NORTHUMBRIAN WATER LIMITED

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2012

Registered number 2366703

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

FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 31 December 2012

CONTENTS **Page**

DIRECTORS' REPORT
for the nine months ended 31 December 2012

The directors of Northumbrian Water Limited (NWL or the Company) and its subsidiary companies, which together with NWL form the group, are pleased to present their report on the affairs of the group and Company, along with the audited financial statements and the auditor's report for the nine months ended 31 December 2012.

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

Principal activities
The principal activities of the business comprise the supply of potable water in both the north east and south east of England and the collection, treatment and disposal of sewage and sewage sludge in the north east of England.

NWL also owns a number of subsidiary companies which carry out financing activities on behalf of NWL (see note 11). The enclosed financial statements incorporate both the group's consolidated financial statements and the Company's financial statements.

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

BUSINESS REVIEW

Business overview
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 2.7 million people. In the south, we supply water services to 1.5 million people in Essex and 0.3 million in Suffolk.

During the period, the Company's ultimate parent undertaking and controlling party was UK Water (2011) Limited (UKW) which, together with its subsidiaries, formed the Group. UKW managed the Group through its subsidiary Northumbrian Water Group Limited (NWGL).

Regulatory and legislative developments
As a monopoly supplier of an essential public service, the UK water industry operates within a demanding regulatory environment. The Water Services Regulation Authority (Ofwat) regulates prices and levels of customer service, while the Drinking Water Inspectorate monitors drinking water quality and the Environment Agency (EA) covers environmental protection. Customers' interests are represented by the Consumer Council for Water.

During 2012, Ofwat has continued to attempt to simplify regulatory reporting with the previous data intensive annual reporting process now replaced by a Risk and Compliance Statement and the publication by companies of performance data.

Throughout the period, we have engaged constructively with Ofwat on the development of price controls and the associated licence modifications required to facilitate the next price review taking into account possible changes in the approach to setting prices. Ofwat published revised proposals for licence modifications on 21 December 2012, which we accepted, and we are now moving forward in the preparation of our business plan submission for the next price review which will come into effect from 1 April 2015.

DIRECTORS' REPORT (continued)

Regulatory and legislative developments (continued)

Ofwat published its proposed methodology, "Setting price controls for 2015-20 – framework and approach", in January 2013, for consultation. We have continued to work on the development of our business plan for 2015-2020 including undertaking comprehensive customer research. We have established stakeholder engagement groups in our three operating areas which will help to form and strengthen our plans.

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

Business strategy and objectives

NWGL's vision, which is shared by the Company, is to 'be the national leader in the provision of sustainable water and waste water services'. We want to continue to deliver value to customers and other stakeholders by focussing on our core competencies of water and waste water management.

We have underpinned our drive to be the best with five strategic themes; Customer, Competitiveness, People, Environment and Communities. Specific medium term goals and targets have been agreed against these themes which will help us to achieve the vision. In addition, sustainability objectives are woven into our core business strategy to help achieve the goals.

As important as our clear direction and goals is our clear sense of values. We have made a commitment to five core values; One team, Customer focused, Results driven, Creative and Ethical. These are the principles which define how we will work to achieve the vision.

Performance measures

In order to measure delivery of the Company business plan and goals, a balanced scorecard of KPIs is used spread across the strategic themes. Targets have been set on a trajectory to deliver the Company vision. In order to ensure alignment of the management team, this balanced scorecard represents 90% of the criteria contributing to their annual bonus, with a further 10% available for the achievement of bespoke personal targets.

The table below details performance against the KPI targets set for 2012 and shows the targets for 2013.

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

DIRECTORS' REPORT (continued)

Performance measures (continued)

Competitiveness
The financial performance of the group is detailed in the following section.

In the period the Company was awarded the highest level of five stars by the British Quality Foundation in the 'Recognised for Excellence' programme. The scheme is Europe's leading recognition programme for company performance and forms part of the EFQM Levels of Excellence.

Customer
Customer service is at the heart of the company and all employees have a clear focus on getting things 'right first time, every time'. The Service Incentive Mechanism (SIM) was introduced by Ofwat to monitor both quantitative and qualitative aspects of customer service and, whilst our performance improved during the period, it did not reach the stretching targets we set ourselves. We continuously seek to improve our customer service through initiatives such as the proactive call back of customers to check that we have delivered to customers' satisfaction and the evolution of how we interact with our customers through texting of appointments and the use of social media.

Operationally, we have continued our industry-leading performance on unplanned interruptions. The definition of the measure for 2013 has been revised to be consistent with Ofwat's reporting requirements. We continue to focus our efforts on reducing coliform incidents.

People
We recognise that the success of the business depends to a significant extent on the contribution of our employees. People are clear about our vision and values and the Group's Code of Conduct sets out our approach to doing business. Our employees are kept fully informed of our strategy and performance through an extensive employee road show programme and throughout the year we share key information through TeamTalk, a bi-monthly briefing which is cascaded through the business, and a wide range of newsletters and briefings which keep people informed of more local news. We maintain constructive employee relations through collaborative working with our trade union and employee representatives and actively engage with our people through an annual employee survey. Our target for the year was to achieve 1* status in the Sunday Times' Best Companies survey and we have succeeded in this goal. Our target for 2013 is based on our internal employee survey.

Our equal opportunity policy seeks to ensure that all our current employees and potential employees are treated with respect. We welcome job applications from all parts of the community and it is our intention that all job applicants and employees are treated equally, regardless of their age, ability, marital or partnership status, race, religion or belief, sex or sexual orientation.

Health and safety is critical to us, and 2012 has seen the Company deliver an industry-leading safety performance with 10 lost time reportable injuries (LTRs) to our workforce. In the period we received a Gold Award from the Royal Society for the Prevention of Accidents, recognising our high level performance in demonstrating well developed occupational health and safety management systems and culture, underpinned by an outstanding control of risks and very low levels of error, harm and loss.

Environment
The environment is critical to us and our stakeholders and we acknowledge our responsibilities to protect and enhance the natural environment. Our carbon management plan will help reduce our carbon footprint and we aim to adopt good environmental practice in all aspects of our activity. Our integrated quality and environmental management systems are certified under ISO 9001, ISO 14001 and OHSAS 18001.

We have continued our exceptional performance for sewage treatment with all numerically consented works remaining compliant for the year. We have also achieved our period targets on leakage and pollution incidents.

Our sewage sludge strategy delivered a second Advanced Anaerobic Digestion (AAD) plant in the north east of England, meaning that 100% of the sludge remaining after sewage treatment is used to produce renewable energy. The project to expand Abberton Reservoir has continued in the period and will be completed in 2013. The additional capacity will secure future water supplies to more than 1.5 million people in Essex.

Performance measures (continued)

Communities
We are 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. 54% of our employees actively volunteered in their communities through our Just an Hour programme.

In the period, the Group gave £99,370 as charitable donations and the Company has been re-accredited as a Platinum Plus company by Business in The Community (BITC).

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

KPI	**Target 2012**	**Performance**		**Target 2013**
		Current period	**Previous period**	
Gearing: net debt to RCV – group (%)[1]	<70	63	64	<70
Gearing: net debt to RCV – Appointed business only (%)[1]	<65	62	63	<65
Cash interest cover (times)	>3.0	6.1	4.2	>3.0
Cash flow to net debt (%)[2]	>13	20	18	>13

[1] Regulatory Capital Value (RCV) for the current year is calculated by interpolating the actual March 2012 published RCV and the forecast March 2013 RCV, based on a March 2013 forecast RPI of 248.5.
[2] The actual cash flow for the nine month period has been annualised on a pro-rata basis to provide a comparable ratio.

The group's profit and loss account and balance sheet, and Company's balance sheet, are set out on pages 12 to 14. The statutory financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. The key accounting policies are summarised in note 1 to the statutory financial statements on pages 15 to 18 and these have been applied consistently throughout the current and preceding periods. Because of the change in accounting reference date, the current period values relate to a nine month period only and are, therefore, not comparable to the prior year comparatives which reflect 12 months trading.

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

Operating costs, including capital maintenance costs, for the nine months ended 31 December 2012 were £319.5m (year ended 31 March 2012: £410.4m). This reflected increases in manpower costs, rates, depreciation and general inflationary increases, partially offset by the benefits of our efficiency programme. During the period, the Company invested £0.9m (year ended 31 March 2012: £1.1m) in research and development.

Net interest payable was £102.5m in the nine months ended 31 December 2012 (year ended 31 March 2012: £120.8m). This reflected higher interest payable, due to the full period impact of a £360.0m bond issued in January 2012, partially mitigated by the benefit arising from the transfer of a finance lease to a new counterparty on improved terms.

Profit on ordinary activities before taxation for the nine months ended 31 December 2012 was £156.1m (year ended 31 March 2012: £206.2m). The current tax charge of £40.2m and deferred tax credit of £3.2m are explained in note 8 to the accounts. Profit for the financial period was £119.1m (year ended 31 March 2012: £132.6m).

The directors do not recommend payment of a final ordinary dividend (year ended 31 March 2012: £nil). Total dividends paid in the nine months ended 31 December 2012 were £150.6m (year ended 31 March 2012: £368.8m). The dividend policy is explained in note 9 to the accounts.

Financial performance (continued)

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

The level of capital expenditure which NWL is obliged to incur is such that we cannot be wholly financed by internally generated sources. As a result, we must rely upon raising additional finance on a regular basis, to be principally used to fund the long term assets required by the regulated business. In November 2012, the Company drew the second £50.0m tranche of a £150.0m facility from the European Investment Bank at a fixed rate of 3.23%. The remaining £50.0m will be drawn in 2013. The Company has cash resources and substantial undrawn committed five year bank facilities available to maintain general liquidity. The undrawn bank committed facilities amounted to £450.0m at 31 December 2012.

Credit rating

The credit rating for NWL has remained consistent throughout the year at BBB+ (stable)/Baa1 (stable).

Treasury policies

The Board is responsible for the financing strategy of the Company which is determined within treasury policies set by NWGL. The Group's treasury function carries out treasury operations on behalf of NWL and its subsidiaries 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 Company has in accordance with the Group's treasury policy. On occasion, derivatives are used as part of this process, but the treasury policy prohibits their use for speculation.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group requires all subsidiaries 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.

NWGL sets the tone for risk management within the Group and determines the appropriate risk appetite. It monitors the management of fundamental risks and approves major decisions affecting the Group's risk profile. At NWL, the management team reviews the approach to risk management in detail every year and reviews the significant risks every month. Any issues are reported by the Chief Executive Officer (CEO) to the Board. Senior management implements policies on risk management and internal control.

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

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

The key business risks facing the Company are:

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

DIRECTORS' REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

The main risks arising from the group's financial instruments are liquidity risk and interest rate risk. As noted above, the Company's financing strategy is developed in accordance with the treasury policies of NWGL, whose Board reviews and agrees policies for managing each of these risks. These are summarised below. The treasury activities of the group are conducted in accordance with these policies.

Liquidity risk
The Company is responsible for cash management. The Group's policy is to have available standby committed bank borrowing facilities with a value of no less than £50.0m and with a bank agreement availability period of no less than three months. At 31 December 2012, NWL had £450.0m (year ended 31 March 2012: £450.0m) of undrawn facilities (maturing in 2016).

Interest rate risk
The Company finances its operations through a mixture of retained profits and borrowings. It borrows at both fixed and floating rates of interest and, on occasion, uses derivatives to generate the desired interest profile and to manage its exposure to interest rate fluctuations. The Company's policy is to keep a minimum 60% of its borrowings at fixed rates of interest. At 31 December 2012, 74% (31 March 2012: 73%) of the borrowings of the group were at fixed rates of interest. Index linked borrowings are treated as variable rate debt.

Foreign currency risk
The Group's policy is that any foreign currency exposure in excess of £100,000 sterling equivalent of a transactional nature, or £3.0m sterling equivalent of a translation nature, should be covered immediately on recognition. At 31 December 2012, the Group had no currency exposures (31 March 2012: nil).

Market price risk
The group's exposure to market price risk principally comprises interest rate exposure. The group's policy is to accept a degree of interest rate risk. On the basis of the group's analysis, it is estimated that a 1% rise in interest rates would not have a significant effect.

CORPORATE GOVERNANCE

Directors
The directors who served during the period were as follows:

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

Directors (continued)
C I Johns was appointed as Finance Director on 1 January 2013.

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

The Company's Licence
The Company's Instrument of Appointment by the Secretary of State for the Environment, Food and Rural Affairs (the Licence) contains provisions, beyond those which would otherwise apply to a private company, to ensure that the Company's governance is sound and that its directors, acting as such, act independently of parent companies. More specifically, the Licence requires the Company to obtain undertakings from its shareholders to underpin the Licence and to require the Company's Board to include "not less than three independent non-executive directors, who shall be persons of standing with relevant experience" and who have collective knowledge of, and connections with, the Company's areas of supply and customers. Throughout the period, these directors were:

P Rew is a chartered accountant and was a partner in PricewaterhouseCoopers LLP (PwC) from 1987 until 2010, where he was lead partner for a diverse range of FTSE 100 clients and for PwC's UK energy, utilities and mining sector practice. Most recently, he was PwC's sustainability and climate change assurance leader and renewable leader. He is a non-executive director of both the Met Office and DEFRA and chairs their Audit Committees.

Dr S Lyster is a lawyer by training, qualified in both the UK and the USA, and was Chief Executive of LEAD International from 2005 to 2011. Before joining LEAD, he was Director General of The Wildlife Trusts and previously worked for World Wildlife Fund for nine years, where he was responsible for its global policy work on international conventions. He is a Trustee of Conservation International–UK, the World Land Trust, the Kilverstone Wildlife Conservation Trust and the Rural Community Council of Essex.

M Fay was Managing Director of Tyne Tees Television until December 2003 when she became Chairman of One North East, a position she held until August 2010. She is Deputy Chairman of The Sage Gateshead, a Governor of the University of Sunderland, Patron of Tees Valley Community Foundation and the Prince of Wales' Ambassador for the north east of England.

A fourth independent director, **M Nègre**, also served throughout the year. He was, between April 2000 and April 2001, the CEO of the former Northumbrian Water Group plc and the chief corporate representative of its parent company, Suez, in the UK. He currently chairs Ecofin Global Utilities Hedge Fund Limited, Ecofin Special Situations Utilities Fund, Ecofin North American Hedge Fund and Ecofin China Power & Infrastructure Fund, and holds a number of directorships focused on utilities. He is a Director of Promethean plc, an AIM-listed investment company, and sits on the supervisory board of Banque Jean-Philippe Hottinger & Cie.

After discussion with Ofwat during August 2010, the three independent directors for the purposes of the Licence at that time joined the Board of NWGL which was, until October 2011, the Company's listed holding company. NWGL was acquired by UKW in October 2011 and all four of the Company's independent directors at that time continued to serve on the NWGL Board and did so throughout the period.

The Licence also requires the Company to have particular regard to what is now the UK Corporate Governance Code (the Code). In structuring the Company's governance arrangements the Board took account of the dominance of the Company's business in the activities of NWGL (of which the Company represents approximately 95% by turnover) and the absence of activities within the Group which conflict with the Company's interests. It also wished to avoid a cumbersome duplication of committees. Therefore, during the period, independent directors of the Company sat on and participated fully in NWGL's Board, as well as its Audit and Remuneration Committees. Whilst these are formally constituted at the NWGL level, the vast majority of their work relates to the Company's activities. The independent directors have therefore played a full part in all strategic discussions both at the NWL and NWGL Boards.

The precise membership of the committees is set out below, as are details of their work.

Board responsibilities and processes
The Board sets and implements the Company's vision, values and strategy and ensures compliance with Group policies and legal and regulatory obligations.

The Company 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 Company has also adopted financial approval rules which set out the authorisation processes and financial limits to be applied to financial transactions within the Company. The Standing or Executive Committees 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 or Executive Committees are reported at the next Board meeting. The Company's Board meets at least every two months.

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

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

A J Hunter (Chairman) and D N Macrae were appointed by Cheung Kong Infrastructure Holdings Limited. H L Kam and T C E Ip were appointed by Cheung Kong (Holdings) Limited and F R Frame by Li Ka Shing Foundation Limited. The CEO, H Mottram, and the three independent non-executive directors for the purposes of the Licence (P Rew, Dr S Lyster and M Fay) were appointed on the recommendation of the Nomination Committee of Northumbrian Water Group plc when it was independently listed. M Nègre was a founding director of NWGL when it acquired the Group from Suez SA in 2003 and has continued to serve as a director on the NWGL Board since then, and on the NWL Board since 2006. G Neave, the Operations Director, joined the Board of NWL in January 2002 and A C Jones, the Regulation and Scientific Services Director, joined in January 2004. C I Johns, Finance Director, joined on 1 January 2013.

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 Company's business on a day-to-day basis.

The non-executive directors bring to the Board many years of business experience as well as financial expertise and the ability and willingness to constructively challenge and help develop proposals on strategy.

The arrangements and functioning of the Board and its committees have regard to the Licence obligations and the Code, albeit in the context of a company which is not a listed plc, and the Board consider that an appropriate balance has been achieved between the interests of shareholders, customers and other stakeholders. All directors' views are given full consideration and due weight in all proceedings of the Board and committees.

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 NWGL and is secretary to all Board committees.

Board committees
The NWGL Board has Audit 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.

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

The Company complies with its obligations under Section 35A of the Water Act 2003 by disclosing in its regulatory accounts each year a detailed breakdown of remuneration paid to the executive directors of NWL which is linked to NWL's standards of performance.

The work of the Remuneration Committee comprises the adoption of principles and standards for and setting executive remuneration and benefits.

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

The purpose of the Audit Committee is to assist both executive and non-executive directors to discharge their individual and collective responsibilities in relation to:

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

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

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

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

Organisational structure
The trading subsidiaries have their own boards of directors (the subsidiary Boards) which are responsible for the operational and financial control of their own businesses. The subsidiary Boards report to the executive directors and to the NWGL Board on matters including major strategic, financial, organisational, compliance and regulatory issues.

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

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

Review of Corporate Governance arrangements
On 8 March 2013 the Group completed a significant restructuring to simplify its structure (see note 27). Further to this exercise, the Group will be reviewing its governance processes and committee structures and will, in so doing, take careful account of the provisions of the Licence.

OTHER DISCLOSURES

Political
We do not support any political party and we do 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 our activities, as well as local meetings with MPs, MEPs and their agents. The costs associated with these activities during the period were as follows:

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

Company payment policy
The Company's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. The Company's policy is to make payment not more than 30 days after receipt of a valid invoice, except as otherwise agreed. The ratio, expressed in days, between the amount invoiced by its suppliers during the year and the amount owed to its trade creditors at 31 December 2012, was 12 days (year ended 31 March 2012: 15 days).

Fixed assets
Freehold land and buildings are carried in the financial statements at historical cost with a net book value of £83.3m (31 March 2012: £81.1m). In the opinion of the directors, at 31 December 2012, there is no significant difference between the net book value and market value of property capable of disposal within the foreseeable future. Note 10 gives more details of the fixed asset movements during the year.

Directors' indemnification
UKW, the Company's ultimate parent undertaking in the period to 31 December 2012, had in place directors' and officers' insurance for the period. On 28 November 2005 NWGL entered into a deed of indemnity to grant the directors of NWGL and its subsidiaries further protection against liability to third parties, and this remains in place.

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 auditors are 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 auditors are aware of that information.

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

Financial statements preparation and going concern
The directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Financial statements preparation and going concern (continued)
In arriving at their decision, the directors have taken into account:

- the acceptance of the 2009 Final Determination by the Board;
- the financial strength of the group at the balance sheet date and performance during 2012;
- the key financial ratios over the planning horizon of the group's one year budget and medium term plan to 2015 as reflected in strong investment grade credit ratings;
- the fact that the Company has arranged £450.0m of five year committed bank facilities as back up liquidity (maturing in 2016), and that these remained undrawn at 31 December 2012; and
- the group's formal risk and governance arrangements which are monitored by the Audit Committee and Board.

Statement of directors' responsibilities
The directors are responsible for preparing the 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 group and Company and of the profit or loss of the group and Company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which are sufficient to show and explain the group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the group and 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 group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board
M Parker, Company Secretary, 26 April 2013

GROUP PROFIT AND LOSS ACCOUNT
for the period ended 31 December 2012

	Note	9 months ended 31 December 2012	12 months ended 31 March 2012
		£'m	£'m
Turnover	2	578.1	737.4
Operating costs	3(a)	(222.5)	(287.1)
Capital maintenance costs	3(b)	(97.0)	(123.3)
Total operating costs		(319.5)	(410.4)
OPERATING PROFIT		258.6	327.0
Net interest payable	4	(102.5)	(120.8)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		156.1	206.2
Taxation	8(a)	(37.0)	(73.6)
PROFIT FOR THE FINANCIAL PERIOD	24	119.1	132.6

All results are from continuing operations in the United Kingdom.

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the period ended 31 December 2012

	Note	9 months ended 31 December 2012	12 months ended 31 March 2012
		£'m	£'m
Profit for the financial period		119.1	132.6
Pension liability actuarial loss in the period	26	(7.4)	(83.5)
Deferred tax related to pension adjustments	26	0.2	18.8
Total recognised gains and losses relating to the period		111.9	67.9

GROUP BALANCE SHEET
at 31 December 2012

	Note	31 December 2012	31 March 2012
		£'m	£'m
FIXED ASSETS			
Tangible assets	10	3,706.0	3,630.3
Investments	11	170.3	170.5
		3,876.3	3,800.8
CURRENT ASSETS			
Stocks	12	2.9	2.7
Debtors due in less than one year	13	164.7	162.5
Debtors due in more than one year	14	1.6	4.9
Investments	15	40.0	80.0
Cash at bank and in hand		21.4	32.7
		230.6	282.8
CREDITORS			
Amounts falling due within one year	16	(257.3)	(254.5)
NET CURRENT (LIABILITIES) / ASSETS		(26.7)	28.3
TOTAL ASSETS LESS CURRENT LIABILITIES		3,849.6	3,829.1
CREDITORS: Amounts falling due after more than one year	17	(2,526.0)	(2,480.8)
PROVISIONS FOR LIABILITIES AND CHARGES	21	(229.2)	(229.6)
ACCRUALS AND DEFERRED INCOME	22	(231.1)	(231.2)
		(2,986.3)	(2,941.6)
NET ASSETS EXCLUDING PENSION LIABILITY		863.3	887.5
Pension Liability	26	(78.4)	(63.9)
NET ASSETS INCLUDING PENSION LIABILITY		784.9	823.6
CAPITAL AND RESERVES			
Called up share capital	23	122.7	122.7
Profit and loss account	24	662.2	700.9
EQUITY SHAREHOLDERS' FUNDS	24	784.9	823.6

Approved by the Board on 26 April 2013 and signed on their behalf by:

H Mottram C I Johns
Registered number 2366703

COMPANY BALANCE SHEET
at 31 December 2012

	Note	31 December 2012	31 March 2012
		£'m	£'m
FIXED ASSETS			
Tangible assets	10	3,706.0	3,630.3
Investments	11	160.9	160.9
		3,866.9	3,791.2
CURRENT ASSETS			
Stocks	12	2.9	2.7
Debtors due in less than one year	13	163.9	161.5
Debtors due in more than one year	14	1.6	4.9
Investments	15	40.0	80.0
Cash at bank and in hand		10.2	25.5
		218.6	274.6
CREDITORS			
Amounts falling due within one year	16	(250.6)	(251.7)
NET CURRENT (LIABILITIES) / ASSETS		(32.0)	22.9
TOTAL ASSETS LESS CURRENT LIABILITIES		3,834.9	3,814.1
CREDITORS: Amounts falling due after more than one year	17	(2,280.9)	(2,239.1)
PROVISIONS FOR LIABILITIES AND CHARGES	21	(230.1)	(230.5)
ACCRUALS AND DEFERRED INCOME	22	(381.9)	(384.1)
		(2,892.9)	(2,853.7)
NET ASSETS EXCLUDING PENSION LIABILITY		942.0	960.4
Pension liability	26	(78.4)	(63.9)
NET ASSETS INCLUDING PENSION LIABILITY		863.6	896.5
CAPITAL AND RESERVES			
Called up share capital	23	122.7	122.7
Profit and loss account	24	740.9	773.8
EQUITY SHAREHOLDERS' FUNDS	24	863.6	896.5

Approved by the Board on 26 April 2013 and signed on their behalf by:

H Mottram C I Johns

Registered number 2366703

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

1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the principal accounting policies is set out below. These have been applied consistently throughout the current and preceding periods.

(a) Basis of accounting and consolidation

The financial statements have been prepared under the historical cost convention. These group financial statements consolidate the financial statements of the Company and its subsidiary undertakings. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

The financial statements have been prepared on a going concern basis which assumes that the group will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 December 2012 the group had net current liabilities of £26.7m (31 March 2012: net current assets of £28.3m). The directors have reviewed cash flow requirements and are confident that they will be able to meet these from funds available, including the undrawn committed bank facilities £450.0m. Accordingly, the directors believe it is appropriate to prepare the financial statements on a going concern basis.

(b) Turnover

Turnover, which excludes Value Added Tax, represents the income receivable in the ordinary course of business for services provided within the United Kingdom. All water and sewerage charges billed to customers are recognised pro-rata over the period to which they relate. For consumption by measured customers which has not yet been billed, an accrual is estimated.

(c) Cash flow statement

The directors have taken advantage of the exemption in FRS 1 (revised) and have not included a cash flow statement on the grounds that the Company is wholly owned and its ultimate parent undertaking and controlling party publishes a consolidated cash flow statement.

(d) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

(i) Infrastructure assets

Infrastructure assets comprise a network of systems which include water mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls.

Expenditure on infrastructure assets relating to increases in capacity, or enhancements of the network, and on maintaining the operational capability of the network, in accordance with defined standards of service, is treated as additions which are included at cost. Costs include external and internal costs to bring the asset into use.

The depreciation charge for infrastructure assets is based on the Company's independently certified asset management plan which has estimated the level of expenditure required to 2020 to maintain the operating capability of the network. This is adjusted if the forecast expenditure is expected to differ significantly from the amounts included in the original plan.

(ii) Non-infrastructure assets

Other assets are included at cost less accumulated depreciation and, where required, provision for impairment. Additions are included at cost.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(d) Tangible fixed assets and depreciation (continued)

Freehold land is not depreciated. Other assets are depreciated evenly to their estimated residual values over their estimated economic lives, which are principally as follows:

Freehold buildings	30 – 60 years
Operational structures, plant and machinery	4 – 92 years
Fixtures, fittings, tools and equipment	4 – 10 years

Where the remaining useful economic life of the asset is estimated to be greater than 50 years, an impairment review is performed at the end of each reporting period to ensure that the carrying amount can be supported.

(iii) Assets in the course of construction

Assets in the course of construction are not depreciated until commissioned, which is when the asset is available for use.

(e) Grants and contributions

Capital grants and contributions are treated as deferred income and amortised to the profit and loss account over the expected useful economic lives of the qualifying assets. Specifically in the case of infrastructure assets, the expected useful economic lives have been determined by reference to the physical replacement cycle of these assets.

(f) Hire purchase and leasing

Where assets are financed by hire purchase or leasing arrangements which transfer substantially all the risks and rewards of ownership to the Company, the assets are treated as if they had been purchased and the corresponding capital cost is treated as a liability. Rentals or leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the outstanding liability and the finance costs being charged to the profit and loss account over the period of the hire purchase contract or lease in proportion to the reducing outstanding liability.

Rental costs arising under operating leases are charged to the profit and loss account in the period in which they are incurred.

(g) Stocks

Raw materials and consumables are stated at cost less any provision necessary to recognise damage and obsolescence.

(h) Pension costs

The Company is the principal employer of the Northumbrian Water Pension Scheme, which has both a defined benefit section and a defined contribution section. The Scheme is accounted for in accordance with FRS 17 Retirement Benefits.

The defined benefit sections provide benefits based on final pensionable remuneration. The scheme assets are measured at fair value and the scheme liabilities are measured at present value. The difference between the assets and liabilities is recognised in the balance sheet. The current service cost, past service cost, settlements and curtailments are recognised within operating costs in the profit and loss account. The expected return on plan assets and the change in present value of scheme obligations are recognised in the profit and loss account as interest receivable and interest payable, respectively. Actuarial gains and losses on experience adjustments and changes in actuarial assumptions are recognised in the statement of total recognised gains and losses.

The costs of the defined contribution section are charged to the profit and loss account in the period they arise.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(i) Taxation

The charge for current UK corporation tax is based on the profit for the period as adjusted for taxation purposes using the rates of tax enacted or substantively enacted by 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.

As permitted by FRS 19, the Company has adopted a policy of discounting deferred tax assets and liabilities to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained at the balance sheet date on UK government bonds with similar maturity dates to those of the deferred tax assets or liabilities.

(j) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the date of transaction. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains or losses are recognised in the profit and loss account in the period incurred.

(k) Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

(l) Fixed asset investments

Fixed asset investments are stated at their purchase cost, less provision for diminution in value.

(m) Derivative financial instruments

The Company utilises interest rate swaps, forward rate agreements and forward exchange contracts as derivative financial instruments. In accordance with the Companies Act 2006, disclosure is given of the nature and extent of each class of derivative held by the Company, along with the fair value of the derivatives, by class, at the balance sheet date. No amounts are shown in the balance sheet of the Company in respect of these derivatives at 31 December 2012.

A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Company in line with the Company's risk management policies.

Interest rate swap agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised over the period of the contracts as adjustments to net interest payable in the profit and loss account.

When interest rate swaps and underlying debt are terminated together, the net gain or loss is taken to the profit and loss account as interest payable. When interest rate swaps are terminated but the underlying debt is retained then the gain/loss is deferred and is amortised to interest payable over the remaining life of the underlying debt.

Forward exchange contracts are valued at the period end rates of exchange. Resultant gains and losses are offset against foreign exchange gains or losses on the related borrowings or, where the instrument is used to hedge a committed future transaction, are deferred until the transaction occurs.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(n) Liquid resources

Liquid resources comprise cash 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.

(o) Bad debt provisioning

The bad debt provision 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.

2. SEGMENTAL INFORMATION

The directors consider that the group and Company has one class of business, the provision of water and sewerage services. All turnover is generated from within the United Kingdom.

3. OPERATING COSTS, CAPITAL MAINTENANCE COSTS AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

(a) Operating costs comprise:

	9 months ended 31 December 2012	12 months ended 31 March 2012
	£'m	£'m
Materials and consumables	15.3	20.3
Other external charges	56.1	74.4
Net manpower costs (note 7)	82.7	106.3
Other operating charges	92.8	117.7
Own work capitalised	(24.4)	(31.6)
	222.5	287.1

(b) Capital maintenance costs comprise:

	9 months ended 31 December 2012	12 months ended 31 March 2012
	£'m	£'m
Depreciation:		
Non-infrastructure assets	61.9	79.8
Infrastructure assets	37.6	44.7
Assets held under finance leases	3.3	4.4
Amortisation of capital grants and contributions	(3.7)	(4.8)
Profit on disposal of fixed assets	(2.1)	(0.8)
	97.0	123.3

(c) Profit on ordinary activities before taxation:

	9 months ended 31 December 2012	12 months ended 31 March 2012
	£'m	£'m
Profit on ordinary activities before taxation is stated after charging:		
Operating leases:		
Plant and machinery	0.1	0.1
Other assets	0.8	1.0
Costs of research and development	0.9	1.1
Directors' emoluments (note 5)	1.1	1.5

Auditor’s remuneration in respect of the statutory audit amounted to £133,000 (year ended 31 March 2012: £128,000), including subsidiaries’ fees of £18,000 (year ended 31 March 2012: £18,000). Fees of £5,000 (year ended 31 March 2012: £5,000) were incurred in respect of the statement of sufficiency of financial resources and facilities. Fees of £53,000 (year ended 31 March 2012: £nil) were incurred for non-audit services on consultancy work in relation to workforce operations.

4. NET INTEREST PAYABLE

	9 months ended 31 December 2012	12 months ended 31 March 2012
	£'m	£'m
Net interest payable comprises:		
Interest payable:		
Bank loans and overdrafts	111.0	135.2
Financing charges payable under finance leases	-	5.2
Total interest payable	111.0	140.4
Interest receivable:		
Group interest	(7.3)	(9.8)
External interest	(1.0)	(1.8)
Financing income receivable under finance leases	(0.6)	-
Total interest receivable	(8.9)	(11.6)
Other finance charges / (income) relating to pension scheme (note 26)	0.4	(8.0)
Net interest payable	102.5	120.8

5. DIRECTORS' EMOLUMENTS

(a) Directors' remuneration

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

	9 months ended 31 December 2012	12 months ended 31 March 2012
	£'000	£'000
Emoluments (including benefits in kind)	1,130.8	1,483.8

For those directors holding office with both NWL and NWGL, costs are apportioned between the companies. This note reflects only the proportion of costs charged to NWL.

One of the directors at 31 December 2012 was a member of a defined benefit pension scheme where the Company makes contributions towards the cost (31 March 2012: 3).

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

(b) Highest paid director

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

	9 months ended 31 December 2012	12 months ended 31 March 2012
	£'000	£'000
Emoluments (including benefits in kind)	364.1	461.1

5. DIRECTORS' EMOLUMENTS (continued)

(b) **Highest paid director (continued)**

In the nine months ended 31 December 2012, the highest paid director was a member of the defined contribution scheme and the payments made to that scheme of £27.8k (year ended 31 March 2012: £44.9k) are included within the emoluments figure above.

6. TRANSACTIONS WITH DIRECTORS AND OFFICERS

No transactions or arrangements with directors and officers which are disclosable under the provisions of the Companies Act 2006 have occurred during the nine month period ended 31 December 2012.

7. EMPLOYEE INFORMATION

The total employment costs of all employees (including directors) were as follows:

	9 months ended 31 December 2012	12 months ended 31 March 2012
	£'m	£'m
Gross costs charged to the profit and loss account:		
Wages and salaries	49.8	64.9
Social security costs	4.6	5.6
Other pensions costs	8.2	10.4
	62.6	80.9
Costs recharged to other Group companies:		
Wages and salaries	1.5	2.3
Social security costs	0.1	0.2
Other pensions costs	0.2	0.4
	1.8	2.9
Net costs charged to the profit and loss account:		
Wages and salaries	48.3	62.6
Social security costs	4.5	5.4
Other pensions costs	8.0	10.0
	60.8	78.0
Costs charged to capital schemes and infrastructure renewals:		
Wages and salaries	17.4	22.7
Social security costs	1.6	1.9
Other pensions costs	2.9	3.7
	21.9	28.3
Total net employee costs	82.7	106.3

The average monthly number of employees on the payroll during the financial period was 2,951 (year ended 31 March 2012: 2,894) and the total at the period end was 2,969 (31 March 2012: 2,933).

8. TAXATION

(a) Analysis of tax charge for the financial period:

	9 months ended 31 December 2012	12 months ended 31 March 2012
	£'m	£'m
Current tax:		
UK corporation tax on profits for the period at 24% (year ended 31 March 2012: 26%)	16.8	17.6
Adjustments in respect of prior years	(0.3)	(1.2)
Payable in respect of group relief for the current period at 24% (year ended 31 March 2012: 26%)	23.4	19.8
Adjustments in respect of prior periods	0.3	1.1
Total current tax charge (note 8b)	40.2	37.3
Deferred tax:		
Reduction due to opening tax rate change	(17.2)	(32.5)
Decrease in discount arising from above rate change	6.4	14.8
Net reduction in opening deferred tax	(10.8)	(17.7)
Movement in the period at 23% (year ended 31 March 2012: 24%):		
Origination and reversal of timing differences in the period	0.7	19.1
Adjustments in respect of prior periods	-	4.2
	0.7	23.3
Decrease in discount arising from current period movements	6.9	30.7
Movement in the year (note 21)	7.6	54.0
Total deferred tax (credit) / charge (note 21)	(3.2)	36.3
Tax on profit on ordinary activities	37.0	73.6

The rate of UK corporation tax was reduced from 24% to 23% by the Finance Act 2012 with effect from 1 April 2013. As a result, deferred tax was restated as at 1 April 2012 at the rate at which timing differences are expected to reverse.

Tax losses have provisionally been claimed from other Group companies in the current period of £94.6m (31 March 2012: £73.4m) for which payment will be made at the rate of 24% (31 March 2012: 26%). Further payments are due to Group companies of £0.7m (31 March 2012: £0.8m) in respect of UK:UK transfer pricing adjustments.

Discount has fallen mainly due to the impact of the opening reduction in the corporation tax rate and significant reductions in gilt rates.

8. TAXATION (continued)

(b) Reconciliation of the current tax charge:

	9 months ended 31 December 2012	12 months ended 31 March 2012
	£'m	£'m
Profit on ordinary activities before tax	156.1	206.2
Profit on ordinary activities multiplied by standard rate of corporation tax of 24% (year ended March 2012: 26%)	37.5	53.6
Effects at 24% (year ended March 2012: 26%) of:		
Expenses not deductible for tax purposes	0.1	0.3
Non-taxable income and other tax reliefs	(0.3)	(0.9)
Depreciation in respect of non-qualifying items	3.7	5.0
Capital allowances in excess of depreciation	(2.4)	(8.2)
Pension scheme deficit	2.4	(11.8)
Other timing differences	(0.9)	(0.7)
Tax losses carried forward	0.1	0.1
Adjustments in respect of prior periods	-	(0.1)
Transfer pricing adjustments	0.7	(0.8)
Balancing payment payable	(0.7)	0.8
Total current tax charge (note 8a)	40.2	37.3

(c) Factors that may affect future tax charges:
The government has stated its intention to reduce the UK rate of corporation tax to 20% by 1 April 2015. Had that rate applied in the period to 31 December 2012 the closing deferred tax liability after discount would have been reduced by £30.1m to £173.5m and the current period's corporation tax charge would have been reduced by £6.7m to £33.5m.

Deferred tax is provided on a discounted basis using post-tax yields on UK government gilts. The charge for deferred tax will, therefore, be influenced by future fluctuations in gilt rates.

9. DIVIDENDS

	9 months ended 31 December 2012	12 months ended 31 March 2012
	£'m	£'m
Equity:		
Dividends paid:		
Interim paid for the year ended 31 March 2012 of 80.61p (year ended 31 March 2011: 37.75p) per share on an aggregated basis	98.9	46.3
Final paid for the year ended 31 March 2012 of nil (year ended 31 March 2010: 35.75p and year ended 31 March 2011: 38.05p) per share on an aggregated basis	-	90.5
Interim paid for the period ended 31 December 2012 of 42.18p (year ended 31 March 2012: nil) per share on an aggregated basis	51.7	-
Special dividend paid for the period ended 31 December 2012 of nil (year ended 31 March 2012: 189.16p) per share on an aggregated basis	-	232.0
Total dividends paid in the year	150.6	368.8
Dividends proposed:		
Interim proposed for the period ended 31 December 2012 of nil (year ended 31 March 2012: 80.61p) per share on an aggregated basis	-	98.9
	-	98.9

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

The directors have a policy which, unless circumstances dictate otherwise, aims to grow dividends on a slow but regular basis and which takes into account the principle of incentive based price cap regulation, including operating and investment performance.

Excluding the special dividend, which was paid during the previous year, following the change of control, the Company has applied a dividend policy of steady real growth of 2.1% per annum for the appointed business. This is calculated in accordance with the regulatory accounting calendar which has a 31 March accounting reference date. Dividends from the non-appointed business are determined by the directors and are based on performance.

Accordingly, the level of dividend has been declared by reference to:

- the Company's ability to finance its functions;
- the Company's cumulative financial performance and past outperformance; and
- maintaining the Company's stable investment grade credit ratings.

10. TANGIBLE FIXED ASSETS – GROUP AND COMPANY

	Freehold land and buildings	Infrastructure assets	Operational structures, plant and machinery	Fixtures, fittings, tools and equipment	Assets in the course of construction	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Cost:						
At 1 April 2012	121.4	2,177.4	2,330.8	194.6	222.1	5,046.3
Additions	-	-	-	-	179.4	179.4
Schemes commissioned	5.0	87.9	82.9	5.5	(181.3)	-
Disposals	(1.0)	(5.5)	(4.7)	(0.1)	-	(11.3)
At 31 December 2012	125.4	2,259.8	2,409.0	200.0	220.2	5,214.4
Depreciation:						
At 1 April 2012	40.3	404.8	828.4	142.5	-	1,416.0
Charge for the year	1.7	37.6	55.4	8.1	-	102.8
Reclassifications	0.6	-	-	(0.6)	-	-
Disposals	(0.5)	(5.4)	(4.4)	(0.1)	-	(10.4)
At 31 December 2012	42.1	437.0	879.4	149.9	-	1,508.4
Net book value:						
At 31 December 2012	83.3	1,822.8	1,529.6	50.1	220.2	3,706.0
At 31 March 2012	81.1	1,772.6	1,502.4	52.1	222.1	3,630.3
Leased assets included above:						
Net book value:						
At 31 December 2012	-	46.4	21.8	-	-	68.2
At 31 March 2012	-	46.8	21.8	-	-	68.6

11. FIXED ASSET INVESTMENTS

	Loans to group companies		Guaranteed investment contracts	Total	
	Group	Company	Group only	Group	Company
	£'m	£'m	£'m	£'m	£'m
At 1 April 2012	159.0	160.9	12.0	171.0	160.9
Matured	-	-	(0.3)	(0.3)	-
At 31 December 2012	159.0	160.9	11.7	170.7	160.9

	Group	Company
	£'m	£'m
Disclosed as:		
Due within one year (note 13)	0.4	-
Due in more than one year	170.3	160.9
	170.7	160.9

In May 2004, the group made a loan of £159.0m to Northumbrian Services Limited (NSL), maturing in January 2034.

In May 2004, the Company made a loan of £1.5m to Bakethin Holdings Limited, a quasi-subsidiary company, maturing in January 2034**.** The interest on the loan is capitalised and at 31 December 2012 the balance was £1.9m (31 March 2012: £1.9m).

The Company has a wholly owned subsidiary undertaking, Northumbrian Water Finance plc (NWF), whose principal activity is to hold certain finance instruments on behalf of the Company.

The Company has a wholly owned subsidiary undertaking, Reiver Holdings Limited, which in turn has a wholly owned subsidiary, Reiver Finance Limited, whose principal activity is as a special purpose financing vehicle.

The group has guaranteed investment contracts with Financial Security Assurance (UK) Limited. £0.5m matures in instalments between 16 January 2013 and 16 January 2014, £1.2m matures in instalments between 16 January 2013 and 16 January 2034 and £10.0m matures on 16 January 2034.

12. STOCKS – GROUP AND COMPANY

	31 December 2012	31 March 2012
	£'m	£'m
Raw materials and consumables	2.9	2.7

There is no material difference between the balance sheet value of stocks and their replacement cost.

13. DEBTORS DUE IN LESS THAN ONE YEAR

	31 December 2012		31 March 2012	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Trade debtors	77.5	77.5	79.1	79.1
Corporation tax repayable	2.1	2.1	11.9	11.9
Amounts owed by other Group companies	8.6	8.6	4.2	4.2
Other debtors	5.0	5.0	5.5	5.5
Investments (note 11)	0.4	-	0.5	-
Prepayments and accrued income	71.1	70.7	61.3	60.8
	164.7	163.9	162.5	161.5

Trade debtors are shown net of bills raised in advance.

14. DEBTORS DUE IN MORE THAN ONE YEAR – GROUP AND COMPANY

	31 December 2012	31 March 2012
	£'m	£'m
Loan facility prepayments	1.6	4.9

15. INVESTMENTS – GROUP AND COMPANY

	31 December 2012	31 March 2012
	£'m	£'m
Short term deposits	40.0	80.0

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2012		31 March 2012	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Obligations under finance leases (note 19)	7.2	7.2	7.2	7.2
Loans (note 18)	28.7	28.7	73.9	73.9
Trade creditors	5.1	5.1	8.6	8.6
Amounts owed to other Group companies	25.9	25.9	20.3	20.3
Taxation and social security	2.4	2.4	2.4	2.4
Other creditors	13.2	13.2	10.1	10.1
Receipts in advance	51.3	51.3	22.6	22.6
Accruals and deferred income	123.5	116.8	109.4	106.6
	257.3	250.6	254.5	251.7

Accruals and deferred income includes accruals related to capital projects in both the group and Company of £30.5m (31 March 2012: £41.0m).

Included in amounts owed by the group to other Group companies is £23.3m (31 March 2012: £18.8m) payable in respect of tax losses surrendered from fellow Group companies.

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (continued)

Included in amounts owed by the Company to other Group companies is £23.3m (31 March 2012: £18.8m) payable in respect of tax losses surrendered from fellow Group companies.

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

	31 December 2012		31 March 2012	
	Group £'m	Company £'m	Group £'m	Company £'m
Obligations under finance leases (note 19)	100.9	100.9	104.4	104.4
Loans (note 18)	2,424.8	328.1	2,376.1	297.8
Amounts owed to other group companies (note 20)	-	1,851.6	-	1,836.6
Other creditors	0.3	0.3	0.3	0.3
	2,526.0	2,280.9	2,480.8	2,239.1

18. LOANS

	31 December 2012		31 March 2012	
	Group £'m	Company £'m	Group £'m	Company £'m
Loans are repayable as follows:				
Within one year (note 16)	28.7	28.7	73.9	73.9
Between one and two years	30.6	30.6	28.7	28.7
Between two and five years	405.9	105.6	96.0	96.0
After five years	1,988.3	191.9	2,251.4	173.1
	2,453.5	356.8	2,450.0	371.7

Group: Loans wholly repayable within 5 years amount to £354.6m (31 March 2012: £45.5m). Loans not wholly repayable within 5 years amount to £2,098.9m (31 March 2012: £2,421.9m) and bear interest rates in the range 0.9% to 7.23%.

Company: Loans wholly repayable within 5 years amount to £54.3m (31 March 2012: £45.5m). Loans not wholly repayable within 5 years amount to £302.5m (31 March 2012: £326.2m) and bear interest rates in the range 0.9% to 7.23%.

At 31 December 2012, the negative fair value loss on the group's outstanding cash flow hedges was £63.9m (31 March 2012: £63.8m). This comprised £48.0m (31 March 2012: £48.7m) in relation to an RPI swap to convert variable inflation-linked revenues on a contract with the EA, calculated on a quarterly basis on a notional principal of £2.9m (31 March 2012: £2.9m), and £15.9m (31 March 2012: £15.1m) in relation to an interest rate swap with a notional principal of £95.0m (31 March 2012: £100.0m).

At 31 December 2012, the negative fair value loss on the Company's outstanding cash flow hedge was £15.9m (31 March 2012: £15.1m) in relation to an interest rate swap with a notional principal of £95.0m (31 March 2012: £100.0m).

19. OBLIGATIONS UNDER FINANCE LEASES – GROUP AND COMPANY

Obligations under hire purchase contracts and finance leases are as follows:

	31 December 2012	31 March 2012
	£'m	£'m
Amounts due:		
Within one year	7.2	7.2
Between one and two years	6.7	6.6
Between two and five years	66.4	17.8
After five years	77.5	147.5
	157.8	179.1
Less:		
Finance charge allocated to future periods	(49.7)	(67.5)
	108.1	111.6
Disclosed as due:		
Within one year (note 16)	7.2	7.2
After more than one year (note 17)	100.9	104.4
	108.1	111.6

The aggregate gross amount of obligations under hire purchase contracts and finance leases, any part of which falls due for repayment in five years or more, is £157.8m (31 March 2012: £179.1m).

20. AMOUNTS DUE TO OTHER GROUP COMPANIES - COMPANY

Amounts due to other group companies include loans repayable as follows:

	31 December 2012	31 March 2012
	£'m	£'m
Between two and five years	300.3	-
After five years	1,551.3	1,836.6
	1,851.6	1,836.6

NWF issued £200.0m and £150.0m Guaranteed Eurobonds in February 1998 and September 2001 respectively, maturing February 2023, with an annual coupon of 6.875%. The issues were guaranteed by the Company who received the issue proceeds by way of inter-company loans of £194.2m and £163.2m respectively. Finance costs allocated during the period amounted to £0.2m (year ended 31 March 2012: £0.2m). Amortisation of loan issue receipts during the period amounted to £0.2m (year ended 31 March 2012: £0.3m).

NWF issued £300.0m Guaranteed Eurobonds in December 2001, maturing October 2017, with an annual coupon of 6.0%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £301.0m. Amortisation of loan receipts during the period amounted to £nil (year ended 31 March 2012: £0.1m).

NWF issued £250.0m and £100.0m Guaranteed Eurobonds in December 2002 and December 2004, maturing April 2033 with an annual coupon of 5.625%. Both issues were guaranteed by the Company who received the issue proceeds by way of inter-company loans of £246.6m and £100.8m respectively. Finance costs allocated during the period amounted to £0.2m (year ended 31 March 2012: £0.2m).

NWF issued £150.0m Guaranteed Index Linked Eurobonds in September 2005, maturing July 2036, with a real coupon of 2.033%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £150.0m. Indexation accretion during the period amounted to £6.2m (year ended 31 March 2012: £8.8m).

20. AMOUNTS DUE TO OTHER GROUP COMPANIES – COMPANY (continued)

NWF issued £60.0m Guaranteed Index Linked Eurobonds in January 2006, maturing January 2041, with a real coupon of 1.6274%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £60.0m. Indexation accretion during the period amounted to £2.4m (year ended 31 March 2012: £3.5m).

NWF issued two £100.0m Guaranteed Index Linked Eurobonds in June 2006 with real coupons of 1.7118% and 1.7484% and with maturities of 2049 and 2053 respectively. Both issues were guaranteed by the Company who received the issue proceeds by way of two inter-company loans of £100.0m. Indexation accretion during the period amounted to £8.1m (year ended 31 March 2012: £11.5m).

NWF issued £360.0m Guaranteed Eurobonds in January 2012, maturing January 2042, with an annual coupon of 5.125%. The issue was guaranteed by the Company who received the issue proceeds by way of an inter-company loan of £356.4m. Finance Costs allocated during the period amounted to £0.5m (year ended 31 March 2012: £0.2m).

21. PROVISIONS FOR LIABILITIES AND CHARGES

	Pension provision for former directors
	Group and Company
	£'m
At 1 April 2012	2.4
Utilised during the year	(0.2)
At 31 December 2012	2.2

	Deferred tax	
	Group	Company
	£'m	£'m
At 1 April 2012	227.2	228.1
Total movement in the year (note 8a)	(3.2)	(3.2)
Included above relating to pensions (note 26)	3.0	3.0
At 31 December 2012	227.0	227.9
Total provisions for liabilities and charges	229.2	230.1

The pension provision for former employees relates to pensions payable mainly to former employees of water-only companies which have since merged with the Company. The provision of £2.2m represents the full future amounts payable, based on an actuarial assessment, for which the Company is directly liable.

The provision for deferred tax comprises:

	31 December 2012		31 March 2012	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Accelerated depreciation	429.3	429.3	445.5	445.5
Other timing differences	(44.9)	(44.2)	(47.8)	(47.0)
Tax losses	(0.3)	-	(0.1)	-
Held-over gains	1.0	1.0	1.0	1.0
Undiscounted provision for deferred tax	385.1	386.1	398.6	399.5
Discount	(158.1)	(158.2)	(171.4)	(171.4)
Discounted provision for deferred tax	227.0	227.9	227.2	228.1

22. ACCRUALS AND DEFERRED INCOME

	Gilt lock		Proceeds from Kielder securitisation	Capital grants and contributions	Total	
	Group	Company	Company only	Group and Company	Group	Company
	£'m	£'m	£'m	£'m	£'m	£'m
At 1 April 2012	3.7	0.5	156.1	227.5	231.2	384.1
Additions	-	-	-	7.3	7.3	7.3
Amortised / transferred during the year	(3.7)	(0.5)	(5.3)	(3.7)	(7.4)	(9.5)
At 31 December 2012	-	-	150.8	231.1	231.1	381.9

The Kielder securitisation involved the assignment of the right to the future income stream associated with the Kielder operating contract from the Company to Reiver Finance Limited up to 2034 in return for consideration of £212.1m. This income is consolidated in the books of the group and is amortised to the profit and loss account of the Company over the life of the assignment.

23. CALLED UP SHARE CAPITAL – GROUP AND COMPANY

	31 December 2012	31 March 2012
	£'m	£'m
Authorised:		
122,650,000 Ordinary Shares of £1 each (31 March 2012: 122,650,000)	122.7	122.7

	31 December 2012	31 March 2012
	£'m	£'m
Allotted, called-up and fully paid:		
122,650,000 Ordinary Shares of £1 each (31 March 2012: 122,650,000)	122.7	122.7

24. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Profit and loss account		Total shareholders' funds			
	31 December 2012		31 December 2012		31 March 2012	
	Group	Company	Group	Company	Group	Company
	£'m	£'m	£'m	£'m	£'m	£'m
At beginning of period	700.9	773.8	823.6	896.5	1,124.5	1,186.9
Profit for the year	119.1	124.9	119.1	124.9	132.6	143.1
Actuarial loss on pension liability in the year (note 26)	(7.4)	(7.4)	(7.4)	(7.4)	(83.5)	(83.5)
Deferred tax related to actuarial gain on pension liability in the year (note 26)	0.2	0.2	0.2	0.2	18.8	18.8
Dividends paid (note 9)	(150.6)	(150.6)	(150.6)	(150.6)	(368.8)	(368.8)
At end of period	662.2	740.9	784.9	863.6	823.6	896.5

25. COMMITMENTS - COMPANY

(a) Capital expenditure:

	31 December 2012	31 March 2012
	£'m	£'m
Expenditure contracted but not provided for	103.3	99.8

(b) Lease commitments:

The Company has entered into non-cancellable operating leases in respect of land and buildings, plant, machinery and motor vehicles. The total amount payable under these leases in the next year is as follows:

	31 December 2012	31 March 2012
	£'m	£'m
Land and buildings:		
Leases which expire:		
After one year but not more than five	0.1	0.1
In five years or more	0.6	0.5
	0.7	0.6

	31 December 2012	31 March 2012
	£'m	£'m
Other:		
Leases which expire:		
Between two and five years	0.1	0.1

26. PENSIONS

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

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

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

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

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

Pre-retirement discount rate	5.8%
Post-retirement discount rate	4.9%
Pay increases	3.85%
Price inflation (RPI)	3.6%
Price inflation (CPI)	2.9%
Pension increases linked to RPI	3.6%
Pension increases linked to CPI	2.9%

26. PENSIONS (continued)

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

The scheme also has a defined contribution section which had 594 active members at 31 December 2012 (31 March 2012: 542). Members can choose to contribute either 3%, 4% or 5% of salary, with employers contributing at either 6%, 7% or 8% depending on the member contribution rate. The contributions paid to the defined contribution section by the Company in the period totalled £0.9m (year ended 31 March 2012: £0.9m).

NWPS is a multi-employer scheme and it is not possible to separately identify the Company's share of the net assets and liabilities. However, as more than 99% of the active members of the scheme are employed by the Company, the full costs, assets and liabilities of the scheme have been recognised in the financial statements.

The additional disclosures regarding the defined benefit scheme as required under FRS 17 Retirement 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 FRS 17, has updated the actuarial valuation described above as at 31 December 2012. Investments have been valued, for this purpose, at fair value.

FRS 17 actuarial assumptions:	31 December 2012	31 March 2012
Discount rate	4.3%	4.8%
Pay increases[1]	3.55%	3.9%
Price inflation (RPI)	2.9%	3.2%
Price inflation (CPI)	2.2%	2.5%
Pension increases linked to RPI	2.9%	3.2%
Pension increases linked to CPI	2.2%	2.5%
Mortality assumptions[2]	PCMA/PCFA00	PCMA/PCFA00
- Life expectancy for a member aged 65 - female (years)	24.3	24.3
- Life expectancy for a member aged 65 - male (years)	22.0	22.0

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

26. PENSIONS (continued)

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

	Long term expected rate of return 31 December 2012	31 December 2012	Long term expected rate of return 31 March 2012	31 March 2012
	%	£'m	%	£'m
Equities	7.0	354.3	6.3	441.8
Corporate bonds	4.3	161.6	4.8	128.1
Government bonds	3.0	85.5	3.3	80.4
Property	4.5	75.8	4.8	76.0
Cash	1.9	32.6	2.5	12.0
Other (includes listed infrastructure)	4.5	35.6	-	-
Total fair value of assets		745.4		738.3
Present value of liabilities		(847.2)		(822.4)
Deficit under FRS17		(101.8)		(84.1)
Related deferred tax[1]		23.4		20.2
Net pension liability		(78.4)		(63.9)

1. The increase in deferred tax of £3.2m comprises a reduction of £1.5m to reflect the 1% cut in the rate of UK corporation tax and an increase of £1.7m relating to the actuarial loss in the year, which are both recognised as charges in the statement of total recognised gains and losses, and £3.0m relating to other items which are recognised as a credit in the profit and loss account.

26. PENSIONS (continued)

Analysis of the amount that has been charged to the profit and loss account under FRS 17:

	31 December 2012	31 March 2012
	£'m	£'m
Current service cost	10.0	12.5
Past service cost	0.2	0.3
Recognised in operating costs in arriving at operating profit	10.2	12.8

	31 December 2012	31 March 2012
	£'m	£'m
Interest cost on plan obligations	29.3	41.3
Expected return on plan assets	(28.9)	(49.3)
Recognised in net interest receivable (note 4)	0.4	(8.0)

Analysis of the actuarial loss that has been recognised in the statement of total recognised gains and losses:

	31 December 2012	31 March 2012
	£'m	£'m
Net actuarial loss by NWL	(7.4)	(83.5)
Cumulative amounts recognised since adopting the standard	(97.0)	(89.6)

History of experience gains and losses:

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

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

	31 December 2012	31 March 2012
	£'m	£'m
At 1 April	822.4	759.3
Current service cost	10.0	12.5
Past service cost	0.2	0.3
Interest cost	29.3	41.3
Contributions by plan participants	0.2	0.1
Actuarial losses on obligations	9.7	41.3
Benefits paid	(24.6)	(32.4)
At end of period	847.2	822.4

26. PENSIONS (continued)

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

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

Sensitivity to key assumptions:
FRS 17 encourages 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 FRS 17 reporting are the responsibility of the directors of the Company. These assumptions reflect market conditions at the balance sheet date. Changes in market conditions which result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increases of salaries, deferred pension revaluation or pensions in payment) can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities, as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude. The overall effect of a change in the net discount rate of 0.1% would change the liabilities by around £14.0m.

There is also uncertainty around life expectancy for the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment. The disclosures have been prepared using the mortality assumptions basis used in the 2010 formal valuation. Specifically, the post-retirement mortality assumptions use a base table of 115% of PCMA00/PCFA00 with an allowance for future improvements in line with the medium cohort projections, lagged to apply 10 years later, based on each individual's year of birth. This is subject to a minimum improvement of 1.0% per annum.

These assumptions imply an assumed life expectancy for a member aged 65 at 31 December 2012 of 22.0 years (31 March 2012: 22.0 years) for males and 24.3 years (31 March 2012: 24.3 years) for females. The effect of increasing the assumed life expectancies by one year would be to increase the value of liabilities by around £25.0m (3.0%).

27. POST-BALANCE SHEET EVENT

At the balance sheet date, the Company's ultimate parent undertaking and controlling party was UKW. On 8 March 2013, UKW undertook a Group restructuring. This included the Company's immediate parent undertaking, NSL, selling its 100% shareholding in NWL to NWGL, another subsidiary of UKW. On the same date, UKW distributed its 100% shareholding in NWGL to its shareholders. As a consequence, NWGL became the Company's parent undertaking and controlling party.

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

28. RELATED PARTY DISCLOSURES

The Company is a wholly owned subsidiary of NWGL, whose publicly available consolidated financial statements will include the Company. Accordingly, the Company is exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing transactions with other members of the Group headed by NWGL.

29. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

At the balance sheet date, the Company's immediate parent undertaking was NSL.

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

As a consequence of the Group restructuring described in note 27, which was effected on 8 March 2013, at the signing date of these financial statements, NWGL is the Company's immediate parent undertaking and, in the directors' opinion, the Company's ultimate parent undertaking and controlling party. NWGL is incorporated in England and Wales.

Copies of NWGL's Group financial statements, which include the Company, will be available in due course from Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ.

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

We have audited the group financial statements of Northumbrian Water Limited for the period ended 31 December 2012 which comprise the group Profit and Loss Account, the group Statement of Total Recognised Gains and Losses, the group and Company Balance Sheets and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation 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 company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group and Company's affairs as at 31 December 2012 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Paul Feechan (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle Upon Tyne, United Kingdom, 26 April 2013