

Notes to the Company financial statements

1. Accounting policies

(a) Basis of accounting

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The accounting policies have been reviewed in accordance with the requirements of FRS 18. The directors consider the following accounting policies to be relevant in relation to the Company's financial statements. The Company's financial statements are included in the consolidated financial statements of Northumbrian Water Group plc. Accordingly, the Company has taken advantage of the exemption from publishing a profit and loss account and cash flow statement and from disclosing related party transactions with its subsidiaries. The Company is also exempt from disclosing the information otherwise required by FRS 29 Financial Instruments: Disclosures, as the consolidated financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 Financial Instruments: Disclosures.

(b) Fixed asset investments

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

(c) Taxation

Corporation tax is based on the profit for the year as adjusted for taxation purposes using the rates of tax enacted at the balance sheet date. Provision is made for deferred tax in respect of all timing differences that have originated but not reversed at the balance sheet date that will result in an obligation to pay more, or a right to pay less, tax in future periods. Deferred tax is calculated at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(d) Interest bearing loans and borrowings

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

2. Auditors' remuneration

Auditors' remuneration for the year ended 31 March 2009 was £97,000 (2008: £90,000).

Fees paid to Ernst & Young LLP for non-audit services to the Company itself are not disclosed in the individual financial statements of the Company because Group financial statements are prepared which are required to disclose such fees on a consolidated basis.

3. Profit attributable to members of the parent Company

The profit dealt with in the financial statements of the parent Company is £64.9 million (2008: £59.2 million).

4. Investments in subsidiary undertakings

£m

At 1 April 2008 and 31 March 2009

1,022.6

The Company's interests in principal subsidiaries at 31 March 2008 and 31 March 2009 were as follows:

Name of undertaking	Country of incorporation or registration and operation	Description of shares held	Proportion of nominal value of issued shares held by Group (%)	Business activity
Northumbrian Services Limited	England and Wales	Ordinary shares of £1	100	Holding of investments and loans
Northumbrian Water Limited	England and Wales	Ordinary shares of £1	100	Water and sewerage services
Northumbrian Water Finance plc	England and Wales	Ordinary shares of £1	100	Holding of finance instruments
Caledonian Environmental Services plc	Scotland	Ordinary shares of £1	75	Waste water services
Caledonian Environmental Levenmouth Treatment Services Limited	Scotland	Ordinary shares of £1	75	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
AquaGib Limited	Gibraltar	Ordinary shares of £1	67	Water and sewerage services
Northumbrian Water Projects Limited	England and Wales	Ordinary shares of £1	100	Waste water services
SA Agrer NV	Belgium	Ordinary shares of £1	100	Aid funded project work

The directors consider that to give full particulars of all subsidiary and associated undertakings would lead to a statement of excessive length. A full list of the Company's subsidiaries is attached to the Company's latest annual return filed at Companies House.

5. Debtors

	31.3.2009 £m	31.3.2008 £m
Amounts owed by subsidiary undertakings	6.5	9.7
Prepayments and accrued income	0.1	0.2
Other	0.2	0.3
	6.8	10.2

Amounts owed by subsidiary undertakings include amounts receivable for the provisional surrender of tax losses amounting to £4.7 million (2008: £5.5 million).

Notes to the Company financial statements continued

6. Creditors: amounts falling due within one year

	31.3.2009 £m	31.3.2008 £m
Amounts owed to subsidiary undertakings	7.3	15.3
Accruals and deferred income	0.4	0.4
	7.7	15.7

7. Creditors: amounts falling due after more than one year

	31.3.2009 £m	31.3.2008 £m
Amounts owed to subsidiary undertakings	490.0	490.0

	31.3.2009 £m	31.3.2008 £m
Loans are repayable as follows:		
Not wholly repayable within five years	490.0	490.0

The loan bears a rate of interest linked to LIBOR. The loan will continue until such time as terminated by mutual agreement.

8. Authorised and issued share capital

	31.3.2009 £m	31.3.2008 £m
Authorised:		
700 million ordinary shares of 10 pence each	70.0	70.0
Allotted, called up and fully paid:		
518.6 million ordinary shares of 10 pence each	51.9	51.9

The Northumbrian Water Group plc Employee Trust, through Northumbrian Water Share Scheme Trustees Limited, currently holds 1,038,252 (2008: 443,507) ordinary 10 pence shares in the Company for use under the Company's Long Term Incentive Plan (LTIP). All of these shares have been conditionally awarded under the LTIP. Details of the main features of the LTIP and the conditions for vesting can be found in the directors' remuneration report on pages 57 to 61. As at 31 March 2009, the share price of the ordinary 10 pence shares in the Company was 218.25 pence (2008: 349.25 pence).

9. Reserves

	Treasury shares £m	Share premium account £m	Profit and loss account £m
At 1 April 2007	(1.3)	446.5	47.1
Profit for the year	–	–	59.2
Share-based payment	–	–	0.1
Exercise of LTIP awards	0.5	–	(0.5)
Dividends	–	–	(59.7)
At 31 March 2008	(0.8)	446.5	46.2
Profit for the year	–	–	64.9
Purchase of own shares for the LTIP	(1.7)	–	–
Share-based payment	–	–	0.1
Exercise of LTIP awards	0.2	–	(0.2)
Dividends paid	–	–	(64.0)
At 31 March 2009	(2.3)	446.5	47.0

10. Commitments

The Company has issued letters of continuing support to subsidiary companies with net liabilities amounting to £7.1 million (2008: £5.6 million) and net current liabilities of £nil (2008: £nil). These subsidiary companies are expected to meet their working capital requirements from operating cash flows.

The Company is guarantor to the EIB in respect of borrowings by Northumbrian Water Limited. The loan principal outstanding at 31 March 2009 amounted to £381.5 million (2008: £356.0 million).

The Company is party to a cross guarantee arrangement with other group companies in respect of bank facilities. Overdrafts outstanding at 31 March 2009 in respect of the arrangement amounted to £17.5 million (2008: £26.4 million). The directors do not expect any loss to arise as a result of this arrangement.

The Group's subsidiary responsible for a contract with Scottish Water, Caledonian Environmental Services plc (CES), has received a claim from its Design and Construction Consortium (DCC), primarily in respect of the DCC's additional costs attributed by it to non-conforming influent at the treatment works. CES is defending this claim and has also issued a counterclaim against the DCC. As non-conforming influent is ultimately the responsibility of the client, CES has protected its position by issuing a claim against Scottish Water. The directors do not expect any material loss to arise as a result of these claims.