

Northumbrian Water Finance plc

Registered No: 04326507

Annual Report and Financial Statements

for the year ended 31 March 2024

Annual Report and Financial Statements

for the year ended 31 March 2024

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Company information

Registered No: 04326507

Directors

H Mottram

R W P Somerville

M Porter (Resigned 25 August 2023)

M A Williams (Appointed 14 September 2023)

Company Secretary

R W P Somerville

Auditor

Deloitte LLP

Statutory Auditor

1 City Square

Leeds

United Kingdom

LS1 2AL

Bankers

National Westminster Bank plc

16 Northumberland Street

Newcastle upon Tyne

NE1 7EL

Registered Office

Northumbria House

Abbey Road

Pity Me

Durham

DH1 5FJ

Strategic report

The Directors of Northumbrian Water Finance plc (NWF or the Company) are pleased to present their Strategic Report for the year ended 31 March 2024.

Review of the business

The Company is incorporated and domiciled in the UK.

The Company's principal activity is to raise and administer finance on behalf of its immediate parent company, Northumbrian Water Limited (NWL).

In April 2022, the Board of NWL approved an updated Treasury Strategy setting out a framework for raising c.£1.3bn of funding over the next four years. In October 2022 the Company established a £6bn European Medium Term Note (EMTN) programme, of which £1.1bn has been utilised to date, enabling more regular and efficient issuance of bonds by the Company.

Under the EMTN programme, in March 2024, the Company issued £250m of fixed rate bonds, with a 13 ½ year tenor, and £100m on CPI-linked bonds, with a 15 year tenor, although the funds weren't received until April 2024, after the balance sheet date. NWL is guarantor of all these bonds and received the issue proceeds by way of inter-company loans.

Future developments

The Directors have no plans to expand the operations of the Company. Future financing activity will be dependent upon the requirements of NWL.

Results and dividends

The Company made no profit after taxation in the year (2023: £nil). The Directors do not recommend the payment of a final dividend (2023: £nil).

Risks arising from the Company's financial instruments

All loans are covered by inter-company loan agreements with NWL on the same terms and conditions as those of the external loans, leading to a break-even position for the Company. In addition, all loans are unconditionally and irrevocably guaranteed by NWL; therefore there are no risks arising from the Company's financial instruments except the risk of default by NWL which, in the Directors' opinion, is remote. As such, the Directors do not consider the setting of key performance indicators to be appropriate. The Company did not use any derivatives during the year.

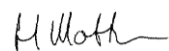
Risks arising from Climate Change

The Company considers that the impact of climate change does not give rise to a material impact on these Financial Statements. NWL has assessed and reported its climate risks in its climate-related financial disclosures.

Events after the balance sheet date

There have been no events subsequent to the year end and to the date of signing this report.

Approved by the Board of Directors on 25 July 2024 and signed on its behalf:



H Mottram
Director
26 July 2024

Directors' report

The Directors are pleased to present their Annual Report and audited Financial Statements for the year ended 31 March 2024.

Directors

The Directors who served during the year and (except as noted below) up to the date of signing were:

- H Mottram
- M Porter
- R W P Somerville
- M A Williams

M Porter resigned during the year on 25 August 2023. M A Williams was appointed as Director on 14 September 2023.

Results and dividends

Information on results and dividends is contained in the Strategic Report.

Events after the Balance Sheet date

Events after the Balance Sheet date are disclosed in the Strategic Report.

Going concern

The Directors confirm that, in their opinion, the Company has sufficient resources to continue in operational existence for the foreseeable future. The going concern status of the Company relies upon NWL's ability to repay its borrowings to the Company as they fall due.

In arriving at their decision, the Directors have made enquiries and taken into account the following factors:

- NWL is a stable water and wastewater business operating an essential public service in a regulated market;
- NWL has a strong balance sheet as at 31 March 2024, supported by £450m of committed bank facilities of which £355m was undrawn as at 31 March 2024, £350m of proceeds from new debt issuance received in April 2024, and investment grade credit ratings; and
- NWL's going concern and viability statements, as published in its Annual Report and Financial Statements for the year ended 31 March 2024, in particular its EMTN programme, giving the Directors confidence that NWL will be able to raise new financing in a timely manner as required.

Accordingly, the Directors continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Future developments

Information on future developments is contained in the Strategic Report.

Treasury operations

The Company's Board is responsible for the financing strategy of the Company, which is determined within treasury policies set by Northumbrian Water Group Limited (NWGL), the immediate parent company of NWL. The aim of this strategy is to assess the ongoing capital requirement of the Company and to raise funding on a timely basis, taking advantage of any favourable market opportunities.

Directors' report

The Treasury department of NWGL carries out treasury operations on behalf of the Company. Surplus funds are invested based upon forecast requirements, in accordance with the treasury policy. Derivatives may be used as part of this process, but the treasury policies prohibit their use for speculation.

Financial instruments

The Company's policy in relation to the use of financial instruments is set out above. Risks associated with financial instruments are discussed in the Strategic Report.

Political donations

There have been no political donations during the current or prior year.

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 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.

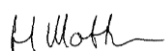
Indemnification of Directors

Directors' and Officers' liability insurance was in place for the year ended 31 March 2024. On 21 March 2017 NWGL entered into a deed of indemnity to grant the Directors of NWGL and its subsidiaries further protection against liability to third parties, subject to the conditions set out in the Companies Act 2006, and this remains in place.

Auditor

Pursuant to section 487 of the Companies Act 2006, Deloitte LLP is deemed to be re-appointed as the Company's auditor for the ensuing year.

Approved by the Board of Directors on 25 July 2024 and signed on its behalf:



H Mottram
Director
26 July 2024

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial period. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard (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 these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Independent auditor's report

to the members of Northumbrian Water Finance plc

Report on the audit of the Financial Statements

1. Opinion

In our opinion the Financial Statements of Northumbrian Water Finance plc (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2024 and of its results for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Financial Statements which comprise:

- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 11.

The Financial Reporting Framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year was:

- Recoverability of inter-company loans.

Within this report, key audit matter identified is consistent with the previous year.

Independent auditor's report

to the members of Northumbrian Water Finance plc

Materiality	The materiality that we used in the current year was £3.59m (2023: £3.81m) which was determined on the basis of 2% (2023: 2%) of finance income.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	Our approach has remained consistent with that of the previous year.

4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Assessing financing facilities including availability and access at the balance sheet date, the nature of facilities, repayment and expiration terms and associated covenants;
- Evaluating management's going concern assessment in light of information available around upcoming risks;
- Evaluating the amount, and performing sensitivity analysis, of headroom in the forecasts focusing on cash and covenants associated with financing activities;
- Assessing the model used to prepare the forecasts, testing of mathematical accuracy and reasonableness of those forecasts and assessing historical accuracy of forecasts prepared by management; and
- Evaluating the disclosure made in the Financial Statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report

to the members of Northumbrian Water Finance plc

5.1. Recoverability of inter-company loans

Key audit matter description

The Company has external debt of £2.96bn (2023: £2.89bn) as at 31 March 2024, with financing comprising listed debt in the form of Eurobonds and a CPI-linked Private Placement. This debt is due between October 2026 and July 2053 and incurs interest of between 1.625% and 6.375%. The purpose of these bonds was to raise finance for Northumbrian Water Limited, the parent company of Northumbrian Water Finance Plc.

In July 2019, the Company raised financing on behalf of Northumbrian Water Limited ("NWL") of £100m through CPI-linked Guaranteed Senior Notes with a coupon of CPI plus 0.242% repayable in 2039. NWL guaranteed the issue and received the proceeds by way of an inter-company loan in October 2019.

The Company also has interest accruals of £46.42m (2023: £46.67m) as at 31 March 2024, with an associated amount owed by group undertakings of the same value.

All loans are covered by inter-company loan agreements with NWL on the same terms and conditions and these loans are guaranteed by NWL which is the main trading entity in the wider Northumbrian Water Group ("the Group"). The ability of the Company to repay the debt and relevant interest charges externally is dependent on the recoverability of the loan to NWL. This recoverability is thus dependent on the performance of NWL. Judgement is therefore required by the Directors as to whether the inter-company loan directly supporting payment of the external loan is recoverable based on the, economic, societal and industry changes and prospects of the trading entity.

We consider this to be a key audit matter as the inter-company loan to NWL is of a significant value and fundamental to the principal activity of the Company.

Further details are included within the Directors' Report on page 5 and note 1 to the Financial Statements.

How the scope of our audit responded to the key audit matter

- We evaluated the ability of the Company to continue to repay the interest and principal on the external debt by assessing the recoverability of the Company's inter-company loan to NWL;
- We assessed the ability of NWL to continue to repay the inter-company interest owed to the Company by evaluating the net asset position of NWL to determine whether there is enough coverage for these inter-company borrowings;
- We obtained an understanding of the process and challenged Director's assessment, through reference to external sources of information, of the impact of economic, societal and industry changes on the carrying value of the NWL's assets and liabilities including intercompany receivables; and

Independent auditor’s report
to the members of Northumbrian Water Finance plc

- We evaluated the appropriateness of disclosures made in the above -mentioned notes to the Financial Statements.

Key observations	Based on the work performed, we concur with director’s assessment that the inter-company loan is appropriately stated, and the disclosure in respect of the carrying value of intercompany loans is appropriate.
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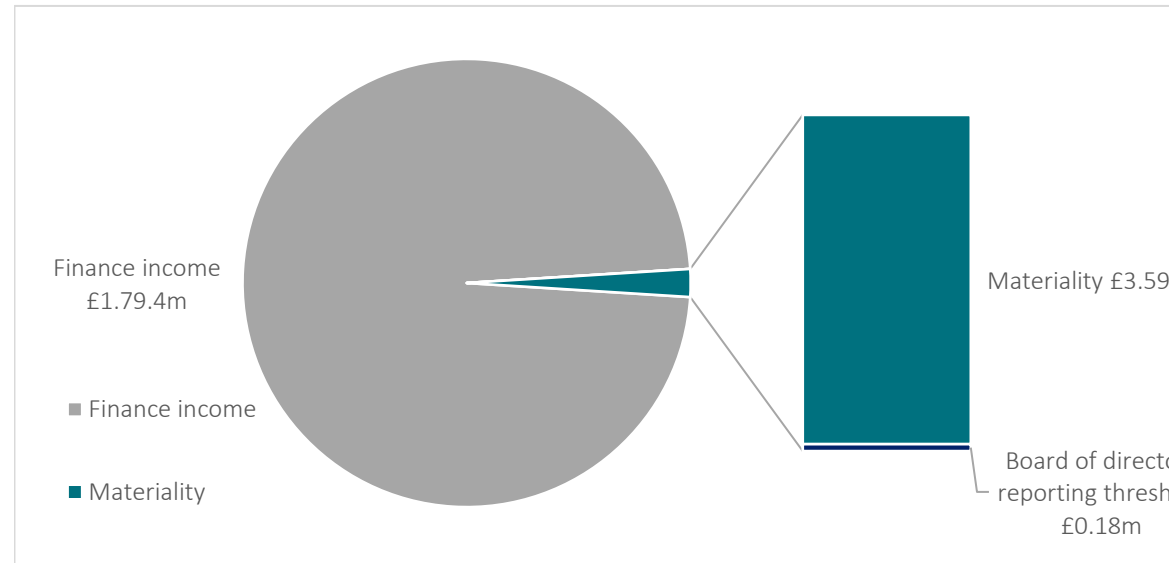
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the Financial Statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the Financial Statements as a whole as follows:

Materiality	£3.59m (2023: £3.81m).
Basis for determining materiality	2.0% (2023: 2.0%) of finance income, being the inter-company interest received from NWL.
Rationale for the benchmark applied	As the Company was set up with the purpose of raising and holding finance on behalf of NWL, the finance income from NWL was selected as the appropriate measure on which to determine materiality.



Independent auditor's report

to the members of Northumbrian Water Finance plc

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole. Performance materiality was set at 70% of materiality for the 2024 audit (2023: 70%). In determining performance materiality, we considered the following factors:

- Low number of corrected and uncorrected misstatements in prior years;
- Our assessment of the control environment;
- The cumulative knowledge we have of the Company; and
- A low turnover within in management or key accounting personnel at the Company.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £0.18m (2023: £0.076m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

7. An overview of the scope of our audit

7.1. Scoping

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

We involved our IT specialists to assess relevant controls over the Company's IT systems. As planned and reported to the Directors, we did not adopt a controls reliance approach in the current and prior years.

7.3 Our consideration of climate-related risks

As part of the audit, we made enquiries of management to understand the process they have adopted to assess the potential impact of climate change on the Financial Statements. Management considers that the impact of climate change does not give rise to a material financial statement impact. We used our knowledge of the entity, to evaluate management's assessment and their conclusion that there is no material Financial Statement impact. We also considered whether the disclosures in relation to climate change made in the other information in the annual report is materially consistent with the Financial Statements and our knowledge from our audit.

8. Other information

The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Independent auditor's report

to the members of Northumbrian Water Finance plc

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the Financial Statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors'

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, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Independent auditor's report

to the members of Northumbrian Water Finance plc

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Company's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Directors about their own identification and assessment of the risks of irregularities, including those that are specific to the Company's sector;
- any matters we identified having obtained and reviewed the Company's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax specialists regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Company's ability to operate or to avoid material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we did not identify any key audit matters related to the potential risk of fraud or non-compliance with laws and regulations.

Our procedures to respond to risks identified included the following:

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Directors and both in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing internal audit reports for the wider Group; and

Independent auditor's report

to the members of Northumbrian Water Finance plc

- In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters 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 or the Directors' Report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Other matters which we are required to address

14.1. Auditor tenure

We were appointed by the Directors on 14 October 2011 to audit the Financial Statements for the year ending 31 March 2012 and subsequent financial periods. Following a competitive tender process in April 2022, we were reappointed as the Company's auditor for the year ended March

Independent auditor's report

to the members of Northumbrian Water Finance plc

2024. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 13 years, covering the years ending 31 March 2012 to 31 March 2024.

14.2. Consistency of the Audit Report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

15. Use of our report

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.



Dave Johnson FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds,
United Kingdom
26 July 2024

Statement of comprehensive income

for the year ended 31 March 2024

	Notes	<u>2024</u> £000	<u>2023</u> £000
Continuing operations			
Finance income		179,431	190,279
Finance costs		(179,431)	(190,279)
Result before taxation		-	-
Taxation	4	-	-
Result for the year attributable to the shareholder of the Company		-	-

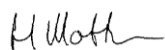
Registered No: 04326507

Balance sheet

as at 31 March 2024

	Notes	2024 £000	2023 £000
Non-current assets			
Loans to group undertakings	5	2,961,292	2,888,017
Current assets			
Trade and other receivables	6	46,457	46,710
Cash and bank balances		13	13
		46,470	46,723
Total assets		3,007,762	2,934,740
Current liabilities			
Trade and other payables	7	(46,420)	(46,673)
		(46,420)	(46,673)
Non-current liabilities			
Loans and borrowings	8	(2,961,292)	(2,888,017)
Total liabilities		(3,007,712)	(2,934,690)
Net assets		50	50
Capital and reserves			
Share capital	9	50	50
Profit and loss account		-	-
Equity attributable to the shareholder of the Company		50	50

Approved by the Board of Directors on 25 July 2024 and signed on its behalf:



H Mottram
26 July 2024

Statement of changes in equity

for the year ended 31 March 2024

	<i>Share capital</i>	<i>Retained earnings</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 April 2022	50	-	50
Result for the year and total comprehensive income	-	-	-
At 31 March 2023	50	-	50
Result for the year and total comprehensive income	-	-	-
At 31 March 2024	50	-	50

Notes to the financial statements

for the year ended 31 March 2024

1. Accounting policies

General information

NWF is a company incorporated in the United Kingdom under the Companies Act 2006. The Company is a public company limited by shares registered in England and Wales. The address of the Company's registered office is shown on page 3. The Company has one reportable segment of business and the nature of its operations and its principal activities are set out in the Strategic report on page 4.

These Financial Statements are presented in sterling and all values are rounded to the nearest one thousand pounds (£000) except where otherwise indicated.

Significant accounting policies

Basis of accounting

The Company meets the definition of a qualifying entity under FRS 100 'Application of Financial Reporting Requirements' issued by the Financial Reporting Council. Accordingly, these financial statements were prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

The Financial Statements have been prepared under the historical cost convention.

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

The principal accounting policies adopted are set out below.

Accounting standards

The impact of new standards adopted in the period was not material to the financial statements.

Going concern

The Directors confirm that, in their opinion, the Company has sufficient resources to continue in operational existence for the foreseeable future. The going concern status of the Company relies upon NWL's ability to repay its borrowings to the Company as they fall due.

In arriving at their decision, the Directors have made enquiries and taken into account the following factors:

- NWL is a stable water and wastewater business operating an essential public service in a regulated market; and
- NWL has a strong balance sheet as at 31 March 2024, supported by £450m of committed bank facilities of which £355m was undrawn as at 31 March 2024, £350m of proceeds from new debt issuance received in April 2024, and investment grade credit ratings.
- NWL's going concern and viability statements, as published in its Annual Report and Financial Statements for the year ended 31 March 2024, in particular its EMTN programme, giving the Directors confidence that NWL will be able to raise new financing in a timely manner as required.

Notes to the financial statements

for the year ended 31 March 2024

1. Accounting policies (continued)

The Company raises finance on behalf of its immediate parent company, NWL. All loans are covered by inter-company loan agreements on the exact same terms and conditions as those of the external loans, therefore leading to a break-even position for the Company. In addition, all loans are unconditionally and irrevocably guaranteed by NWL.

Accordingly, the Directors believe it is appropriate to continue to adopt the going concern basis in preparing the Annual Report and Financial Statements.

Finance income

Finance income relates to interest receivable on loans due from NWL. Finance income is taken to the income statement over the term of the loan at a constant rate on the balance sheet carrying amount of the loan.

Finance costs

Finance costs and issue costs are recognised in the income statement over the duration of the borrowing using the effective interest rate method. 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 and fees are recognised evenly over the duration of the borrowing.

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.

Notes to the financial statements

for the year ended 31 March 2024

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 the income statement, 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.

Loans and receivables

Loans and receivables are shown at amortised cost less provision for any impairment in value.

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. Fixed rate borrowings are stated at amortised cost. Finance and issue costs are recognised in the income statement over the duration of the borrowing using the effective interest rate method. 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 and fees are recognised evenly over the duration of the borrowings.

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.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on the information available. The Directors consider that there are no significant judgements or key sources of estimation uncertainty applied at the balance sheet date, which may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Notes to the financial statements

for the year ended 31 March 2024

2. Auditor's remuneration

Auditor's remuneration for the audit of the Financial Statements for the year ended 31 March 2024 was £12,299 (2023: £11,496) which has been borne by NWL, the Company's immediate parent company, and is not repayable.

3. Staff costs

There were no employees during the year (2023: nil).

The Directors of the Company are remunerated in full by NWGL and NWL and, as their services to the Company are incidental to the services provided to other NWGL companies, they do not receive any remuneration in respect of qualifying services to NWF (2023: nil).

4. Taxation

(a) Tax in the income statement

There is no tax liability for the year ended 31 March 2024 (2023: £nil), no deferred tax liability (2023: £nil) and no unprovided deferred tax (2023: £nil).

(b) Reconciliation of total tax charge

	<u>2024</u>	<u>2023</u>
	<u>£000</u>	<u>£000</u>
Profit before tax multiplied by the rate of UK corporation tax of 25% (2023 : 19%)	-	-
Effects at 25% (2023: 19%) of:		
Transfer pricing adjustments	73	49
Balancing payment receivable	(73)	(49)
Total tax (note 4a)	<u>-</u>	<u>-</u>

Transfer pricing adjustments relate to loans made to the immediate parent company.

(c) Factors that may affect future tax charges

The rate of UK corporation tax for the current year was 25%.

Notes to the financial statements

for the year ended 31 March 2024

5. Loans to group undertakings

	<i>Loans to group undertaking</i>	
	<u>£000</u>	
At 31 March 2023		2,888,017
Effect of indexation		71,022
Amortisation of fees and interest		<u>2,253</u>
At 31 March 2024		<u>2,961,292</u>
	<u>2024</u>	<u>2023</u>
	<u>£000</u>	<u>£000</u>
Disclosed as:		
Non-current assets	<u>2,961,292</u>	<u>2,888,017</u>

Loans to group undertaking relate to inter-company loans to NWL, which are provided on the same terms and conditions as the external borrowings detailed in note 8.

6. Trade and other receivables

	<u>2024</u>	<u>2023</u>
	<u>£000</u>	<u>£000</u>
Interest owed by group undertakings	46,420	46,673
Called up share capital not paid	37	37
	<u>46,457</u>	<u>46,710</u>

The terms and conditions of loans to group undertaking are detailed in note 8.

7. Trade and other payables

	<u>2024</u>	<u>2023</u>
	<u>£000</u>	<u>£000</u>
Interest accruals	<u>46,420</u>	<u>46,673</u>

Notes to the financial statements

for the year ended 31 March 2024

8. Loans and borrowings

	<u>2024</u>	<u>2023</u>
	£000	£000
Non-current instalments due on external borrowings:		
£350m Eurobonds: due 29 April 2033 bearing interest rate of 5.625%	344,897	344,443
£360m Eurobonds: due 23 January 2042 bearing interest rate of 5.125%	357,105	357,016
£150m Index linked Eurobonds: due 15 July 2036 bearing interest rate of 2.033%	296,660	272,006
£60m Index linked Eurobonds: due 30 January 2041 bearing interest rate of 1.6274%	116,849	107,157
£100m Index linked Eurobonds: due 16 July 2049 bearing interest rate of 1.7118%	193,477	177,435
£100m Index linked Eurobonds: due 16 July 2053 bearing interest rate of 1.7484%	193,470	177,429
£300m Eurobonds: due 11 October 2026 bearing interest rate of 1.625%	299,321	299,066
£300m Eurobonds: due 5 October 2027 bearing interest rate of 2.375%	298,813	298,493
£100m CPI Index Linked Private Placement: due 29 October 2039 bearing interest rate of CPI + 0.242%	122,077	117,413
£400m Eurobonds: due 31 October 2034 bearing interest rate of 6.375%	391,662	390,953
£350m Eurobonds: due 28 February 2031 bearing interest rate of 4.5%	346,961	346,606
	<u>2,961,292</u>	<u>2,888,017</u>

The difference between the principal value of £2,983.6m (2023: £2,912.6m) and the carrying value of £2,961.3m (2023: £2,888.0m) relates to unamortised costs of £22.3m (2023: £24.6m).

Notes to the financial statements

for the year ended 31 March 2024

9. Share capital

	<u>2024</u>	<u>2023</u>
	<u>£000</u>	<u>£000</u>
<i>Authorised:</i>		
50,000 Ordinary Shares of £1 each (2023: 50,000)	50	50
	<u>50</u>	<u>50</u>
	<u>2024</u>	<u>2023</u>
	<u>£000</u>	<u>£000</u>
<i>Allotted, called up and partly paid:</i>		
50,000 Ordinary Shares of £1 each (2023: 50,000)	50	50
	<u>50</u>	<u>50</u>

On 21 November 2001 the Company issued 50,000 £1 shares at par. At the balance sheet date 75p per share remained unpaid. The above shares rank pari passu in all respects.

10. Related parties

The Company is an indirectly wholly owned subsidiary of NWGL, whose publicly available consolidated Financial Statements include the Company. Accordingly, the Company is exempt under the terms of FRS 101 from disclosing transactions with other wholly owned members of the Group headed by NWGL.

11. Parent undertaking and controlling party

NWGL is, in the Directors' opinion, the Company's ultimate parent undertaking and controlling party, and is the parent undertaking of the largest group of undertakings for which group Financial Statements are drawn up, and of which the reporting company is a member. NWGL is incorporated in England and Wales. Copies of NWGL's group Financial Statements are available on the website at: www.nwg.co.uk and from its registered office at Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ.

The Company's immediate parent undertaking is NWL which is the parent undertaking of the smallest group of undertakings for which group Financial Statements are drawn up, and of which the reporting company is a member. NWL is incorporated in England and Wales. Copies of NWL's group Financial Statements are available on the website at: www.nwg.co.uk and from its registered office at Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ.