NORTHUMBRIAN WATER GROUP LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2017

Registered number 04760441

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ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

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STRATEGIC REPORT

The Directors of Northumbrian Water Group Limited (NWG or the Company) are pleased to present their Strategic Report on the affairs of the Group and Company, along with their Directors' Report, the Independent auditor's report and the audited financial statements for the year ended 31 March 2017.

Principal activities

Northumbrian Water Group Limited
NWG owns a number of companies which, together with NWG, form the Group. The emphasis given to Northumbrian Water Limited (NWL), throughout this report, reflects its importance to the overall performance of the Group.

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

Water and wastewater contracts
NWG holds investments in a number of companies which hold and operate water and wastewater contracts in Scotland, the Republic of Ireland and Gibraltar.

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

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

NWL is one of the ten regulated Water and Sewerage Companies (WASCs) in England and Wales, operating in the north east of England, trading as Northumbrian Water, and in the south east of England, trading as Essex & Suffolk Water.

In the north east, the business comprises the supply of both potable and raw water and the collection, treatment and disposal of sewage and sewage sludge, serving approximately 2.7 million people. In the south, NWL supplies water services to approximately 1.5 million people in Essex and approximately 0.3 million in Suffolk.

At the balance sheet date, the Company's ultimate parent undertaking and controlling party was CK Hutchison Holdings Limited (CKHH), a company listed on the Hong Kong Stock Exchange.

Regulatory and legislative developments

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

Price review
Although NWL is reporting on only the second year of the current five year price control period, NWL is already developing its plans ahead of the next price control review for 2020 to 2025 (PR19). Understanding what customers want is central to its planning and it has already commenced an extensive programme of customer participation workshops to help inform their plans, as well as working with the Water Forums. NWL will continue to engage with Ofwat and their 'Marketplace for Ideas' to help shape the future of the industry.

Retail competition

One of our major areas of focus this year has been on preparing for the opening of the competitive non-household retail market. The new market opened on 1 April 2017 and allows all non-household customers to choose their retail supplier. Under the Ready4Retail programme, NWL has undertaken a major programme of activities including implementing two new billing systems, restructuring parts of the organisation and communicating with its customers about the changes. With the support of external assurance partners, we were able to confirm to Ofwat and Market Operator Services Limited (MOSL) that we had satisfied all of the market entry requirements and were ready for market opening from both a wholesale and retail perspective.

NWL opted to exit the retail market on 1 April 2017 and transfer its non-household (NHH) customers to NWG Business Limited (NWGB), another NWG subsidiary. This decision was taken to allow NWL to demonstrate transparently that, as a wholesaler, it will work with all retailers on an equal basis and it will continue to provide excellent wholesale services to all.

Business objectives

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

Performance measures

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

The following table details actual performance against the KPI targets and future targets. Targets which are measured on a calendar year basis, denoted by C in the table, reflect the performance period January to December 2016. Targets which are measured on a regulatory year basis, denoted by R in the table, reflect the performance period April 2016 to March 2017.

Scorecard measure	*Performance period*	*Target*	*2016-17 Performance*	*Achieved*	*2017-18 Target*
Customer					
Customer satisfaction					
- SIM qualitative score	R	>=4.7	4.55	no	>=4.65
- SIM quantitative score	R	<=80	79.8	yes	<=85
Water supply interruptions >3 hours (average minutes per property)	R	<=4.00	2.26	yes	<=3.55
Mean zonal compliance	C	>=99.97	99.93	no	>=99.97
Repeat sewer flooding (properties)	R	<=96	44	yes	<=71
Environment					
Leakage (Mld)					
- NW	R	<=127	136	no	<=130
- ESW	R	<=61.8	69	no	<=60
Pollution incidents category 1 & 2	C	<=1	11	no	<=1
STW failing LUT consent (%)	C	0	1	no	0
Competitiveness					
Group EBIT	C	budget	achieved	yes	budget
Group cash available for distribution	C	budget	achieved	yes	budget
People					
Employee engagement score	C	>=81%	74%	no	79%
Lost time reportable accidents (no.)	C	<=3	9	no	<=3
Communities					
BITC Platinum Plus	R	retain	retained	yes	retain

STRATEGIC REPORT (continued)

Performance measures (continued)

NWL remains committed to delivering an unrivalled customer service and to be the national leader in the provision of sustainable water and wastewater services. To achieve 'national leader' status, NWL's targets are often more stretching than the regulatory performance commitments. It continues to make steady improvement across the majority of its key measures of success and remains at the forefront of performance in the industry.

Customers remain at the heart of NWL's business and this year, its combined SIM score has improved significantly to 87.52, from 83.64 in 2015-16, which places NWL in joint first place in the industry. This is a result of its unrivalled customer experience strategy and core theme of 'Living Water Loving Customers', which it co-created with customers, supply partners and employees in 2015. NWL also continues its investment in its new integrated customer care and billing system, with the first phase being completed on time to support its activities as a wholesaler in the new non-household retail market. Further integration, which will deliver an improved customer experience for our household customers, is planned over the next year.

In NWL's water business, NWL continues to provide a reliable supply of clean water, with its industry leading performance on interruptions improving even further, in spite of an increase in bursts as a result of weather conditions.

The quality of the water NWL produces remains exceptionally high, supported by the completion of a major programme of mains cleansing in the northern region. This culminated in further reductions in customer contacts and it continues to introduce a number of initiatives to improve this position further.

In the wastewater business of NWL, reducing sewer flooding remains one of its highest business priorities, with a further reduction in flooding incidents this year. NWL is working with a number of partners to promote innovative and sustainable urban drainage solutions to reduce the long term flooding risks.

NWL's carbon management plan aims to reduce greenhouse gas emissions by 35% by 2020. It remains on track in achieving this target and remains the first and only wastewater company in the UK to use 100% of the sludge remaining after sewage treatment to produce renewable energy at two thermal hydrolysis advanced anaerobic digestion (AAD) plants. At one of these plants, NWL also cleans and transforms the biogas from the AAD process into biomethane for injection to the gas distribution network. Other opportunities are also being explored, particularly in the areas of hydro, wind and solar.

The Health and Safety (H&S) of our employees and contractors is a responsibility that the Group takes very seriously, with NWL maintaining its high safety performance throughout the year, which keeps them in the top quartile of their industry. NWL is certified under OHSAS 18001 Occupational Health and Safety Systems and received a gold award from the Royal Society for the Prevention of Accidents (RoSPA) for the fifth consecutive year. The RoSPA Gold Award recognises organisations which have achieved a high level of performance and demonstrated well developed occupational H&S management systems and culture.

The Group has continued to ensure that its people are fairly treated and we proactively promote diversity and inclusion to reap the benefits of a diverse workforce. NWL's equal opportunity policy seeks to ensure that all current employees and potential employees are treated with respect. Job applications are welcomed from all parts of the community and it is the intention that all job applicants and employees are treated equally, regardless of their age, ability, marital or partnership status, race, religion or belief, gender or sexual orientation. Employment applications are welcome from people with disabilities and, where existing employees develop disabilities, they are supported to remain in employment, wherever practicable, by providing appropriate adjustments to their roles and/or effective redeployments. Occupational health physicians assist this process with professional medical advice. In November 2015, NWL was accredited as a Living Wage Employer. This means that every employee in the company will earn at least the Living Wage, an hourly rate set independently and calculated according to the basic cost of living for the UK. As part of this commitment, the Living Wage will also be extended to people who work for NWL's third party contractors and suppliers over time as contracts are awarded or renewed.

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

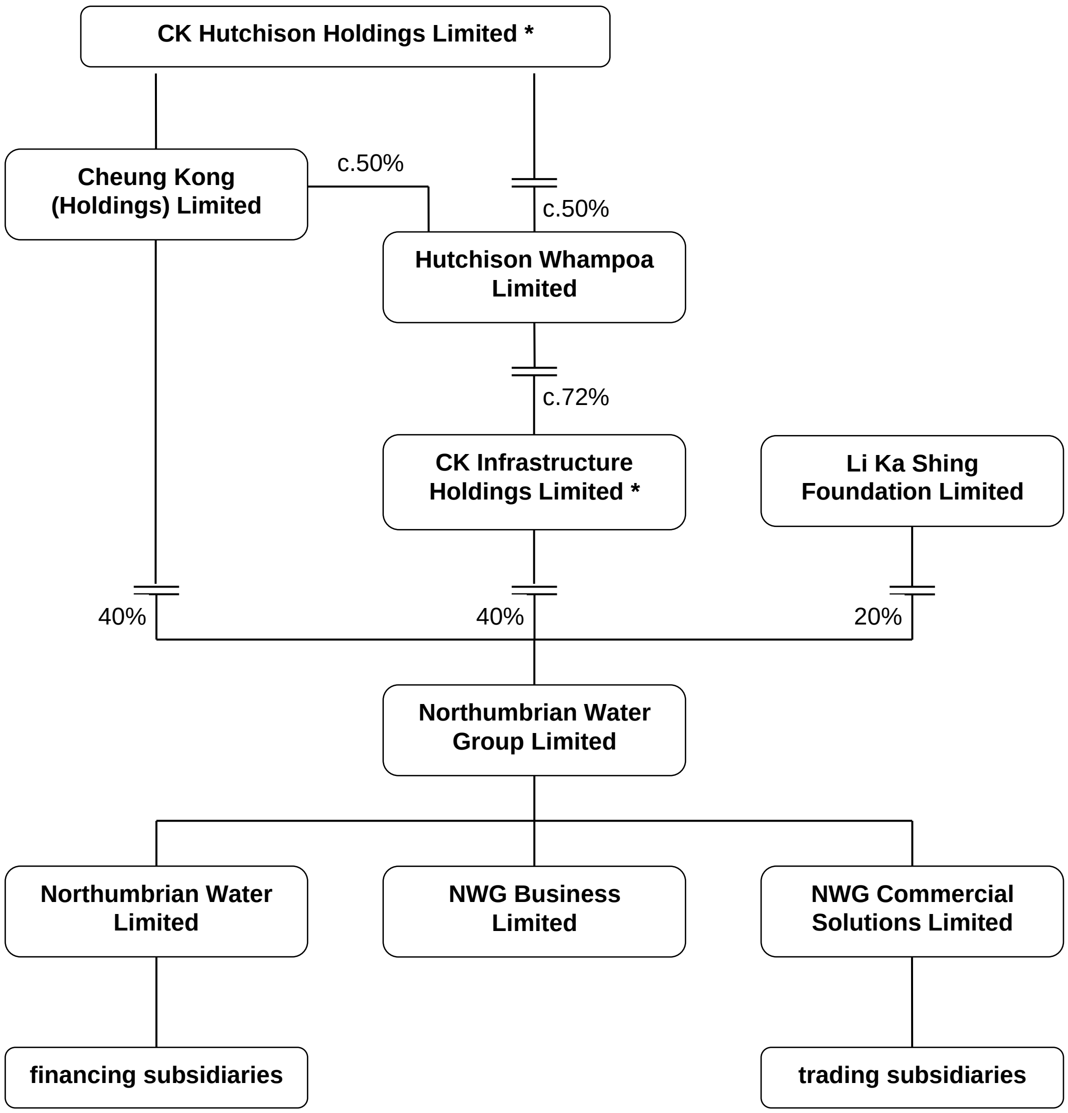
The Group remains dedicated to building strong relationships with the communities we serve and we ensure that corporate responsibility is embedded in the business. We support our communities in a number of ways focusing on five broad areas; investment in our communities, participation in our communities,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

STRATEGIC REPORT (continued)

Financial performance and structure

Group structure
NWG has two other direct subsidiaries, besides NWL, NWG Commercial Solutions Limited, which acts as a holding company for other non-regulated trading companies and NWGB, which carries out retail activities in England and Scotland and to which NWL's non-household customer base transferred at the opening of the market in April 2017 (except for customers who pre-registered to switch retailer upon the market opening).

In the Directors' opinion, CK Hutchison Holdings Limited (CKHH), a company listed on the Hong Kong Stock Exchange, is the ultimate parent undertaking and controlling party. The chart below shows the structure of the Group and its ownership up to CKHH. The chart shows the principal intermediate holding companies, which are wholly owned unless otherwise shown.



* Companies listed on the Hong Kong Stock Exchange

STRATEGIC REPORT (continued)

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

	Performance				Target	
	2015-16		2016-17		2016-17/2017-18	
KPI	NWG	NWL	NWG	NWL	NWG	NWL
Gearing: net debt to RCV (%)[1]	72.8	64.5	72.6	64.7	<80	<77.5
Interest cover (times)	3.7	4.2	2.8	3.8	>2.2	>2.4

Notes:
1. Regulatory Capital Value (RCV) at 31 March 2017 was £4,014.2 million (31 March 2016: £3,869.7 million).

The Group's gearing has decreased marginally from 72.8% to 72.6%, with net debt and RCV growing broadly at the same rate, and remains well within target. Gearing at NWL increased marginally from 64.5% to 64.7%.

NWG
Revenue for the year ended 31 March 2017 was £853.7 million (2016: £831.8 million). Water and sewerage charges at the Group's principal subsidiary, NWL, increased by a 'K factor' of 0.8%, plus RPI of 1.1%, which was applied from 1 April 2016. Income from the Group's continuing water and wastewater contracts continue to increase in line with the provisions of the relevant contracts.

Operating costs are £490.3 million for the year ended 31 March 2017 (2016: £463.0 million), which principally reflected movements at NWL, on an underlying basis, which are detailed below. Profit on ordinary activities before interest for the year ended 31 March 2017 was £363.4 million (2016: £368.8 million).

Net interest payable from continuing operations was £281.4 million for the year ended 31 March 2017 (2016: £238.7 million), including £113.7 million (2016: £113.7 million) on shareholder loan notes. The increase of £42.7 million was caused by adverse mark to market movements on the fair value of financial instruments, the impact of higher RPI on index-linked debt accretion and acceleration of interest charges related to the buy back of £120 million of bonds due to mature in October 2017.

Profit on ordinary activities before tax for the 31 March 2017 was £83.2 million (2016: £131.0 million). Current tax for the year ended 31 March 2017 was a charge of £14.8 million (2016: £10.0 million). The rise in the charge reflects non-allowable losses on derivatives, reduced pension deductions, and the one-off nature of deductions in 2016 relating to adoption of FRS101. Deferred tax for the year ended 31 March 2017 was a credit of £21.7 million (2016: £28.7 million). The reduction in the credit reflects a lower restatement of deferred tax liabilities than in 2016 due to a lower cut in future corporation tax rates, offset by the impact of derivatives and pensions. Further details of the net tax credit are provided in note 8 to the financial statements. Profit after tax from continuing operations for the year ended 31 March 2017 was £90.1 million (2016: £149.7 million)

Total fixed asset additions for the Group for the year ended 31 March 2017 was £227.4 million (2016: £224.7 million), representing capital investment to maintain and enhance the Group's asset base.

NWL
Revenue was £822.3 million for the year ended 31 March 2017 (2016: £813.8 million). This reflects an increase in wholesale charges, set in line with the revenue allowance from the PR14 FD, which increased by a 'K factor' of 0.8%, plus RPI of 1.1%.

Operating costs, including capital maintenance costs for the year ended 31 March 2017 were £456.6 million (2016: £431.5 million), including an exceptional credit of £10.7 million relating to the settlement of an outstanding appeal on business rates. The prior year included an exceptional pension curtailment of £38.9 million. Both of these items are explained further in note 3. Underlying costs, excluding exceptional items, have increased slightly in the year, reflecting general inflationary pressures, some restructuring costs and increased depreciation resulting from the capital investment programme. These have been mostly offset by reductions in the bad debt charge, due to high costs in the prior year from the closure of a large customer and a review of the level of provisioning, lower abstraction costs and cost efficiencies. During the year, NWL invested £0.9 million ((2016: £0.8 million) in research and development.

Profit on ordinary activities before interest for the year ended 31 March 2017 was £365.7 million (2016: £382.3 million).

Financial performance (continued)

NWL (continued)
Capital investment for the year ended 31 March 2017 was £225.2 million (2016: £223.2 million), reflecting around £148.0 million investment for the maintenance of NWL's asset base to ensure the continued provision of sustainable water and wastewater services and continued investment in its sewer network to reduce the risk of sewer flooding.

Water and wastewater contracts
The Group's water and wastewater contracts in Scotland, the Republic of Ireland and Gibraltar are all performing well and are in line with expectations. Revenue for the contracts was £30.5 million for the year ended 31 March 2017 (2016: £43.6 million). Profit on ordinary activities before interest was £1.6 million (2016: £9.8 million).

The Irish based Coffey Northumbrian Limited joint venture (CNL) completed its domestic water meter installation contract with Irish Water (IW) in early 2017. CNL installed over 120,000 domestic water meters. Since the start of 2017, CNL has been awarded sub-contract work from Coffey Construction (Ireland) Limited (CCIL) who secured, from IW, an Ireland wide framework contract to provide remedial works to the domestic water meter installation contracts. Additionally, CNL has pre-qualified to tender for two other framework contracts with IW for water network management and regional installations. The outcome of these tenders is due to be known in 2017.

The Gascorp Limited joint venture has completed the construction, testing, and commissioning of its farm based anaerobic digestion (AD) project at Garforth in West Yorkshire. After securing its RHI tariff in March 2016, the project secured bio-gas export to the gas grid within Q3 of 2016. The project is currently optimising the operation of the AD plant, including the biogas upgrade and grid injection units. It is anticipated that this optimisation will be completed in 2017.

Dividends
The Directors do not recommend payment of a final ordinary dividend (2016: £nil). Total dividends paid in the year ended 31 March 2017 were £108.3 million (2016: £57.8 million). Following a change in the Company's statutory accounting reference date in 2014/15, the timing of dividend payments was amended which resulted in one interim dividend payment being paid in the year to 31 March 2016. The Group has now reverted to two interim dividend payments per year. The prior year included the distribution of the entire share capital of Northumbrian Services Limited by way of a dividend in specie of £4.8 million.

Accounting policies
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as it applies to the financial statements of the Group for the year ended 31 March 2017.

Capital structure, liquidity and credit rating
The majority of the Group's financing activities are undertaken within the NWL group of companies given the significance of its operations to Group activities. In September 2015, the European Investment Bank (EIB) approved a new £250 million loan facility. An initial £150 million tranche was drawn in October 2015. The remaining £100 million tranche was drawn after the balance sheet date in June 2017.

In October 2016, through our finance subsidiary Northumbrian Water Finance plc (NWF), we issued £300 million Guaranteed Eurobonds, with an annual coupon of 1.625%, maturing October 2026. NWL guaranteed the issue and received the issue proceeds by way of an inter-company loan. The proceeds were partially used to buy back £120 million of bonds due to mature in October 2017. We are currently developing our strategy for the refinancing of the remaining £180 million bond, maturing in October 2017.

NWL has cash resources and substantial undrawn committed five year bank facilities (maturing in 2019) available to maintain general liquidity. The undrawn bank committed facilities amounted to £350.0 million at 31 March 2017.

Capital structure, liquidity and credit rating (continued)
Interest cover and gearing measures have remained better than target levels. NWL maintains its strong investment grade credit ratings of BBB+ (stable outlook) from Standard & Poors (S&P) and Baa1 (negative outlook) from Moody's. The difference in outlook reflects Moody's view on the Group gearing level, while recognising the strength of the regulatory ring-fence for NWL.

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

The Risk & Compliance Committee, on behalf of the Board, carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, taking account of both the highest rated risks on our Corporate Risk Register and the Strategic Risk Register identified by the Board sub-group.

The principal business risks facing the Group are:
- inherent health and safety risk in NWL's operational and construction workplaces;
- loss of customer trust and confidence;
- loss of supply to a large volume of customers due to failure of the NWL water systems, such as failure of a strategic water main or treatment works or contamination of a service reservoir;
- environmental pollution incidents due to failures in the NWL wastewater network giving rise to potential fines and reputational damage;
- loss of key business systems due to a malicious attack or failure of cyber security;
- breach of Data Protection Act or Environmental Information Regulations;
- unfavourable changes to the NWL Licence or regulatory methodology that may adversely impact on the balance of risk and return or reduce investor confidence in the stability and predictability of the regulatory framework;
- a change in government could introduce significant changes in policy, impacting upon NWL and the Group;
- changes in tax legislation, including potential restriction to interest deductibility;
- Ofwat's plans to introduce upstream competition in April 2020 for water resources and bioresources;
- potential introduction of household retail competition;
- failure to deliver financial plans could impact on expected shareholder returns; and
- funding and liquidity risk (see note 23 to the financial statements).

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

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

New risks
As part of their assessment of principal risks and taking account of the importance of delivering an unrivalled customer experience, the Risk & Compliance Committee decided that the risk of losing customer trust and confidence should be added to the principal risks.

The divergence of political policies in respect of the water industry and other matters such as taxation, and the general volatility of the political environment, has resulted in the risk of regulatory changes being extended to cover political changes.

Increasing risks
The uncertainty in the financial markets during the UK's negotiations to leave the EU means that funding risk remains at a heightened level. This has also increased the valuation of defined benefit pension liabilities.

The amount of change anticipated in Ofwat's PR19 methodology, including upstream competition, and uncertainty of over the rate of return to be allowed, has increased regulatory risk.

Reducing risks
The risk related to the opening of the NHH retail market has been removed as we were able to demonstrate our readiness for market opening and manage the transition successfully.

The main risks arising from the Group's financial instruments are liquidity risk and interest rate risk. The Board reviews and agrees policies for managing each of these risks as summarised in note 23 to the financial statements. All treasury activities are conducted in accordance with the treasury policies of the Group.

By order of the Board
M Parker
General Counsel and Company Secretary
13 July 2017

DIRECTORS' REPORT

CORPORATE GOVERNANCE

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

The NWL board has particular regard to the principles underpinning the Code, as required by NWL's Instrument of Appointment (the Licence), with only some minor aspects of the Code not being adopted. NWL seeks to comply with both the principles and spirit of the Code, in the context of a private company with a single ultimate controlling shareholder. NWL also has in place a further bespoke governance code, developed after discussions with Ofwat, in response to Ofwat's Board leadership, transparency and governance principles.

Directors

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

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

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

Board responsibilities and processes

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

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

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

Authorisation of Directors' conflicts of interest

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

Board balance and independence

The composition of the Board is as follows:

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

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

Board balance and independence (continued)

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

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

The Committees are currently being restructured so that NWL will have its own Audit, Risk & Compliance and Remuneration Committees. It is proposed that NWG will have an Audit, Risk and Assurance Committee.

Board committees

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

Remuneration Committee

The members of the Remuneration Committee for both NWG and NWL during the year were A J Hunter (Chairman), H Mottram, P Rew, M Fay, S Lyster and D N Macrae. S Lyster joined the Committee in February 2017 and H Mottram stood down from the Committee after the February 2017 meeting. S Salter, from the NWL Executive Leadership Team, provides advice to the Committee from time to time.

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

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

Audit Committee

The Chairman of the Audit Committee is P Rew, who is the Senior Independent Non-Executive Director of NWL. The other members are Dr S Lyster, M A B Nègre, D N Macrae and L S Chan.

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

- reviewing the draft financial statements and Annual Performance Report, considering reports from the external and internal auditors setting out the audit approach and plan, significant audit risks and conclusions on the Group's internal controls and risk management;
- reviewing the appropriateness of accounting policies, significant accounting judgements and evidence supporting the going concern basis for the accounts and recommending approval of both statutory and regulatory accounts to the Board;
- reviewing and commenting on NWL's Annual Performance Report, including the underlying assurance, reviewing evidence to support the Condition F6A.2A certificate (statement of sufficiency of financial resources) and recommending its approval to the Board;
- confirming the objectivity and independence of the external auditor, and in so doing reviewing the representations made in the audit report on these subjects;
- monitoring the effectiveness of the internal audit function;
- approving the external auditor's fees for both audit and non-audit services, by reference to the agreed policy;
- approving the internal audit work programme for the year and reviewing progress against the programme;
- approving arrangements for monitoring compliance with the Company's procedures designed to prevent bribery, having regard to the Bribery Act 2010 and the updated code of conduct 'Our Way at NWG', including receiving reports on any whistleblowing allegations; and
- reviewing the risk and control framework and reporting, including management of tax compliance matters and approval of financial approval rules.

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

Given the increasing need for careful and thorough assurance of a number of NWL's key projects, to ensure compliance, efficiency and excellent customer outcomes, the Audit Committee has an Assurance Sub-Group whose three members are all independent non-executive directors of NWL.

Although the Sub-Group has a broad remit, its work during the year has focused on NWL's preparations for the opening of the non-household retail market and NWL's major transformation project to implement a new billing system to enable NWL to work with MOSL after market opening and, at a later date, manage household customer billing and contact. The Sub-Group has held three meetings with executive directors, senior management and independent assurance providers during the year.

Risk & Compliance Committee
The members of the Risk & Compliance Committee are P Rew (Chairman), Dr S Lyster and M A B Nègre.

During the year and up to the date of approval of these financial statements, the Risk & Compliance Committee assisted the Board to discharge its responsibilities. The Committee is fully cognisant of the need for NWG to manage risk in such a way that NWL is protected from risk elsewhere in the group. Its work included the following:

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

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

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

Governance Code
In March 2014, following discussions with Ofwat, the NWL board put in place a bespoke Governance Code (the NWL Code), which is available on the NWL website. NWL complied with this Code and, accordingly, commenced performance evaluations on Board Committees in 2015 and an internal review of NWL's board performance in 2016. A further evaluation of the performance of the Committees is in hand and the findings will be discussed at the meetings in August 2017.

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

1.1 As stated in the Strategic Report, at the balance sheet date, NWG is the holding company of NWL. CKHH is the ultimate parent undertaking and controlling party of NWG and, therefore, NWL.

Ofwat's Holding Company Principles (continued)

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

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

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

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

2.1, 2.2, 2.3, 2.4 and 3.1

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

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

OTHER DISCLOSURES

Results, dividends, future developments and research and development

Please refer to the Strategic Report.

Post Balance Sheet Event

On 2 March 2017, the Secretary of State for the Environment confirmed that the competitive water retail market for business, charities and public sector customers (together referred to as NHH customers) would open on 1 April 2017. Ahead of this, NWL had applied for, and been granted, permission to exit the NHH retail market at 1 April 2017 and transfer the associated NHH retail business to an acquiring licenced retailer, NWGB, another subsidiary of the Group.

The transfer of business took effect on 1 April 2017, after the balance sheet date, in accordance with a Statutory Transfer Scheme (STS) approved by Ofwat. Under the STS, the NHH business, NHH customers and related special agreements were transferred to NWGB, along with outstanding debtor balances, the right to unbilled income and certain tangible fixed assets. Further information is disclosed in note 31 of the financial statements.

On 23 March 2017, we announced our intention for NWGB to enter into a joint venture with Anglian Water Business National Limited to combine the non-domestic retail operations of the two companies in order to deepen the capabilities of the two companies and to achieve economies of scale and cost synergies. The new 50/50 joint venture company will be called Wave. The merger is currently going through the process of clearance from the Competition and Markets Authority and the outcome is expected this summer.

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

Financial instruments and treasury policies
As described in treasury policies section of the Strategic Report.

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

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

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

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

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

In arriving at their decision, the Directors have taken into account:
- NWL's Instrument of Appointment which is in place on a rolling 25 year basis;
- the certainty on wholesale and household retail price controls to March 2020 provided by the 2014 Final Determination by Ofwat, following its acceptance by the Board;
- the financial strength of the Group at the balance sheet date and performance for the year ended 31 March 2017, which is in line with expectations and reviewed at each Board meeting, most recently in May 2017;
- the key financial ratios over the next 12 month planning horizon, as reflected in strong investment grade credit ratings;
- the fact that NWL has in place £350.0 million of five year committed bank facilities as back up liquidity (maturing in 2019) and a further £100.0 million of committed financing from the EIB, both of which were undrawn at 31 March 2017;
- the water and wastewater contracts are expected to be profitable over the term of their respective contracts; and
- the Group's formal risk and governance arrangements which are monitored by the Audit and Risk & Compliance Committees and Board.

DIRECTORS' REPORT (continued)

Fair, balanced and understandable

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

Directors' responsibilities statement

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

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

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

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

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

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

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

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

MParker

By order of the Board
M Parker
General Counsel and Company Secretary
13 July 2017

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

We have audited the financial statements of Northumbrian Water Group Limited for the year ended 31 March 2017 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, consolidated cash flow and related notes 1 to 31 and the Company balance sheet, Company statement of changes in equity and related notes 1 to 11. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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

Matters on which we are required to report by exception

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

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

Anthony Matthews

Anthony Matthews (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Newcastle upon Tyne
United Kingdom
13 July 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2017

	Note	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Continuing operations			
Revenue	2	**853.7**	831.8
Operating costs (including exceptional operating items)	3	**(490.3)**	(463.0)
Profit on ordinary activities before interest	2	**363.4**	368.8
Finance costs payable	7	**(284.9)**	(241.1)
Finance income receivable	7	**3.5**	2.4
Share of profit after tax of jointly controlled entities	12(a)	**1.2**	0.9
Profit on ordinary activities before taxation	2	**83.2**	131.0
Current taxation	8	**(14.8)**	(10.0)
Deferred taxation	8	**21.7**	28.7
Profit for the year from continuing operations		**90.1**	149.7
Discontinued operations			
Profit for the year from, and on disposal of, discontinued operations		**-**	38.4
Profit for the year		**90.1**	188.1
Attributable to:			
Equity shareholders of the parent Company		**89.5**	187.7
Non-controlling interests		**0.6**	0.4
		90.1	188.1

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2017

	Note	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Profit for the year		**90.1**	188.1
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses	27	**(73.2)**	(47.2)
Tax on items credited to equity not reclassified	8	**11.1**	7.1
Items that may be reclassified subsequently to profit or loss:			
Losses on cash flow hedges taken to equity		**4.2**	(16.0)
Translation differences		**0.2**	-
Tax on items charged to equity that may be reclassified	8	**(1.0)**	2.9
Other comprehensive income		**(58.7)**	(53.2)
Total comprehensive income for the year		**31.4**	134.9
Attributable to:			
Equity shareholders of the parent Company		**31.2**	134.0
Non-controlling interests - profit for the year		**0.6**	0.4
Non-controlling interests - other comprehensive income		**(0.4)**	0.5
		31.4	134.9

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

	Other reserve £m	Share premium reserve £m	Cash flow hedge reserve £m	Currency translation £m	Retained earnings £m	Total equity £m	Non-controlling interests £m	Total £m
At 1 April 2015	51.9	446.5	(11.2)	(1.4)	(1,147.1)	(661.3)	2.0	(659.3)
Profit for the year	-	-	-	-	187.7	187.7	0.4	188.1
Other comprehensive income	-	-	(13.1)	-	(40.6)	(53.7)	0.5	(53.2)
Total comprehensive income and expense for the year	-	-	(13.1)	-	147.1	134.0	0.9	134.9
Equity dividends paid (see note 9)	-	-	-	-	(57.8)	(57.8)	-	(57.8)
31 March 2016	51.9	446.5	(24.3)	(1.4)	(1,057.8)	(585.1)	2.9	(582.2)
Profit for the year	-	-	-	-	89.5	89.5	0.6	90.1
Other comprehensive income	-	-	3.2	0.2	(61.7)	(58.3)	(0.4)	(58.7)
Total comprehensive income and expense for the year	-	-	3.2	0.2	27.8	31.2	0.2	31.4
Equity dividends paid (see note 9)	-	-	-	-	(108.3)	(108.3)	(0.6)	(108.9)
At 31 March 2017	**51.9**	**446.5**	**(21.1)**	**(1.2)**	**(1,138.3)**	**(662.2)**	**2.5**	**(659.7)**

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

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

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

CONSOLIDATED BALANCE SHEET
As at 31 March 2017

	Note	**31 March 2017 £m**	31 March 2016 £m
Non-current assets			
Intangible assets	10	**64.2**	64.2
Property, plant and equipment	11	**4,264.0**	4,173.4
Investments in jointly controlled entities	12	**7.8**	7.8
Financial assets		**11.4**	11.3
Amounts receivable relating to associated companies		**23.9**	23.5
		4,371.3	4,280.2
Current assets			
Inventories	13	**3.7**	3.2
Trade and other receivables	14	**167.9**	180.9
Interest bearing loans	14	**2.8**	0.6
Income tax receivable		**-**	9.9
Assets held for resale	16	**42.5**	-
Short term cash deposits	17	**1.9**	0.6
Cash and cash equivalents	17	**106.7**	50.2
		325.5	245.4
Total assets		**4,696.8**	4,525.6
Non-current liabilities			
Interest bearing loans and borrowings	19	**3,821.9**	3,906.3
Provisions	21	**1.2**	1.4
Deferred income tax liabilities	8	**377.5**	409.3
Pension liability	27	**155.3**	91.4
Hedging instruments	23	**75.7**	52.9
Other payables		**2.4**	3.0
Grants and deferred income	22	**414.7**	386.3
		4,848.7	4,850.6
Current liabilities			
Interest bearing loans and borrowings	19	**286.7**	51.9
Provisions	21	**0.2**	0.2
Trade and other payables	18	**217.6**	205.1
Income tax payable		**3.3**	-
		507.8	257.2
Total liabilities		**5,356.5**	5,107.8
Net liabilities		**(659.7)**	(582.2)
Capital and reserves			
Called up share capital	24	**-**	-
Other reserve		**51.9**	51.9
Share premium reserve		**446.5**	446.5
Cash flow hedge reserve		**(21.1)**	(24.3)
Currency translation		**(1.2)**	(1.4)
Accumulated deficit		**(1,138.3)**	(1,057.8)
Equity shareholders' deficit		**(662.2)**	(585.1)
Non-controlling interests		**2.5**	2.9
Total capital and reserves		**(659.7)**	(582.2)

Approved by the Board and authorised for issue on 13 July 2017 and signed on its behalf by:

H Mottram
Chief Executive Officer
Registered number 04760441

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 March 2017

	Note	**Year to 31 March 2017 £m**	Year to 31 March 2016 £m
Operating activities			
Reconciliation of profit before interest to net cash flows from operating activities			
Profit on ordinary activities before interest		**363.4**	368.8
Profit on ordinary activities before interest on discontinued operations		**-**	20.6
Depreciation and impairment losses		**132.1**	130.7
Other non-cash charges and credits		**(6.7)**	(6.4)
Net credit for provisions, less payments		**(0.2)**	(0.2)
Difference between pension contributions paid and amounts recognised in the income statement		**(12.1)**	(49.0)
Increase in inventories		**(0.5)**	(0.2)
Increase in trade and other receivables		**13.0**	(1.4)
Increase in trade and other payables		**19.3**	0.4
Cash generated from operations		**508.3**	463.3
Interest paid		**(248.3)**	(253.8)
Income taxes (paid)/received (including overseas tax received of £0.1m (2016: £0.2m paid))		**(18.7)**	(16.0)
Income taxes repaid in respect of prior periods		**13.9**	62.3
Net cash flows from operating activities		**255.2**	255.8
Investing activities			
Interest received		**1.0**	5.6
Capital grants received		**22.1**	26.0
Proceeds on disposal of property, plant and equipment		**0.7**	3.5
Cash outflow on disposal of subsidiary undertakings		**-**	(33.4)
Dividends received from jointly controlled entities		**1.6**	2.1
Short term cash deposits		**(1.3)**	2.6
Maturity of investments		**(0.1)**	-
Purchase of property, plant and equipment		**(204.5)**	(208.7)
Investment in joint ventures		**(0.4)**	(2.5)
Net cash flows from investing activities		**(180.9)**	(204.8)
Financing activities			
New borrowings		**300.0**	150.0
Dividends paid to minority interests		**(0.6)**	-
Dividends paid to equity shareholders		**(108.3)**	(53.0)
Net movements in Revolving Credit Facility		**-**	(92.0)
Repayment of borrowings		**(161.7)**	(36.6)
Payment of principal under hire purchase contracts and finance leases		**(1.2)**	(8.5)
Acquisition of externally held loan stock issued by a subsidiary		**(8.1)**	(5.5)
Net cash flows from financing activities		**20.1**	(45.6)
Increase in cash and cash equivalents		**94.4**	5.4
Cash and cash equivalents at start of year	17	**50.2**	44.8
Cash and cash equivalents at end of year	17	**144.6**	50.2
Cash and cash equivalents at end of year	17	**106.7**	50.2
Short term cash deposits	17	**1.9**	0.6
Total cash, cash equivalents and short term cash deposits		**108.6**	50.8

1. ACCOUNTING POLICIES

(a) Statement of compliance
The consolidated financial statements have been prepared in accordance with IFRS as adopted by the European Union as it applies to the financial statements of the Group for the year ended 31 March 2017 and in accordance with the Companies Act 2006.

The financial statements have been prepared on a going concern basis taking into account the principal risks and uncertainties disclosed in the Directors' Report, which assumes that the Group will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 March 2017, the Group had net current liabilities of £182.3 million (2016: £11.8 million) and net liabilities of £659.7 million (2016: £582.2 million). The Directors have reviewed cash flow requirements, including reasonably possible changes in trading performance, and are confident that they will be able to meet these from funds available and existing financing facilities. Accordingly, the Directors believe it is appropriate to prepare the financial statements on a going concern basis. Further details can be found in the 'Financial statements preparation and going concern' section in the Directors' Report.

The Directors consider the following accounting policies to be relevant in relation to the Group's financial statements. The financial statements of the Group for the year ended 31 March 2017 were authorised for issue by the Board of Directors on 13 July 2017 and the balance sheet was signed on the Board's behalf by H Mottram (CEO).

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

- Amendments to IFRS 11 - Accounting for acquisitions of interests in joint operations
- Amendments to IFRS 10, 12 and IAS 28 - Applying the consolidation exception
- Amendments to IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortisation
- IAS 27 - Equity method in separate financial statements
- IAS 1 - Disclosure initiative
- Improvements to IFRSs (2012-2014)

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

NWG is a limited company incorporated and domiciled in England and Wales.

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

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

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

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

1. ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

Where assets are constructed by a developer and adopted by NWL at no cost to the company, the assets are recognised in the balance sheet at their fair value on the date of the transfer and an equivalent value is recognised in deferred income, in accordance with IFRIC 18 Transfers of Assets from Customers. The fair value is based on the average cost to the Company of constructing an equivalent asset.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows: freehold buildings, 30-60 years; operational structures, plant and machinery, 4-92 years; infrastructure assets 4-200 years (see next page); and fixtures, fittings, tools and equipment, 4-10 years.

1. ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

1. ACCOUNTING POLICIES (continued)

(j) Revenues
Provision of services
Revenue, which excludes value added tax, represents the fair value of the income receivable in the ordinary course of business for services provided. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue is not recognised until the services have been provided to the customer. Revenue for services relates to the period, excluding any amounts paid in advance. Revenue for measured water and wastewater charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

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

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

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

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

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

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

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

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

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

1. ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

1. ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

1. ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

1. ACCOUNTING POLICIES (continued)

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

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

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

International Accounting Standards (IAS/IFRS)
Amendment to the following standards:
IFRS 2 - Classification and measurement of share-based payments
IFRS 4 - Insurance contracts
IFRS 9 - Financial instruments
IFRS 10 and IAS 28 - Sale of contribution of assets between investor and its associate or joint venture
IFRS 15 - Revenue from contracts with customers
IFRS 16 - Leases
IAS 7 - Statement on cash flows
IAS 12 - Income taxes
IAS 40 - Investment property
IFRIC 22 - Foreign currency transactions and advance consideration
Annual Improvements to IFRSs (2014-2016)

The impact on the income statement and balance sheet of the Group or Company on the adoption of these standards and interpretations have not yet been quantified.

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

The significant accounting judgements were:

- the estimation of income for measured water and sewerage services supplied but not billed at the end of the financial period. Consumption by measured customers is billed periodically in arrears with large commercial customers being billed monthly and smaller commercial customers and domestic customers being billed on quarterly or six-monthly cycles. Revenue is estimated and accrued using a defined methodology based upon historical usage and the relevant tariff per customer;
- the estimation of uncertain tax provisions, which are assessed on advice from independent tax advisers and the status of ongoing discussions with the relevant tax authorities; and
- the asset lives assigned to property, plant and equipment, details of which can be found in note 1(f).

The significant accounting estimates were:

- those assumptions used in arriving at the pension asset/liability under IAS 19. These key assumptions and their possible impact are disclosed in note 27, ‘Pensions and other post-retirement benefits’;
- the bad debt provision, which is calculated by applying a range of percentages to debt of different ages. These percentages also vary between different categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age. The value of the bad debt provision is sensitive to the specific percentages applied;

2. SEGMENTAL ANALYSIS

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

2. SEGMENTAL ANALYSIS (continued)

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

Water and wastewater contracts
NWG owns a number of companies for specific water and wastewater contracts in Scotland, the Republic of Ireland and Gibraltar.

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

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

Revenue	NWL £m	Water and wastewater contracts £m	Other £m	Total £m	Discontinued operations £m	Total revenue from continuing operations £m
Year ended 31 March 2017						
Segment revenue	**822.3**	**30.5**	**7.2**	**860.0**	**-**	**860.0**
Inter-segment revenue	**-**	**-**	**(6.3)**	**(6.3)**	**-**	**(6.3)**
Revenue from external customers	**822.3**	**30.5**	**0.9**	**853.7**	**-**	**853.7**
Year ended 31 March 2016						
Segment revenue	813.8	43.6	6.9	864.3	(26.0)	838.3
Inter-segment revenue	-	-	(6.5)	(6.5)	-	(6.5)
Revenue from external customers	813.8	43.6	0.4	857.8	(26.0)	831.8

Profit on ordinary activities	NWL £m	Water and wastewater contracts £m	Other £m	Total £m	Discontinued operations £m	Total profit from continuing operations £m
Year ended 31 March 2017						
Segment profit/(loss) on ordinary activities before interest	**365.7**	**1.6**	**(3.9)**	**363.4**	**-**	**363.4**
Net finance costs						**(281.4)**
Share of profit after tax from jointly controlled entities						**1.2**
Profit on ordinary activities before taxation						**83.2**
Taxation						**6.9**
Profit for the year from continuing operations						**90.1**
Year ended 31 March 2016						
Segment profit/(loss) on ordinary activities before interest	382.3	9.8	21.5	413.6	(44.8)	368.8
Net finance costs						(238.7)
Share of profit after tax from jointly controlled entities						0.9
Profit on ordinary activities before taxation						131.0
Taxation						18.7
Profit for the year from continuing operations						149.7

2. SEGMENTAL ANALYSIS (continued)

Assets and liabilities

	NWL		Water and waste water contracts		Other		Total	
	31 March 2017 £m	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m
Segment assets	**4,481.4**	4,319.0	**35.2**	34.9	**180.2**	171.7	**4,696.8**	4,525.6
Segment liabilities	**4,137.9**	3,878.5	**10.5**	10.7	**1,208.1**	1,218.6	**5,356.5**	5,107.8

Other comprises head office companies, NWGB and internal balances.

	NWL		Water and waste water contracts		Other		Total	
	31 March 2017 £m	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m
Property, plant and equipment additions	**225.1**	223.2	**1.4**	1.5	**0.9**	-	**227.4**	224.7
Depreciation	**130.3**	124.7	**1.8**	6.0	**-**	-	**132.1**	130.7

Geographical information
Revenue from continuing operations from external customers from the UK was £835.3 million (2016: £814.2 million). Revenue from other countries was £18.4 million (2016: £17.6 million).

Profit before tax from continuing operations from UK activities was £79.4 million (2016: £128.7 million). Profit before tax from overseas activities was £3.8 million (2016: £2.3 million) and includes the results from joint controlled entities (see note 12a).

Non-current assets for operations in the UK were £4,366.8 million (2016: £4,270.6 million). Non-current assets for operations in other countries were £9.1 million (2016: £9.6 million).

3. OPERATING COSTS

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Materials and consumables	**22.1**	22.7
Total employment costs (see note 6)	**146.3**	139.0
Pension curtailment (see note 27)	**-**	(38.9)
Exceptional business rates credit	**(10.7)**	-
Own work capitalised	**(36.3)**	(36.6)
Depreciation of property, plant and equipment (see note 11)	**132.1**	126.3
Profit on disposal of property, plant and equipment	**(0.6)**	(0.4)
Amortisation of capital grants (see note 22)	**(6.1)**	(6.2)
Costs of research and development	**0.9**	0.8
Operating lease payments	**1.5**	1.2
Bad debt charge	**10.9**	18.8
Other operating costs	**230.2**	236.3
Operating costs	**490.3**	463.0

At the balance sheet date, NWL had an outstanding appeal against the rateable value for water business rates, as published on the 2005 Central List by the Valuation Office Agency (VOA). After the balance sheet date, the VOA responded to NWL's submitted arguments and proposed a revised valuation, which NWL accepted. NWL, with support of its professional advisors, calculated that the revised valuation will result in a refund of £10.7 million, plus interest. This has been recognised in the financial statements as an exceptional credit.

The prior year includes an exceptional credit of £38.9 million for pension curtailment. This relates to a consultation by NWL with employees on changes to a defined benefit pension scheme which resulted in changes being made to future benefits.

4. AUDITOR'S REMUNERATION

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Fees payable for the audit of parent Company and consolidated financial	**0.1**	0.1
Other fees to auditor:		
Audit of subsidiaries	**0.2**	0.2
Audit related assurance services	**0.1**	-
Taxation advisory services	**0.1**	0.1
Other non-audit services	**0.1**	0.1
	0.6	0.5

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

5. DIRECTORS' EMOLUMENTS

(a) Directors' remuneration

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

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Emoluments (including benefits in kind)	**1,094**	1,052

None of the Directors were members of the defined contribution scheme at 31 March 2017 (2016: 1).

Long Term Incentive Plan (LTIP)
Executive Directors participate in a cash based LTIP. The purpose of the LTIP is to focus on key business metrics, engender a longer term view, encourage a one team approach, remain competitive in the executive market and encourage the retention of our key people.

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

The financial performance targets for the LTIP include Group profit measures. In view of the opening of the NHH retail market from April 2017, and the need for the NWL wholesale business to operate demonstrably at arms length from NWGB, the NWGB contribution to Group profit has been removed from the targets. This removes any incentive for NWL Directors to benefit from the performance of NWGB.

(b) Highest paid Director

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

	Year to 31 March 2017 £000	Year to 31 March 2016 £000
Emoluments (including benefits in kind)	**1,049**	1,009

The highest paid Director left the defined contribution pension scheme at the beginning of the year ended 31 March 2017, therefore no payments were made to that scheme in the year (2016: £50k).

6. EMPLOYEE INFORMATION

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

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Wages and salaries	**112.0**	106.2
Social security costs	**11.7**	10.1
Defined benefit pension service cost (see note 27)	**17.4**	18.2
Other pension costs	**5.2**	4.5
Total employment costs	**146.3**	139.0
Total employment costs were charged as follows:		
Capital schemes and infrastructure renewals	**33.6**	33.8
Manpower costs	**112.7**	105.2
	146.3	139.0

The table above excludes the exceptional pension credit in the year ended 31 March 2016 (see note 3). The average monthly number of employees of the Group was:

	Year to 31 March 2017 Number	Year to 31 March 2016 Number
NWL	**3,128**	3,125
Water and wastewater contracts	**155**	154
	3,283	3,279

7. FINANCE COSTS PAYABLE/(RECEIVABLE)

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Finance costs payable on debentures, bank and other loans and overdrafts	**245.2**	241.9
Amortisation of discount, fees, loan issue costs and other financing items	**(2.8)**	(2.6)
Receivable in respect of derivatives	**(2.0)**	(1.0)
Fair value movement on derivatives	**27.0**	(5.4)
Capitalisation of interest	**(5.2)**	(5.4)
Accretion on index linked bonds	**15.7**	7.5
Interest cost on pension plan obligations	**2.8**	2.2
Finance costs payable on hire purchase contracts and finance leases	**4.2**	3.9
Total finance costs payable	**284.9**	241.1
Finance income receivable	**(3.5)**	(2.4)
Net finance costs payable	**281.4**	238.7

8. TAXATION

(a) Tax on profit on ordinary activities

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Current tax:		
UK current income tax charge at 20% (2016: 20%)		
- continuing operations	**14.0**	10.3
Adjustment in respect of prior periods	**0.7**	(0.4)
UK corporation tax	**14.7**	9.9
Overseas tax	**0.1**	0.1
Total current tax	**14.8**	10.0
Deferred tax:		
Origination and reversal of temporary differences in the year at 17% (2016: 18%)		
- continuing operations	**2.5**	18.3
Effect of changes in tax rates and laws:		
Impact of reduction in rate of UK corporation tax	**(24.5)**	(47.1)
Adjustment in respect of prior periods	**0.3**	0.1
Total deferred tax	**(21.7)**	(28.7)
Tax credit in the income statement (continuing operations)	**(6.9)**	(18.7)
Tax credit in the income statement (discontinuing operations)	**-**	(1.0)
Total tax credit in the income statement	**(6.9)**	(19.7)

The rate of UK corporation tax for the year has remained at 20%. Finance (No. 2) Act 2015 reduced the rate from 20% to 19% (with effect from 1 April 2017) and to 18% (with effect from 1 April 2020). The 2020 rate was further reduced to 17% by Finance Act 2016. Accordingly, deferred tax has been provided in line with the rates at which temporary differences are expected to reverse.

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

The deferred tax liability at 1 April 2016 has been restated from 18% to 17% in line with the above rate change. The deferred tax movement in the year has been provided at the rates at which temporary differences are now expected to reverse.

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

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Deferred tax:		
Actuarial gains and losses on pension schemes	**(12.5)**	(8.4)
Hedging instruments	**0.7**	(2.9)
Impact of reduction in rate of UK corporation tax	**1.7**	1.3
Tax credit in the statement of comprehensive income	**(10.1)**	(10.0)
Deferred tax		
Items that will not be reclassified subsequently to the income statement:		
Retirement benefit obligations	**(11.1)**	(7.1)
Items that may be reclassified subsequently to the income statement:		
Fair value hedging instruments	**1.0**	(2.9)
Total	**(10.1)**	(10.0)

8. TAXATION (continued)

(c) Reconciliation of the total tax credit

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Profit before taxation from continuing operations	**83.2**	131.0
Profit before taxation from discontinued operations	**-**	37.4
Accounting profit before tax	**83.2**	168.4
Profit before tax multiplied by standard rate of corporation tax of 20% (2016: 20%)	**16.6**	33.7
Effects at 20% of:		
Expenses not deductible for tax purposes	**0.3**	4.6
Depreciation in respect of non-qualifying items	**1.2**	1.0
Non-taxable income and enhanced tax reliefs	**(0.2)**	(6.6)
Non-taxable amortisation of financing items	**(0.9)**	(0.9)
Permanent differences on transition to FRS101	**-**	0.6
Adjustment to tax charge in respect of prior periods	**1.5**	0.2
Consortium relief payable at less than the standard rate-current period	**-**	(1.4)
Consortium relief payable at less than the standard rate-prior period	**(0.5)**	(0.5)
	18.0	30.7
Impact on deferred tax balance of reduction in rate of UK corporation tax	**(24.5)**	(48.5)
Impact on movement in deferred tax of reduction in main rate of UK corporation	**(0.4)**	(1.9)
Total tax credit reported in the income statement	**(6.9)**	(20.2)

The effective tax rate for the year ended 31 March 2017 was -8.3% (year ended 31 March 2016: -11.7%). The increase of 3.4% mainly reflects the reduction in non-taxable income (3.7%) and an increase in prior period charges (1.7%), offset by the reduction in expenses that are not allowable for tax purposes (-1.5%). The change in tax rate has resulted in a negative effective rate, but if the rate change (and prior year items) are ignored the effective rate for the current year would have been 19.4% (year ended 31 March 2016: 17.0%).

(d) Deferred tax

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

	Accelerated tax depreciation £m	Deferred income £m	Tax losses £m	Retirement benefit obligations £m	Fair value hedging instruments £m	Business combinations £m	Other £m	Total £m
At 1 April 2015	525.4	(58.9)	(0.9)	(19.1)	(8.5)	6.9	17.4	462.3
(Credit)/charge in the income statement from continuing operations	(39.3)	4.8	-	5.6	1.5	(0.8)	(0.5)	(28.7)
Credit in the income statement from discontinued operations	(1.9)	-	-	-	-	-	-	(1.9)
Credit in other comprehensive income	-	-	-	(7.1)	(2.9)	-	-	(10.0)
Disposal of subsidiary undertakings	(12.4)	-	-	-	-	-	-	(12.4)
At 31 March 2016	471.8	(54.1)	(0.9)	(20.6)	(9.9)	6.1	16.9	409.3
(Credit)/charge in the income statement	(18.4)	(0.6)	0.4	2.0	(4.4)	(0.5)	(0.2)	(21.7)
Credit in other comprehensive income	-	-	-	(11.1)	1.0	-	-	(10.1)
At 31 March 2017	**453.4**	**(54.7)**	**(0.5)**	**(29.7)**	**(13.3)**	**5.6**	**16.7**	**377.5**

Other includes a deferred tax liability of £10.9 million (2016: £11.6 million) in respect of intangible assets (see note 10).

8. TAXATION (continued)

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

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

The Group has been monitoring the proposed introduction of new rules into UK tax law relating to the deductibility of interest. Draft legislation, based on an approach suggested by the OECD as part of their Base Erosion and Profit Shifting (BEPS) project, indicated the new rules were to be implemented from 1 April 2017. However, the legislation was delayed as a result of the Government calling a general election and uncertainty currently exists around the commencement date. Based on the draft legislation, there is a risk that, in future, some of the Group's interest payable may not be deductible for tax purposes, although it is not yet possible to precisely quantify the amount involved.

9. DIVIDENDS PAID AND PROPOSED

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Declared, paid and in specie during the year:		
Equity dividends on ordinary shares:		
Dividend declared as part of discontinued operations	**-**	4.8
A shares:		
Interim dividend for the year ended 31 March 2017: £270,594 (2016: £265,088)	**52.5**	51.4
Second interim dividend for the year ended 31 March 2017: £270,866 (2016: £nil)	**52.6**	-
B shares:		
Interim dividend for the year ended 31 March 2017: £1,143 (2016: £1,120)	**1.6**	1.6
Second interim dividend for the year ended 31 March 2017: £1,145 (2016: £nil)	**1.6**	-
Dividends paid	**108.3**	57.8

No final dividend is proposed for the year ended 31 March 2017 (2016: £nil).

Following a change in the Company's statutory accounting reference date, the timing of dividend payments was amended which resulted in one interim dividend payment being paid in the year to 31 March 2016. The Group has now reverted to two interim dividend payments per year. The prior year included the distribution of the entire share capital of Northumbrian Services Limited by way of a dividend in specie of £4.8 million.

10. INTANGIBLE ASSETS

	Goodwill £m	Other £m	Total £m
Cost:			
At 1 April 2015, 1 April 2016 and 31 March 2017	**3.8**	**64.2**	**68.0**
Impairment:			
At 1 April 2015	(0.2)	-	(0.2)
Discontinued operations	(3.6)	-	(3.6)
At 1 April 2016 and 31 March 2017	**(3.8)**	**-**	**(3.8)**
Net book value at 31 March 2016 and 31 March 2017	**-**	**64.2**	**64.2**
Net book value at 1 April 2015	3.6	64.2	67.8

Goodwill has been written off in the prior year, as part of the discontinued operations. The other intangible asset has been allocated to the NWL cash-generating unit, which is the operating segment.

The other intangible asset represents the right in perpetuity to receive income under the operating agreement with the EA in respect of the Kielder Water transfer scheme and, therefore, the Directors consider the asset has an indefinite life. Accordingly, future cash flows, which increase in line with inflation, have been discounted at a rate of 3.56% in perpetuity to calculate a value in use. This represents a long term nominal gilt yield and an assumed credit spread. This calculation satisfied the Group that the carrying value at 31 March 2017 had not been impaired. Furthermore, it is improbable that the discount rate would increase to such a level that the carrying value would be impaired.

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Infrastructure assets £m	Operational structures, plant and machinery £m	Fixtures, fittings, tools and equipment £m	Assets in the course of construction £m	Total £m
Cost:						
At 1 April 2015	146.8	2,436.4	2,789.4	281.2	73.9	5,727.7
Additions	-	7.2	3.6	0.9	213.0	224.7
Schemes commissioned	1.1	82.9	80.4	14.1	(178.5)	-
Reclassifications	0.1	6.3	(10.3)	(0.4)	4.3	-
Discontinued operations	-	(22.5)	(81.3)	(26.1)	3.3	(126.6)
Disposals	(1.4)	(5.5)	(3.0)	(0.2)	-	(10.1)
At 1 April 2016	146.6	2,504.8	2,778.8	269.5	116.0	5,815.7
Additions	-	14.3	(0.2)	0.9	212.4	227.4
Schemes commissioned	3.6	70.0	98.5	26.7	(198.8)	-
Reclass to assets held for resale	-	-	-	(4.6)	-	(4.6)
Disposals	-	(1.4)	(1.7)	-	-	(3.1)
At 31 March 2017	**150.2**	**2,587.7**	**2,875.4**	**292.5**	**129.6**	**6,035.4**
Depreciation:						
At 1 April 2015	51.7	197.2	1,119.1	197.0	-	1,565.0
Charge for the year	2.9	29.4	83.1	15.3	-	130.7
Reclassifications	-	(0.3)	1.1	(0.8)	-	-
Discontinued operations	-	(8.3)	(27.8)	(10.3)	-	(46.4)
Disposals	(0.8)	(3.6)	(2.4)	(0.2)	-	(7.0)
At 1 April 2016	53.8	214.4	1,173.1	201.0	-	1,642.3
Charge for the year	2.9	27.4	84.7	17.1	-	132.1
Disposals	-	(1.3)	(1.7)	-	-	(3.0)
At 31 March 2017	**56.7**	**240.5**	**1,256.1**	**218.1**	**-**	**1,771.4**
Net book value at 31 March 2017	**93.5**	**2,347.2**	**1,619.3**	**74.4**	**129.6**	**4,264.0**
Net book value at 31 March 2016	92.8	2,290.4	1,605.7	68.5	116.0	4,173.4
Net book value at 1 April 2015	95.1	2,239.2	1,670.3	84.2	73.9	4,162.7

Operational structures, plant and machinery include an element of land and buildings dedicated to those assets. It is not possible to separately identify the value of all land assets. The Group continues to apply IAS 23 Borrowing Costs (Revised) and has capitalised £5.2 million for the year ended 31 March 2017 (2016: £5.4 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 5% (2016: 5.62%).

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

	31 March 2017 £m	31 March 2016 £m
Infrastructure assets	**47.4**	47.2
Operational structures, plant and machinery	**18.8**	21.0
	66.2	68.2

12. INVESTMENTS

	31 March 2017	31 March 2016
	£m	£m
Investments in jointly controlled entities	**7.8**	7.8

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

The Group, through Northumbrian Water Projects Limited (NWP), held a 50% interest in Coffey Northumbrian Limited (CNL), a jointly controlled entity incorporated in the Republic of Ireland undertaking a domestic water meter installation contract.

NWP also held a 50% interest in Gascorp Limited, a jointly controlled entity incorporated in England and Wales, which is constructing a farm based anaerobic digestion plant.

	VLS	**Gascorp**	**CNL**	**Total**	VLS	Gascorp	CNL	Total
	31 March 2017	**31 March 2017**	**31 March 2017**	**31 March 2017**	31 March 2016	31 March 2016	31 March 2016	31 March 2016
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m
Revenue	**8.3**	**0.6**	**4.0**	**12.9**	8.2	-	3.4	11.6
Operating costs	**(7.3)**	**(1.0)**	**(2.4)**	**(10.7)**	(7.1)	(0.2)	(2.9)	(10.2)
Profit/(loss) on ordinary activities before interest	**1.0**	**(0.4)**	**1.6**	**2.2**	1.1	(0.2)	0.5	1.4
Finance costs payable	**(0.3)**	**(0.5)**	**-**	**(0.8)**	(0.3)	-	-	(0.3)
Profit/(loss) on ordinary activities before taxation	**0.7**	**(0.9)**	**1.6**	**1.4**	0.8	(0.2)	0.5	1.1
Current taxation	**(0.1)**	**-**	**(0.1)**	**(0.2)**	(0.2)	-	-	(0.2)
Profit/(loss) for the year	**0.6**	**(0.9)**	**1.5**	**1.2**	0.6	(0.2)	0.5	0.9
Non-current assets	**8.6**	**6.0**	**-**	**14.6**	8.5	4.9	-	13.4
Current assets	**6.5**	**0.6**	**3.3**	**10.4**	7.7	0.4	2.9	11.0
Share of gross assets	**15.1**	**6.6**	**3.3**	**25.0**	16.2	5.3	2.9	24.4
Current liabilities	**(5.4)**	**(0.8)**	**(1.0)**	**(7.2)**	(6.1)	(0.1)	(1.1)	(7.3)
Non-current liabilities	**(5.9)**	**(5.5)**	**-**	**(11.4)**	(6.4)	(4.3)	-	(10.7)
Share of gross liabilities	**(11.3)**	**(6.3)**	**(1.0)**	**(18.6)**	(12.5)	(4.4)	(1.1)	(18.0)
Share of net assets	**3.8**	**0.3**	**2.3**	**6.4**	3.7	0.9	1.8	6.4

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

The Group's share of the net assets for Gascorp Limited will not represent the carrying value disclosed in the balance sheet due to the injection of equity not being in equal proportions from all parties.

12. INVESTMENTS (continued)

(b) The Group's interests in subsidiaries at 31 March 2017 were as follows:

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

1. Registered office: Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ, UK.
2. Registered office: Meadowhead Wastewater Treatment Works and Sludge Treatment Centre, Meadowhead Road, Irvine, Ayrshire, KA11 5AY, UK.
3. Registered office: 10B Leanse Place, 50 Town Range, Gibraltar.
4. Registered office: 1st Floor, Rose House, 51-59 Circular Road, Douglas, Isle of Man, IM1 1AZ.

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

13. INVENTORIES

	31 March 2017	31 March 2016
	£m	£m
Raw materials and consumables	**3.7**	3.2

14. TRADE AND OTHER RECEIVABLES

	31 March 2017	31 March 2016
	£m	£m
Trade receivables	**162.0**	182.0
Doubtful debt provision	**(85.3)**	(83.9)
Amounts owed by jointly controlled entities	**0.8**	0.8
Interest bearing loans	**2.8**	0.6
Prepayments and accrued income	**58.9**	73.9
Income tax receivable	**-**	9.9
Other receivables	**31.5**	8.1
	170.7	191.4

As at 31 March 2017, trade receivables at nominal value of £85.3 million (2016: £83.9 million) were impaired. Movements in the provision for impairment of trade receivables were as follows:

	£m
At 1 April 2015	77.5
Charge for the year	18.8
Utilised	(12.4)
At 1 April 2016	83.9
Charge for the year	10.9
Reclass to assets held for resale	(1.1)
Utilised	(8.4)
At 31 March 2017	**85.3**

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

	0-3 months	3-12	12-24	24-36	36-48	Total
	£m	£m	£m	£m	£m	£m
At 31 March 2017	**(4.1)**	**33.1**	**20.6**	**12.1**	**6.9**	**68.5**
At 31 March 2016	0.2	37.7	19.3	10.5	4.9	72.6

16. ASSETS HELD FOR RESALE

As described in note 31, the Group has announced the intention to enter into a joint venture with NWG Business Limited, the Group's licenced retailer, and Anglian Water Business National Limited. As at 31 March 2017, and subject to clearance from the Completion and Markets Authority, the completion of the disposal is expected within the next 12 months. Accordingly, the assets and liabilities which are considered to transfer as a result of the joint venture have been classified as Assets held for resale.

	31 March 2017
	£m
Property, plant and equipment	**4.6**
Trade receivables	**21.7**
Other receivables	**0.3**
Income tax receivable	**0.2**
Prepayments and accrued income	**17.4**
Cash and cash equivalents	**(1.3)**
Trade payables	**(0.1)**
Accruals and deferred income	**(0.4)**
	42.4

17. CASH AND CASH EQUIVALENTS AND SHORT TERM DEPOSITS

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

	31 March 2017	31 March 2016
	£m	£m
Cash at bank and in hand	**101.4**	46.6
Cash equivalent deposits	**4.0**	3.6
Cash and cash equivalents	**105.4**	50.2
Short term cash deposits >3 months	**1.9**	0.6

18. TRADE AND OTHER PAYABLES

	31 March 2017	31 March 2016
	£m	£m
Trade payables	**31.3**	9.7
Other payables	**12.0**	12.2
Interest payable	**45.1**	46.9
Amounts payable to related parties	**48.6**	51.8
Accruals and deferred income	**80.6**	84.5
	217.6	205.1

19. INTEREST BEARING LOANS AND BORROWINGS

	31 March 2017	31 March 2016
	£m	£m
Current:		
Current instalments on borrowings (principal £227.4 million, 31 March 2016: £39.4 million)	**230.5**	43.3
Current obligations under finance leases and hire purchase contracts (see note 20)	**56.2**	8.6
	286.7	51.9
Non-current:		
Non-current obligations under finance leases and hire purchase contracts (principal £53.2 million, 31 March 2016: £101.2 million) (see note 18)	**53.0**	101.2
Non-current instalments on borrowings (principal £3,783.7 million, 31 March 2016: £3,815.3 million)	**3,768.9**	3,805.1
	3,821.9	3,906.3
Borrowings comprise the following:		
Shareholder loan notes (principal £1,033.2 million, 31 March 2016: £1,033.2	**1,033.2**	1,033.2
Loans (principal £527.4 million, 31 March 2016: £560.4 million)	**526.6**	559.5
Eurobonds - due 11 October 2017 bearing interest rate of 6.0% (principal £180.0 million, 31 March 2016: £300.0 million)	**180.3**	301.8
Eurobonds - due 6 February 2023 bearing interest rate of 6.875% (principal £350.0 million, 31 March 2016: £350.0 million)	**366.8**	369.6
Eurobonds - due 29 April 2033 bearing interest rate of 5.625% (principal £350.0 million, 31 March 2016: £350.0 million)	**347.3**	347.1
Eurobonds - due 23 January 2042 bearing interest rate of 5.125% (principal £360.0 million, 31 March 2016: £360.0 million)	**342.5**	341.8
Eurobonds - due 23 January 2034 bearing interest rate of 5.87526% (principal £246.4 million, 31 March 2016: £247.4 million)	**244.2**	245.0
Eurobonds - due 11 October 2026 bearing interest rate of 1.625% (principal £300.0 million, 31 March 2016: £0.0 million)	**297.7**	-
Index linked Eurobonds – due 15 July 2036 bearing interest rate of 2.033% (principal £209.2 million, 31 March 2016: £205.3 million)	**206.1**	202.1
Index linked Eurobonds – due 30 January 2041 bearing interest rate of 1.6274% (principal £82.3 million, 31 March 2016: £80.8 million)	**82.2**	80.7
Index linked Eurobonds – due 16 July 2049 bearing interest rate of 1.7118% (principal £136.3 million, 31 March 2016: £133.8 million)	**136.3**	133.9
Index linked Eurobonds – due 16 July 2053 bearing interest rate of 1.7484% (principal £136.3 million, 31 March 2016: £133.8 million)	**136.4**	133.9
US Private Placement (USPP) notes - due 14 April 2021 bearing interest rate of 5.82% (principal £100.0 million, 31 March 2016: £100.0 million)	**99.8**	99.8
	3,999.4	3,848.4
Less current instalments due on bank loans (principal £227.4 million, 31 March 2016: £39.4 million)	**(230.5)**	(43.3)
	3,768.9	3,805.1

The difference between the principal value of £3,783.7 million (2016: £3,815.3 million) and the carrying value of £3,768.9 million (2016: £3,805.1 million) is unamortised issue costs of £29.1 million (2016: £28.1 million) and a credit of £14.3 million (2016: £17.9 million) in excess of the original loan proceeds to reflect the fair value of loans owed by subsidiaries acquired in 2003.

19. INTEREST BEARING LOANS AND BORROWINGS (continued)

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

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

20. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS AND FINANCE LEASES

	31 March 2017 £m	31 March 2016 £m
Amounts due:		
Not later than one year	**56.2**	8.6
After one year but not more than five years	**16.2**	66.3
Later than five years	**75.9**	78.7
	148.3	153.6
Less finance charges allocated to future periods	**(39.1)**	(43.8)
Present value of minimum lease payments	**109.2**	109.8
Disclosed as due:		
Not later than one year	**56.2**	8.6
After more than one year	**53.0**	101.2
	109.2	109.8

Lease commitments

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

	31 March 2017 £m	31 March 2016 £m
Not later than one year	**1.2**	0.7
After one year but not more than five years	**4.2**	2.7
After five years	**34.5**	35.0
	39.9	38.4

21. PROVISIONS

	£m
At 1 April 2016	
Current	0.2
Non-current	1.4
At 1 April 2016	1.6
Utilised	(0.2)
At 31 March 2017	**1.4**
Analysed as:	
Current	0.2
Non-current	1.2
	1.4

The provision represents outstanding pension liabilities that have been awarded on a discretionary basis. These pension liabilities have been calculated by an independent actuary, using the same actuarial assumptions as applied to the defined benefit pension scheme (see note 27), and are expected to be paid over the remaining lives, which is approximately six years.

22. GRANTS AND DEFERRED INCOME

	Capital grants and contributions £m	Revenue from contracts £m	Total £m
At 1 April 2015	383.9	2.4	386.3
Additions	34.7	-	34.7
Amortised during the year	(6.1)	(0.2)	(6.3)
At 31 March 2017	**412.5**	**2.2**	**414.7**

23. FINANCIAL INSTRUMENTS

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

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

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

(d) Liquidity risk
As regards day to day liquidity, the Group's policy is to have available committed bank borrowing facilities with a value of no less than £50.0 million and with a bank agreement availability period of no less than three months. At 31 March 2017, the Group had £350.0 million (2016: £350.0 million) of undrawn committed bank facilities (maturing in 2019).

(e) Interest rate risk
The Group finances its operations through a mixture of retained profits and bank borrowings. It borrows at both fixed and variable rates of interest and, accordingly, uses interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations. The Group's policy is to keep a minimum 60% of its borrowings at fixed rates of interest. At 31 March 2017, 70% (2016: 69%) of the Group's borrowings were at fixed rates of interest. Index linked borrowings are treated as variable rate debt.

(f) Foreign currency risk
The Group's policy is that any foreign currency exposure in excess of £100k sterling equivalent of a transactional nature, or £3.0 million sterling equivalent of a translation nature, should be covered immediately on identification. Any exposures are covered through the use of forward foreign exchange contracts.

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

Increase in basis points	£m
Year ended 31 March 2017	
+50	**0.2**
+100	**0.4**
+150	**0.6**
Year ended 31 March 2016	
+50	0.2
+100	0.4
+150	0.7

(h) Credit risk
There are no significant concentrations of credit risk within the Group. Management's assessment of the maximum credit risk exposure relating to financial assets is represented by their carrying value as at the balance sheet date (see 23(o)). A significant proportion of the trade debtor balances are with domestic customers who are unlikely to have a published credit rating (see note 14).

23. FINANCIAL INSTRUMENTS (continued)

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

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

The Group monitors capital using gearing ratios for the Group and NWL. These have been revised this year to focus on the financial covenants underpinning the Group's private placement and the committed bank facilities at NWL, which are reported to each Board meeting. The Group's policy is to keep the gearing ratio less than 80% and 77.5% for the Group and NWL, respectively.

The RCV at 31 March 2017 was £4,014.2 million (2016: £3,869.7 million). On this basis and excluding shareholder loan notes, the gearing ratios were 73% for the Group and 70% for NWL.

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

Year ended 31 March 2017

	Less than 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Interest bearing loans and borrowings	127.1	401.8	1,096.8	5,911.2	7,536.9
Hedging instruments	0.4	-	12.6	39.1	52.1
Trade and other payables	130.8	27.6	-	-	158.4
	258.3	**429.4**	**1,109.4**	**5,950.3**	**7,747.4**

Year ended 31 March 2016

	Less than 3 months £m	3-12 months £m	1-5 years £m	More than 5 years £m	Total £m
Interest bearing loans and borrowings	73.4	225.4	1,397.5	5,929.0	7,625.3
Hedging instruments	0.4	0.3	4.8	35.1	40.6
Trade and other payables	111.3	29.6	-	-	140.9
	185.1	255.3	1,402.3	5,964.1	7,806.8

23. FINANCIAL INSTRUMENTS (continued)

(l) Maturity profile of financial assets and liabilities (carrying value)
Year ended 31 March 2017

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Fixed rate:							
Shareholder loan notes	-	-	-	-	-	(1,033.2)	(1,033.2)
Eurobonds	(184.5)	(4.8)	(5.3)	(5.8)	(6.6)	(1,571.8)	(1,778.8)
USPP notes	-	-	-	-	(99.8)	-	(99.8)
Bank loans	(37.0)	(25.5)	(25.5)	(25.5)	(25.5)	(87.4)	(226.4)
Obligations under finance leases and hire purchase contracts	(53.9)	(2.2)	(1.8)	(1.3)	(0.7)	(0.3)	(60.2)
Other loans	(0.4)	-	-	-	-	-	(0.4)
Loans receivable	2.4	2.1	6.5	-	-	15.7	26.7
Fixed rate as at 31 March 2017	**(273.4)**	**(30.4)**	**(26.1)**	**(32.6)**	**(132.6)**	**(2,677.0)**	**(3,172.1)**
Variable rate:							
Cash and cash equivalents	107.3	-	-	-	-	-	107.3
Financial investments	-	-	-	-	-	11.4	11.4
Eurobonds	-	-	-	-	-	(561.0)	(561.0)
Bank loans	(8.6)	(10.4)	(10.4)	(10.5)	(10.6)	(249.3)	(299.8)
Obligations under finance leases and hire purchase contracts	(2.3)	(0.2)	(0.3)	(0.4)	(0.5)	(45.3)	(49.0)
Variable rate as at 31 March 2017	**96.4**	**(10.6)**	**(10.7)**	**(10.9)**	**(11.1)**	**(844.2)**	**(791.1)**
Net borrowings as at 31 March 2017							**(3,963.2)**

Year ended 31 March 2016

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Fixed rate:							
Shareholder loan notes	-	-	-	-	-	(1,033.2)	(1,033.2)
Eurobonds	(4.9)	(304.9)	(4.7)	(5.3)	(5.8)	(1,279.7)	(1,605.3)
USPP notes	-	-	-	-	-	(99.8)	(99.8)
Bank loans	(34.9)	(37.0)	(25.5)	(25.5)	(25.5)	(112.9)	(261.3)
Obligations under finance leases and hire purchase contracts	(6.4)	(50.2)	(1.6)	(1.1)	(0.6)	(0.2)	(60.1)
Other loans	(0.4)	(0.3)	-	-	-	-	(0.7)
Loans receivable	0.6	1.2	1.2	5.5	-	15.6	24.1
Fixed rate as at 31 March 2016	(46.0)	(391.2)	(30.6)	(26.4)	(31.9)	(2,510.2)	(3,036.3)
Variable rate:							
Cash and cash equivalents	50.8	-	-	-	-	-	50.8
Financial investments	-	-	-	-	-	11.3	11.3
Eurobonds	-	-	-	-	-	(550.6)	(550.6)
Bank loans	(3.1)	(8.4)	(10.3)	(10.6)	(10.6)	(254.5)	(297.5)
Obligations under finance leases and hire purchase contracts	(2.2)	(2.1)	(2.3)	(2.3)	(2.4)	(38.4)	(49.7)
Variable rate as at 31 March 2016	45.5	(10.5)	(12.6)	(12.9)	(13.0)	(832.2)	(835.7)
Net borrowings as at 31 March 2016							(3,872.0)

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

23. FINANCIAL INSTRUMENTS (continued)

(m) Currency exposures
At 31 March 2017, after taking into account the effects of forward foreign exchange contracts, with the exception of the impact of translating the net assets of foreign operations into sterling, the Group had no material currency exposures (2016: £nil). At 31 March 2017, the Group held forward foreign exchange contracts with a future transaction value of £7.0m (2016: £6.0m) for the purpose of hedging the foreign currency risk of committed future purchases. At 31 March 2017, the fair value gain on the Company's outstanding foreign exchange contracts was £0.5 million (2016: £0.1 million).

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

	31 March 2017 £m	31 March 2016 £m
Expiring in more than two years but not more than five years	**350.0**	350.0

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

	Book value		Fair value	
	31 March 2017 £m	31 March 2016 £m	**31 March 2017 £m**	31 March 2016 £m
Financial assets:				
Cash and cash equivalents	**107.3**	50.8	**107.3**	50.8
Financial investments	**11.4**	11.3	**11.4**	11.3
Loans receivable	**26.7**	24.1	**26.7**	24.1
Trade and other receivables	**167.9**	190.8	**167.9**	190.8
Financial liabilities:				
Shareholder loan notes (principal £1,033.2 million, 31 March 2016: £1,033.2 million)	**(1,033.2)**	(1,033.2)	**(1,033.2)**	(1,033.2)
Bank loans (principal £527.4 million, 31 March 2016: £560.4 million)	**(526.6)**	(559.5)	**(539.0)**	(589.9)
Eurobonds (principal £2,350.5 million, 31 March 2016: £2,161.1 million)	**(2,339.8)**	(2,155.9)	**(3,031.3)**	(2,598.8)
USPP notes (principal £100.0 million, 31 March 2016: £100.0 million)	**(99.8)**	(99.8)	**(115.2)**	(115.2)
Obligations under finance leases and hire purchase contracts (principal £109.4 million, 31 March 2016: £109.8 million)	**(109.2)**	(109.8)	**(109.2)**	(109.8)
Derivatives	**(75.7)**	(52.9)	**(75.7)**	(52.9)
Trade and other payables	**(209.7)**	(205.1)	**(209.7)**	(205.1)
	(4,080.7)	(3,939.2)	**(4,800.0)**	(4,427.9)

The fair values of the derivatives and sterling denominated long term fixed rate and index linked debt with a book value of £2,695.1 million (2016: £2,519.3 million), have been determined by reference to prices available from the markets on which the instruments involved are traded. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

In the absence of an openly traded market value for the index linked bonds with a book value of £561.0 million (2016: £550.6 million), the fair value at the balance sheet date has been calculated by considering the remaining debt maturity, the relevant UK index linked gilt rate and an appropriate credit spread by reference to market evidence for conventional bonds.

The difference between the principal value of £4,120.5 million (2016: £3,964.5 million) and the carrying value of £4,108.6 million (2016: £3,958.2 million) is unamortised issue costs of £29.5 million (2016: £28.3 million) and a credit of £17.6 million (2016: £22.0 million) in excess of the original loan proceeds to reflect the fair value of loans owed by subsidiaries acquired in 2003.

23. FINANCIAL INSTRUMENTS (continued)

(p) Hedges

Cash flow hedges – currency forward contracts

At 31 March 2017, the Group held the following forward exchange contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £m
USD 1,245,000	**4 April 2017**	**1.4454**	**0.9**
USD 978,630	**13 April 2017**	**1.5072**	**0.6**
USD 91,000	**28 April 2017**	**1.2365**	**0.1**
USD 1,112,000	**31 May 2017**	**1.2375**	**0.9**
USD 1,245,000	**4 April 2018**	**1.4492**	**0.9**
USD 1,112,000	**31 May 2018**	**1.2500**	**0.9**
USD 1,245,000	**4 April 2019**	**1.4550**	**0.9**
USD 1,112,000	**31 May 2019**	**1.2645**	**0.9**
USD 1,245,000	**13 March 2020**	**1.4600**	**0.9**
			7.0

At 31 March 2016, the Group held the following forward exchange contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The forward currency contracts are being used to hedge the foreign currency risk of the firm commitments. The terms of these contracts are as follows:

Currency bought	Maturity	Exchange rate	Transaction value £m
USD 978,630	15 April 2016	1.5044	0.7
USD 978,630	15 April 2017	1.5072	0.6
USD 275,100	18 April 2016	1.4440	0.2
USD 1,245,000	4 April 2016	1.4449	0.9
USD 1,245,000	4 April 2017	1.4454	0.9
USD 1,245,000	4 April 2018	1.4492	0.9
USD 1,245,000	4 April 2019	1.4550	0.9
USD 1,245,000	13 March 2020	1.4600	0.9
			6.0

Cash flow hedges – interest rate swap

At 31 March 2017 and at 31 March 2016, the Group held two interest rate swaps, designated as hedges of future interest cash flows, for which the Group has firm commitments. These swaps were used to convert variable rate interest payments to a fixed rate basis. The terms of these swaps were as follows:

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

The swaps were designated as highly effective.

23. FINANCIAL INSTRUMENTS (continued)

(p) Hedges (continued)
Cash flow hedges – inflation swap
As at 31 March 2017 and 31 March 2016, the Group held two inflation swaps. The first was designated as a hedge of future inflation linked cash flows and was used to convert variable inflation-linked revenues on a contract with the EA, to a fixed income stream. The second swap was designated as a hedge of future interest payments to convert fixed rate interest payments to index linked interest payments.

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

Notional amount	Annual swap cash flow paid	Start date	Termination date	Fixed rate %
£2.9 million	**£0.7 million**	**12 May 2004**	**9 January 2034**	**2.56**
£150.0 million	**n/a**	**15 October**	**15 October 2025**	**n/a**

Cash flow hedges: power forward contracts
At 31 March 2017 and 31 March 2016, the Group held forward power contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The terms of these contracts are as follows:

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

Cash flow hedges: diesel forward contracts
At 31 March 2017, the Group held forward diesel contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The terms of these contracts are as follows:

Notional amount	Start date	Termination date	Price per litre £
3,000,000 litres	**1 April 2017**	**31 March 2018**	**0.3250**
3,000,000 litres	**1 April 2018**	**31 March 2019**	**0.3435**
3,000,000 litres	**1 April 2019**	**31 March 2020**	**0.3562**

Cash flow hedges: diesel forward contracts
At 31 March 2016, the Group held forward diesel contracts, designated as hedges of expected future purchases for which the Group has firm commitments. The terms of these contracts are as follows:

Notional amount	Start date	Termination date	Price per litre £
3,000,000 litres	1 April 2016	31 March 2017	0.3025
3,000,000 litres	1 April 2017	31 March 2018	0.3250
3,000,000 litres	1 April 2018	31 March 2019	0.3435
3,000,000 litres	1 April 2019	31 March 2020	0.3562

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

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

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

23. FINANCIAL INSTRUMENTS (continued)

(q) Fair value hierarchy (continued)
Liabilities measured at fair value
Year ended 31 March 2017

	31 March 2017
	£m
Interest rate swaps	**(17.6)**
Inflation swap	**(49.8)**
Power forward contracts	**(8.7)**
Diesel forward contracts	**(0.1)**
Currency forward contracts	**0.5**
	(75.7)

Year ended 31 March 2016

	31 March 2016
	£m
Interest rate swaps	(16.7)
Inflation swaps	(21.6)
Power forward contracts	(13.7)
Diesel forward contracts	(0.9)
	(52.9)

During the year to 31 March 2017, there were no transfers between level 1 and level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

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

(r) Categories of financial assets/liabilities
Loans and receivables (including cash and cash equivalents)

	31 March 2017	31 March 2016
	£m	£m
Short term cash deposits	**1.9**	0.6
Cash and cash equivalents	**105.4**	50.2
Financial investments	**11.4**	11.3
Loans receivable	**26.7**	24.1
Trade and other receivables	**207.3**	190.8
	352.7	277.0

Other financial liabilities		
Shareholder loan notes	**(1,033.2)**	(1,033.2)
Bank loans	**(526.6)**	(559.5)
Eurobonds	**(2,339.8)**	(2,155.9)
USPP notes	**(99.8)**	(99.8)
Obligations under finance leases and hire purchase contracts	**(109.2)**	(109.8)
Trade and other payables	**(218.0)**	(205.1)
	(4,326.6)	(4,163.3)

24. AUTHORISED AND ISSUED SHARE CAPITAL

	Number	£
Allotted, called up and fully paid:		
At 31 March 2016 and 31 March 2017	**1,614**	**161**
Analysis of class of shares:		
A shares (10 pence each)	194	19
B shares (10 pence each)	1,420	142
At 31 March 2016 and 31 March 2017	**1,614**	**161**

25. ADDITIONAL CASH FLOW INFORMATION

Analysis of net debt as at 31 March 2017

	As at 1 April 2016 £m	Cash flow £m	Other non-cash movements £m	**As at 31 March 2017 £m**
Cash and cash equivalents	50.2	56.5	-	**106.7**
Loans receivable	24.1	1.0	1.6	**26.7**
Short term cash deposits	0.6	1.3	-	**1.9**
Financial investments	11.3	0.1	-	**11.4**
Loans (principal of £4,011.1 million, 2015: £3,854.7 million)	(3,848.4)	(138.1)	(12.9)	**(3,999.4)**
Finance leases (principal of £109.4 million, 2015: £109.8 million)	(109.8)	8.1	(7.5)	**(109.2)**
	(3,872.0)	(71.1)	(18.8)	**(3,961.9)**

The difference between the principal value of £4,120.5 million (2016: £3,964.5 million) and the carrying value of £4,108.6 million (2016: £3,958.2 million) is unamortised issue costs of £29.5 million (2016: £28.3 million) and a credit of £17.6 million (2016: £22.0 million) in excess of the original loan proceeds to reflect the fair value of loans owed by subsidiaries acquired in 2003.

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

Analysis of net debt as at 31 March 2016

	As at 1 April 2015 £m	Cash flow £m	In respect of disposals	Other non-cash movements £m	As at 31 March 2016 £m
Cash and cash equivalents	44.8	38.8	(33.4)	-	50.2
Loans receivable	-	8.5	15.6	-	24.1
Short term cash deposits	3.2	(2.6)	-	-	0.6
Financial investments	11.3	-	-	-	11.3
Loans (principal of £3,854.7 million, 2015: £3,932.8 million)	(3,928.0)	(20.1)	104.6	(4.9)	(3,848.4)
Finance leases (principal of £109.8 million, 2015: £107.9 million)	(107.9)	5.5	-	(7.4)	(109.8)
	(3,976.6)	30.1	86.8	(12.3)	(3,872.0)

The difference between the principal value of £3,964.5 million (2015: £4,040.7 million) and the carrying value of £3,958.2 million (2015: £4,035.9 million) is unamortised issue costs of £28.3 million (2015: £31.1 million) and a credit of £22.0 million (2015: £26.3 million) in excess of the original loan proceeds to reflect the fair value of loans owed by subsidiaries acquired in 2003.

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

26. FINANCIAL COMMITMENTS

	31 March 2017 £m	31 March 2016 £m
(a) Acquisition of property, plant and equipment	**138.9**	144.2

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

(c) The Group has entered into performance guarantees as at 31 March 2017 where a financial limit has been specified of £14.3 million (2016: £14.3 million).

27. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Group operates two defined benefit pension schemes. Northumbrian Water Pension Scheme (NWPS or the Scheme), providing benefits based on final pensionable remuneration to 1,340 active members at 31 March 2017 (2016: 1,446) and AquaGib Limited Pension Plan (AGPP), providing benefits based on final pensionable remuneration to 61 active members at 31 March 2017 (2016: 65).

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

The most recent actuarial valuation of the NWPS was at 31 December 2013. At that date, the value of assets amounted to £785.9 million and the liabilities were £946.2 million, resulting in a deficit of £160.3 million and a funding level of 83.1%.

The finalisation of this valuation was deferred until November 2015, because NWL commenced a consultation with members on proposed changes to the Scheme in January 2015. The consultation concluded in September 2015 and agreed a number of changes to the original proposal.

The main changes to the scheme, which took effect from 1 January 2016, were to base benefits on a career average revalued earnings (CARE) basis, changing from a final salary basis, with accrued benefits at the date of implementation to be revalued in line with CPI and future CARE accrual to be revalued at RPI, both capped at 2.5%. The next actuarial valuation of the NWPS is at 31 December 2016, which has commenced and remains ongoing.

The future service contribution rate jointly payable by members and the employers from 1 January 2016 is 29.4% of pensionable salaries. Members' contributions are 7.3% on average with the employers paying 22.1%, including 1.5% in respect of insurance premiums and expenses. In addition, the employers committed to making deficit reduction payments of £11m per annum, commencing 1 April 2015, increasing annually by RPI.

Employer contributions of £28.1 million were paid in the year to 31 March 2017, of which £11.1 million related to deficit reduction. For the year to 31 March 2018 employer contributions are projected to be £26.2 million, including £11.4 million in respect of deficit reduction.

The Scheme also has a defined contribution section which had 1,779 active members at 31 March 2017 (2016: 1,530). Members can choose to contribute either 3%, 4% or 5% of salary, with employers contributing at either 6%, 7% or 8% depending on the member contribution rate. The contributions paid to the defined contribution section by the Group in the year totalled £5.1 million (2016: £4.4 million).

The Group has not disclosed the actuarial assumptions for the AGPP on grounds of materiality.

The additional disclosures regarding the NWPS defined benefit scheme as required under IAS 19 Employee benefits and the relevant impact on the financial statements are set out below. A qualified actuary, using revised assumptions that are consistent with the requirements of IAS 19, has updated the actuarial valuations described above as at 31 March 2017. Investments have been valued, for this purpose, at fair value.

	31 March 2017	31 March 2016
Pay increases[1]	**3.10%**	3.00%
RPI inflation	**3.10%**	2.90%
CPI inflation	**2.10%**	1.90%
Pension increases linked to RPI	**3.10%**	2.90%
Pension increases linked to CPI	**2.10%**	1.90%
Discount rate	**2.60%**	3.60%
Mortality assumptions[2]	**VitaCurves**	VitaCurves
- Life expectancy for a member aged 65 – female (years)	**24.1**	24.9
- Life expectancy for a member aged 65 – male (years)	**22.0**	23.2

Notes:

1. Including promotional salary scale.

2. Bespoke "VitaCurves" reflecting scheme characteristics. CMI 2016 series of longevity improvement factors with a long term rate of improvement of 1.25% pa (2016: CMI 2013 series of longevity improvements, convergence period 40 years with a long term rate of improvement of 1.0% pa, proportion remaining at midpoint 50%).

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

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

	31 March 2017 £m	31 March 2016 £m
Equities	**305.7**	357.7
Corporate bonds	**244.0**	181.0
Government bonds	**131.3**	97.4
Property	**111.4**	107.9
Cash	**14.8**	33.0
Other (includes listed infrastructure)	**192.0**	109.7
Total fair value of assets	**999.2**	886.7
Present value of liabilities	**(1,154.5)**	(978.1)
Deficit	**(155.3)**	(91.4)

The discount rate at 31 March 2017 has been set by reference to the yield on AA corporate bonds at that date, extrapolated forward on a yield curve approach to a duration of 19 years which reflects the duration of the expected benefit payments.

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

	31 March 2017 £m	31 March 2016 £m
Recognised in the income statement:		
Current service cost	**14.2**	15.8
Administration costs	**1.5**	1.7
Past service cost	**1.7**	0.8
Curtailment (see note 3)	**-**	(38.9)
Recognised in operating costs in arriving at profit on ordinary activities before interest	**17.4**	(20.6)
Net interest cost on plan obligations	**2.8**	2.2
Recognised in finance costs payable	**2.8**	2.2
Recognised in the statement of comprehensive income:		
Changes in demographic assumptions	**49.6**	(6.7)
Changes in financial assumptions	**(227.6)**	50.8
Return on assets (excluding amounts included in finance costs)	**96.9**	(26.3)
Other actuarial gains and losses	**7.9**	(65.0)
Net actuarial losses	**(73.2)**	(47.2)

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

Changes in the present value of the defined benefit pension obligations are

	31 March 2017 £m	31 March 2016 £m
At 1 April	**978.1**	991.0
Current service cost	**14.2**	15.8
Administration costs	**1.5**	1.7
Past service cost	**1.7**	0.8
Exceptional pension credit	**-**	(38.9)
Interest cost on plan obligations	**33.9**	31.7
Contributions by plan participants	**0.1**	0.2
Benefits paid	**(45.1)**	(45.1)
Remeasurement:		
Changes in demographic assumptions	**(49.6)**	6.7
Changes in financial assumptions	**227.6**	(50.8)
Other actuarial gains and losses	**(7.9)**	65.0
At 31 March	**1,154.5**	978.1
Present value of funded defined benefit obligations	**1,154.5**	978.1

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

	31 March 2017 £m	31 March 2016 £m
At 1 April	**886.7**	900.0
Interest income on Scheme assets	**31.1**	29.5
Contributions by employer	**29.5**	28.4
Contributions by plan participants	**0.1**	0.2
Benefits paid	**(45.1)**	(45.1)
Remeasurement:		
Return on assets (excluding amounts included in finance costs)	**96.9**	(26.3)
At 31 March	**999.2**	886.7

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

The Scheme is registered under UK legislation and was contracted out of the State Second Pension. The Scheme is operated under trust and as such, the Trustee of the Scheme is responsible for operating the Scheme and they have a statutory responsibility to act in accordance with the Scheme's Trust Deed and Rules, in the best interest of the beneficiaries of the Scheme, and UK legislation (including Trust law). The Trustee has the power to set the contributions that are paid to the Scheme.

Risks to which the Scheme exposes the Group

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

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

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

Policy for recognising gains and losses

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

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

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

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

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

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

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

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

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

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

Change in assumptions compared with actuarial assumptions for the NWPS:

	Actuarial value of liabilities on 31 March 2017 £m	Actuarial value of liabilities on 31 March 2016 £m
0.5% decrease in discount rate	**1,268.6**	1,043.9
1 year increase in life expectancy	**1,188.5**	988.9
-0.5% change in salary increases[1]	**-**	960.1
-0.5% change in inflation	**1,060.2**	881.3

Notes:
1. The change in benefits to CARE means that the liabilities are no longer linked to the salary increase assumption.

Year ended 31 March 2017

Maturity profile of the NWPS defined benefit obligation

	Number of members	Liability split %	Duration years
Active members	1,340	34	26
Deferred members	1,175	15	24
Pensioners	3,200	51	13
Total	**5,715**	**100**	**19**

Year ended 31 March 2016

Maturity profile of the NWPS defined benefit obligation

	Number of members	Liability split %	Duration years
Active members	1,626	40	25
Deferred members	1,254	15	21
Pensioners	3,008	45	12
Total	**5,888**	**100**	**18**

28. SPECIAL PURPOSE ENTITIES

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

Bakethin Finance Plc was established for the purpose of issuing guaranteed secured Eurobonds. On 12 May 2004, Bakethin Finance Plc issued £248.0 million of guaranteed secured bonds maturing January 2034. Bakethin Finance Plc used the proceeds of the bond issue to make a loan to Reiver Finance Limited to fund the consideration given by that company to Northumbrian Water Limited for the securitisation of the cash flows receivable from the EA under the Water Resources Operating Agreement relating to Kielder Water transfer scheme. The assignment is for a period of 30 years.

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

	Unaudited 31 March 2017 £m	Audited 31 March 2016 £m
Income statement:		
Finance costs receivable	**0.3**	21.6
Finance costs payable	**(0.3)**	(21.6)
Balance sheet:		
Investments	**241.7**	242.3
Non-current assets	**36.1**	21.6
Current assets	**4.9**	4.9
Non-current liabilities	**(276.7)**	(263.3)
Current liabilities	**(3.8)**	(3.3)
Net assets	**2.2**	2.2

29. RELATED PARTIES

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

Trading transactions

	Recharges to related party £m	Purchases from related party £m	Interest £m	Consortium/ group relief £m	Amounts owed by related party £m	Amounts owed to related party £m
Related party:						
Year ended 31 March 2017						
Hutchison Whampoa Limited	**-**	**(0.1)**	**-**	**-**	**-**	**-**
Northern Gas Networks Limited	**0.1**	**0.1**	**-**	**-**	**-**	**-**
Hutchison 3G UK Holdings Limited	**-**	**-**	**-**	**0.6**	**-**	**0.6**
CK Infrastructure Holdings Limited	**-**	**-**	**45.5**	**-**	**-**	**19.2**
Cheung Kong (Holdings) Limited	**-**	**-**	**45.5**	**-**	**-**	**19.2**
Li Ka Shing Foundation Limited	**-**	**-**	**22.7**	**-**	**-**	**9.6**
Year ended 31 March 2016						
Northern Gas Networks Limited	-	0.1	-	-	-	-
Hutchison 3G UK Holdings Limited	-	-	-	3.8	-	3.8
CK Infrastructure Holdings Limited	-	-	45.5	-	-	19.2
Cheung Kong (Holdings) Limited	-	-	45.5	-	-	19.2
Li Ka Shing Foundation Limited	-	-	22.7	-	-	9.6
Jointly controlled entities						
Year ended 31 March 2017	**0.1**	**12.0**	**-**	**-**	**0.9**	**10.3**
Year ended 31 March 2016	0.1	11.9	-	-	0.8	9.0

29. RELATED PARTIES (continued)

Purchases from jointly controlled entities include £3.9 million (2016: £4.0 million) in respect of capital purchases under finance leases, £0.2 million (2016: £0.1 million) in respect of operating leases, £6.7 million (2016: £6.6 million) in respect of costs payable under finance leases and £1.2 million (2016: £1.2 million) in respect of other purchases.

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

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

Remuneration of key management personnel

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

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Short term employee benefits	**1.6**	1.5
Post employment benefits	**0.2**	0.4
Other long-term employee benefits	**0.3**	0.2
	2.1	2.1

30. ULTIMATE PARENT COMPANY

In the Directors' opinion, the immediate and ultimate parent undertaking and controlling party of NWG, and therefore the Company, is CK Hutchison Holdings Limited, a company listed on the Hong Kong Stock Exchange. This is the parent undertaking of the smallest and largest group of undertakings for which group financial statements are drawn up and of which the reporting company is a member. Copies of CKHH's group financial statements, which include the Company, are available from http://www.ckh.com.hk/en/ir/annual.php.

31. POST-BALANCE SHEET EVENT

On 2 March 2017, the Secretary of State for the Environment confirmed that the competitive water retail market for business, charities and public sector customers (together referred to as NHH customers) would open on 1 April 2017. Ahead of this, NWL had applied for, and been granted, permission to exit the NHH retail market at 1 April 2017 and transfer the associated NHH retail business to an acquiring licenced retailer, NWGB, another subsidiary of the Group.

The transfer of business took effect on 1 April 2017, after the balance sheet date, in accordance with a Statutory Transfer Scheme (STS) approved by Ofwat. Under the STS, the NHH business, NHH customers and related special agreements were transferred to NWGB, along with outstanding debtor balances, the right to unbilled income and certain tangible fixed assets. Further information is disclosed in note 31 of the financial statements.

On 23 March 2017, we announced our intention for NWGB to enter into a joint venture with Anglian Water Business National Limited to combine the non-domestic retail operations of the two companies in order to deepen the capabilities of the two companies and to achieve economies of scale and cost synergies. The new 50/50 joint venture company will be called Wave. The merger is currently going through the process of clearance from the Competition and Markets Authority and the outcome is expected this summer.

COMPANY BALANCE SHEET
As at 31 March 2017

	Notes	31 March 2017 £m	31 March 2016 £m
Non-current assets			
Investments in subsidiary undertakings	3	**2,511.0**	2,481.0
Loan receivables	4	**29.2**	28.9
		2,540.2	2,509.9
Current assets			
Trade and other receivables	5	**11.7**	13.3
Cash and cash equivalents		**102.6**	127.3
		114.3	140.6
Total assets		**2,654.5**	2,650.5
Current liabilities			
Trade and other payables	6	**(55.4)**	(55.3)
Total assets less current liabilities		**2,599.1**	2,595.2
Non-current liabilities			
Borrowings	7	**(1,292.0)**	(1,292.0)
Total liabilities		**(1,347.4)**	(1,347.3)
Net assets		**1,307.1**	1,303.2
Equity			
Called up share capital		**-**	-
Other reserve		**51.9**	51.9
Share premium account		**446.5**	446.5
Retained earnings		**808.7**	804.8
Equity attributable to owners of the Company		**1,307.1**	1,303.2

The profit dealt with in the financial statements of the parent Company is £112.2 million (2016: £109.4 million).

Approved by the Board on 13 July 2017 and signed on its behalf by:

H Mott

H Mottram
Chief Executive Officer
Registered number 4760441

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017

	Called up share capital	Other reserve £m	Share premium account £m	Retained earnings £m
At 1 April 2015	-	-	446.5	753.2
Profit for the year and total comprehensive income	-	-	-	109.4
Capital restructuring	-	51.9	-	-
Dividends paid and in specie (see note 2)	-	-	-	(57.8)
At 1 April 2016	-	51.9	446.5	804.8
Profit for the year and total comprehensive income	-	-	-	112.2
Dividends paid (see note 2)	-	-	-	(108.3)
At 31 March 2017	**-**	**51.9**	**446.5**	**808.7**

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS
for the year ended 31 March 2017

1. ACCOUNTING POLICIES

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

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to presentation of a cash flow statement, financial instruments, standards not yet effective and remuneration of key management personnel.

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

The financial statements have been prepared under the historical cost convention, except where adopted FRS 101 require an alternative treatment.

The principal accounting policies adopted are set out below.

The financial statements have been prepared on a going concern basis which assumes that the Company will have adequate funding to meet its liabilities as they fall due in the foreseeable future. As at 31 March 2017, the Company had net current assets of £58.9 million (2016: £85.3 million). The Directors have reviewed the Company's cash flow requirements and available resources and believe it is appropriate to prepare the financial statements on a going concern basis.

Adoption of new and revised Standards
Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year
In the current year, the Company has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2016. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

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

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

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

(e) Employees
Excluding the Directors, there are no employees in the Company (2016: nil).

1. ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

2. DIVIDENDS PAID AND PROPOSED

	Year to 31 March 2017 £m	Year to 31 March 2016 £m
Declared, paid and in specie during the year:		
Equity dividends on ordinary shares:		
Dividend declared as part of discontinued operations	**-**	4.8
A shares:		
Interim dividend for the year ended 31 March 2017: £270,594 (2016: £265,088)	**52.5**	51.4
Second interim dividend for the year ended 31 March 2017: £270,866 (2016: £nil)	**52.6**	-
B shares:		
Interim dividend for the year ended 31 March 2017: £1,143 (2016: £1,120)	**1.6**	1.6
Second interim dividend for the year ended 31 March 2017: £1,145 (2016: £nil)	**1.6**	-
Dividends paid	**108.3**	57.8

No final dividend is proposed for the year ended 31 March 2017 (2016: £nil).

Following a change in the Company's statutory accounting reference date, the timing of dividend payments was amended which resulted in one interim dividend payment being paid in the year to 31 March 2016. The Group has now reverted to two interim dividend payments per year. The discontinued operations in the prior year, included the distribution of the entire share capital of Northumbrian Services Limited by way of a dividend in specie of £4.8 million.

3. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	£m
At 1 April 2015	2,963.3
Impairment	(477.5)
Distribution in specie	(4.8)
At 1 April 2016	2,481.0
Investment in subsidiary	30.0
At 31 March 2017	2,511.0

The investment in subsidiary during the year reflects an injection of capital into NWGB in advance of the transfer of the retail market for NHH customers on 1 April 2017.

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

1. Registered office: Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ, UK.
2. Registered office: Meadowhead Wastewater Treatment Works and Sludge Treatment Centre, Meadowhead Road, Irvine, Ayrshire, KA11 5AY, UK.
3. Registered office: 10B Leanse Place, 50 Town Range, Gibraltar.
4. 1st Floor, Rose House, 51-59 Circular Road, Douglas, Isle of Man, IM1 1AZ.

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

4. LOANS RECEIVABLE

	31 March 2017 £m	31 March 2016 £m
Amounts owed by subsidiary undertakings	**29.2**	28.9

5. TRADE AND OTHER RECEIVABLES

	31 March 2017 £m	31 March 2016 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**11.4**	13.0
Other	**0.3**	0.3
	11.7	13.3

Amounts owed by subsidiary undertakings include amounts receivable for the provisional surrender of tax losses amounting to £8.4 million (2016: £10.0 million).

6. TRADE AND OTHER PAYABLES

	31 March 2017 £m	31 March 2016 £m
Trade creditors	**0.1**	-
Amounts owed to subsidiary undertakings	**4.2**	4.0
Interest payable	**50.6**	50.6
Accruals and deferred income	**0.5**	0.7
	55.4	55.3

7. BORROWINGS

	31 March 2017 £m	31 March 2016 £m
Shareholder loan notes	**1,033.2**	1,033.2
Loans	**99.8**	99.8
Amounts owed to subsidiary undertakings	**159.0**	159.0
	1,292.0	1,292.0

	31 March 2017 £m	31 March 2016 £m
Shareholder loan notes, loans and amounts owed to subsidiary undertakings are repayable as follows:		
Repayable after more than five years	**1,292.0**	1,292.0

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

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

8. AUTHORISED AND ISSUED SHARE CAPITAL

	Number	£
Authorised, issued and fully paid:		
At 31 March 2016 and 31 March 2017	**1,614**	**161**
Analysis of class of shares:		
A shares (10 pence each)	194	19
B shares (10 pence each)	1,420	142
At 31 March 2016 and 31 March 2017	**1,614**	**161**

9. COMMITMENTS

(a) The Company has issued letters of continuing support to subsidiary companies with net liabilities amounting to £2.8 million (2016: £3.0 million) and net current liabilities of £nil (2016: £nil). These subsidiary companies are expected to meet their working capital requirements from operating cash flows.

(b) The Company is guarantor to the EIB in respect of borrowings by NWL. The loan principal outstanding at 31 March 2017 amounted to £523.5 million (2016: £559.8 million).

(c) The Company is party to a cross guarantee arrangement with other Group companies in respect of bank facilities. Overdrafts outstanding at 31 March 2017 in respect of the arrangement amounted to £79.2 million (2016: £34.9 million). The Directors do not expect any loss to arise as a result of this arrangement.

10. RELATED PARTIES

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

Trading transactions

	Interest £m	Amounts owed to related party £m
Related party:		
Year ended 31 March 2017		
CK Infrastructure Holdings Limited	**45.5**	**19.2**
Cheung Kong (Holdings) Limited	**45.5**	**19.2**
Li Ka Shing Foundation Limited	**22.7**	**9.6**

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

11. ULTIMATE PARENT COMPANY

In the Directors' opinion, the immediate and ultimate parent undertaking and controlling party of NWG, and therefore the Company, is CK Hutchison Holdings Limited, a company listed on the Hong Kong Stock Exchange. This is the parent undertaking of the smallest and largest group of undertakings for which group financial statements are drawn up and of which the reporting company is a member. Copies of CKHH's group financial statements, which include the Company, are available from http://www.ckh.com.hk/en/ir/annual.php.