, plant and equipment, details of which can be found in note 1(f).

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, the Republic of Ireland and Gibraltar.

Other

Central unallocated costs and provisions are included in this segment.

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

2. SEGMENTAL ANALYSIS (continued)

Revenue	NWL	Water and waste water contracts	Other	Total
	£m	£m	£m	£m
15 months ended 31 March 2015				
Segment revenue	994.7	55.3	8.1	1,058.1
Inter-segment revenue	-	-	(7.9)	(7.9)
Revenue from external customers	994.7	55.3	0.2	1,050.2
Year ended 31 December 2013				
Segment revenue	782.1	44.5	6.4	833.0
Inter-segment revenue	-	-	(6.2)	(6.2)
Revenue from external customers	782.1	44.5	0.2	826.8

Profit on ordinary activities before interest	NWL	Water and waste water contracts	Other	Total
	£m	£m	£m	£m
15 months ended 31 March 2015				
Segment profit/(loss) on ordinary activities before interest	406.6	12.9	(2.6)	416.9
Net finance costs				(306.9)
Share of profit after tax from jointly controlled entities				4.0
Profit on ordinary activities before taxation				114.0
Taxation				55.8
Profit for the period from continuing operations				169.8
Year ended 31 December 2013				
Segment profit/(loss) on ordinary activities before interest	352.7	10.5	(2.3)	360.9
Net finance costs				(241.1)
Share of profit after tax from jointly controlled entities				0.4
Profit on ordinary activities before taxation				120.2
Taxation				51.4
Profit for the year from continuing operations				171.6

Assets and liabilities

	NWL		Water and waste water contracts		Other		Total	
	31 March 2015	31 December 2013	31 March 2015	31 December 2013	31 March 2015	31 December 2013	31 March 2015	31 December 2013
	£m	£m	£m	£m	£m	£m	£m	£m
Segment assets	4,287.9	4,124.3	149.6	111.8	81.5	148.7	4,519.0	4,384.8
Segment liabilities	3,512.3	509.0	135.3	16.0	1,530.7	4,540.2	5,178.3	5,065.2

Other comprises head office companies and internal balances (December 2013: head office companies, internal balances, taxation, interest and net debt).

	NWL		Water and waste water contracts		Total	
	31 March 2015	31 December 2013	31 March 2015	31 December 2013	31 March 2015	31 December 2013
	£m	£m	£m	£m	£m	£m
Property, plant and equipment additions	309.8	219.3	1.4	1.0	311.2	220.3
Depreciation	182.9	115.6	7.5	6.2	190.4	121.8

2. SEGMENTAL ANALYSIS (continued)

Geographical information

Revenue from external customers from the UK was £1,027.2 million (year ended 31 December 2013: £808.4 million). Revenue from other countries was £23.0 million (year ended 31 December 2013: £18.4 million).

Profit before tax from UK activities was £108.2 million (year ended 31 December 2013: £117.9 million). Profit before tax from overseas activities was £5.8 million (year ended 31 December 2013: £2.3 million) and includes the results from joint controlled entities (see note 12a).

Non-current assets for operations in the UK were £4,206.5 million (31 December 2013: £4,084.1 million). Non-current assets for operations in other countries were £9.2 million (31 December 2013: £7.6 million).

3. OPERATING COSTS

	15 months to 31 March 2015	Year to 31 December 2013
	£m	£m
Materials and consumables	26.2	23.9
Manpower costs (see note 6)	163.7	124.0
Own work capitalised	(43.2)	(30.1)
Depreciation of property, plant and equipment	157.8	121.8
Impairment of tangible fixed assets	32.6	-
Profit on disposal of property, plant and equipment	(0.9)	(1.4)
Amortisation of capital grants	(6.3)	(4.8)
Costs of research and development	1.0	1.1
Operating lease payments	1.7	0.9
Bad debt charge	12.9	8.3
Other operating costs	287.8	222.2
Operating costs	633.3	465.9

The impairment of tangible fixed assets includes an exceptional charge of £30.7 million in relation to sludge drying plant at Bran Sands. This plant was constructed in the 1990s as a regional centre for the treatment and disposal of the sludge generated from NWL's waste water treatment process. In response to a combination of high operating costs and the emergence of new technologies, the sludge strategy was subsequently reviewed leading to the construction of two advanced anaerobic digestion (AAD) plants at Bran Sands and Howdon. The sludge drying plant was initially retained as alternative capacity, however, during the period, management decided that the two AAD plants were operating to the expected standard of performance and reliability and that the sludge drying plant would be abandoned.

4. AUDITOR'S REMUNERATION

	15 months to 31 March 2015	Year to 31 December 2013
	£m	£m
Audit of the financial statements	0.3	0.3
Other fees to auditor:		
Other services - IS consultancy in respect of non financial systems	-	0.8
Other services	0.1	0.1
	0.1	0.9

Non-audit related and general consultancy work will either be placed on the basis of the lowest fee quote or to consultants who are felt to be best able to provide the expertise and working relationship required. In certain instances, such as the appointment of consultants to provide external advice and support to the internal audit department, the auditor will not be invited to compete for the work.

5. DIRECTORS' EMOLUMENTS

(a) Directors' remuneration

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

	15 months to 31 March 2015	Year to 31 December 2013
	£000	£000
Emoluments (including benefits in kind)	1,245	889

One of the Directors at 31 March 2015 was a member of a defined contribution scheme where the Group makes contributions towards the cost (31 December 2013: 1).

Long Term Incentive Plan (LTIP)

A cash-based LTIP was introduced with effect from 1 January 2012. The 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.

(b) Highest paid Director

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

	15 months to 31 March 2015	Year to 31 December 2013
	£000	£000
Emoluments (including benefits in kind)	1,194	817

In the 15 months ended 31 March 2015, the highest paid Director was a member of the defined contribution scheme and the payments made to that scheme of £50k (year ended 31 December 2013: £50k) are included within the emoluments figure above.

6. EMPLOYEE INFORMATION

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

	15 months to 31 March 2015	Year to 31 December 2013
	£m	£m
Wages and salaries	127.6	96.5
Social security costs	11.6	8.8
Defined benefit pension service cost (see note 24)	20.1	15.8
Other pension costs	4.4	2.9
Total employment costs	163.7	124.0

Total employment costs were charged as follows:

Capital schemes and infrastructure renewals	39.1	30.1
Manpower costs	124.6	93.9
	163.7	124.0

6. EMPLOYEE INFORMATION (continued)

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

	15 months to 31 March 2015	Year to 31 December 2013
	Number	Number
NWL	3,053	2,981
Water and waste water contracts	156	157
	3,209	3,138

7. FINANCE COSTS PAYABLE/(RECEIVABLE)

	15 months to 31 March 2015	Year to 31 December 2013
	£m	£m
Finance costs payable on debentures, bank and other loans and overdrafts	314.4	232.2
Amortisation of discount, fees, loan issue costs and other financing items	(3.9)	(3.7)
Fair value movement on derivatives	(14.8)	(4.8)
Capitalisation of interest	(9.4)	(5.7)
Accretion on index linked bonds	15.9	15.0
Interest cost on pension plan obligations	5.0	4.5
Finance costs payable on hire purchase contracts and finance leases	5.7	4.9
Total finance costs payable	312.9	242.4
Finance income receivable	(6.0)	(1.3)
Net finance costs payable	306.9	241.1

8. TAXATION

(a) Tax on profit on ordinary activities

	15 months to 31 March 2015	Year to 31 December 2013
	£m	£m
Current tax:		
UK current income tax charge at 21.39% (year ended 31 December 2013: 23.25%)	18.1	19.3
Recycled from equity on cash flow hedges	-	1.0
Adjustment in respect of prior periods	(72.9)	(1.5)
UK corporation tax	(54.8)	18.8
Overseas tax	0.1	0.1
Total current tax	(54.7)	18.9
Deferred tax:		
Origination and reversal of temporary differences in the period at 20% (year ended 31 December 2013: 20%)	3.9	2.3
Effect of changes in tax rates and laws:		
– Impact of reduction in rate of UK corporation tax	-	(72.6)
Recycled from equity on cash flow hedges	-	(0.7)
Adjustment in respect of prior periods	(5.0)	0.7
Total deferred tax	(1.1)	(70.3)
Tax credit in the income statement	(55.8)	(51.4)

The rate of UK corporation tax was reduced from 23% to 21% with effect from 1 April 2014. A further reduction to 20% takes effect from 1 April 2015. The effective rate for the 15 months ended 31 March 2015 on a pro rata basis is therefore 21.39% (year ended 31 December 2013: 23.25%).

Adjustments made in respect of current tax for prior periods include exceptional items relating to the implementation of a methodology agreed between the water industry and HMRC in relation to capital allowances available for certain treatment works assets following the abolition of industrial buildings allowances in 2008 (£22.3 million) and reaching agreement with HMRC on several years' capital allowances claims (£42.2 million). The balance relates to agreeing Group companies' tax returns with HMRC.

8. TAXATION (continued)

(a) Tax on profit on ordinary activities (continued)

Overseas tax relates to the Group's activity in the Republic of Ireland. No overseas tax arises in respect of the Group's activity in Gibraltar due to the existence of brought forward losses.

Deferred tax is provided at 20%, being the rate at which timing differences are expected to reverse. As the rate has not changed since the previous period, no opening adjustment is required. Adjustments made in respect of deferred tax for prior periods reflect the exceptional capital allowances items referred to above (£5.5 million).

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

	15 months to 31 March 2015	Year to 31 December 2013
	£m	£m
Current tax:		
Recycled to income statement on cash flow hedges	-	(1.0)
Deferred tax:		
Actuarial gains and losses on pension schemes	3.5	6.4
Recycled to income statement on cash flow hedges	-	0.7
Hedging instruments	(0.9)	1.3
Impact of reduction in rate of UK corporation tax	-	5.1
Tax charge in the statement of comprehensive income	2.6	12.5

(c) Reconciliation of the total tax credit

	15 months to 31 March 2015	Year to 31 December 2013
	£m	£m
Profit before tax	114.0	120.2
Profit before tax multiplied by standard rate of corporation tax of 21.39% (year ended 31 December 2013: 23.25%)	24.4	27.9
Effects of:		
Expenses not deductible for tax purposes	0.2	0.1
Depreciation in respect of non-qualifying items	1.1	1.1
Non-taxable income and enhanced tax reliefs	(0.8)	(0.5)
Non-taxable amortisation of financing items	(1.2)	(1.0)
Adjustment to tax charge in respect of prior periods	(77.9)	(0.8)
Group relief paid for at less than the standard rate	(1.3)	(5.6)
Other	-	0.3
	(55.5)	21.5
Effect of changes in tax rates and laws:		
- Impact of rate reduction on opening deferred tax	-	(72.6)
- Impact of rate reduction on movement in deferred tax	(0.3)	(0.3)
Total tax credit reported in the income statement	(55.8)	(51.4)

The effective tax rate for the 15 months ended 31 March 2015 was -48.9% (year ended 31 December 2013: -42.8%). The decrease of 6.1% mainly reflects the absence of a change in the deferred tax rate (60.4%) and prior year adjustments (-67.7%) in the current period. In the absence of the rate change and prior year items, the effective rate for the current period would have been 19.4% (year ended 31 December 2013: 18.1%).

8. TAXATION (continued)

(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 January 2013	577.3	(41.6)	(2.6)	(25.8)	(14.7)	8.4	16.6	517.6
(Credit)/charge in the income statement	(71.7)	4.7	0.5	(3.5)	2.4	(1.3)	(1.4)	(70.3)
Charge in other comprehensive income	-	-	-	11.0	1.8	-	0.7	13.5
At 31 December 2013	505.6	(36.9)	(2.1)	(18.3)	(10.5)	7.1	15.9	460.8
Charge/(credit) in the income statement	0.2	(2.4)	1.2	(4.3)	2.9	(0.2)	1.5	(1.1)
Charge/(credit) in other comprehensive income	-	-	-	3.5	(0.9)	-	-	2.6
At 31 March 2015	505.8	(39.3)	(0.9)	(19.1)	(8.5)	6.9	17.4	462.3

Other includes a deferred tax liability of £12.9 million (31 December 2013: £12.9 million) in respect of other intangible assets (see note 10).

(e) Factors that may affect future tax charges

The Group expects to continue to incur high levels of capital expenditure for the foreseeable future which, under current tax legislation, should result in claims for tax reliefs in excess of depreciation. The UK Government has proposed to reduce the rate of corporation tax to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. The proposals were included in the Finance Bill published on 15 July 2015 but, as the proposed changes had not been enacted or substantively enacted by the balance sheet date, they have not yet been used to calculate the company's tax position.

9. DIVIDENDS PAID AND PROPOSED

	15 months to 31 March 2015 £m	Year to 31 December 2013 £m
Declared, paid and in specie during the period:		
Dividend declared as part of restructuring	-	1,073.9
A shares:		
Interim dividend for the year ended 31 December 2013: £125,451 (nine months ended 31 December 2012: £nil)	-	24.3
Second interim dividend for the year ended 31 December 2013: £218,588 (nine months ended 31 December 2012: £nil)	-	42.4
Interim dividend for the 15 months ended 31 March 2015: £262,395 (year ended 31 December 2013: £nil)	50.9	-
Second interim dividend for the 15 months ended 31 March 2015: £260,838 (year ended 31 December 2013: £nil)	50.6	-
Third Interim dividend for the 15 months ended 31 March 2015: £266,645 (year ended 31 December 2013: £nil)	51.7	-
B shares:		
Interim dividend for the year ended 31 December 2013: £530 (nine months ended 31 December 2012: £nil)	-	0.8
Second interim dividend for the year ended 31 December 2013: £924 (nine months ended 31 December 2012: £nil)	-	1.3
Interim dividend for the 15 months ended 31 March 2015: £1,109 (year ended 31 December 2013: £nil)	1.6	-
Second interim dividend for the 15 months ended 31 March 2015: £1,102 (year ended 31 December 2013: £nil)	1.6	-
Third Interim dividend for the 15 months ended 31 March 2015: £1,127 (year ended 31 December 2013: £nil)	1.6	-
Dividends paid	158.0	1,142.7

No final dividend is proposed for the 15 months ended 31 March 2015 (year ended 31 December 2013: £nil).

10. INTANGIBLE ASSETS

	Goodwill £m	Other £m	Total £m
Cost:			
At 1 January 2013, 1 January 2014 and 31 March 2015	3.8	64.2	68.0
Impairment:			
At 1 January 2013, 1 January 2014 and 31 March 2015	(0.2)	-	(0.2)
Net book value at 31 March 2015	3.6	64.2	67.8
Net book value at 1 January 2013 and 31 December 2013	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 March 2015 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 January 2013	126.3	2,097.2	2,498.7	238.9	214.5	5,175.6
Additions	0.1	7.0	2.9	0.9	209.4	220.3
Schemes commissioned	5.1	89.0	100.4	10.3	(204.8)	-
Reclassifications	(2.0)	(3.7)	6.0	(0.3)	-	-
Disposals	(0.5)	(5.7)	(1.8)	(0.3)	-	(8.3)
At 1 January 2014	129.0	2,183.8	2,606.2	249.5	219.1	5,387.6
Additions	-	12.5	3.9	1.0	293.8	311.2
Schemes commissioned	17.8	209.0	181.5	30.7	(439.0)	-
Disposals	-	(5.1)	(2.2)	-	-	(7.3)
At 31 March 2015	146.8	2,400.2	2,789.4	281.2	73.9	5,691.5
Depreciation:						
At 1 January 2013	42.3	148.6	906.5	168.1	-	1,265.5
Charge for the year	2.7	26.0	80.5	12.6	-	121.8
Reclassifications	2.3	-	(2.1)	(0.2)	-	-
Disposals	(0.1)	(5.6)	(1.4)	(0.2)	-	(7.3)
At 1 January 2014	47.2	169.0	983.5	180.3	-	1,380.0
Charge for the period	3.8	31.4	105.9	16.7	-	157.8
Impairment losses	0.7	-	31.9	-	-	32.6
Disposals	-	(5.1)	(2.2)	-	-	(7.3)
At 31 March 2015	51.7	195.3	1,119.1	197.0	-	1,563.1
Net book value at 31 March 2015	95.1	2,204.9	1,670.3	84.2	73.9	4,128.4
Net book value at 31 December 2013	81.8	2,014.8	1,622.7	69.2	219.1	4,007.6
Net book value at 1 January 2013	84.0	1,948.6	1,592.2	70.8	214.5	3,910.1

The impairment of tangible fixed assets includes an exceptional charge of £30.7 million in relation to sludge drying plant at Bran Sands. This plant was constructed in the 1990s as a regional centre for the treatment and disposal of the sludge generated from NWL's waste water treatment process. Please see note 3 for further detail.

Operational structures, plant and machinery include an element of land and buildings dedicated to those assets. It is not possible to separately identify the value of all land assets. The Group continues to apply IAS 23 Borrowing Costs (Revised) and has capitalised £9.4 million for the 15 months ended 31 March 2015 (year ended 31 December 2013: £5.7 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 5.62% (year ended 31 December 2013: 5.96%).

11. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	31 March 2015	31 December 2013
	£m	£m
Infrastructure assets	47.6	45.9
Operational structures, plant and machinery	22.5	20.6
	70.1	66.5

12. INVESTMENTS

	31 March 2015	31 December 2013
	£m	£m
Investments in jointly controlled entities	6.5	3.3

(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 Northumbrian Water Projects Limited, also held a 50% interest in Coffey Northumbrian Limited (CNL), a jointly controlled entity incorporated in the Republic of Ireland.

	VLS	CNL	VLS	CNL
	31 March 2015	31 March 2015	31 December 2013	31 December 2013
	£m	£m	£m	£m
Revenue	9.8	13.1	7.2	1.8
Operating costs	(8.5)	(9.3)	(6.2)	(1.9)
Profit on ordinary activities before interest	1.3	3.8	1.0	(0.1)
Finance costs payable	(0.4)	-	(0.4)	-
Profit on ordinary activities before taxation	0.9	3.8	0.6	(0.1)
Current taxation	(0.2)	(0.5)	(0.1)	-
Profit for the period	0.7	3.3	0.5	(0.1)
Non-current assets	8.6	-	8.9	-
Current assets	6.5	4.8	7.7	-
Share of gross assets	15.1	4.8	16.6	-
Current liabilities	(4.7)	(1.2)	(5.2)	(0.1)
Non-current liabilities	(6.7)	(0.8)	(8.0)	-
Share of gross liabilities	(11.4)	(2.0)	(13.2)	(0.1)
Share of net assets	3.7	2.8	3.4	(0.1)

12. INVESTMENTS (continued)

(b) The Group's interests in subsidiaries at 31 March 2015 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 Holdings Limited	England and Wales	Ordinary shares of £1	100	Holding company
Caledonian Environmental Services plc	Scotland	Ordinary shares of £1	100	Waste water services
Caledonian Environmental Levenmouth Treatment Services Limited	England and Wales	Ordinary shares of £1	100	Waste water services
Wastewater Management Holding Limited	Scotland	Ordinary shares of £1	75	Holding company
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
Analytical & Environmental Services Limited	England and Wales	Ordinary Shares of £1	100	Dormant
Essex and Suffolk Water Limited	England and Wales	Ordinary Shares of £1	99.6	Holder of loan note
Northumbrian Holdings Limited	England and Wales	Ordinary Shares of £1	100	Holding company
Northumbrian Overseas Investments Limited	England and Wales	Ordinary Shares of £1	100	Dormant
Northumbrian Water Mexico Limited	England and Wales	Ordinary Shares of £1	100	Dormant
Northumbrian Water Pension Trustees Limited	England and Wales	Ordinary Shares of £1	100	Pension trustee company
Northumbrian Water Share Scheme Trustees Limited	England and Wales	Ordinary Shares of £1	100	Dormant
NWG Business Limited	England and Wales	Ordinary Shares of £1	100	Water and waste water
Reiver Finance Limited	England and Wales	Ordinary Shares of £1	100	Finance
Reiver Holdings Limited	England and Wales	Ordinary Shares of £1	100	Holding company
Three Rivers Finance Limited	Cayman Islands	Ordinary Shares of £0.0001	100	Dormant
Three Rivers Insurance Company Limited	Isle of Man	Ordinary Shares of £1	100	Insurance
Waterco Six Limited	England and Wales	Ordinary Shares of £1	100	Dormant

Northumbrian Services Limited and Northumbrian Water Limited are directly held. All other subsidiaries listed above are indirectly held.

13. INVENTORIES

	31 March 2015	31 December 2013
	£m	£m
Raw materials and consumables	3.0	3.4

14. TRADE AND OTHER RECEIVABLES

	31 March 2015	31 December 2013
	£m	£m
Trade receivables	94.4	78.5
Amounts owed by jointly controlled entities	0.7	0.7
Prepayments and accrued income	70.1	82.2
Financial assets	-	0.1
Income tax receivable	73.1	8.3
Other receivables	14.0	7.4
	252.3	177.2

As at 31 March 2015, trade receivables at nominal value of £77.5 million (31 December 2013: £64.6 million) were impaired. Movements in the provision for impairment of trade receivables were as follows:

	£m
At 1 January 2013	56.3
Charge for the year	20.1
Utilised	(11.8)
At 1 January 2014	64.6
Charge for the period	26.6
Utilised	(13.7)
At 31 March 2015	77.5

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 March 2015	0.2	36.1	18.8	10.0	4.9	-	70.0
At 31 December 2013	0.1	23.2	18.5	10.3	4.7	-	56.8

15. CASH AND CASH EQUIVALENTS AND SHORT TERM DEPOSITS

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

	31 March 2015	31 December 2013
	£m	£m
Cash at bank and in hand	44.8	90.5
Cash equivalent deposits	-	20.3
	44.8	110.8
Bank overdrafts	-	(19.6)
Cash and cash equivalents	44.8	91.2

	31 March 2015	31 December 2013
	£m	£m
Short term cash deposits >3 months	3.2	1.7

16. TRADE AND OTHER PAYABLES

	31 March 2015	31 December 2013
	£m	£m
Trade payables	10.0	4.4
Other payables	16.5	18.0
Interest payable	46.4	73.7
Amounts payable to related parties	57.5	27.0
Accruals and deferred income	82.6	104.6
	213.0	227.7

17. INTEREST BEARING LOANS AND BORROWINGS

	31 March 2015	31 December 2013
	£m	£m
Current:		
Bank overdrafts	-	19.6
Current instalments due on borrowings (principal £128.2 million, 31 December 2013: £62.8 million)	132.5	67.2
Current obligations under finance leases and hire purchase contracts (see note 18)	5.9	8.2
	138.4	95.0
Non-current:		
Non-current obligations under finance leases and hire purchase contracts (principal £100.0 million, 31 December 2013: £103.6 million) (see note 18)	102.0	103.6
Non-current instalments on borrowings (principal £3,804.6 million, 31 December 2013: £3,735.1 million)	3,795.5	3,730.4
	3,897.5	3,834.0
Borrowings comprise the following:		
Shareholder loan notes (principal £1,033.2 million, 31 December 2013: £1,033.2 million)	1,033.2	1,033.2
Loans (principal £581.4 million, 31 December 2013: £459.7 million)	581.5	460.9
Subordinated loan stock (principal £2.1 million, 31 December 2013: £2.1 million)	2.1	2.1
Eurobonds – due 11 October 2017 bearing interest rate of 6.0% (principal £300.0 million, 31 December 2013: £300.0 million)	302.9	304.3
Eurobonds – due 6 February 2023 bearing interest rate of 6.875% (principal £350.0 million, 31 December 2013: £350.0 million)	372.5	376.1
Eurobonds – due 29 April 2033 bearing interest rate of 5.625% (principal £350.0 million, 31 December 2013: £350.0 million)	347.0	346.8
Eurobonds – due 23 January 2042 bearing interest rate of 5.125% (principal £360.0 million, 31 December 2013: £360.0 million)	341.1	340.2
Eurobonds – due 23 January 2034 bearing interest rate of 5.87526% (principal £247.9 million, 31 December 2013: £248.0 million)	245.3	245.3
Eurobonds – due 31 March 2037 bearing interest rate of 6.627% (principal £60.0 million, 31 December 2013: £60.6 million)	58.0	58.5
US Private Placement (USPP) Notes – due 14 April 2021 bearing interest rate of 5.82% (principal £100.0 million, 31 December 2013: £100.0 million)	99.7	99.7
Index linked Eurobonds – due 15 July 2036 bearing interest rate of 2.033% (principal £203.3 million, 31 December 2013: £198.1 million)	199.9	194.5
Index linked Eurobonds – due 30 January 2041 bearing interest rate of 1.6274% (principal £79.9 million, 31 December 2013: £78.0 million)	79.8	77.8
Index linked Eurobonds – due 16 July 2049 bearing interest rate of 1.7118% (principal £132.5 million, 31 December 2013: £129.1 million)	132.5	129.1
Index linked Eurobonds – due 16 July 2053 bearing interest rate of 1.7484% (principal £132.5 million, 31 December 2013: £129.1 million)	132.5	129.1
	3,928.0	3,797.6
Less current instalments due on bank loans (principal £128.2 million, 2013: £62.8 million)	(132.5)	(67.2)
	3,795.5	3,730.4

17. INTEREST BEARING LOANS AND BORROWINGS (continued)

The difference between the principal value of £3,804.6 million (31 December 2013: £3,735.1 million) and the carrying value of £3,795.5 million (31 December 2013: £3,730.4 million) is unamortised issue costs of £31.1 million (31 December 2013: £32.0 million) and a credit of £22.0 million (31 December 2013: £27.3 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 March 2015	31 December 2013
	£m	£m
Amounts due:		
Not later than one year	5.9	8.2
After one year but not more than five years	68.8	73.2
Later than five years	82.7	75.7
	157.4	157.1
Less finance charges allocated to future periods	(49.5)	(45.3)
Present value of minimum lease payments	107.9	111.8
Disclosed as due:		
Not later than one year	5.9	8.2
After more than one year	102.0	103.6
	107.9	111.8

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 March 2015	31 December 2013
	£m	£m
Not later than one year	0.7	0.7
After one year but not more than five years	2.8	2.5
After five years	34.9	36.0
	38.4	39.2

19. PROVISIONS

	£m
At 1 January 2014	
Current	0.2
Non-current	1.8
At 1 January 2014	2.0
Utilised	(0.2)
At 31 March 2015	1.8
Analysed as:	
Current	0.2
Non-current	1.6
	1.8

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 24), and are expected to be paid over the remaining lives, which is approximately seven years.

20. FINANCIAL INSTRUMENTS

(a) Group strategy and funding risk

The level of capital expenditure which the Group is obliged to incur is such that it cannot be wholly financed by internally generated sources. As a result, the Group must rely upon raising additional finance on a regular basis, to be principally used to fund the long term assets required in its regulated business. The Group's strategy is to finance such investment by raising medium to long term debt, to provide a balance sheet match with long term assets and to fix a major proportion of interest rates. In order to raise this finance efficiently, the Board's aim is to retain strong investment grade credit rating at BBB+ stable (Standard & Poors and Fitch) and Baa1 stable (Moody's). A reduction in the credit rating would likely restrict future sources of funding and increase the associated cost of new borrowing.

(b) Treasury operations

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

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

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

(d) Liquidity risk

As regards day to day liquidity, the Group's policy is to have available committed bank borrowing facilities with a value of no less than £50.0 million and with a bank agreement availability period of no less than three months. At 31 March 2015, the Group had £258.0 million (31 December 2013: £420.0 million) of undrawn committed bank facilities (maturing in 2019).

(e) Interest rate risk

The Group finances its operations through a mixture of retained profits and bank borrowings. It borrows at both fixed and variable rates of interest and, accordingly, uses interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations. The Group's policy is to keep a minimum 60% of its borrowings at fixed rates of interest. At 31 March 2015, 69% (31 December 2013: 77%) 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	£m
15 months ended 31 March 2015	
+50	0.8
+100	1.5
+150	2.3
Year ended 31 December 2013	
+50	1.1
+100	2.2
+150	3.2

(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.

20. FINANCIAL INSTRUMENTS (continued)

(i) Counterparty risk

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

(j) Capital risk

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

The Group monitors capital using gearing ratios for the Group and NWL. 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 80% and 70% for the Group and NWL, respectively and less than 65% for the regulated business of NWL.

The RCV at 31 March 2015 was £3,915.3 million (31 December 2013: £3,851.6 million, which was calculated by interpolating the actual March 2013 and the forecast March 2014 RCV, based on a March 2014 forecast RPI of 255.0). On this basis and excluding shareholder loan notes, the gearing ratios were 75% for the Group and 68% 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:

15 months ended 31 March 2015

	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	92.1	65.3	235.9	1,558.1	7,070.5	9,021.9
Hedging instruments	-	1.2	2.5	15.7	22.9	42.3
Trade and other payables	1.0	111.2	30.8	-	-	143.0
	93.1	177.7	269.2	1,573.8	7,093.4	9,207.2

Year ended 31 December 2013

	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	19.6	65.3	235.9	1,558.1	7,070.5	8,949.4
Hedging instruments	-	1.2	2.4	11.2	37.5	52.3
Trade and other payables	-	80.7	50.1	-	-	130.8
	19.6	147.2	288.4	1,569.3	7,108.0	9,132.5

20. FINANCIAL INSTRUMENTS (continued)

(I) Maturity profile of financial assets and liabilities (carrying value) 15 months ended 31 March 2015

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Fixed rate:							
Shareholder loan notes	-	-	-	-	-	(1,033.2)	(1,033.2)
Eurobonds	(4.5)	(4.8)	(303.7)	(2.9)	(3.3)	(1,347.6)	(1,666.8)
USPP notes	-	-	-	-	-	(99.7)	(99.7)
Subordinated loan stock	-	-	-	-	-	(2.1)	(2.1)
Bank loans	(25.4)	(27.5)	(29.7)	(18.3)	(19.2)	(148.1)	(268.2)
Obligations under finance leases and hire purchase contracts	(5.8)	(5.6)	(44.4)	(1.0)	(0.3)	(0.1)	(57.2)
Other loans	(0.4)	(0.4)	(0.3)	-	-	-	(1.1)
Fixed rate at 31 March 2015	(36.1)	(38.3)	(378.1)	(22.2)	(22.8)	(2,630.8)	(3,128.3)
Variable rate:							
Cash and cash equivalents	48.0	-	-	-	-	-	48.0
Financial investments	-	-	-	-	-	11.3	11.3
Eurobonds	-	-	-	-	-	(544.7)	(544.7)
Bank loans	(105.4)	(13.4)	(18.9)	(20.7)	(20.7)	(133.1)	(312.2)
Obligations under finance leases and hire purchase contracts	(2.2)	(2.2)	(2.3)	(2.3)	(2.4)	(39.3)	(50.7)
Variable rate at 31 March 2015	(59.6)	(15.6)	(21.2)	(23.0)	(23.1)	(705.8)	(848.3)
Net borrowings at 31 March 2015							(3,976.6)

Year ended 31 December 2013

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Fixed rate:							
Shareholder loan notes	-	-	-	-	-	(1,033.2)	(1,033.2)
Eurobonds	(4.3)	(4.3)	(4.3)	(304.4)	(3.6)	(1,350.3)	(1,671.2)
USPP notes	-	-	-	-	-	(99.7)	(99.7)
Subordinated loan stock	-	-	-	-	-	(2.1)	(2.1)
Bank loans	(20.9)	(21.8)	(27.5)	(29.6)	(18.2)	(176.5)	(294.5)
Obligations under finance leases and hire purchase contracts	(6.0)	(5.7)	(5.3)	(43.0)	(0.7)	(0.1)	(60.8)
Other loans	(0.3)	(0.4)	(0.4)	(0.3)	-	-	(1.4)
Fixed rate at 31 December 2013	(31.5)	(32.2)	(37.5)	(377.3)	(22.5)	(2,661.9)	(3,162.9)
Variable rate:							
Cash and cash equivalents	112.5	-	-	-	-	-	112.5
Financial investments	0.1	-	-	-	-	11.3	11.4
Eurobonds	-	-	-	-	-	(530.5)	(530.5)
Bank loans	(41.7)	(13.4)	(13.5)	(13.5)	(13.5)	(69.4)	(165.0)
Overdrafts	(19.6)	-	-	-	-	-	(19.6)
Obligations under finance leases and hire purchase contracts	(2.2)	(2.2)	(2.3)	(2.3)	(2.4)	(39.6)	(51.0)
Variable rate at 31 December 2013	49.1	(15.6)	(15.8)	(15.8)	(15.9)	(628.2)	(642.2)
Net borrowings at 31 December 2013							(3,805.1)

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

20. FINANCIAL INSTRUMENTS (continued)

(m) Currency exposures

At 31 March 2015, after taking into account the effects of forward foreign exchange contracts, with the exception of the impact of translating the net assets of foreign operations into sterling, the Group had no material currency exposures (31 December 2013: £nil). At 31 March 2015, the Group held forward foreign exchange contracts with a future transaction value of £2.7m (31 December 2013: £2.1m) for the purpose of hedging the foreign currency risk of committed future purchases. At 31 March 2015, the fair value gain on the Company's outstanding foreign exchange contracts was £0.1 million (31 December 2013: loss £0.1 million).

(n) Borrowing facilities

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

	31 March 2015	31 December 2013
	£m	£m
Expiring in more than two years but not more than five years	258.0	420.0

(o) Fair values of financial assets and financial liabilities

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

	Book value		Fair value	
	31 March 2015	31 December 2013	31 March 2015	31 December 2013
	£m	£m	£m	£m
Financial assets:				
Cash and cash equivalents	48.0	112.5	48.0	112.5
Financial investments	11.3	11.4	11.3	11.4
Trade and other receivables	252.3	177.2	252.3	177.2
Overdraft	-	(19.6)	-	(19.6)
Shareholder loan notes (principal £1,033.2 million, 31 December 2013: £1,033.2 million)	(1,033.2)	(1,033.2)	(1,033.2)	(1,033.2)
Bank loans (principal £581.4 million, 31 December 2013: £459.7 million)	(581.5)	(460.9)	(605.7)	(473.2)
Subordinated loan stock (principal £2.1 million, 31 December 2013: £2.1 million)	(2.1)	(2.1)	(2.1)	(2.1)
Eurobonds (principal £2,216.1 million, 31 December 2013: £2,202.9 million)	(2,211.5)	(2,201.7)	(2,784.9)	(2,467.5)
USPP notes (principal £100.0 million, 31 December 2013: £100.0 million)	(99.7)	(99.7)	(115.9)	(110.5)
Obligations under finance leases and hire purchase contracts (principal £107.9 million, 31 December 2013: £111.8 million)	(107.9)	(111.8)	(107.9)	(111.8)
Derivatives	(42.3)	(52.3)	(42.3)	(52.3)
Trade and other payables	(213.0)	(227.7)	(213.0)	(227.7)
	(3,979.6)	(3,907.9)	(4,593.4)	(4,196.8)

The fair values of the derivatives and sterling denominated long term fixed rate and index linked debt with a book value of £2,360.7 million (31 December 2013: £2,359.8 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 £544.7 million (31 December 2013: £530.5 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 £4,040.7 million (31 December 2013: £3,909.7 million) and the carrying value of £4,035.9 million (31 December 2013: £3,909.4 million) is unamortised issue costs of £31.1 million (31 December 2013: £32.0 million) and a credit of £26.3 million (31 December 2013: £31.7 million) in excess of the original loan proceeds to reflect the fair value of loans owed by subsidiaries acquired in 2003.

20. FINANCIAL INSTRUMENTS (continued)

(p) Hedges

Cash flow hedges – currency forward contracts

At 31 March 2015, the Group held the following forward exchange contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £m
HKD 9,711,000	15 April 2015	12.311	0.8
USD 978,630	15 April 2015	1.5059	0.6
USD 978,630	15 April 2016	1.5044	0.7
USD 978,630	15 April 2017	1.5072	0.6
			2.7

At 31 December 2013, the Group held the following forward exchange contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £m
HKD 9,711,000	15 May 2014	12.401	0.8
USD 786,597	30 April 2014	1.6053	0.5
HKD 9,711,000	15 April 2015	12.311	0.8
			2.1

Cash flow hedges – interest rate swap

At 31 March 2015 and 31 December 2013, 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:

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 March 2015 and 31 December 2013, 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.

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

Notional amount	Annual swap cash flow paid	Start date	Termination date	Fixed rate %
£2.9 million	£0.7 million	12 May 2004	9 January 2034	2.56

Cash flow hedges: power forward contracts

At 31 March 2015 (31 December 2013: nil), the Group held forward power contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The terms of these contracts are as follows:

Notional amount	Start date	Termination date	Price per MWH £
166,896 MWH	1 April 2018	30 September 2018	50.7
165,984 MWH	1 October 2018	31 March 2019	56.2
166,896 MWH	1 April 2019	30 September 2019	52.2
166,896 MWH	1 October 2019	31 March 2020	56.8

20. FINANCIAL INSTRUMENTS (continued)

(q) Fair value hierarchy

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

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

Liabilities measured at fair value 15 months ended 31 March 2015

	31 March 2015 £m	Level 1 £m	Level 2 £m	Level 3 £m
Cash and cash equivalents	48.0	48.0	-	-
Financial investments	11.3	11.3	-	-
Trade and other receivables	252.3	-	-	252.3
Shareholder loan notes	(1,033.2)	-	-	(1,033.2)
Bank loans	(605.7)	-	(605.7)	-
Subordinated loan stock	(2.1)	-	-	(2.1)
Eurobonds	(2,784.9)	(2,784.9)	-	-
USPP notes	(115.9)	-	(115.9)	-
Obligations under finance leases and hire purchase contracts	(107.9)	-	(107.9)	-
Derivatives	(42.3)	-	(42.3)	-
Trade and other payables	(213.0)	-	-	(213.0)
	(4,593.4)	(2,725.6)	(871.8)	(996.0)

Year ended 31 December 2013

	31 December 2013 £m	Level 1 £m	Level 2 £m	Level 3 £m
Cash and cash equivalents	112.5	112.5	-	-
Financial investments	11.4	11.4	-	-
Trade and other receivables	177.2	-	-	177.2
Overdraft	(19.6)	(19.6)	-	-
Shareholder loan notes	(1,033.2)	-	-	(1,033.2)
Bank loans	(473.2)	-	(473.2)	-
Subordinated loan stock	(2.1)	-	-	(2.1)
Eurobonds	(2,467.5)	(2,467.5)	-	-
USPP notes	(110.5)	-	(110.5)	-
Obligations under finance leases and hire purchase contracts	(111.8)	-	(111.8)	-
Derivatives	(52.3)	-	(52.3)	-
Trade and other payables	(227.7)	-	-	(227.7)
	(4,196.8)	(2,363.2)	(747.8)	(1,085.8)

During the period to 31 March 2015, 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

	Number	£
Allotted, called up and fully paid:		
At 31 December 2013 and 31 March 2015	1,614	161
Analysis of class of shares:		
A shares (10 pence each)	194	19
B shares (10 pence each)	1,420	142
At 31 December 2013 and 31 March 2015	1,614	161

22. ADDITIONAL CASH FLOW INFORMATION

Analysis of net debt as at 31 March 2015

	As at 1 January 2014 £m	Cash flow £m	Other non- cash movements £m	As at 31 March 2015 £m
Cash and cash equivalents	91.2	(46.4)	-	44.8
Short term cash deposits	1.7	1.5	-	3.2
Financial investments	11.4	(0.1)	-	11.3
Loans (principal of £3,932.7 million, 31 December 2013: £3,797.9 million)	(3,797.6)	(118.5)	(11.9)	(3,928.0)
Finance leases (principal of £107.9 million, 31 December 2013: £111.8 million)	(111.8)	11.8	(7.9)	(107.9)
	(3,805.1)	(151.7)	(19.8)	(3,976.6)

The difference between the principal value of £4,040.6 million (31 December 2013: £3,909.7 million) and the carrying value of £4,035.8 million (31 December 2013: £3,909.4 million) is unamortised issue costs of £31.1 million (31 December 2013: £32.0 million) and a credit of £26.3 million (31 December 2013: £31.7 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 the 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 December 2013

	As at 1 January 2013 £m	Cash flow £m	Other non- cash movements £m	As at 31 December 2013 £m
Cash and cash equivalents	111.8	(20.6)	-	91.2
Short term cash deposits	1.8	(0.1)	-	1.7
Financial investments	11.7	(0.3)	-	11.4
Loans (principal of £3,797.9 million, 2012: £2,701.5 million)	(2,703.0)	(48.8)	(1,045.8)	(3,797.6)
Finance leases (principal of £111.8 million, 2012: £111.8 million)	(111.8)	7.7	(7.7)	(111.8)
	(2,689.5)	(62.1)	(1,053.5)	(3,805.1)

The difference between the principal value of £3,909.7 million (2012: £2,813.3 million) and the carrying value of £3,909.4 million (2012: £2,814.8 million) is unamortised issue costs of £32.0 million (2012: £34.6 million) and a credit of £31.7 million (2012: £36.1 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, amortisation of loan issue costs and the novation to NWG of UKW's shareholder loan notes 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

23. FINANCIAL COMMITMENTS

31 March 2015 31 December 2013

	£m	£m
(a) Acquisition of property, plant and equipment	89.5	105.0

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

(c) The Group has entered into performance guarantees as at 31 March 2015 where a financial limit has been specified of £14.1 million (31 December 2013: £15.1 million).

24. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Group operates two defined benefit pension schemes. Northumbrian Water Pension Scheme (NWPS or the Scheme), providing benefits based on final pensionable remuneration to 1,604 active members at 31 March 2015 (31 December 2013: 1,705) and AquaGib Limited Pension Plan (AGPP), providing benefits based on final pensionable remuneration to 67 active members at 31 March 2015 (31 December 2013: 77).

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

The most recent actuarial valuation of the NWPS was at 31 December 2010. At that date the value of assets amounted to £680.1 million and the funding level was 84.7% of liabilities. The most recent actuarial valuation of the AGPP was at 31 July 2012. At that date the value of assets amounted to £9.8 million and the funding level was 66.5% of liabilities.

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

The Group has not disclosed the actuarial assumptions for the AGPP on grounds of materiality. The employer contribution rate for the NWPS 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 (Retail Price Index)	3.60
Price inflation CPI (Consumer Price Index)	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 made capital contributions of £70m to cover the period 1 January 2011 to 31 March 2015. These payments comprised employers' contributions, the deficit recovery funding assumed in the final determination and employees contributions under a salary sacrifice arrangement. Contributions for the current period amounted to £3.7m, including a one off lump sum contribution of £3.1m due in April 2015 but paid in March 2015.

The Scheme also has a defined contribution section which had 1,356 active members at 31 March 2015 (31 December 2013: 1,180). 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 £4.5 million (year ended 31 December 2013: £1.8 million).

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

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 valuations described above as at 31 March 2015. Investments have been valued, for this purpose, at fair value.

	31 March 2015	31 December 2013
Pay increases ¹	3.00%	3.95%
RPI inflation	2.90%	3.30%
CPI inflation	1.90%	2.30%
Pension increases linked to RPI	2.90%	3.30%
Pension increases linked to CPI	1.90%	2.30%
Discount rate	3.30%	4.60%
Mortality assumptions ²	PCMA00/PCFA00	PCMA00/PCFA00
- Life expectancy for a member aged 65 – female (years)	24.7	24.5
- Life expectancy for a member aged 65 – male (years)	22.4	22.2

Notes:

1. Including promotional salary scale.
2. 115% of PCMA00/PCFA00 (year of birth with medium cohort improvements).

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

	31 March 2015	31 December 2013
	£m	£m
Equities	379.4	363.3
Corporate bonds	183.0	153.1
Government bonds	98.7	80.1
Property	98.4	81.9
Cash	39.8	37.6
Other (includes listed infrastructure)	100.7	82.9
Total fair value of assets	900.0	798.9
Present value of liabilities	(991.0)	(888.2)
Deficit	(91.0)	(89.3)

The discount rate at 31 March 2015 has been set by reference to the yield on AA corporate bonds at that date, extrapolated forward on a yield curve approach to a duration of 18 years which reflects the duration of the expected benefit payments. The yield on long term Government bonds at 31 March 2015 was 2.30% and the gross redemption yield on index linked UK Government stocks was -0.9%, which were derived using a duration appropriate to the liabilities of the scheme. The long term inflation rate implied by these yields is 3.2% which has been reduced by 0.3% 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.

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

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

	31 March 2015	31 December 2013
	£m	£m
Recognised in the income statement:		
Current service cost	17.6	13.9
Administration costs	1.7	1.1
Past service cost	0.8	0.8
Recognised in operating costs in arriving at profit on ordinary activities before interest	20.1	15.8
Net interest cost on plan obligations	5.0	4.5
Recognised in finance costs payable	5.0	4.5
Recognised in the statement of comprehensive income:		
Changes in demographic assumptions	30.3	-
Changes in financial assumptions	(108.2)	(8.4)
Return on assets (excluding amounts included in finance costs)	94.9	40.6
Other actuarial gains and losses	0.8	0.1
Net actuarial gains	17.8	32.3

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

	31 March 2015	31 December 2013
	£m	£m
At start of period	888.2	861.2
Current service cost	17.6	13.9
Administration costs	1.7	1.1
Past service cost	0.8	0.8
Interest cost on plan obligations	50.1	36.4
Contributions by plan participants	0.2	0.2
Benefits paid	(44.7)	(33.7)
Remeasurement:		
Changes in demographic assumptions	(30.3)	-
Changes in financial assumptions	108.2	8.4
Other actuarial gains and losses	(0.8)	(0.1)
At 31 March/December	991.0	888.2
Present value of funded defined benefit obligations	991.0	888.2

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

	31 March 2015	31 December 2013
	£m	£m
At start of period	798.9	756.8
Interest income on Scheme assets	45.1	31.9
Contributions by employer	5.6	3.1
Contributions by plan participants	0.2	0.2
Benefits paid	(44.7)	(33.7)
Remeasurement:		
Return on assets (excluding amounts included in finance costs)	94.9	40.6
At 31 March/December	900.0	798.9

Nature of benefits, regulatory framework and other entity's responsibilities for governance of the Scheme

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

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

Risks to which the Scheme exposes the Company

The nature of the Scheme exposes the Company to the risk of paying unanticipated additional contributions to the Scheme in times of adverse experience. The most financially significant risks are likely to be:

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

The sensitivity analysis disclosed is intended to provide an indication of the impact on the value of the Scheme's liabilities of the risks highlighted.

Policy for recognising gains and losses

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

Asset-liability matching strategies used by the Scheme or the Company

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

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

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

Description of funding arrangements and funding policy that affect future contributions

An actuarial valuation as at 31 December 2013 has been carried out and the outcome is close to being finalised. In January 2015, the Company commenced a consultation with members on proposed changes to the Scheme, which is ongoing. Contributions for the year to 31 March 2016 will be determined by the outcome of the consultation process, the finalisation of the December 2013 actuarial valuation and agreement of a new schedule of contributions.

Methods and assumptions used in preparing the sensitivity analyses

The sensitivities disclosed were calculated using methods taking into account the duration of the Scheme's liabilities. Assumptions were provided by the Company.

Sensitivity to key assumptions

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

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

Change in assumptions compared with actuarial assumptions for the NWPS:

	Actuarial value of liabilities on 31 March 2015 £m	Actuarial value of liabilities on 31 December 2013 £m
0.5% decrease in discount rate	1,060.5	947.4
1 year increase in life expectancy	1,000.0	898.3
-0.5% change in salary increases	952.6	856.9
-0.5% change in inflation	877.7	796.7

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

15 months ended 31 March 2015

Maturity profile of the defined benefit obligation (as at the last Trustee report and accounts-31 December 2013)

	Number of members	Liability split %	Duration years
Active members	1,705	47	23.0
Deferred members	1,272	15	20.4
Pensioners	2,972	38	11.9
Total	5,949	100	17.6

Year ended 31 December 2013

Maturity profile of the defined benefit obligation (as at the last actuarial valuation-31 December 2010)

	Number of members	Liability split %	Duration years
Active members	1,927	44	22.4
Deferred members	1,374	14	19.7
Pensioners	2,823	42	11.5
Total	6,124	100	17.4

25. SPECIAL PURPOSE ENTITIES

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

Bakethin Finance Plc was established for the purpose of issuing guaranteed secured Eurobonds. On 12 May 2004, Bakethin Finance Plc issued £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.

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

	Unaudited 31 March 2015 £m	Audited 31 December 2013 £m
Income statement:		
Finance costs receivable	18.6	14.9
Finance costs payable	(18.6)	(14.9)
Balance sheet:		
Investments	242.5	242.2
Current assets	4.9	8.5
Non-current liabilities	(244.4)	(244.1)
Current liabilities	(2.7)	(6.4)
Net assets	0.3	0.2

26. 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

	Recharges to related party £m	Recharges from related party £m	Purchases from related party £m	Interest £m	Consortium/ group relief £m	Amounts owed by related party £m	Amounts owed to related party £m
Related party:							
15 months ended 31 March 2015							
Hutchison Whampoa Limited	-	-	0.2	-	-	-	-
Northern Gas Networks Limited	0.1	-	0.5	-	-	-	-
Hutchison 3G UK Limited	-	-	-	-	9.5	-	9.5
Cheung Kong Infrastructure Holdings Limited	-	1.6	-	56.7	-	-	19.2
Cheung Kong (Holdings) Limited	-	-	-	56.7	-	-	19.2
Li Ka Shing Foundation Limited	-	-	-	28.3	-	-	9.6
Year ended 31 December 2013							
Hutchison Whampoa Limited	-	-	0.1	-	-	-	-
Northern Gas Networks Limited	0.1	-	0.1	-	-	-	-
Hutchison 3G UK Limited	-	-	-	-	7.1	-	7.1
Cheung Kong Infrastructure Holdings Limited	-	1.7	-	37.1	-	-	8.0
Cheung Kong (Holdings) Limited	-	-	-	37.1	-	-	8.0
Li Ka Shing Foundation Limited	-	-	-	18.6	-	-	3.9
Jointly controlled entities							
15 months ended 31 March 2015							
	0.1	-	12.7	-	-	0.8	8.2
Year ended 31 December 2013							
	-	-	11.1	-	-	0.7	9.4

Purchases from jointly controlled entities include £2.9 million (year ended 31 December 2013: £3.2 million) in respect of capital purchases under finance leases, £0.2 million (year ended 31 December 2013: £1.0 million) in respect of operating leases, £8.6 million (year ended 31 December 2013: £5.9 million) in respect of costs payable under finance leases and £1.0 million (year ended 31 December 2013: £1.0 million) in respect of other purchases.

Outstanding balances due to related parties in respect of interest is payable semi-annually in arrears. Where the amounts owed relate to consortium relief, the balance is due within 12 months.

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

Remuneration of key management personnel

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

	15 months to 31 March 2015 £m	Year to 31 December 2013 £m
Short term employee benefits	2.8	1.2
Post employment benefits	0.2	-
	3.0	1.2

27. ULTIMATE PARENT COMPANY

At the balance sheet date, the Company had no ultimate controlling party. NWG was indirectly wholly owned by Cheung Kong Infrastructure Holdings Limited (CKI), Cheung Kong (Holdings) Limited (CKH) and Li Ka Shing Foundation Limited.

After the balance sheet date, CK Hutchison Holdings Limited (CKHH) became the ultimate parent undertaking and controlling party, as described in note 28.

28. POST-BALANCE SHEET EVENT

On 3 June 2015, CKHH, a company listed on the Hong Kong Stock Exchange, acquired CKH and (indirectly) Hutchison Whampoa Limited (HWL). As a consequence, CKHH gained control of both CKH and HWL's controlling interest in CKI, meaning that, in the Directors' opinion, CKHH became the ultimate parent undertaking and controlling party of NWG.

DIRECTORS' RESPONSIBILITY STATEMENT 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.

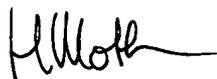
The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies 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 March 2015

	Notes	31 March 2015 £m	31 December 2013 £m
Fixed assets			
Investments in subsidiary undertakings	5	2,963.3	2,963.3
		2,963.3	2,963.3
Current assets			
Debtors: receivable within one year	6	16.9	18.6
Cash at bank		81.1	25.4
		98.0	44.0
Creditors: amounts falling due within one year	7	(75.1)	(46.7)
Net current assets/(liabilities)		22.9	(2.7)
Total assets less current liabilities		2,986.2	2,960.6
Creditors: amounts falling due after more than one year	8	(1,734.6)	(1,734.6)
Net assets		1,251.6	1,226.0
Capital and reserves			
Other reserve	10	51.9	51.9
Share premium account	10	446.5	446.5
Profit and loss account	10	753.2	727.6
Shareholders' funds		1,251.6	1,226.0

Approved by the Board on 17 August 2015 and signed on its behalf by:



H Mottram
Chief Executive Officer
Registered number 4760441

NOTES TO THE COMPANY FINANCIAL STATEMENTS

for the period ended 31 March 2015

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 March 2015, the Company had net current assets of £22.9 million (31 December 2013: net current liabilities £2.7 million). The Directors have reviewed the Company's cash flow requirements and available resources and believe it is appropriate to prepare the financial statements on a going concern basis.

(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 15 months ended 31 March 2015 was £23,000 (year ended 31 December 2013: £21,000).

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 £183.6 million (year ended 31 December 2013: £1,826.4 million).

4. DIVIDENDS PAID AND PROPOSED

	15 months to 31 March 2015 £m	Year to 31 December 2013 £m
Declared, paid and in specie during the period:		
Dividend declared as part of restructuring	-	1,073.9
A shares:		
Interim dividend for the year ended 31 December 2013: £125,451 (nine months ended 31 December 2012: £nil)	-	24.3
Second interim dividend for the year ended 31 December 2013: £218,588 (nine months ended 31 December 2012: £nil)	-	42.4
Interim dividend for the 15 months ended 31 March 2015: £262,395 (year ended 31 December 2013: £nil)	50.9	-
Second interim dividend for the 15 months ended 31 March 2015: £260,838 (year ended 31 December 2013: £nil)	50.6	-
Third Interim dividend for the 15 months ended 31 March 2015: £266,645 (year ended 31 December 2013: £nil)	51.7	-
B shares:		
Interim dividend for the year ended 31 December 2013: £530 (nine months ended 31 December 2012: £nil)	-	0.8
Second interim dividend for the year ended 31 December 2013: £924 (nine months ended 31 December 2012: £nil)	-	1.3
Interim dividend for the 15 months ended 31 March 2015: £1,109 (year ended 31 December 2013: £nil)	1.6	-
Second interim dividend for the 15 months ended 31 March 2015: £1,102 (year ended 31 December 2013: £nil)	1.6	-
Third Interim dividend for the 15 months ended 31 March 2015: £1,127 (year ended 31 December 2013: £nil)	1.6	-
Dividends paid	158.0	1,142.7

No final dividend is proposed for the 15 months ended 31 March 2015 (year ended 31 December 2013: £nil).

5. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

				£m
At 1 January 2014 and 31 March 2015				2,963.3
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 Holdings Limited	England and Wales	Ordinary shares of £1	100	Holding company
Caledonian Environmental Services plc	Scotland	Ordinary shares of £1	100	Waste water services
Caledonian Environmental Levenmouth Treatment Services Limited	England and Wales	Ordinary shares of £1	100	Waste water services
Wastewater Management Holding Limited	Scotland	Ordinary shares of £1	75	Holding company
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
Analytical & Environmental Services Limited	England and Wales	Ordinary Shares of £1	100	Dormant
Essex and Suffolk Water Limited	England and Wales	Ordinary Shares of £1	99.6	Holder of loan note
Northumbrian Holdings Limited	England and Wales	Ordinary Shares of £1	100	Holding company
Northumbrian Overseas Investments Limited	England and Wales	Ordinary Shares of £1	100	Dormant
Northumbrian Water Mexico Limited	England and Wales	Ordinary Shares of £1	100	Dormant
Northumbrian Water Pension Trustees Limited	England and Wales	Ordinary Shares of £1	100	Pension trustee company
Northumbrian Water Share Scheme Trustees Limited	England and Wales	Ordinary Shares of £1	100	Dormant
NWG Business Limited	England and Wales	Ordinary Shares of £1	100	Water and waste water
Reiver Finance Limited	England and Wales	Ordinary Shares of £1	100	Finance
Reiver Holdings Limited	England and Wales	Ordinary Shares of £1	100	Holding company
Three Rivers Finance Limited	Cayman Islands	Ordinary Shares of £0.0001	100	Dormant
Three Rivers Insurance Company Limited	Isle of Man	Ordinary Shares of £1	100	Insurance
Waterco Six Limited	England and Wales	Ordinary Shares of £1	100	Dormant

Northumbrian Services Limited and Northumbrian Water Limited are directly held. All other subsidiaries listed above are indirectly held.

6. DEBTORS

	31 March 2015	31 December 2013
	£m	£m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	16.6	18.3
Other	0.3	0.3
	16.9	18.6

Amounts owed by subsidiary undertakings include amounts receivable for the provisional surrender of tax losses amounting to £13.9 million (31 December 2013: £12.4 million).

7. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 March 2015	31 December 2013
	£m	£m
Trade creditors	-	0.1
Amounts owed to subsidiary undertakings	24.0	24.3
Interest payable	50.7	21.1
Accruals and deferred income	0.4	1.2
	75.1	46.7

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

	31 March 2015	31 December 2013
	£m	£m
Shareholder loan notes	1,033.2	1,033.2
Loans	99.7	99.7
Amounts owed to subsidiary undertakings	601.7	601.7
	1,734.6	1,734.6

	31 March 2015	31 December 2013
	£m	£m
Shareholder loan notes, loans and amounts owed to subsidiary undertakings are repayable as follows:		
Repayable after more than five years	1,734.6	1,734.6

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.

9. AUTHORISED AND ISSUED SHARE CAPITAL

	Number	£
Allotted, called up and fully paid:		
At 31 December 2013, 31 March 2015	1,614	161
Analysis of class of shares:		
A shares (10 pence each)	194	19
B shares (10 pence each)	1,420	142
At 31 December 2013, 31 March 2015	1,614	161

10. RESERVES

	Other reserve £m	Share premium account £m	Profit and loss account £m
At 1 January 2013	-	446.5	43.9
Profit for the year	-	-	1,826.4
Capital restructuring	51.9	-	-
Dividends paid (see note 4)	-	-	(1,142.7)
At 1 January 2014	51.9	446.5	727.6
Profit for the period	-	-	183.6
Dividends paid and in specie (see note 4)	-	-	(158.0)
At 31 March 2015	51.9	446.5	753.2

11. COMMITMENTS

(a) The Company has issued letters of continuing support to subsidiary companies with net liabilities amounting to £23.0 million (31 December 2013: £21.6 million) and net current liabilities of £nil (31 December 2013: £nil). These subsidiary companies are expected to meet their working capital requirements from operating cash flows.

(b) The Company is guarantor to the EIB in respect of borrowings by NWL. The loan principal outstanding at 31 March 2015 amounted to £440.4 million (31 December 2013: £378.2 million).

(c) The Company is party to a cross guarantee arrangement with other Group companies in respect of bank facilities. Overdrafts outstanding at 31 March 2015 in respect of the arrangement amounted to £86.4 million (31 December 2013: £19.6 million). The Directors do not expect any loss to arise as a result of this arrangement.

12. RELATED PARTIES

During the period, the Company entered into transactions, in the ordinary course of business, with other related parties. Transactions entered into and trading balances outstanding at the balance sheet date between the Company and its associates, are as follows:

Trading transactions

	Interest £m	Amounts owed to related party £m
Related party:		
15 months ended 31 March 2015		
Cheung Kong Infrastructure Holdings Limited	56.7	19.2
Cheung Kong (Holdings) Limited	56.7	19.2
Li Ka Shing Foundation Limited	28.3	9.6

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

Remuneration of key management personnel

Key management personnel comprise all Directors of the Group. The remuneration of the key management personnel is included within the amounts disclosed below.

	15 months to 31 March 2015 £m	Year to 31 December 2013 £m
Short term employee benefits	1.4	1.2
Post employment benefits	0.1	-
	1.5	1.2

13. ULTIMATE PARENT COMPANY

At the balance sheet date, the Company had no ultimate controlling party. NWG was indirectly wholly owned by Cheung Kong Infrastructure Holdings Limited (CKI), Cheung Kong (Holdings) Limited (CKH) and Li Ka Shing Foundation Limited.

After the balance sheet date, CK Hutchison Holdings Limited (CKHH) became the ultimate parent undertaking and controlling party, as described in note 14.

14. POST-BALANCE SHEET EVENT

On 3 June 2015, CKHH, a company listed on the Hong Kong Stock Exchange, acquired CKH and (indirectly) Hutchison Whampoa Limited (HWL). As a consequence, CKHH gained control of both CKH and HWL's controlling interest in CKI, meaning that, in the Directors' opinion, CKHH became the ultimate parent undertaking and controlling party of NWG and, therefore, the Company.