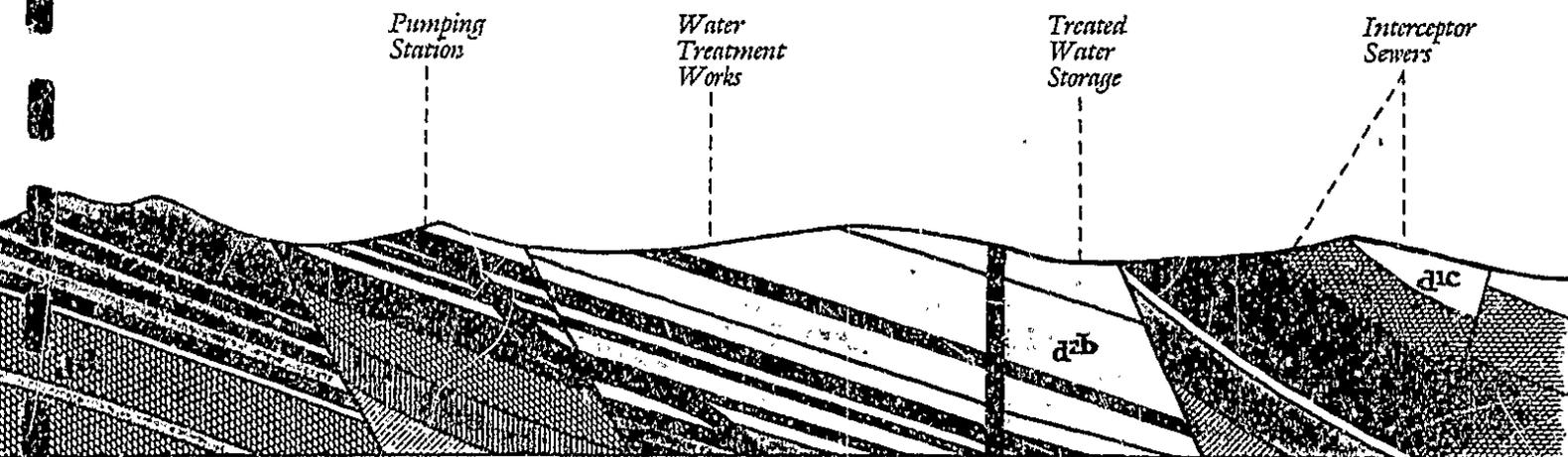
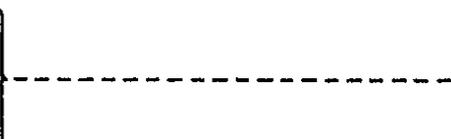


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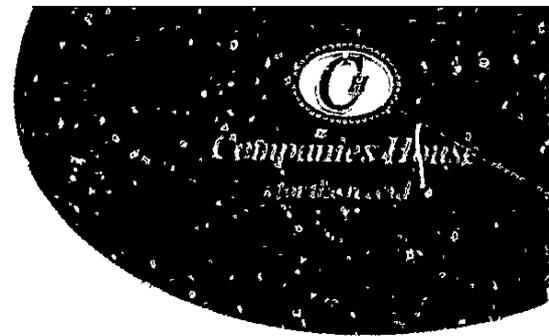
NORTHUMBRIAN WATER GROUP PLC

Report and
Accounts
1989/1990



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Directors' Report Northumbrian Water Group PLC

For the Financial Year ended 31 March 1990

INCORPORATION AND VESTING OF BUSINESS

Northumbrian Water Group PLC (the Company) was incorporated on 1 April 1989 as a public limited company to succeed to the business of Northumbrian Water Authority (the Authority). The vesting of the property, rights and liabilities of the Authority in the Company was made under the terms of the Water Act 1989 (the Act) on 1 September 1989. Details of shares issued and balance sheet adjustments made in accordance with the Act are set out in full under Capital below and in Note 19 of the Accounts.

PROFITS AND DIVIDEND

Profit before taxation for the financial year to 31 March 1990 was £10m, which is £4.5m higher than that forecast in the Offer for Sale Prospectus issued in November 1989.

The Directors are recommending a single final dividend, payable in October 1990, to shareholders on the register on 23 July 1990 of 10.69p net per ordinary share, as forecast in the Offer for Sale Prospectus.

After providing £2.3m for taxation, £7m for payment of dividend and £3.6m for extraordinary costs, the retained loss for the year amounted to £2.9m.

ACTIVITIES

The Company's principal activities, carried out through its subsidiary company, in the name of Northumbrian Water Limited, are the Water and Sewerage Business.

The accompanying Chairman's Statement and Review of the year reports on the development of the business of the Company and its subsidiaries during the financial year, their position at the end of it and on the outlook for the future. They also contain information about the Company's research and development activities and its arrangements with regard to the health, safety and welfare at work of employees.

CAPITAL

The authorised share capital of the Company on incorporation was £50,000 divided into shares of £1 each. On 29 August 1989 the authorised share capital of the Company was increased to £50,001 by the creation of one special rights redeemable preference share of £1 and the 50,000 shares of £1 were redesignated as Ordinary Shares of £1 each. On 20 November 1989, the authorised share capital was increased to £477,001 by the creation of 427,000 additional Ordinary Shares of £1 and was further increased to £100,000,001 by the creation of 99,523,000 additional Ordinary Shares of £1.

On incorporation, two Ordinary Shares of £1 each were subscribed for at par by nominees of the Crown. On 1 September 1989, the remaining 49,998 Ordinary Shares then authorised were issued at par to the Secretary of State.

On 20 November 1989, 427,000 Ordinary Shares of £1 were issued at par, credited as fully paid, to the Secretary of State for the Environment and for the cash sum of £122,600,000 a further 65,013,000 Ordinary Shares of £1 each and the special rights redeemable preference share of £1 were issued at par, credited as fully paid, to the Secretary of State.

OFFER FOR SALE

On 22 November 1989, the Secretary of State made available 65,490,000 Ordinary Shares of £1 each. Dealings in the Ordinary Shares of the Company commenced on The International Stock Exchange, London on 6 December 1989.

The offer price of £2.40 per Ordinary Share was payable as to £1.00 on application and is payable as to 70p by 3.00 pm on 31 July 1990 and 30 July 1991 respectively.

SUBSTANTIAL SHAREHOLDINGS

64,348,650 Ordinary Shares of £1 (98.25%) are registered in the name of Lloyds Bank Plc. as Custodian Bank under the Instalment Agreement dated 22 November 1989, and will remain in its name until the final instalment of 70p per Ordinary Share is paid. On 4 July 1990 the Company's Register of substantial shareholdings showed the following interests in 3% or more of the Company's shares:

Abbey Life Investment Services Limited 4.213%

Norwich Union Fund Managers Limited 3.92%

FIXED ASSETS

Changes in fixed assets in the year are shown in Note 12 of the Accounts.

FIRST ANNUAL GENERAL MEETING

The Notice of the Company's first Annual General Meeting, which is to be held on Thursday, 30 August 1990 at 2.00 pm at the Northumbria Centre, Washington, appears on page 48.

DIRECTORS

The names of the Directors are set out on pages 6 and 7. They were appointed to the Board on 1 September 1989. With the exception of M J Murden and R H Smith, all the Directors were members of the Authority. Mr E A Wrangham, Mr D Kelly, Mr N Prynne, Mr P Tennant and Mrs J Johnson served during the year as members of Northumbrian Water Authority but not as Directors of the Company. The first Directors of the Company were J A L Gunn and A D Whetnall (Nominees of the Secretary of State for the Environment), who were appointed on 29 August 1989 and resigned on 31 August 1989.

In accordance with the Articles of Association, W F Ridley and Dr R Iley will retire and offer themselves for re-election at the Annual General Meeting.

The shareholdings of Directors are set out in note 20 to the accounts.

SECRETARY

Mr Stuart Raistrick was appointed Secretary on 7 February 1990, on the resignation of Mr Ian Cartwright.

DONATIONS

During the year, donations to charities, mostly by seconding staff to charitable, education or enterprise projects, amounted to approximately £85,000. No political donations were made.

EMPLOYEES

The total of persons in the employ of the Group at 31 March was 1,152.

The Group recognises its responsibilities toward disabled people and to their training, career development and promotion and gives full and fair consideration to applications for employment made by disabled persons where suitable work can be found. Every effort is made to find appropriate alternative jobs for those who become disabled while working for the Group.

The Board recognises that it is important to continue to recruit and develop a successful team. This is achieved by promoting opportunities for decentralised decision making, individual accountability, teamwork and successful communication. Continuous development is promoted to enable employees to reach their full potential. It is the Board's aim to develop a company where people are committed to achieving the best for the business and confident to use their skills and initiative to add maximum value.

There is a savings related share option scheme for employees at all levels.

Employees are represented on the Trustee Boards of the Group's pension schemes.

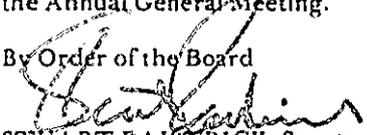
TAXATION

The Directors believe that the Company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

AUDITORS

Coopers & Lybrand were appointed as first auditors of the Company with effect from 1 April 1989. They have since merged their practice with Deloitte Haskins & Sells and now practice in the name of Coopers & Lybrand Deloitte. They have signed their audit report in their new name. They have signified their willingness to continue in office and a Resolution reappointing them as auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

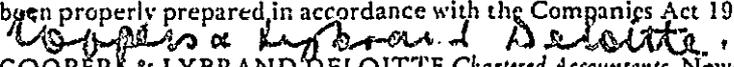

STUART RAISTRICK Secretary

23rd July, 1990

Report of the Auditors to the Members of Northumbrian Water Group PLC

We have audited the accounts set out on pages 26 to 46 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 March 1990 and of the result and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


COOPERS & LYBRAND DELOITTE Chartered Accountants, Newcastle upon Tyne

23rd July, 1990

Consolidated Profit and Loss Account (Year ended 31 March 1990)

	Note	1990 £m	1989 £m
TURNOVER	2	150.9	141.7
Operating costs	3	(114.3)	(82.6)
OPERATING PROFIT		36.6	59.1
Net interest payable	4	(26.6)	(49.0)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	10.0	10.1
Tax on profit on ordinary activities	8	(2.3)	-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		7.7	10.1
Extraordinary item	9	(3.6)	(0.5)
PROFIT FOR THE FINANCIAL YEAR		4.1	9.6
Dividend	10	(7.0)	-
(LOSS)/PROFIT RETAINED	22	(2.9)	9.6
EARNINGS PER ORDINARY SHARE	11	78.3p	
(Calculated on a pro forma basis)			

The statement of Group Reserves is set out at note 22 to the Accounts.

The notes on pages 30 to 46 form part of these accounts.

Auditors' report page 25

Consolidated Balance Sheet (At 31 March 1990)

	Note	1990		1989	
		£m	£m	£m	£m
FIXED ASSETS					
Tangible assets	12		550.5		510.2
Investments	13		0.1		0.1
			<u>550.6</u>		<u>510.3</u>
CURRENT ASSETS					
Stocks	14	2.6		2.0	
Debtors	15	21.2		17.3	
Cash at bank and in hand			<u>127.8</u>		<u>10.1</u>
			<u>151.6</u>		<u>29.4</u>
CREDITORS: Amounts falling due within one year	16		<u>(69.0)</u>		<u>(113.7)</u>
NET CURRENT ASSETS/(LIABILITIES)			<u>82.6</u>		<u>(84.3)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>633.2</u>		<u>426.0</u>
CREDITORS: Amounts falling due after more than one year	17		(0.7)		(373.1)
PROVISIONS FOR LIABILITIES AND CHARGES	18		<u>(9.9)</u>		<u>—</u>
			<u>(10.6)</u>		<u>(373.1)</u>
			<u>622.6</u>		<u>52.9</u>
CAPITAL AND RESERVES					
Called up share capital	19		65.5		—
Share premium account	22		57.6		—
Profit and loss account	22		<u>499.5</u>		<u>52.9</u>
			<u>622.6</u>		<u>52.9</u>

Approved by the board on 23rd July 1990

Sir Michael Straker *Chairman*

D G Cranston *Finance Director*

M. S. Straker

D G Cranston

The notes on pages 30 to 46 form part of these accounts
Auditors' report page 25

Company Balance Sheet (At 31 March 1990)

	Note	1990	
		£m	£m
FIXED ASSETS			
Investments	13		0.1
CURRENT ASSETS			
Debtors	15	9.7	
Cash at bank and in hand		<u>127.8</u>	
		137.5	
CREDITORS: Amounts falling due within one year	16	<u>(12.2)</u>	
NET CURRENT ASSETS			<u>125.3</u>
			<u>125.4</u>
CAPITAL AND RESERVES			
Called up share capital	19		65.5
Share premium account	22		57.6
Profit and loss account	22		<u>2.3</u>
			<u>125.4</u>

Approved by the board on 23rd July 1990

Sir Michael Straker *Chairman*

D G Cranston *Finance Director*

M. C. B. Straker

D G Cranston

The notes on pages 30 to 46 form part of these accounts

Auditors' report page 25

Consolidated Statement of Source and Application of Funds

(Year ended 31 March 1990)

	1990		1989	
	£m	£m	£m	£m
SOURCE OF FUNDS				
Profit on ordinary activities before taxation		10.0		10.1
Extraordinary charges		(3.6)		(0.5)
Adjustments for items not involving movement of funds:				
Infrastructure renewals expenditure		9.9		—
Depreciation of tangible fixed assets		10.4		8.0
Loss/(Profit) on sale of fixed assets		0.1		(0.5)
Total from operations		<u>26.8</u>		<u>17.1</u>
Funds from other sources:				
Proceeds from issue of Shares	122.6		—	
Loans	75.0		135.0	
Proceeds from sale of fixed assets	0.1		1.0	
Capital grants and contributions	5.0		4.1	
Other creditors falling due after more than one year	(0.1)		0.1	
		<u>202.6</u>		<u>140.2</u>
Total source of funds		<u>229.4</u>		<u>157.3</u>
APPLICATION OF FUNDS				
Purchase of tangible fixed assets	(55.9)		(27.9)	
Loan Repayments	(72.2)		(113.3)	
Investments	—		(0.4)	
Total application of funds		<u>(128.1)</u>		<u>(141.6)</u>
		<u>101.3</u>		<u>15.7</u>
INCREASE/(DECREASE) IN WORKING CAPITAL				
Stocks	0.6		0.6	
Debtors	3.9		(0.9)	
Creditors: Amounts falling due within one year, excluding taxation, proposed dividend, bank overdraft and loans	2.8		(0.7)	
		7.3		(1.0)
Movement in net liquid funds:				
Cash at bank and in hand	117.7		10.1	
Bank overdraft	(23.7)		6.6	
		<u>94.0</u>		<u>16.7</u>
		<u>101.3</u>		<u>15.7</u>

Auditors' report page 25

Notes to the Accounts

1. ACCOUNTING POLICIES

(a) Basis of preparation

Northumbrian Water Group PLC ("the Company") was formed as a public limited company on 1 April 1989. On 1 September 1989, it acquired the entire issued share capital of Northumbrian Water Limited, a company formed to continue the business of Northumbrian Water Authority ("the Authority"), other than the part of the business which was vested in the National Rivers Authority ("NRA"). On 1 September 1989, under the provisions of the Water Act 1989 the property, rights and liabilities of the Authority, other than those applicable to the NRA, were vested in Northumbrian Water Limited. However, the Water Act 1989 provides also that for statutory accounts purposes, all the property, rights and liabilities to which the Authority was entitled or subject, other than those applicable to the NRA, immediately before the end of the Authority's last financial year are to be treated as having vested in Northumbrian Water Limited immediately after the end of that year. Accordingly, the accounts of Northumbrian Water Limited which are consolidated in the Group accounts, based on the accounting policies set out below, are presented for the financial year from 1 April 1989 to 31 March 1990. Comparative figures are included in respect of Northumbrian Water Limited after adjustment in respect of property, rights and liabilities vested in the NRA.

The accounts have been prepared under the historical cost convention.

(b) Basis of consolidation

The Group accounts comprise a consolidation of the accounts of the company and all its subsidiaries made up to 31 March 1990. In accordance with the exemption provided by the Companies Act 1985, no profit and loss account is published for the Company.

(c) Turnover

Turnover represents the income receivable in the ordinary course of business for services provided.

(d) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

- infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipe lines and sea outfalls); and
- other assets (including properties, overground plant and equipment).

(i) Infrastructure assets

Infrastructure assets comprise a network of systems.

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost after deducting grants and contributions.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost.

Notes to the Accounts

ACCOUNTING POLICIES (continued)

No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

(ii) Other assets

Other assets are included at cost less accumulated depreciation. Additions are included at cost, after deducting grants and contributions.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Freehold buildings	30-60 years
Short leasehold land and buildings	25 years
Operational structures, plant and machinery	4-80 years
Fixtures, fittings, tools and equipment	4-10 years

(e) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance costs being written off to the profit and loss account over the period of the lease in reducing amounts in relation to outstanding obligations. The assets are depreciated over the shorter of their estimated useful lives and the lease periods.

All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed in the year they are incurred.

(f) Stores and work in progress

Stores are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

(g) Pension costs

The cost of providing pension benefits is charged to the profit and loss account so as to spread the cost over the expected average service lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are treated as prepayments in the balance sheet.

Notes to the Accounts

ACCOUNTING POLICIES (continued)

(h) Taxation

The charge for taxation is based on the profit for the period as adjusted for taxation purposes. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the accounts. Provision is made at the rate which is expected to apply when the liability or asset crystallises.

(i) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date.

(j) Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

2. TURNOVER AND PROFIT BEFORE TAXATION

An analysis by class of business of turnover and profit before taxation, which is wholly derived in the United Kingdom, is as follows:

	Turnover		Profit before taxation	
	1990	1989	1990	1989
	£m	£m	£m	£m
* Appointed business:				
Water Supply	46.3	45.4	(13.2)	(4.3)
Sewerage Services	80.6	71.0	14.9	10.5
	<u>126.9</u>	<u>116.4</u>	<u>1.7</u>	<u>6.2</u>
Other trading activities	24.0	25.3	8.3	3.9
	<u>150.9</u>	<u>141.7</u>	<u>10.0</u>	<u>10.1</u>

* The appointed business is that part of the Group's business covered by appointments made by the Secretary of State for the Environment to be water undertaker and sewerage undertaker for specific areas in the North East of England in accordance with the Water Act 1989.

Notes to the Accounts

	1990	1989
	£m	£m
3. OPERATING COSTS		
<i>(a) Operating costs of the Group are made up as follows:</i>		
Materials and consumables	7.1	4.5
Other external charges	13.2	6.5
Manpower costs (note 7)	19.7	15.7
Depreciation	10.4	8.0
Infrastructure renewals expenditure	19.9	13.2
Other operating charges	44.0	36.7
Exceptional items (See (c) below)	-	(1.5)
Other operating income	-	(0.5)
	<u>114.3</u>	<u>92.6</u>
<i>(b) The above costs are stated after including:</i>		
Depreciation of owned assets	10.2	8.0
Depreciation of assets held under finance leases	0.2	-
Operating leases:		
Plant and machinery	0.5	0.6
Other operating leases	1.0	0.4
Voluntary severance and early retirement costs	2.1	1.1
Costs of research and development	0.2	0.3
Directors' emoluments (note 5)	0.2	-
Members' emoluments (note 5)	0.1	0.2
Auditors' remuneration	0.1	0.1
	<u> </u>	<u> </u>
<i>(c) Exceptional items comprise</i>		
Rates refund	<u> </u>	<u>(1.5)</u>

Notes to the Accounts

	1990	1989
	£m	£m
4. NET INTEREST PAYABLE		
Net interest payable is comprised as follows:		
Interest payable:		
Bank loans, overdrafts and other loans:		
Repayable within five years otherwise than by instalments	32.2	1.5
Repayable within five years by instalments	-	10.9
Not wholly repayable within five years	-	37.2
Total interest payable	32.2	49.6
Interest receivable	(5.6)	(0.6)
Net interest payable	26.6	49.0

5. DIRECTORS' EMOLUMENTS

The total emoluments for the year of directors of the Company and members of the Northumbrian Water Authority, including employer's pension contributions, amounted to £268,000 (1989 members only £210,000).

The directors of the Company were appointed with effect from 1 September 1989. The emoluments disclosed below, which exclude employer's pension contributions, are accordingly in respect of the period since their appointment. Prior to that date, certain of the directors served as members of the Northumbrian Water Authority. Also set out below are details of the emoluments of the members of the Northumbrian Water Authority for the period from 1 April 1989 to 31 August 1989, which include five members who did not become directors of the Company at 1 September 1989.

Two directors of the Company who served from the date of incorporation, 1 April 1989 to 31 August 1989, received no emoluments in respect of their service to the Company and are not included in the ranges of emoluments set out below.

	1990
	£'000
Of the Company:	
Chairman	31
Highest paid director	59
Other directors within the following ranges:	Number
£0 - £ 5,000	4
£ 5,001 - £10,000	1
£35,001 - £40,000	1
£40,001 - £45,000	1

Notes to the Accounts

DIRECTORS' EMOLUMENTS (continued)

	1990	1989
	£'000	£'000
Of the Authority:		
Chairman	12	40
Highest paid member	19	57
Other members within the following ranges:	Number	Number
£0 - £ 5,000	8	6
£ 5,001 - £10,000	2	3
£50,001 - £55,000	-	1

6. TRANSACTIONS WITH DIRECTORS AND OFFICERS

There are no transactions or arrangements which would be disclosable under the provisions of the Companies Act 1985.

7. EMPLOYEE INFORMATION

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

	1990	1989
	£m	£m
Wages and salaries	19.7	16.4
Social Security costs	1.5	1.2
Other pension costs	1.9	1.4
Total employment costs	23.1	19.0

(b) Total employment costs are charged as follows:

	1990	1989
	£m	£m
Capital schemes and infrastructure renewals	3.4	3.3
Manpower costs	19.7	15.7
	23.1	19.0

(c) The average number of employees on the Group's payroll during the financial year was 1,404 (1989: 1,313).

Notes to the Accounts

EMPLOYEE INFORMATION (continued)

(d) The emoluments of senior employees of the Group (excluding directors) fell within the following ranges:

	1990 Number	1989 Number
£30,000 - £35,000	13	7
£35,001 - £40,000	4	2
£40,001 - £45,000	5	1

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	1990 £m
Taxation based on profits of the year:	
Corporation tax at 35%	-
Deferred tax	-
Advance corporation tax	2.3
	<u>2.3</u>

- (a) The tax charge for the year is reduced by the utilisation of tax allowances arising on qualifying capital expenditure in the year and on qualifying capital assets transferred from the Northumbrian Water Authority on vesting.
- (b) Advance corporation tax written off of £2.3m remains available to reduce future liabilities to mainstream corporation tax.
- (c) The full potential amount of deferred taxation calculated at 35% on all timing differences is as follows:

	1990 £m
Accelerated capital allowances	49.3
Other timing differences	(2.6)
	<u>46.7</u>
Losses carried forward	(12.2)
	<u>34.5</u>

- (d) Northumbrian Water Authority was not liable to corporation tax.

Notes to the Accounts

9. EXTRAORDINARY ITEM

	1990	1989
	£m	£m
Expenses borne by the Group in connection with the Offer for Sale of the Company's shares	<u>3.6</u>	<u>0.5</u>

There is no taxation attributable to the extraordinary item.

10. DIVIDEND

	1990
	£m
Ordinary final dividend of 10.69p per share proposed	<u>7.0</u>

11. EARNINGS PER ORDINARY SHARE

Earnings per share of 78.3p have been calculated on a pro forma basis which reflects the position of the Group as if the new capital structure as set out in notes 19 and 22 had been in place since 1 April 1989. Account has been taken of the following adjustments:

- (a) £44.8m in respect of interest, including the elimination of interest paid in the period 1 April 1989 to 15 November 1989, in respect of loans written off and the inclusion of notional interest receivable for the period 1 April 1989 to 29 December 1989 in respect of the cash consideration for the Ordinary Shares subscribed for by the Secretary of State; and
- (b) £1.2m in respect of advance corporation tax payable on the difference between the proposed dividend for the year ending 31 March 1990 and the notional dividend of 16p per share in respect of that year.

Accordingly, pro forma earnings per share have been calculated on a pro forma profit after taxation of £51.3m and by reference to 65.5 million Ordinary Shares, being the number of Ordinary Shares in issue following the combined Offer for Sale. For this purpose it has been assumed that such Ordinary Shares have been in issue throughout the year.

In view of the significant changes in the capital structure of the Company and that of Northumbrian Water Limited during the year, the directors believe that this provides a fairer presentation of the earnings per share for the year. No comparative figures are presented.

Notes to the Accounts

12. TANGIBLE FIXED ASSETS

The Group:

	Freehold land and buildings	Short leasehold land and buildings	Infra- structure assets	Operational structures, plant and machinery	Fixtures, fittings, tools and equipment	Total
	£m	£m	£m	£m	£m	£m
Cost:						
Balance at 1 April 1989	14.7	2.6	337.2	189.5	10.3	554.3
Additions	0.3	-	18.4	26.8	10.4	55.9
Grants & Contributions	-	-	(2.7)	(2.3)	-	(5.0)
Disposals	-	-	(0.2)	(0.6)	-	(0.8)
Balance at 31 March 1990	15.0	2.6	352.7	213.4	20.7	604.4
Depreciation:						
Balance at 1 April 1989	2.7	0.1	-	35.3	6.0	44.1
Provision for Year	0.3	0.1	-	5.8	4.2	10.4
Disposals	-	-	-	(0.6)	-	(0.6)
Balance at 31 March 1990	3.0	0.2	-	40.5	10.2	53.9
Net Book Value:						
At 31 March 1990	12.0	2.4	352.7	172.9	10.5	550.5
At 31 March 1989	12.0	2.5	337.2	154.2	4.3	510.2

Operational structures, plant and machinery includes an element of land and buildings dedicated to those assets.

Tangible fixed assets at 31 March 1990 include £32.3m (1989: £21.1m) of assets in the course of construction, which are not depreciated until commissioning.

The net book value of tangible fixed assets held under finance leases at 31 March 1990 was £0.7m (1989: £0.9m).

Notes to the Accounts

13. INVESTMENTS

The Group has unlisted investments of £0.1m (1989: £0.1m).

The Company:

	Shares in Unlisted Subsidiary Companies £m
Cost:	
Additions	0.1
At 31 March 1990	<u>0.1</u>

The Company's principal subsidiary companies are set out on page 47.

14. STOCKS

	The Group	
	1990 £m	1989 £m
Stores	1.9	1.5
Work in progress	0.7	0.5
	<u>2.6</u>	<u>2.0</u>

15. DEBTORS

	The Group		The Company
	1990 £m	1989 £m	1990 £m
Trade Debtors	7.4	9.8	—
Amounts owed by group companies	—	—	5.6
Other debtors	4.6	2.8	1.8
Prepayments and accrued income	9.2	4.7	2.3
	<u>21.2</u>	<u>17.3</u>	<u>9.7</u>

Debtors disclosed above include £nil m (1989: £0.1m) of amounts falling due after more than one year.

Notes to the Accounts

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	The Group		The Company
	1990	1989	1990
	£m	£m	£m
Loans (see (a) below)	—	74.9	—
Bank loans and overdraft	25.1	1.4	—
Trade creditors	0.9	1.1	—
Amounts owed to group companies (see (b) below)	—	—	1.6
Other creditors	28.2	16.7	1.3
Taxation and social security (see (c) below)	3.0	0.4	2.3
Proposed dividend	7.0	—	7.0
Accruals and deferred income	4.8	19.2	—
	<u>69.0</u>	<u>113.7</u>	<u>12.2</u>

(a) The 1989 loans of £74.9m were during 1989/90, either repaid or included in the extinguishment of loans (see note 22(a)).

(b) The creditor for amounts owed to group companies relates to £1.6m in respect of group tax relief.

(c) The creditor for taxation and social security includes advance corporation tax payable amounting to £2.3 m (1989: £nil m).

17. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	The Group	
	1990	1989
	£m	£m
Loans (see (a) below)	—	372.3
Other creditors	0.7	0.8
	<u>0.7</u>	<u>373.1</u>

(a) The 1989 loans of £372.3m were, during 1989/90, either repaid or included in the extinguishment of loans (see note 22(a)).

Notes to the Accounts

18. PROVISIONS FOR LIABILITIES AND CHARGES

	The Group	
	1990	1989
	£m	£m
Infrastructure renewals expenditure:		
Balance at 1 April 1989	—	—
Transferred from profit and loss account	9.9	—
Balance at 31 March 1990	<u>9.9</u>	<u>—</u>

19. CALLED UP SHARE CAPITAL

The share capital of the Company is shown below:

	1990
	£m
Authorised:	
100m Ordinary Shares of £1 each	100.0
Special rights redeemable preference share of £1	—
	<u>100.0</u>
	1990
	£m
Allotted, called up and fully paid:	
65.49m Ordinary Shares of £1 each	65.5
Special rights redeemable preference share of £1	—
	<u>65.5</u>

(a) Northumbrian Water Group PLC was incorporated on 1 April 1989. The Company's authorised share capital on incorporation was £50,000, divided into 50,000 shares of £1 each, of which two were subscribed at par by nominees of the Crown.

(b) On 29 August 1989 the authorised share capital of the Company was increased to £50,001 by the creation of one Special rights redeemable preference share of £1 and the 50,000 shares of £1 each were redesignated as Ordinary Shares of £1 each. On 1 September 1989, 49,998 Ordinary Shares were issued at par to the Secretary of State for the Environment, credited as fully paid.

(c) On 20 November 1989 the authorised share capital of the Company was further increased to £477,001 by the creation of 427,000 additional Ordinary Shares and the Directors were authorised and empowered to allot the increased share capital and, in accordance with a direction made by the Secretary of State under Section 83(2), (4) and (5) of the Water Act 1989, 427,000 Ordinary Shares were issued at par, credited as fully paid, to the Secretary of State.

Notes to the Accounts

CALLED UP SHARE CAPITAL *(continued)*

(d) On 20 November 1989

- (i) the authorised share capital of the Company was further increased to £100,000,001 by the creation of 99,523,000 additional Ordinary Shares;
- (ii) 65,013,000 Ordinary Shares were allotted, credited as fully paid, to the Secretary of State for a cash sum of £122.6m pursuant to section 87 of the Water Act 1989. This resulted in a share premium on allotment of £57.6m; and
- (iii) in accordance with a direction made by the Secretary of State under section 83(2), (4) and (5) of the Water Act 1989, the Special rights redeemable preference share was allotted at par, credited as fully paid, to the Secretary of State.

(e) The Special rights redeemable preference share is redeemable at any time at par at the option of the Secretary of State after consulting the Company. This share, which may only be held by the Secretary of State or another person acting on behalf of HM Government, does not carry any rights to vote at general meetings but entitles the holder to attend and speak at such meetings. Certain matters, in particular the alteration of specific sections of the Articles of Association of the Company (including the Article relating to limitations that prevent a person from owning or having an interest in 15% or more of the Ordinary Shares in Northumbrian Water Group PLC), require the prior written consent of the holder of the Special Share. The Special Share confers no right to participate in the capital or profits of the Company, except that on a winding-up the Special Shareholder is entitled to repayment of £1 in priority to other shareholders.

(f) 320,532 fully paid Ordinary Shares of the Company were held in trust at 31 March 1990 on behalf of employees who were beneficially entitled to the shares under special arrangements made at the time of the Offer for Sale in November 1989.

Notes to the Accounts

20. DIRECTORS' INTERESTS IN THE COMPANY'S SHARES

The beneficial interests of directors at 31 March 1990 and their families in numbers of Ordinary Shares of the Company are set out below:

	31 March 1990		
	Fully Paid Shares	Executive Scheme	SAYE Scheme
Sir M I B Straker	1,264	38,314	-
M J Murden	2,278	73,127	-
D G Cranston	3,486	58,475	6,136
R H Smith	5,495	68,690	4,090
T Harrison	-	-	-
Dr R Iley	1,000	-	-
Professor M B Pescott	200	-	-
W F Ridley	3,000	-	-
J S Ward	400	-	-

The above interests are as shown by the Register kept in accordance with the Companies Act 1985.

At the date of their appointment none of the directors had any interests in the shares of the Company.

Further details of the share option schemes are set out in note 21 below. Non-executive directors are not entitled to participate in either of such schemes.

From the end of the financial year to the date of signing these accounts no change took place in the above-mentioned interests of any of the directors.

21. SHARE OPTION SCHEMES

(a) Under the Executive Share Option Scheme, executive directors and executives hold options to subscribe for Ordinary Shares as follows:

Number	Price per Share	Exercise Period
312,180	299p	from January 1993 for seven years
113,188	310p	from February 1993 for seven years

Notes to the Accounts

SHARE OPTION SCHEMES (continued)

(b) Under the Savings-Related Share Option Scheme, based on SAYE contracts, executive directors and employees hold options to subscribe for Ordinary Shares as follows:

Number	Price per Share	Exercise Period
1,039,387	176p	<i>from March 1995 for six months</i>
322,283	176p	<i>from March 1997 for six months</i>

22. RESERVES

	Share premium £m	Profit and loss account £m
The Group:		
Balance at 1 April 1989 (See note (b))	—	52.9
Retained (loss) for the year	—	(2.9)
Premium on shares issued (see note 19(d))	57.6	—
Capital restructuring (See note (a))	—	450.0
Appropriation of distributable reserves (See note 19(b) and (c))	—	(0.5)
Balance at 31 March 1990	<u>57.6</u>	<u>499.5</u>
The Company:		
Balance at 1 April 1989	—	—
Retained profit for the year	—	2.7
Premium on shares issued (see note 19(d))	57.6	—
Appropriation of distributable reserves (see note 19(c))	—	(0.4)
Balance at 31 March 1990	<u>57.6</u>	<u>2.3</u>

(a) Northumbrian Water Limited inherited, on vesting, the outstanding loans of Northumbrian Water Authority. On 1 September 1989 loans amounting to £450.1m were transferred to Northumbrian Water Group PLC in return for the issue of a £450.1m debenture in accordance with a direction made by the Secretary of State for the Environment under section 85(1) of the Water Act 1989.

On 15 November 1989 the outstanding loans of Northumbrian Water Group PLC and the outstanding debenture of Northumbrian Water Limited, both amounting to £450m, were extinguished in accordance with an order made by the Secretary of State under sections 86(1) and 86(2) of the Water Act 1989. As a result, £450m has been credited to Group reserves in respect of Northumbrian Water Limited.

Notes to the Accounts

RESERVES (continued)

(b) Group reserves at 1 April 1989 have been adjusted in respect of the net asset value of property, rights and liabilities vested in the NRA amounting to £3.5m (see note 1 (a)).

23. COMMITMENTS AND CONTINGENT LIABILITIES

	The Group		The Company
	1990	1989	1990
	£m	£m	£m
<i>(a) Capital expenditure</i>			
Expenditure contracted for	36.8	14.3	—
Expenditure authorised by directors but not yet contracted for	71.8	32.9	—
	<u>108.6</u>	<u>47.2</u>	<u>—</u>

In addition to these commitments the Group has longer term capital expenditure plans which include investment to meet shortfalls in performance and condition and to provide for new demand and growth.

(b) Lease commitments

The Group has entered into non-cancellable operating leases in respect of land and buildings, plant, machinery and motor vehicles. The total amount payable under these leases in the next year is as follows:

	The Group			
	1990		1989	
	Land and Buildings	Other	Land and Buildings	Other
	£m	£m	£m	£m
Leases which expire:				
Within 2 to 5 years	0.1	0.7	0.2	0.8
After 5 years	0.1	—	0.1	—
	<u>0.2</u>	<u>0.7</u>	<u>0.3</u>	<u>0.8</u>

Notes to the Accounts

COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(c) Contingent liabilities

Northumbrian Water Group PLC is party to a cross guarantee arrangement with other group companies in respect of bank facilities. Overdrafts outstanding at 31 March 1990 amounted to £25.1m.

24. PENSIONS

The Group operates two defined benefit final salary schemes, the Water Mirror Image Pension Scheme (MIS) and the Water Pension Scheme (WPS).

Prior to 1 September 1989, employees were members of either the Water Authorities Superannuation Fund (WASF) or the WPS, which was established in 1988 as an optional alternative to the WASF. As part of the reorganisation of pension arrangements effective from 1 September 1989, WASF was no longer available and employees who were members of WASF at that time were transferred to MIS, which was established on that date to replicate the existing arrangements of WASF for members benefits and contributions.

With effect from 1 September 1989, actuarially determined transfer payments are due to be paid from WASF to WPS and MIS in respect of members of WASF who have decided to transfer their past service rights into their new scheme. Although the first formal actuarial valuations have not been completed, the consulting actuary to both schemes, William M Mercer Fraser Limited, has confirmed that transfer values calculated will be sufficient to meet the accrued liabilities assumed for each scheme (including allowances for future salary increases and increases to pensions) in respect of service prior to 1 September 1989.

The employers' contributions and the pension cost under the accounting standard SSAP 24 have been assessed in accordance with the advice of William M Mercer Fraser Limited using the projected unit method for WPS and the attained age method for MIS. For this purpose the main actuarial assumptions used are based upon investment growth of 9% per annum and pay growth of 7% per annum. Full allowance is also made for increases to pensions and deferred pensions under each scheme.

The pension cost for the year was £1.9m (1989: £1.4m).

The Group also operates discretionary arrangements for both WPS and MIS under which augmentation of retirement benefits can be made. The additional cost of those benefits are borne by the Group, and for those known at 31 March 1990 the liability has been fully funded by the Group at a cost of £1.8 m (1989: £1.1 m).

Following a recent ruling by the European Court, certain further liabilities may be imposed on the two schemes as a result of changes to the contracting-out requirements relating to Guaranteed Minimum Pensions. The extent of these liabilities cannot, however, be quantified with any degree of certainty pending clarification of the detailed application of the ruling.

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Principal Subsidiary Companies

COMPANY	BUSINESS ACTIVITY	PERCENTAGE HELD BY	
		Parent company	Subsidiary
Northumbrian Water Limited	Water and sewerage services	100	
Northumbrian Services Limited	Engineering, Information Technology and Business Consultancy and Analytical and Environmental Services	100	
Northumbrian Enterprises Limited	Intermediate holding company	100	
CPCR Limited	Human Resources Consultancy		100
Northumbrian Environmental Management Limited	Waste Management		100

All the above companies are incorporated in Great Britain.

Northumbrian Water Group PLC

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the First ANNUAL GENERAL MEETING of the above-named Company will be held at the Northumbria Centre, Stephenson Road, Washington, Tyne and Wear on the 30th day of August 1990 at 2.00 pm for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the Company's accounts and the reports of the Directors and Auditors for the period ended 31 March 1990.
2. To re-appoint Coopers & Lybrand Deloitte as Auditors of the Company and to authorise the Directors to fix their remuneration.
3. To re-appoint Mr W F Ridley who is due to retire as Director by rotation.
4. To re-appoint Dr R Hley who is due to retire as Director by rotation.
5. To declare dividends on the Ordinary Shares.
6. To resolve as an ordinary resolution that the Directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £21,830,000 such authority to expire on a date being 5 years after the passing of this resolution save that the Company may before such expiry make an offer or agreement which could or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred hereby had not expired and provided further that this authority shall be in substitution for and supersede and revoke any earlier such authority conferred on the Directors.

SPECIAL BUSINESS

7. To resolve as a Special Resolution that the Directors be and they are hereby empowered pursuant to Section 95 of the Act to allot equity securities (as defined in Section 94 of the Act) as if sub-section (1) of the Section 89 of the Act did not apply to such allotment, save that this power shall be limited to:
 - (a) the allotment of equity securities in connection with a rights issue in favour of holders of ordinary shares where the equity securities respectively attributable to the interests of all holders of ordinary shares on a fixed record date are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them but subject to such exclusions or arrangements as the Directors may deem necessary or expedient to deal with fractional entitlements arising or any legal or practicable problems under the laws of any overseas territory or the requirements of any regulatory body or stock exchange; and
 - (b) the allotment of equity securities for cash (otherwise than as mentioned in paragraph (a) of this resolution) up to an aggregate nominal amount of £3,274,500 and shall expire at the earlier of the conclusion of the Annual General Meeting of the Company to be held in 1991 and fifteen months from the passing of this resolution, save that the Company may before such expiry make an offer or agreement which would

or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired.

By Order of the Board

Stuart Raistrick
Secretary
Dated 23rd July 1990

Registered Office:
Northumbria House
Regent Centre
Gosforth
Newcastle upon Tyne
NE3 3PX

NOTES:

1. A Member of the Company entitled to attend and vote at a Meeting convened by the above Notice is entitled to appoint a proxy to attend and, on a poll, vote instead of him. A proxy need not be a Member of the Company.
2. To be valid the instrument appointing a proxy and the Power of Attorney (if any) under which it is signed must be deposited at the Office of the company not less than 48 hours before the time of the Meeting.
3. The following information, which is available throughout the year for inspection during business hours at the Company's registered office, will, on the day of the Annual General Meeting, be available for inspection at the Northumbria Centre, Stephenson Road, Washington from 1.45 pm until the conclusion of that meeting:
 - (a) a statement of the interests of Directors (and their families) in the share capital of the Company and its subsidiaries in accordance with the provisions of the Companies Act 1985;
 - (b) copies of all contracts of service of Directors with the Company.

REGISTRAR AND TRANSFER OFFICE

Lloyds Bank Plc Registrar's Department
PO Box 1669
Quayside Tower
Broad Street
Birmingham B1 2HB