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Northumbrian Services Limited

Report and Financial Statements

31 March 2012

Registered Number 03114615

Directors
Christopher Michael Green
Heidi Mottram
Andrew John Hunter (Appointed 14/10/2011)
Hing Lam Kam (Appointed 14/10/2011)
Duncan Nicholas Macrae (Appointed 14/10/2011)

Secretary
Martin Parker

Auditors
Deloitte LLP
Chartered Accountants and Statutory Auditors
Newcastle Upon Tyne
NE1 2HF

Bankers
National Westminster Bank plc
87 Grey Street
Newcastle Upon Tyne
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Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2012

Results and dividends

The company's profit after taxation for the year ended 31 March 2012 amounted to £390 9 million (2011 £16 6 million) The total dividend for the year is £232 0 million (2011 £124 0 million) The directors do not recommend payment of a final dividend (2011 £46 0 million)

Principal activity and review of the business

The company's principal activity during the year continued to be that of a holding company to a number of companies, the largest being Northumbrian Water Limited As part of a group restructuring exercise, scheduled to take place within 12 months of the balance sheet date, it is proposed that the company's investment in Northumbrian Water Limited is sold at its fair value to the company's intermediate parent company, Northumbrian Water Group Limited The sale of this investment is not expected to affect the going concern basis on which the company's accounts are prepared The company's ultimate parent company is UK Water (2011) Limited ("UKW" or the "Group"), which is incorporated in England and Wales

Change of controlling party

On 14 October 2011 Northumbrian Water Group plc, the Company's controlling party at the time, was acquired by UK Water (2011) Limited (UKW) Shares of Northumbrian Water Group plc were delisted from the London Stock Exchange on the same date UKW is indirectly wholly owned by a consortium comprising Cheung Kong Infrastructure Holdings Limited, Cheung Kong (Holdings) Limited and Li Ka Shing Foundation Limited

Treasury policies

The company's board is responsible for the financing strategy of the company which is determined within treasury policies set by the company's intermediate parent company, Northumbrian Water Group Limited (NWG) The aim of this strategy is to assess the ongoing capital requirement of the group and to raise funding on a timely basis, taking advantage of any favourable market opportunities The Treasury department of NWG carries out treasury operations on behalf of the company Surplus funds are invested based upon forecast requirements, in accordance with the treasury policy On occasion, derivatives are used as part of this process, but the treasury policies prohibit their use for speculation

Risks arising from the company's financial instruments

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

Liquidity risk

As regards day to day liquidity, the Group's policy is to have available standby 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 2012, the Group had £450 million of undrawn committed bank facilities (2011 £35 0 million)

Directors' report (continued)

Interest rate risk
The Group finances its operations through a mixture of retained profits and borrowings It borrows at both fixed and floating rates of interest and accordingly uses interest rate swaps to generate the desired interest profile and to manage its 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 2012, 75% (2011 75%) of the borrowings of the Group were at fixed rates of interest

Foreign currency risk
The Group's policy is that any foreign currency exposure in excess of £100,000 sterling equivalent of a transactional nature, or £3 million sterling equivalent of a translation nature, should be covered immediately on recognition At 31 March 2012, the company had no currency exposures (2011 nil)

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

Indemnification of directors
The Group has in place directors' and officers' insurance and, on 28 November 2005, entered into a deed of indemnity to grant the directors of the Group and its subsidiaries further protection against liability to third parties

Directors' declaration
As required under Section 418 of the Companies Act 2006, so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Directors' assessment of going concern
As stated above the company's principal activity is to be a holding company for a number of companies, the largest being Northumbrian Water Limited The principal risks and uncertainties of the company relate to Northumbrian Water Limited's profitability and value, and whether this is sufficient to support the investment balance held by the company and the amounts owed to the company The Directors, having assessed the financial performance and position of Northumbrian Water Limited, together with the proposed group restructuring exercise mentioned above, have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the company to continue as a going concern

The Directors expect the company to continue with its principal activity of being a holding company for the foreseeable future The company is expected to continue to be profit making due to the interest charged on intragroup loans and dividends from subsidiaries Therefore it will not require support from its parent company Accordingly the financial statements have been prepared on a going concern basis

Auditors
Deloitte LLP was appointed as auditor in the current year, following resignation of Ernst and Young LLP Deloitte LLP has expressed its willingness to continue in office for the ensuing year

By order of the Board

M Parker

Secretary

30 November 2012

Statement of directors' responsibilities

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping proper accounting records 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

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

Independent auditor's report to the members of Northumbrian Services Limited

We have audited the financial statements of Northumbrian Services Limited for the year ended 31st March 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 19 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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

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

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

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31st March 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report to the members of Northumbrian Services 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, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

PFeechan

Paul Feechan (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Newcastle Upon Tyne, United Kingdom
30 November 2012

Profit and loss account
for the year ended 31 March 2012

	Note	2012 £m	2011 £m
Continuing operations			
Turnover	2	0 7	0 8
Operating costs	3	(1 1)	(1 0)
Operating loss		(0 4)	(0 2)
Other interest receivable and other income	6	11 0	3 1
Interest payable and similar charges	6	(16 4)	(14 5)
Investment income	9	0 4	0 3
Dividends received		961 9	117 2
Amounts written off investments - exceptional	9	(567 5)	(90 8)
Profit on ordinary activities before taxation		389 0	15 1
Tax on profit on ordinary activities	7	1 9	1 5
Profit for the year		390 9	16 6

Statement of total recognised gains and losses
for the year ended 31 March 2012

There are no recognised gains or losses other than the profit attributable to shareholders of the company of £390 9 million in the year ended 31 March 2012 and of £16 6 million in the year ended 31 March 2011

Northumbrian Services Limited
Registered No 03114615

Balance sheet
at 31 March 2012

	Note	2012 £m	2011 £m
Non-current assets			
Investments	9	919 4	1,488 3
Debtors due after one year	10	588 5	38 5
		1,507 9	1,526 8
Current assets			
Debtors due within one year	10	5 1	0 8
Cash at bank and in hand	11	13 7	33 6
		18 8	34 4
Creditors: amounts falling due within one year	12	(7 7)	(246 4)
Net current assets/(liabilities)		11 1	(212 0)
Total assets less current liabilities		1,519 0	1,314 8
Creditors: amounts falling due after more than one year	13	(366 7)	(275 4)
Net assets		1,152 3	1,039 4
Capital and reserves			
Called up share capital	15	481 2	481 2
Share premium account	16	272 9	272 9
Profit and loss account	16	398 2	285 3
Shareholders' funds		1,152 3	1,039 4

The financial statements were approved for issue by the Board of Directors on 30 November 2012 and signed on their behalf by

Chris Green
Director

Notes to the financial statements

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards in the United Kingdom

The Directors have completed an assessment of the going concern of the company based upon future plans for the company and any necessary funding requirements together with the parent company's ability to meet these funding requirements As a result of this assessment the financial statements have been prepared on a going concern basis For further details refer to the Directors' report

A summary of the principal accounting policies is set out below These have been applied consistently throughout the current and preceding years

Cash Flow Statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) and have not included a cash flow statement on the grounds that the company is wholly owned and its ultimate parent company publishes a consolidated cash flow statement

Consolidation

The company was a wholly owned subsidiary, whose ultimate parent undertaking is UK Water (2011) Limited, a company which produces publicly available consolidated financial statements in which the company is included Consequently the company is exempt under the terms of section 400 of the Companies Act 2006 from preparing consolidated financial statements These financial statements therefore present information about the company as an individual undertaking and not about its group

Taxation

Corporation Tax is based on the profit or loss for the year as adjusted for taxation purposes using the rates of tax enacted or substantively enacted by the balance sheet date

Provision is made for deferred tax in respect of all timing differences that have originated but not reversed at the balance sheet date that will result in an obligation to pay more, or a right to pay less tax in future periods Deferred tax is calculated at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Pensions

The company is a member of the Northumbrian Water Group Pension Scheme, which is a multi employer defined benefit scheme where the assets cannot be apportioned to individual companies Accordingly, these financial statements account for the pension costs of the scheme as a defined contribution scheme and charges are made as incurred

Currently predominantly all of the scheme membership relates to Northumbrian Water Limited and hence the scheme asset is included in the financial statements of that company On this basis other members of the scheme continue to account on a defined contribution basis

Interest bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds After initial recognition debt is increased by the finance cost in respect of the reporting period and reduced by payments made in respect of the debts of the period Finance costs of debt are allocated over the term of the debt at a constant rate on the carrying amount

Interest revenue

Interest ıncome ıs recognısed when ıt ıs probable that the economıc benefits wıll flow to the company and the amount of revenue can be measured relıably Interest ıncome ıs accrued on a tıme basıs, by reference to the prıncıpal outstandıng and at the effectıve ınterest rate applıcable

Fıxed asset investments

Fıxed Asset ınvestments are shown at cost less provısıon for any ımpaırment ın value Dıvıdends receıvable are credıted to profit and loss as declared Where such dıvıdends reduce the recoverable value of the ınvestment below ıts carryıng value an ımpaırment ıs recognısed

Cash and cash equıvalents and short term cash deposits

Cash and cash equıvalents dısclosed ın the balance sheet comprıse cash at bank and ın hand and short term deposıts wıth a remaınıng maturıty of up to three months, whıch are held for the purpose of meetıng short term cash commıtments rather than for ınvestment or other purposes Cash equıvalents are readıly convertıble to a known amount of cash and subject to an ınsıgnıficant rısk of changes ın value

Short term cash deposıts dısclosed ın the balance sheet comprıse cash deposıted wıth a remaınıng maturıty of greater than three months and a fixed ınterest rate

Foreıgn currencies and foreign currency transactıons

Transactıons ın foreıgn currencıes are ınıtıally recorded ın the functıonal currency by applyıng the spot exchange rate rulıng at the date of the transactıon Monetary assets and lıabılıtıes denomınated ın foreıgn currencıes are re-translated at the functıonal currency rate of exchange rulıng at the balance sheet date The functıonal and presentatıonal currency of Northumbrıan Servıces Lımıted ıs Unıted Kıngdom sterlıng (£)

2. Turnover

Turnover, whıch ıs stated net of value added tax, represents amounts ınvoıced to group companıes and ıs attrıbutable to one contınuıng actıvıty, project management and related fees

All turnover ıs ın the Unıted Kıngdom and Gıbraltar

3. Profit on ordinary activities before taxation

Thıs ıs stated after chargıng

	2012 £m	2011 £m
Audıtor's remuneratıon	-	-
Amounts wrıtten off ınvestments - exceptıonal	567 5	90 8
	567 5	90 8

Audıtors remuneratıon of £2,500 (2011 £3,589) was paıd ın the year Remuneratıon to audıtors for non audıt servıces ıs dısclosed on a consolıdated basıs ın the group financıal statements of the ultımate parent company The exceptıonal amounts wrıtten off ınvestments dıd not have an effect on the tax credıt

4. Directors' emoluments

The dırectors of the company are remunerated ın full by UK Water Group and, as theır servıces to Northumbrıan Servıces Lımıted are ıncıdental to the servıces provıded to other Group companıes, receıve no remuneratıon ın respect of qualıfyıng servıces to Northumbrıan Servıces Lımıted

5. Staff costs

	2012	2011
	£m	£m
Wages and salaries	0 3	0 3
Other pension costs	0 1	0 1
	0 4	0 4

The monthly average number of employees during the year was as follows

	2012	2011
	No	No
Administration	5	5

6. Net interest (payable)/receivable

	2012	2011
Other interest receivable and other income	£m	£m
Interest receivable on group loans	10 8	1 7
Interest receivable on bank deposits	0 2	1 4
	11 0	3 1
Interest payable and similar charges		
Interest payable on group loans	(16 0)	(10 8)
Interest payable on loans and similar charges	(0 4)	(3 7)
	(16 4)	(14 5)
Net interest payable	(5 4)	(11 4)

7. Taxation

(a) Tax on profit on ordinary activities

	2012	2011
	£m	£m
Current tax		
Group relief receivable for the year at 26% (2011 28%)	(0 5)	(0 6)
Adjustments in respect of prior years		
- UK corporation tax	1 4	
- Group relief	(2 8)	(1 0)
Total current tax (Note 7b)	(1 9)	(1 6)
Deferred tax		
Movement in the year at 24% (2011 26%)		
Origination and reversal of timing differences in the year	-	0 1
Movement in the year	-	0 1
Total deferred tax (credit)/charge	-	0 1
Tax on profit on ordinary activities	(1 9)	(1 5)

7. Taxation (continued)

The rate of UK corporation tax was reduced from 28% to 26% by the Finance Act 2011 with effect from 1 April 2011 The rate was further reduced to 24%, with effect from 1 April 2012, on the passing of a resolution under the Provisional Collection of Taxes Act 1968 on 26 March 2012 at which point the new rate was substantively enacted As a result, deferred tax was restated at 1 April 2011 at the rate at which timing differences are expected to reverse

(b) Reconciliation of the total tax charge

	Year to 2012 £m	Year to 2011 £m
Profit on ordinary activities before tax	389 0	15 1
Profit on ordinary activities multiplied by standard rate of corporation tax of 26% (2011 28%)	101 1	4 2
Effects at 26% (2011 28%) of		
Expenses not deductible for tax purposes	0 2	-
Share of associates/JV's	(0 1)	(0 1)
Non allowable loss on amounts written off investments	147 6	25 4
Profits of controlled foreign companies	0 7	-
Other timing differences	-	(0 1)
Internal debt reorganisation	-	2 7
Non-taxable dividend income	(250 1)	(32 8)
Adjustments in respect of prior years	(1 4)	(1 0)
Transfer pricing adjustments	(0 1)	(0 4)
Balancing payment receivable / (payable)	0 1	0 4
Other	0 1	0 1
Total current tax credit (Note 7a)	(1 9)	(1 6)

c) Factors that may affect future tax charges

The government has stated its intention to reduce the UK rate of corporation tax by a further 1% until it reaches 22% on 1 April 2014 Had that rate applied in 2011/12 the current tax credit would have been reduced by £84,000

A deferred tax charge of £17,900 (2011 £127,300 credit) has been provided for in the year

8. Dividends paid and proposed

	2012 £m	2011 £m
Equity dividends on ordinary shares		
2011 final dividends paid	46 0	41 0
Interim dividends paid	232 0	78 0
Final dividends proposed	-	46 0

9. Investments

	Joint Ventures £m	Interest in subsidiaries £m	Total £m
Cost			
At 1 April 2011	3 4	1,579 0	1,582 4
Additions	0 4	2 1	2 5
Disposals	-	(3 5)	(3 5)
Dividend received	(0 4)	-	(0 4)
At 31 March 2012	**3 4**	**1,577 6**	**1,581 0**
Depreciation			
At 1 April 2011	-	94 1	94 1
Amounts written off investments	-	567 5	567 5
At 31 March 2012	**-**	**661 6**	**661 6**
Net book value			
At 31 March 2012	**3 4**	**916 0**	**919 4**
At 1 April 2011	3 4	1,484 9	1,488 3

During the year the company acquired 100% ownership of SA Agrer, a company registered in Belgium for the total consideration of £2 1 million from its subsidiary company Northumbrian Overseas Investments Limited

During the year the company's 100% owned subsidiary Northumbrian Overseas Investments Limited (NOIL) paid a dividend amounting to £5 6 million As a consequence of this, an impairment review of the company's investment held in NOIL was undertaken, resulting in an impairment of £5 6 million NOIL later completed a share capital reduction of £3 5 million as part of the winding down of the company

During the year the company's 100% owned subsidiary Three Rivers Finance Limited (TRFL) paid a dividend amounting to £560 6 million As a consequence of this, an impairment review of the company's investment held in TRFL was undertaken, resulting in an impairment of £561 9 million

The Group's interests in principal subsidiaries at 31 March 2012 were as follows:

Name of undertaking	Country of incorporation or registration and operation	Description of shares held	Proportion of nominal value of issued shares held by Group (%)	Business activity
Northumbrian Water Limited	England and Wales	Ordinary shares of £1	100	Water and sewerage services
Northumbrian Water Finance plc	England and Wales	Ordinary shares of £1	100	Holding of finance instruments
Caledonian Environmental Services plc	Scotland	Ordinary shares of £1	100	Waste water services
Caledonian Environmental Levenmouth Treatment Services Limited	Scotland	Ordinary shares of £1	100	Waste water services
Ayr Environmental Services Limited	Scotland	Ordinary shares of £1	75	Waste water services
Ayr Environmental Services Operations Limited	Scotland	Ordinary shares of £1	100	Waste water services

AquaGıb Lımıted	Gıbraltar	Ordınary shares of £1	67	Water and sewerage servıces
Northumbrıan Water Projects Lımıted	England and Wales	Ordınary shares of £1	100	Waste water servıces
SA Agrer NV	Belgıum	Ordınary shares of £1	100	Aıd funded project work

10. Debtors

	2012	2011
Amounts fallıng due wıthın one year	£m	£m
Trade debtors	0 1	0 1
Amounts owed by other group undertakıngs	4 4	0 1
Deferred tax	-	-
Prepayments and accrued ıncome	0 6	0 6
	5 1	0 8
Amounts fallıng due after one year		
Amounts owed by other group undertakıngs	588 5	38 5
	588 5	38 5

Amounts owed by other group undertakıngs ınclude £8 8 mıllıon (2011 £6 1 mıllıon) ın respect of group relıef

11. Cash at bank and in hand

	2012	2011
	£m	£m
Cash at bank	3 7	11 0
Short term deposıts	10 0	22 6
	13 7	33 6

12. Creditors: amounts falling due within one year

	2012	2011
	£m	£m
Bank loans	-	125 0
Amounts owed to other group undertakıngs	5 0	2 4
Short term deposıts owed to group company	-	116 9
Other credıtors	1 1	1 6
Corporatıon tax payable	1 4	-
Accruals and deferred ıncome	0 2	0 5
	7 7	246 4

Included ın amounts owed to group undertakıngs ıs £nıl (2011 £0 4 mıllıon) ın respect of group relıef

13. Creditors: amounts falling due after one year

	2012	2011
	£m	£m
Amounts owed to group undertakıngs	366 7	275 4
	366 7	275 4

Included ın amounts owed to group undertakıngs ıs £16 2 mıllıon (2011 £16 9 mıllıon) ın respect of group relıef

14. Loans

	2012 £m	2011 £m
Loans are repayable as follows		
In one year or less	-	125 0
In more than two years but not more than five years	-	-
In more than five years	350 5	258 5
	350 5	383 5
Disclosed as due		
Within one year		
Bank loans and overdrafts	-	125 0
After one year		
Amounts owed to parent	6 8	-
Amounts owed to fellow subsidiaries	343 7	258 5
	350 5	383 5

During the year the company cancelled two interest rate swaps of £62 25m each which were held in order to fix the rates of interest on two loans, the fair value of these swaps at 31 March 2011 was a liability of £0 5m

15. Issued share capital

	2012	2011	2012 £m	2011 £m
Allotted, called up and fully paid	2012	2011		
Ordinary shares of £1 each	481,300,000	481,300,000	481 2	481 2

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital £m	*Share premium* £m	*Profit and loss account* £m	*Total Share-holders' funds* £m
At 1 April 2010	466 2	217 9	387 7	1,071 8
Profit for the year	-	-	16 6	16 6
Issue of shares	15 0	55 0	-	70 0
Dividends paid	-	-	(119 0)	(119 0)
At 1 April 2011	481 2	272 9	285 3	1,039 4
Profit for the year	-	-	390 9	390 9
Dividends paid (Note 8)	-	-	(278 0)	(278 0)
At 31 March 2012	481 2	272 9	398 2	1,152 3

In the previous year the directors approved the issue of 15,017,209 ordinary shares as consideration to acquire the remaining shares in Three Rivers Finance Limited from Atlantic Water Limited The shares were issued at a fair value of £4 66 per share, resulting in a premium of £54,982,791

17. Related parties

The Company is a wholly owned subsidiary of UK Water (2011) Limited ('UKW') which produces publicly available consolidated financial statements which include the Company Accordingly, the Company is exempt under the terms of Financial Reporting Standard Number 8 "Related Party Disclosures" from disclosing transactions with other members of the group headed by UKW

18. Ultimate parent undertaking and controlling party

In the directors' opinion, the Company's ultimate parent undertaking and controlling party is UK Water (2011) Limited, which is incorporated in England and Wales UKW acquired Northumbrian Water Group plc, the previous controlling party, on 14 October 2011 UKW is indirectly wholly owned by a consortium comprising Cheung Kong Infrastructure Holdings Limited, Cheung Kong (Holdings) Limited and Li Ka Shing Foundation Limited

Copies of UKW's consolidated financial statements, the largest group which includes the Company, are available from Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ Copies of Northumbrian Water Group Limited's consolidated financial statements, the smallest group which includes the Company, are available from Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ

19. Pensions

Northumbrian Services Limited participates in the Group defined benefit pension scheme, Northumbrian Water Pension Scheme (NWPS or the scheme), providing benefits based on final pensionable remuneration to 1,830 active members at 31 March 2012 (2011 1,908)

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

The most recent actuarial valuation of the NWPS was at 31 December 2010 At that date the value of assets amounted to £680 1m and the funding level was 84 7%

The future service contribution rate jointly payable by members and the employers from 31 December 2010 was 24 2% of pensionable salaries Members' contributions are 7 3% on average with the employers paying 16 9%

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

Pre-retirement discount rate	5 8%
Post-retirement discount rate	4 9%
Pay increases	3 85%
Price inflation (RPI)	3 6%
Price inflation (CPI)	2 9%
Pension increases linked to RPI	3 6%
Pension increases linked to CPI	2 9%

With the agreement of the NWPS Trustee, the employers have made capital contributions of £70 0 million to cover the period 1 January 2011 to 31 March 2015 These payments comprise employers' contributions and the deficit recovery funding assumed in the final determination Amounts totalling £22 9m were paid prior to 31 March 2011 with the remaining £47 1m paid in the current period Further payments of £3 1m relating to early retirements were paid in the period bringing total contributions to £50 2m Contributions for the next financial period, to 31 December 2012, are expected to be £0 4m, relating to early retirements

The scheme also has a defined contribution section which had 529 active members at 31 March 2012 (2011 460) Members can choose to contribute either 3%, 4% or 5% of salary, with employers contributing at either 6%, 7% or 8% depending on the member contribution rate The contributions paid to the defined contribution section by the Company in the year totalled £0 9m (2010 £0 8m)

In accordance with FRS 17, the Company accounts for its contributions to the scheme as if it were a defined contribution scheme because it is not possible to separately identify the Company's share of the assets and liabilities The liability is included within the financial statements of Northumbrian

Water Limited as more than 99% of the active members of the scheme are employed by this company

The additional disclosures regarding the defined benefit scheme as required under FRS 17 'Retirement benefits' and the relevant impact on the financial statements are set out below

A qualified actuary, using revised assumptions that are consistent with the requirements of FRS 17, has updated the actuarial valuation described above as at 31 March 2012 Investments have been valued, for this purpose, at fair value

FRS 17 actuarial assumptions	2012	2011
Discount rate	4 8%	5 5%
Pay increases[1]	3 85%	4 5%
Price inflation (RPI)	3 2%	3 5%
Price inflation (CPI)	2 5%	2 8%
Pension increases linked to RPI	3 2%	3 5%
Pension increases linked to CPI	2 5%	2 8%
Mortality assumptions[2]	PCMA/PCFA0 0	PCMA/PCFA0 0
- Life expectancy for a member aged 65 - female (years)	24 3	23 0
- Life expectancy for a member aged 65 - male (years)	22 0	20 7

1 including promotional salary scale

2 115% of PCMA00/PCFA00 (year of birth with medium cohort improvements)

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

	Long term expected rate of return 2012	2012	Long term expected rate of return 2011	2011
	%	£'m	%	£'m
Equities	6 3	441 8	7 3	511 8
Corporate bonds	4 8	128 1	5 5	62 1
Government bonds	3 3	80 4	4 3	63 9
Property	4 8	76 0	5 8	71 6
Cash	2 5	12 0	3 8	3 9
Total fair value of assets		738 3		713 3
Present value of liabilities		(822 4)		(759 3)
Deficit under FRS17		(84 1)		(46 0)
Related deferred tax[1]		20 2		12 0
Net pension liability		(63 9)		(34 0)

1 The movement in deferred tax of £8 2m comprises a reduction of £1 2m to reflect the 2% cut in the rate of UK corporation tax and an increase of £20 0m relating to the actuarial loss in the year, which are both recognised in the statement of total recognised gains and losses, and a reduction of £10 6m relating to other items which is recognised as a charge in the profit and loss account

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

	2012	2011
	£'m	£'m
Current service cost	12 5	13 5
Past service cost	0 3	0 4
Recognised in operating costs in arriving at operating profit	12 8	13 9

	2012	2011
	£'m	£'m
Interest cost on plan obligations	41 3	43 3
Expected return on plan assets	(49 3)	(45 5)
Recognised in net interest (receivable) / payable (note 4)	(8 0)	(2 2)

Analysis of the actuarial (loss)/gain that has been recognised in the statement of total recognised gains and losses

	2012	2011
	£'m	£'m
Net actuarial (loss)/gain by NWL	(83 5)	74 4
Cash paid by other group company	-	(0 4)
Net actuarial (loss)/gain to the overall scheme	(83 5)	74 0
Cumulative amounts recognised since adopting the standard	(89 6)	(6 1)

History of experience gains and losses

	2012	2011	2010	2009	2008
Fair value of assets	738 3	713 3	663 4	478 6	666 7
Present value of defined benefit obligation	(822 4)	(759 3)	(796 5)	(598 0)	(576 3)
(Deficit) / surplus	(84 1)	(46 0)	(133 1)	(119 4)	90 4
Experience adjustments arising on plan assets	(42 2)	10 7	177 4	(205 3)	(93 4)
Experience adjustments arising on plan liabilities	31 0	-	-	18 7	0 6

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

	2012	2011
	£'m	£'m
At 1 April	759 3	796 5
Current service cost	12 5	13 5
Past service cost	0 3	0 4
Interest cost	41 3	43 3
Contributions by plan participants	0 1	0 1
Actuarial losses / (gains) on obligations	41 3	(63 3)
Benefits paid	(32 4)	(31 2)
At 31 March	822 4	759 3

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

	2012	2011
	£'m	£'m
At 1 April	713 3	663 4
Expected return on plan assets	49 3	45 5
Actuarial (losses)/gains on plan assets	(42 2)	10 7
Contributions by employer	50 2	24 8
Contributions by plan participants	0 1	0 1
Benefits paid	(32 4)	(31 2)
At 31 March	738 3	713 3

Sensitivity to key assumptions
FRS 17 encourages disclosure of the sensitivity of the results to the methods and assumptions used

The costs of a pension arrangement require estimates regarding future experience The financial assumptions used for FRS 17 reporting are the responsibility of the directors of the Company These assumptions reflect market conditions at the balance sheet date Changes in market conditions which result in changes in the net discount rate (essentially the difference between the discount rate and the assumed rates of increases of salaries, deferred pension revaluation or pensions in payment), can have a significant effect on the value of the liabilities reported

A reduction in the net discount rate will increase the assessed value of liabilities, as a higher value is placed on benefits paid in the future A rise in the net discount rate will have an opposite effect of similar magnitude The overall effect of a change in the net discount rate of 0 1% would change the liabilities by around £14 0m

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

The disclosures have been prepared using the mortality assumptions basis used in the 2010 formal valuation Specifically, the post-retirement mortality assumptions use a base table of 115% of PCMA00/PCFA00 with an allowance for future improvements in line with the medium cohort projections, lagged to apply 10 years later, based on each individual's year of birth This is subject to a minimum improvement of 1 0% per annum

These assumptions imply an assumed life expectancy for a member aged 65 at 31 March 2012 of 22 0 years (2010 20 7 years) for males and 24 3 years (2010 23 0 years) for females

The effect of increasing the assumed life expectancies by one year would be to increase the value of liabilities by around 3 0%