Bakethin Finance Plc

Registered No: 05074769

Annual Report and Financial Statements

for the year ended 31 March 2020

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for the for the year ended 31 March 2020

Contents

Company information

Registered No: 05074769

Directors
D Wynne
Wilmington Trust SP Services (London) Limited
I Kyriakopoulos
M Porter (appointed 23 September 2020)

Company Secretary
Wilmington Trust SP Services (London) Limited

Auditor
Deloitte LLP
Statutory Auditor
1 City Square
Leeds
LS1 2AL
United Kingdom

Banker
Deutsche Bank
6 Bishopsgate
London
EC2P 2AT

Registered Office
c/o Wilmington Trust SP Services (London) Limited
Third Floor
1 King's Arms Yard
London
United Kingdom
EC2R 7AF

Strategic report

The Directors of Bakethin Finance Plc (the Company) are pleased to present their Strategic report for the year ended 31 March 2020.

Principal activity and review of the business

Bakethin Finance Plc is incorporated and domiciled in the UK. The Company's principal activity continued to be that of a special purpose vehicle established for the purpose of issuing guaranteed secured bonds. On 12 May 2004, the Company issued £248m of guaranteed secured bonds. The bonds are due to mature in January 2034.

The Company used the proceeds of the bond issue to make a loan to Reiver Finance Limited (RFL) to fund the consideration given by that company to Northumbrian Water Limited (NWL) for the assignment of the right to receive annual sums due from the Environment Agency (EA) under the Water Resources Operating Agreement (WROA) relating to Kielder Reservoir. The assignment is for a period of 29 years and 8 months.

Fluctuations in the profit on ordinary activities before taxation are due to the variable interest received on the cash deposits. The interest receivable on the loan to RFL and the interest payable on the guaranteed secured bonds are fixed at 5.88526% and 5.87526% respectively, a fixed margin of 1 basis point.

The risks arising from Company's financial instruments are detailed below.

Results and dividends

The profit for the year, after taxation, amounted to £31,000 (2019: £29,000). The movement in net assets during the year from £2,240,000 at 31 March 2019 to £2,271,000 at 31 March 2020 is in line with Directors' expectations. The Directors do not recommend the payment of a final dividend (2019: £nil).

Risks arising from the Company's financial instruments

The main risk arising from the Company's financial instruments is liquidity risk. The Company's external debt and RPI swaps are mirrored by a swap and loan to RFL and as such the Directors do not consider the setting of KPIs to be appropriate.

The Company's financing strategy is developed in accordance with the treasury policies of Northumbrian Water Group Limited (NWGL), the Company's ultimate controlling party, whose board reviews and agrees policies for managing each of these risks. These are summarised below and the treasury activities of the Company are conducted in accordance with these policies.

Liquidity risk

The Company utilises investment revenue received from RFL to fund interest payments arising on guaranteed secured bonds. The revenue from RFL is funded by payments from the EA under the WROA. Both RFL and the Company have the same ultimate controlling party.

Strategic report (continued)

Interest rate risk

The investment revenue receivable on the loan to RFL and the interest payable on the guaranteed secured bonds are at fixed rates for the full duration of the instruments. Only interest receivable on cash balances is at variable rate.

Foreign currency risk

NWGL's policy is that any foreign currency exposure in excess of £100,000 sterling equivalent of a transactional nature, or £3m sterling equivalent of a translation nature, should be covered immediately on recognition. At 31 March 2020, the Company had no currency exposures (2019: nil) and does not anticipate any foreign currency exposure in the future.

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.

Other risks and uncertainties

The Company has considered the following risks to the business:

- Brexit: the UK has left the European Union with no deal and is currently in a transition period until the end of 2020. The Directors do not consider this to be a significant risk to the Company; and
- Pandemic: the impact of Covid-19 and lockdown restrictions implemented by government have demonstrated the potential scale of such an occurrence.

The Company does not consider these to be principal risks.

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 and signed on its behalf

Director
Ioannis Kyriakopoulos for and on behalf of Wilmington Trust SP (Services) London Limited
30 September 2020

Directors' report

The Directors are pleased to present their Annual Report and the audited Financial Statements for the year ended 31 March 2020.

Directors and their interests

The Directors who served during the year and up to the date of signing, except as otherwise noted, were:

- D Wynne
- Wilmington Trust SP Services (London) Limited
- C I Johns
- I Kyriakopoulos

C I Johns resigned after the balance sheet date on 30 May 2020. M Porter was appointed as a Director after the balance sheet date on 23 September 2020.

None of the Directors received any remuneration for their services to the Company apart from Wilmington Trust SP Services (London) Limited as disclosed in note 5. At the balance sheet date D Wynne was a Director of Wilmington Trust SP Services (London) Limited.

The Directors who held office as at the end of the year had the following interests in the shares of the Company:

Name of Director	*Class of shares*	*No. of shares at 31 March 2020*	*No. of shares at 31 March 2019*
Wilmington Trust SP Services (London) Limited	£1 Ordinary	1	1

This share is nominally held by A Icolaro for Wilmington Trust SP Services (London) Limited, as nominee for Bakethin Holdings Limited (BHL).

As at 31 March 2020, no Directors held any other interests required to be disclosed (2019: nil), in accordance with Listing Rule LR 9.8.6R.

Results and dividends

Information on results and dividends is contained in the Strategic report and forms part of this report by cross reference.

Going concern

The Directors confirm that in their opinion, the Company has sufficient resources to continue in operational existence for the foreseeable future. In arriving at their decision the Directors have taken account of the cash flows receivable from RFL, supported by the WROA with the EA and the support provided to RFL by NWGL, the ultimate parent company of RFL.

The Directors have taken specific account of the Covid-19 pandemic when making this assessment. The Directors have received assurance from NWL that the operational and financial impacts of Covid-19 on its business are not material and that it remains a going concern.

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

Directors' report (continued)

Future developments

The Directors have no plans to expand, contract or close the existing operations of the Company.

Treasury operations

The Company's Board is responsible for the financing strategy of the Company, which is determined within treasury policies set by 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.

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 in the Strategic report.

Political donations

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

Directors' declaration

So far as each person who was a Director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow Directors and the Company's auditor, each Director has taken all the steps that he/she is obliged to take as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Indemnification of Directors

NWGL had Directors' and Officers' insurance in place for the year ended 31 March 2020. 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.

Directors' report (continued)

Auditor

Deloitte LLP has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on its behalf

Director
Ioannis Kyriakopoulos for and on behalf of Wilmington Trust SP (Services) London Limited
30 September 2020

Directors' responsibilities statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable United Kingdom 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), including FRS 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and 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 Bakethin Finance Plc

Report on the audit of the Financial Statements

1. Opinion

In our opinion the Financial Statements of Bakethin Finance Plc (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit 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 15.

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 the non-audit services prohibited by the FRC's Ethical Standard were not provided 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 matter that we identified in the current year was: • Going concern. Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £68k which was determined on the basis of 3% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	There have been no significant changes in our approach.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the Directors' use of the going concern basis of accounting in preparation of the Financial Statements is not appropriate; or • the Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.	We have nothing to report in respect of these matters.

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.

5.1. Going concern

Key audit matter description	The Company has debt of £236,956k as at 31 March 2020 (2019: £239,073k), with financing comprising entirely listed debt in the form of guaranteed secured bonds. This debt is due in January 2034 and incurs interest of 5.9% per annum. The purpose of these bonds was to raise finance for Reiver Finance Limited (RFL), another entity in the wider Northumbrian Water Group (NWG) and hence these bonds were loaned to RFL on the same terms. Therefore the ability of the Company to repay the debt and relevant interest charges externally is dependent on RFL being able to service its obligations to the Company. RFL earns revenue from the Environment Agency under a licence for its operation of Kielder Reservoir. This revenue varies with Retail Price Index (RPI), however RFL holds an inflation linked swap to better match these cash inflows to its obligations to the Company. The parent entity Northumbrian Water Group Limited has agreed to provide financial support to RFL. If RFL defaults on the payments, BFP will continue to be liable, hence the potential going concern implication. We consider this to be a key audit matter as the intercompany relationship with RFL drives the ability of BFP to continue as a going concern. Further information is included within the strategic report on pages 4-5 and the notes 1, 9, 10 and 12 to the Financial Statements.
How the scope of our audit responded to the key audit matter	We considered the ability of the Company to continue to repay the interest and principal on the loans by considering the ability of RFL to service its obligations to the Company as they fall due. In doing so we have considered the operation and term of the licence to confirm whether RFL can continue operating and paying interest charges to the Company. We have reviewed the balance outstanding and the payments to date to consider the risk of RFL defaulting on the payments. We have considered the agreement from Northumbrian Water Group Limited to provide support to RFL. We evaluated the adequacy of disclosures made in the above mentioned notes to the Financial Statements in respect of the Company's ability to continue as a going concern.
Key observations	Based on the work performed, we concluded that the adoption of the going concern basis of accounting and the disclosure in respect of the Company's ability to continue as a going concern are appropriate.

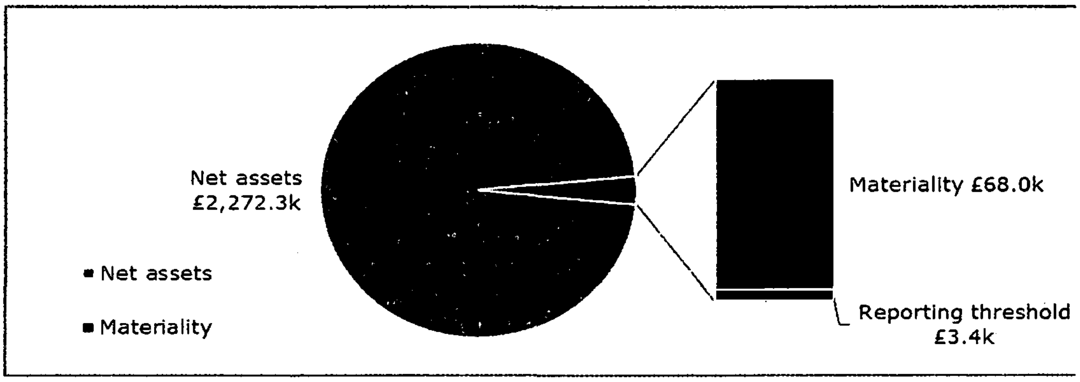
6. Our application of materiality

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	£68k (2019: £67k).
Basis for determining materiality	3% of net assets in both the current and prior year.
Rationale for the benchmark applied	Given that the Company is set up to raise and hold finance, net assets was determined to be an appropriate basis given the largely holding nature of the entity.



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 2020 audit (2019: 70%). In determining performance materiality, we considered the low number of corrected and uncorrected misstatements in the prior years, the control environment, our cumulative knowledge of the Company and low turnover within management or key accounting personnel.

6.3. Error reporting threshold

We agreed with the Directors that we would report to them all audit differences in excess of £3.4k (2019: £3.4k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Directors 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.

8. Other information

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

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.

In connection with our audit of the Financial Statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. 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 respect of these matters.

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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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;
- 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;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and involving 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 and identified the greatest potential for fraud as being the recoverability of intercompany loan and going concern. 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.

11.2. Audit response to risks identified

As a result of performing the above, we identified recoverability of intercompany loan and going concern as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, 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 for the wider Northumbrian Water Group; and
- 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

14.1. Auditor tenure

Following the recommendation of the Northumbrian Water Limited Audit Committee, 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. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 9 years, covering the years ending 31 March 2012 to 31 March 2020.

14.2. Consistency of the audit report with the additional report to the Directors

Our audit opinion is consistent with the additional report to the Directors 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.

David M Johnson FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Newcastle upon Tyne
30 September 2020

Statement of comprehensive income

for the year ended 31 March 2020

Continuing operations	*Notes*	*2020* *£000*	*2019* *£000*
Investment revenue	2	20,418	17,741
Finance costs	3	(20,387)	(17,712)
Profit before taxation		31	29
Taxation	6	-	-
Profit for the year attributable to the shareholder of the Company		31	29

Balance Sheet
as at 31 March 2020

(Registered number 05074769)

	Notes	March 2020 £000	March 2019 £000
Non-current assets			
Investments	7	236,956	239,073
Derivative financial instruments	8	27,208	33,031
		264,164	272,104
Current assets			
Trade and other receivables	9	2,656	2,653
Cash at bank and in hand		2,262	2,236
		4,918	4,889
Total assets		269,082	276,993
Current liabilities			
Borrowings	12	(2,706)	(2,117)
Trade and other payables	10	(2,647)	(2,649)
		(5,353)	(4,766)
Non-current liabilities			
Borrowings	12	(234,250)	(236,956)
Derivative financial instruments	8	(27,208)	(33,031)
		(261,458)	(269,987)
Total liabilities		(266,811)	(274,753)
Net assets		2,271	2,240
Capital and reserves			
Share capital	13	1,500	1,500
Profit and loss account		771	740
Equity attributable to the shareholder of the Company		2,271	2,240

Approved by the Board of Directors on 30 September 2020 and signed on its behalf

Director
Ioannis Kyriakopoulos for and on behalf of Wilmington Trust SP Services (London) Limited

Statement of changes in equity

for the year ended 31 March 2020

	Share capital	*Retained earnings*	*Total*
	£000	*£000*	*£000*
At 1 April 2018	1,500	711	2,211
Profit for the year and total comprehensive income	-	29	29
At 31 March 2019	1,500	740	2,240
Profit for the year and total comprehensive income	-	31	31
At 31 March 2020	1,500	771	2,271

Notes to the Financial Statements

for the year ended 31 March 2020

1. Accounting policies

General information

Bakethin Finance Plc 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 nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 4-5.

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

Basis of accounting

The Company is a qualifying entity for the reduced disclosure framework under FRS 101. These Financial Statements have been prepared in accordance with FRS 101, incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 prior to their mandatory effective date of accounting periods beginning on or after 1 January 2016.

The Financial Statements have been prepared under the historical cost convention, with the exception of financial instruments held at fair value through profit and loss.

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

The principal accounting policies adopted are set out below.

Accounting standards

The Company adopted IFRS 16 with effect from 1 April 2019, no material changes were recognised as a result of adopting this standard.

Going concern

The Directors confirm that in their opinion, the Company has sufficient resources to continue in operational existence for the foreseeable future. In arriving at their decision the Directors have taken account of the cash flows receivable from RFL, supported by the WROA with the EA and the support provided to RFL by NWGL, the ultimate parent company of RFL.

The Directors have taken specific account of the Covid-19 pandemic when making this assessment. The Directors have received assurance from NWL that the operational and financial impacts of Covid-19 on its business are not material and that it remains a going concern.

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

Notes to the Financial Statements

for the year ended 31 March 2020

1. Accounting policies (continued)

Format of Financial Statements

Turnover and cost of sales, as prescribed by the Companies Act 2006, do not have meaningful equivalents for the Company, since its principal activity is the issuing of guaranteed secured bonds and provision of loan finance from which interest is earned and, accordingly, are not defined in these Financial Statements. The headings within the statement of comprehensive income have therefore been adapted from that prescribed by Schedule 1 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 in view of the nature of the business.

Investment revenue

Investment revenue relates to interest receivable on a loan due from RFL. Finance income is taken to the statement of comprehensive income over the term of the loan at a constant rate on the balance sheet carrying amount of the investment.

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 statement of comprehensive income 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 is probable that taxable profits will be available against which deductible temporary differences can be utilised.

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

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

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

Notes to the Financial Statements

for the year ended 31 March 2020

1. Accounting policies (continued)

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.

Investments

Investments are shown at amortised cost less provision for any impairment in value.

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.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Derivative financial instruments

The Company utilises inflation rate swaps as derivative financial instruments. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Company in line with the Group's risk management policies.

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

Any gains or losses arising from changes in fair value of inflation rate swaps are recognised directly through the profit and loss.

Notes to the Financial Statements

for the year ended 31 March 2020

1. Accounting policies (continued)

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 estimates 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.

2. Investment revenue

	2020	2019
	£000	£000
Interest receivable from loan to RFL	14,588	14,690
Fair value gains on derivative financial instruments	5,823	3,046
Interest receivable on bank deposits	7	5
	20,418	17,741

The Company operates in one continuing area of activity, being a special purpose vehicle used to issue guaranteed secured bonds in the UK. All profits or losses before tax and net assets are attributable to this business segment.

3. Finance costs

	2020	2019
	£000	£000
Interest on guaranteed secured bonds	14,564	14,666
Fair value losses on derivative financial instruments	5,823	3,046
	20,387	17,712

4. Auditor's remuneration

Auditor's remuneration in respect of the Financial Statements for the year ended 31 March 2020 was £9,276 (2019: £7,500), which has been borne by RFL, and is not repayable.

Notes to the Financial Statements

for the year ended 31 March 2020

5. Staff costs

Excluding the Directors, there were no employees during the year (2019: nil). The Directors did not receive any remuneration in respect of their services to the Company apart from Wilmington Trust SP Services (London) Limited which earned £22,919 (2019: £20,300) for providing corporate services to the Company. This cost was borne by RFL and is not repayable.

6. Taxation

(a) Tax in the statement of comprehensive income	*2020*	*2019*
	£000	*£000*
Current tax		
UK corporation tax on profit for the year at 19% (2019: 19%)	5	5
Tax funding receivable from RFL	(5)	(5)
Total current tax	-	-

(b) Reconciliation of the tax charge	*2020*	*2019*
	£000	*£000*
Profit before tax	31	29
Profit before tax multiplied by the rate of UK corporation tax of 19% (2019: 19%)	6	6
Effects at 19% (2019: 19%) of:		
Tax losses claimed for which no payment due	(1)	(1)
Tax funding receivable for current period	(5)	(5)
Total tax	-	-

The Company claims tax losses from its parent company, Bakethin Holdings Limited, for no consideration and under arrangements with Reiver Finance Limited, the Company receives a contribution to fund its external tax liabilities.

(c) Factors that may affect future tax charges

The rate of UK corporation tax for the current year was 19%. The planned reduction to 17% on 1 April 2020 has been cancelled and the rate of 19% is expected to apply for the foreseeable future.

Notes to the Financial Statements

for the year ended 31 March 2020

7. Investments

	2020	*2019*
	£000	*£000*
At start of year	239,073	240,648
Cash received from RFL	(2,432)	(1,892)
Amortisation of recharged fees	315	317
At end of year	236,956	239,073

The loan was granted to RFL to fund the consideration given by that Company to NWL for the assignment of the right to receive annual sums due from the EA under the WROA relating to Kielder Reservoir. This loan bears interest at a fixed rate of 5.88526% and is repayable by increasing instalments which commenced in July 2014 and end in January 2034.

8. Financial instruments

	2020	*2019*
	£000	*£000*
Financial assets carried at fair value through profit and loss:		
Inflation swap	27,208	33,031
Financial liabilities carried at fair value through profit and loss:		
Inflation swap	(27,208)	(33,031)

As at 31 March 2020 and 31 March 2019, the Company held two long term Retail Price Inflation (RPI) inflation swaps, designated as hedges of future variable inflation-linked cash flows which are disclosed as both a financial asset and liability. These RPI swaps comprise an external swap with a bank counterparty mirrored by a swap with RFL in the same way that the Company's external debt is mirrored by a loan to RFL.

The RPI swaps fix these variable cash flows and are measured at fair value with changes in fair value recognised in the statement of comprehensive income. The changes in fair value reflect the change in the present value of the future cash flows which incorporates future expectations of inflation over the full term of the swaps.

Notional amount	*Annual swap cash flow paid*	*Start date*	*Termination date*	*Fixed rate*
£000	£000			%
2,900	700	12 May 2004	9 January 2034	2.56

Notes to the Financial Statements

for the year ended 31 March 2020

9. Trade and other receivables

	2020	2019
	£000	£000
Other debtors	10	5
Accrued interest receivable	2,646	2,648
	2,656	2,653

The Company has one main debtor, RFL, a subsidiary of NWGL (note 7). At 31 March 2020, an amount of £2,646,000 (2019: £2,648,000) due from RFL is included within accrued interest receivable. Other debtors consists of £10,000 (2019: £5,000) in respect of payments due from RFL under arrangements to fund corporation tax liabilities.

10. Trade and other payables

	2020	2019
	£000	£000
Accrued interest payable	2,642	2,644
Corporation tax	5	5
	2,647	2,649

11. Deferred tax

The Company has the following deferred tax assets / (liabilities) in respect of derivative financial instruments:

	Third party bank	Group undertaking	Total
	£000	£000	£000
At 1 April 2018	5,098	(5,098)	-
Credit / (charge) in the statement of comprehensive income	517	(517)	-
At 31 March 2019	5,615	(5,615)	-
(Charge) / credit in the statement of comprehensive income	(446)	446	-
At 31 March 2020	5,169	(5,169)	-

Notes to the Financial Statements

for the year ended 31 March 2020

12. Borrowings

	2020	2019
	£000	£000
Guaranteed secured bonds:		
Current instalments due on external borrowings	2,706	2,117
Non-current instalments due on external borrowings	234,250	236,956
	236,956	239,073

The difference between the principal value of £240,722,000 (2019: £243,153,000) and the carrying value of £236,956,000 (2019: £239,073,000) relates to unamortised issue costs of £3,766,000 (2019: £4,080,000).

The repayment of the guaranteed secured bonds is dependent on the receipt in full of the payments from the loan made to RFL. The bonds are secured by means of a fixed and floating rate charge over the Company's assets.

The guaranteed secured bonds are listed on the London Stock Exchange's market for listed securities and are repayable by increasing instalments, which commenced in July 2014 and end in January 2034. The guaranteed secured bonds bear interest at 5.87526%.

13. Share capital

	2020	2019
Authorised	£000	£000
1,500,000 Ordinary Shares of £1 each (2019: 1,500,000)	1,500	1,500

	2020	2019
Allotted, called up and fully paid	£000	£000
1,500,000 Ordinary Shares of £1 each (2019: 1,500,000)	1,500	1,500

Notes to the Financial Statements

for the year ended 31 March 2020

14. Related parties

In accordance with IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities, the Financial Statements of the Company and BHL are consolidated in the Financial Statements of NWGL as special purpose entities.

Accordingly, the Company is exempt under the terms of FRS 101 from disclosing transactions with other members of the group headed by NWGL.

Transactions with the Company's director Wilmington Trust SP Services (London) Limited are disclosed in note 5. At 31 March 2020 there is no balance with Wilmington Trust SP Services (London) Limited (2019: £nil).

15. Ultimate parent undertaking and controlling party

The Company's immediate and ultimate parent undertaking is BHL, which is incorporated in England and Wales.

The Company has been informed by the former ultimate controlling party, CK Hutchison Holdings Limited (CKHH) (incorporated in the Cayman Islands) that by virtue of contractual arrangements entered into with other parties, with effect from 30 December 2019, it ceased to have a controlling interest in the Company and, as required by the applicable accounting standards, it has ceased consolidating the results of the Company from that date.

The results of the Company prior to 30 December 2019 are consolidated in the financial statements of CKHH. The Directors of the Company consider that CKHH was the ultimate controlling party of the Company prior to 30 December 2019.

The Directors of the Company consider that, with effect from 30 December 2019, NWGL has become the ultimate controlling party of the Company.

Copies of NWGL's group Financial Statements, the largest and smallest group which includes the Company, will be available in due course from its registered office at Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ.