1991 ANNUAL REPORT

NORTHUMBRIAN WATER GROUP PLC

2366698

Water Supply and Sewerage Services

Our core business is committed to providing our customers with a quality water supply and effective sewerage and waste disposal services.

Waste Management

Comprehensive and high quality waste management is a major part of our diversification plans and includes the building of integrated treatment centres with incineration facilities.

Underground Asset Management

We are investing in the technology essential for more efficient management of sewers, water mains and other hollow structures.

Operating and Consultancy Services

Fresh ideas and improved ways of operating are key to business success. We are applying our expertise for many clients both in the UK and abroad.

We intend to maximise shareholder value by promoting a management style that is motivated by concern for customers, employee involvement, a commitment to quality and care for the environment.

Northumbrian Water Group PLC, 1991

Contents

	1991 £m	1990 £m
TURNOVER	167.0	150.9
OPERATING PROFIT	34.1	36.6
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	46.9	10.0
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	41.2	7.7
EXTRAORDINARY ITEMS		(3.6)
SHAREHOLDERS FUNDS	651.6	622.6
CAPITAL INVESTMENT	104.0	65.9
DIVIDEND PER ORDINARY SHARE	18.6p	10.69p
NUMBER OF SHAREHOLDERS AT YEAR END	87,867	117,499

It gives me great pleasure to be able to report considerable progress in this, our second year as a listed company.

In the year to 31 March 1991 turnover increased by 11% from £150.9 million to £167.0 million. Profit before tax improved from £10.0 million to £46.9 million. The Directors are recommending a final dividend of 12.4 pence net per Ordinary Share payable in October 1991. With the interim dividend this makes a total for the year of 18.6 pence net per Ordinary Share.

Mindful that shareholders are concerned with how companies should be governed, we are actively establishing a dialogue with our investors. Our own Board consists of three executive directors, including myself, and four non-executives, who bring a great breadth of experience. Non-executive directors make up the entire membership of the audit and remuneration committees. Two non-executive directors also sit on the newly-formed environmental audit committee of the Board.

Privatisation is allowing us to improve our services and so better meet the needs of both our customers and our owners. It has forced the industry to meet the challenge of EC standards, and given us the means of raising the funds for necessary capital investment. The Group is now much better placed to exploit its inherent expertise and encourage enterprise and initiative, thereby – and this may be the most important benefit of all – making a greater contribution to the regional economy of the North East.

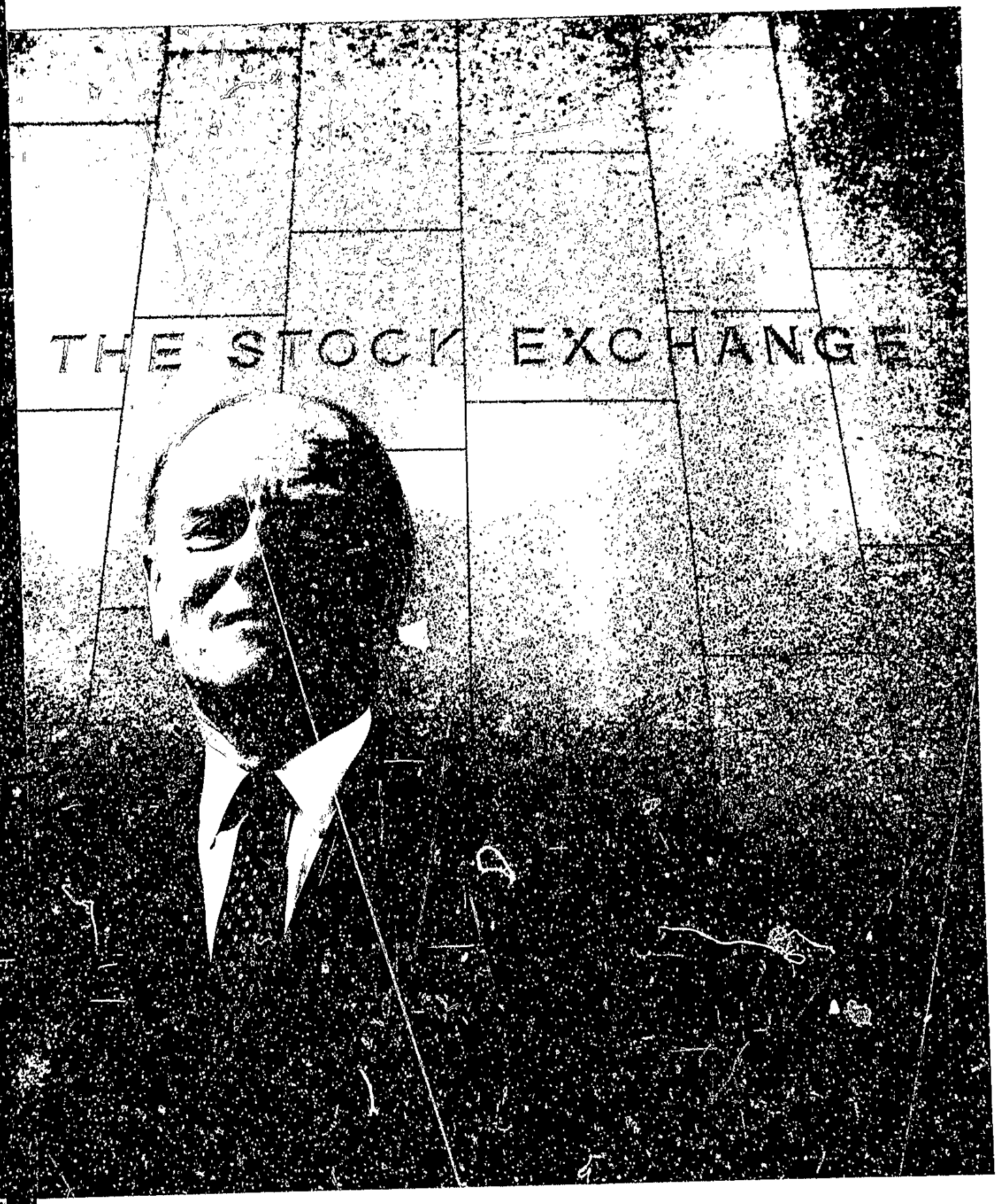
During the year the Board lost the services of Terry Harrison and Mike Murden, who, while they were with us, made significant contributions. I was particularly pleased when, in January, David Cranston accepted the Board's invitation to become Chief Executive. I would also like to welcome Mike Guerin to the company as Managing Director of our enterprise activities. He has extensive experience of developing companies, improving their profitability and successfully integrating acquisitions into a company's main business.

My colleagues on the Board and our employees deserve a particular vote of thanks for their enthusiasm and commitment. Over 60% of employees are now participating in the SAYE Sharesave Scheme.

The Group is very aware of its responsibilities to the local community. We have an active sponsorship programme which currently supports, among others, the Graduate Enterprise Programme of Durham University Business School, Newcastle University Ventures Limited, the Sunderland Polytechnic Ecology Centre and the Children's Foundation, Royal Victoria Infirmary, Newcastle.

Michael Straker

Sir Michael Straker


THE STOCK EXCHANGE

Sir Michael Straker
CBE DL

Chairman,
Farms at Hexham
Northumberland,
Deputy Lieutenant of
Northumberland,
Chairman of the Council
of Newcastle University
and a Member of
the University Court,
Former Chairman of
Newcastle Area Health
Authority (Teaching),
Chairman of Water
Training International
and the British Committee
of the International Water
Supply Association
Board Member of the
Port of Tyne Authority

Professor M B
('Warren') Pescod
OBE

Head of the Department
of Civil Engineering
and Professor of
Environmental Control
Engineering at the
University of Newcastle
upon Tyne
Extensively travelled
throughout the world
as advisor or consultant
to UN Agencies, overseas
Governments and
Universities, the
Overseas Development
Administration and
the British Council

Robert H Smith
CEng FICE MIPHE FCIWEM

Managing Director
Northumbrian Water
Limited from
September 1989,
Director of Operations
and Works NWA
from June 1985,
Manager Operations
and Maintenance
1974–1980,
Regional Operations
Manager 1980–1985
and Operations Manager
Tees Division 1985–1984,
Divisional General
Manager Tees Division
1984–1986
Previously Planning and
Works Engineer
with Durham County
Water Board and Assistant
Chief Engineer with the
South Cumberland
Water Board

Dr Ralph Iley
CBE

Managing Director
Cookson Group PLC
(Retired April 1991 – now
non-Executive Director
Cookson Group
Board Member Tricorn
Group PLC – Resigned
December 1990,
Board Member
Cookson America Inc,
the Northern
Development Corporation
and Tyne & Wear
Development
Corporation
Former Regional
Chairman CBI
Chairman Tyne Tech
Ltd

Photograph taken at Riding Mill Pumping Station, Northumberland

John S Ward
OBE

Regional Director, Barclays Bank PLC
Chairman, The Newcastle Initiative and Cruddas Park and Loudoun Street Community Trust, Deputy Chairman, Tyne & Wear Development Corporation and Board of Governors Newcastle upon Tyne Polytechnic
Director, Northern Investors PLC and Director, Trustee The Theatre Royal Trust Limited

David G Cranston
BEng FIPA

Chief Executive and Group Finance Director from January 1991, Group Finance Director since September 1989, Director of Finance NWA 1980-1989, Financial Representative of the Water Authorities' Negotiating Team 1988-1989 and a Member of the Director General of Water Services' Working Group on Accounting Issues for Regulation since November 1989
Appointed non-executive Member of Newcastle Health Authority August 1990

Frank Ridley
[illegible]

Deputy Chairman, Chairman of Board Environmental Committee, Chief Executive of NWA 1981-1989, and Director of Operations and Works 1974-1981. Previously Chief Engineer, Washington New Town Development Corporation from 1963

Jerry Harrison resigned from the Board, December 1990

Michael J Munden resigned from the Board, January 1991

"Northumbrian Water Group PLC is committed to improving the quality of life, seeking to better its performance for the benefit of customers, shareholders, employees and the environment."

That is the role of the Group. Our aim is to become the UK's leading water and waste treatment group by 1995. I welcome this, my first opportunity as Chief Executive, to communicate directly with shareholders about how we intend to carry out our role, achieve our aim, and at the same time maximise shareholder value.

First, we shall develop a balanced portfolio of businesses by organic growth, acquisitions and joint ventures. In tandem our management style will add value through concern for customers, employee involvement, a commitment to quality and care for the environment.

The company has now been reorganised to serve four key and related market sectors, each of which is described individually on the pages that follow. There is also a section on our corporate service companies.

Our core business – known as the "appointed business" because we have a 25 year licence from the government – is to provide sewerage services to 2.6 million, and water services to 1.2 million, customers in the North East. This is the major responsibility of the Group; diversification must not, and will not, be pursued at the expense of the core business. A balanced portfolio of businesses, however, will build greater share value, and make better use of our assets, than the core business could do alone. The three other key businesses are waste management, underground asset management and operating and consultancy services.

Waste management, in which we have years of valuable experience, is to be developed into a comprehensive service using new technology. It will include incineration, the safe disposal of liquid waste, solid waste landfill and on-site treatment systems as well as waste minimisation consultancy.

In underground asset management Neil Bunting (Holdings) are experts in the management of pipes and other hollow structures. This includes sewer and water main mapping and rehabilitation; closed-circuit TV surveying; leak detection and pipe renewal; asset plan consultancy and management contracts.

Operating and consultancy services work and advise in: sewage treatment and disposal, water treatment and supply, engineering, flow modelling; geotechnical and materials testing services; construction project management; maintenance and operating contracts and training. It will also be developing niche market technologies for the water and sewerage businesses.

Corporate service companies have also been formed to sell to third party markets, services or products previously supplied only to the Group.

David G Cranston

pure

Through our core business we are totally committed
to providing purer water for our customers and an increasingly
well managed and effective sewerage system.

Increased investment successfully managed; supplies of water maintained despite drought; high quality drinking water; active planning for further environmental improvements, and major advances in industrial relations – an excellent year for the core business.

Northumbrian Water Limited carries out the treatment and conveyance of water and sewage: it has had a very successful year. It has complied well with the standards of service demanded, and successfully managed a large and growing programme of capital works.

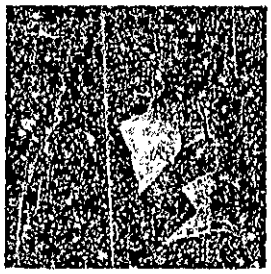
For the second year running capital investment increased by over 50%. The planned programme was successfully delivered within budget, under a high level of control, using methods which have ensured good value for money for the many schemes that make up the programme.

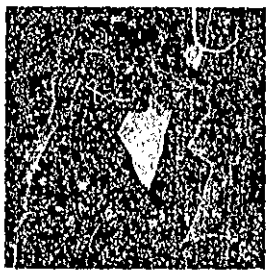
Rainfall between autumn 1988 and autumn 1990 was, compared with the long-term average, the lowest in the country. Demand was also high, but Northumbrian Water met all of its customers' demands without restricting supply. Water from the Kielder System played an important part in this, as it did for the other water companies in the region.

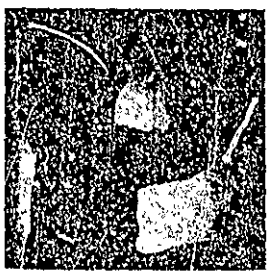
Following tests on samples taken from all water companies the 1991 audit report by the Drinking Water Inspectorate states that in the case of Northumbrian Water "99.6% complied with the relevant water quality standards." This was the highest level achieved by any of the privatised water and sewerage companies.

Recreation and conservation activities, though comparatively modest in scale, are important, as the visible face of the company, and as part of the proper management of its assets for the benefit of all.

To help in conservation, the company has produced guidelines for operators – especially those involved in design and construction – supplemented by training courses. Local wildlife trusts have surveyed many of the company's sites; all those of over an acre will have been surveyed by the end of 1991.

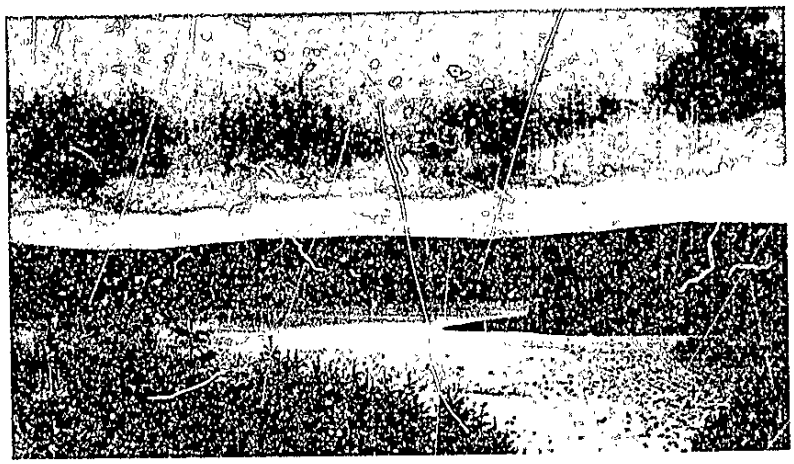




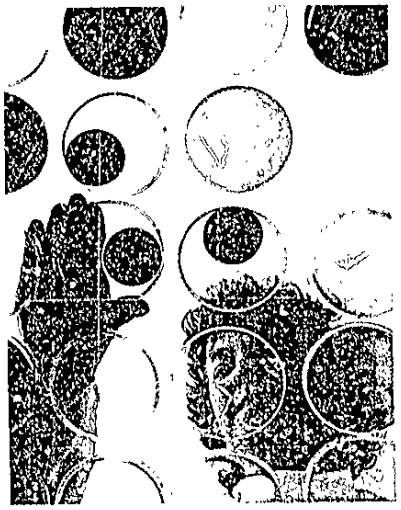


Northumbrian Water Limited supplies over 1.2 million customers with drinking water.

Northern Europe's largest man-made lake, Kielder reservoir ensures a guaranteed water supply not only to domestic customers but also to the industrial centres of Tyneside, Wearside and Teesside.



Pipeline conveying treated water from Broken Scar Water Treatment Works to industrial and domestic customers on Teesside.



Richard Stott, microbiologist, examines water samples for bacterial contamination.

The company is managing change by entering into new contracts with local authorities and, at the same time, improving standards of treatment as part of an ongoing capital programme to improve its care of the environment.

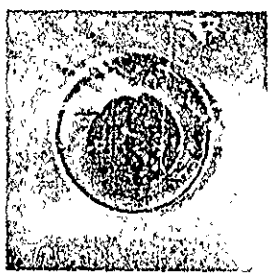
Quality of sewage treatment plant effluents improved markedly in the year, and compliance with effluent standards from works policed by the National Rivers Authority was exceptional. This level of performance was helped by new investment in equipment coming on stream, a number of short-term initiatives, and by a modest increase in manning levels; but it owes most to the skill, dedication and commitment of the workforce.

In sewerage, too, performance was notable. Service targets were beaten, and budgets – both revenue and capital – achieved.

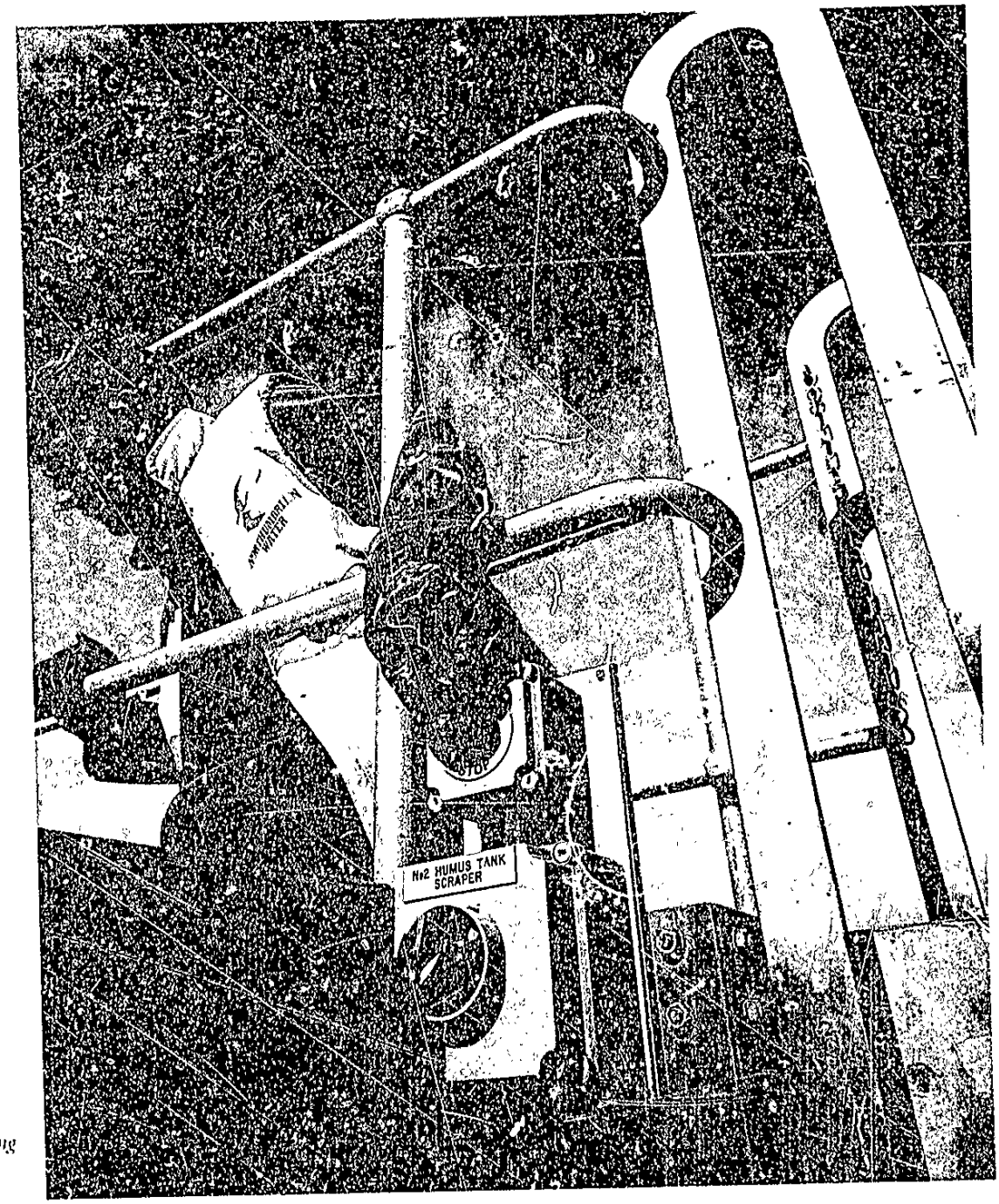
Although sewerage systems in the region are managed by Northumbrian Water Limited, they are largely operated by local councils acting as the company's agents. As from 31 March 1992, the Water Act of 1989 allows present arrangements to be changed, so discussions have been taking place during the year to decide how best to manage the systems in the future. The company has now agreed to enter into operating contracts, normally of three years duration, with 24 of the districts in the North East region. Capital works, however, will be undertaken with only five offices in the region, usually under a lead authority.

These successes of the Group's core business have been achieved in a climate of high morale and of commitment and collaboration from all the company's employees – the ideal background for new initiatives in employee relations. Since January, Northumbrian Water Limited has established elected employee councils at each of its operating sites and a single Company Council, which has replaced the three former management/trade union negotiating committees. The former eight unions agreed to act as a confederation with just one union acting as the point of contact. The Company Council consists of one representative from each of the seven elected employee councils, four management representatives and one adviser each from the new Employee Association and the trade union confederation.

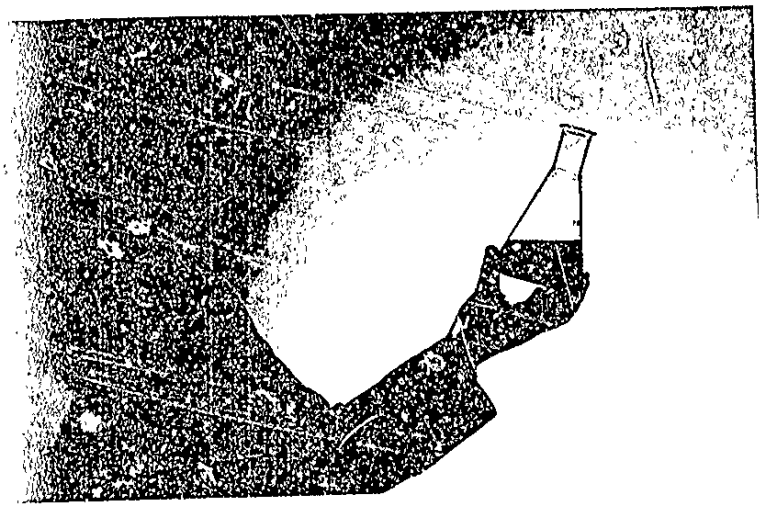
Northumbrian Water looks forward to a new era of partnership, which may serve as a model to other organisations.



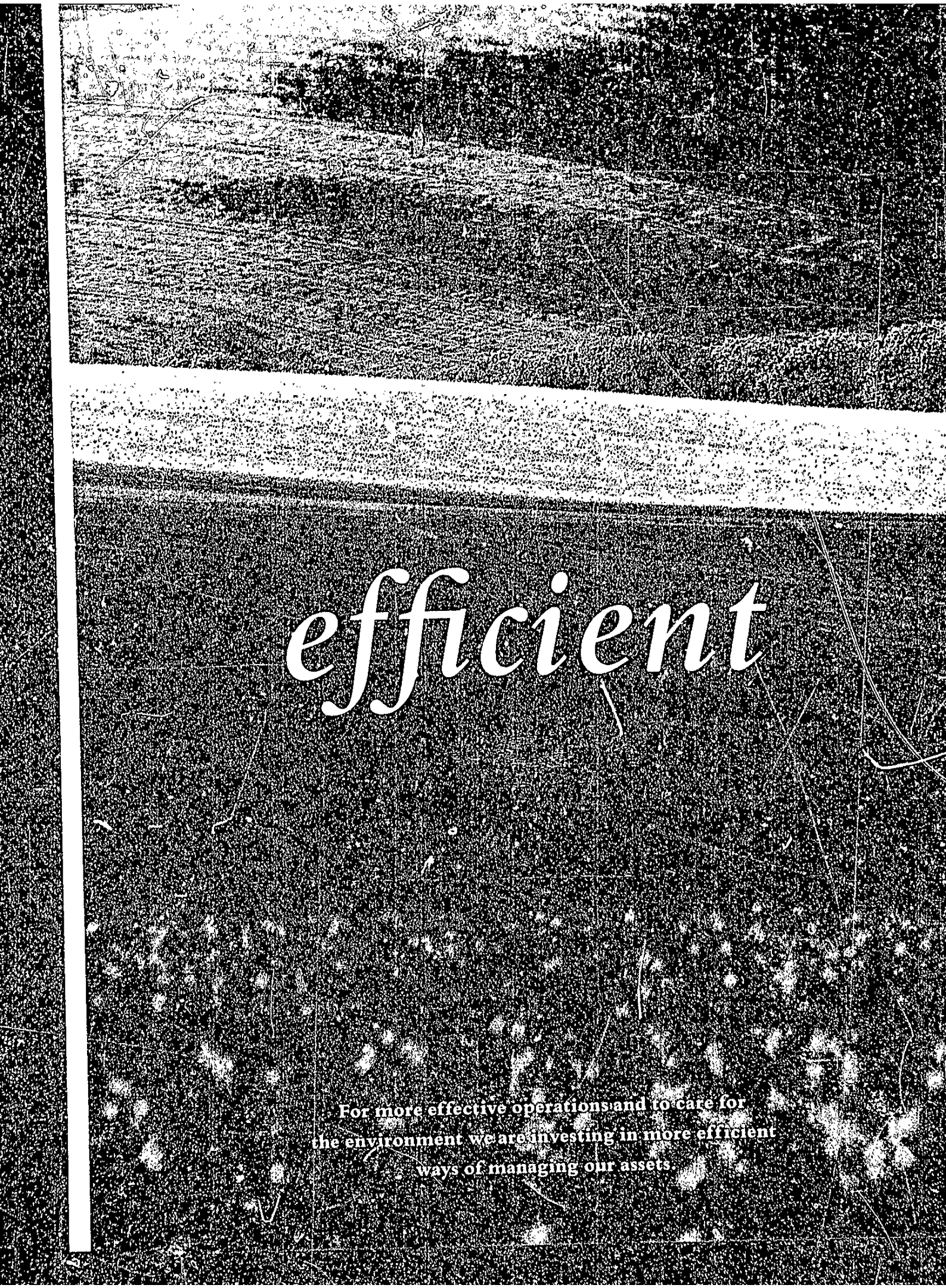
Sewerage services including waste water disposal are provided to 2.6 million customers in the North East.

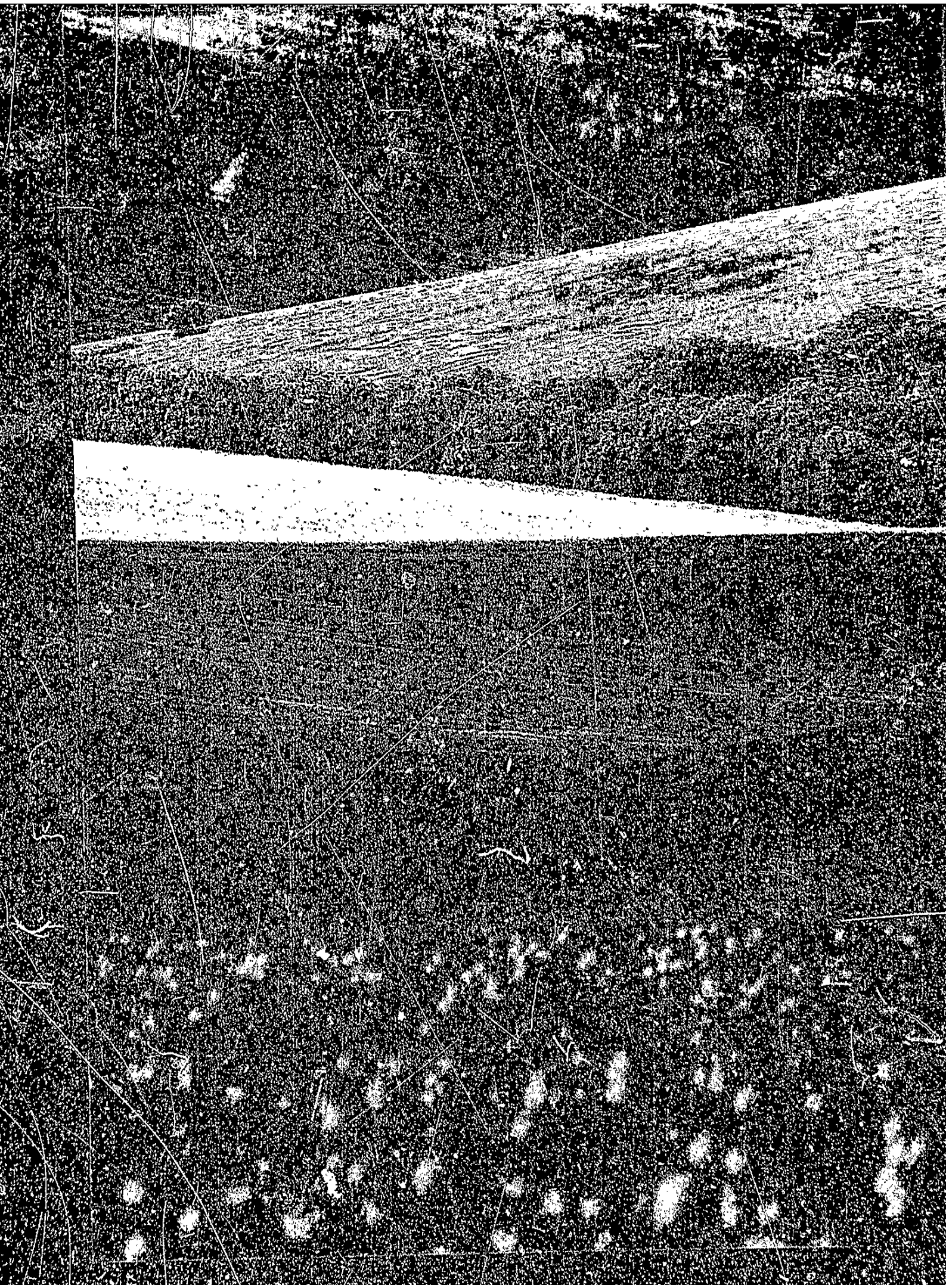


Martin Dent, operator at Hutton Rudby Sewage Treatment Works, checking the operation of the final humus tank.



Richard Oxnard, Assistant Scientist, conducts a permangate value test to monitor organic pollution levels.


efficient
For more effective operations and to care for
the environment we are investing in more efficient
ways of managing our assets.



Since becoming a part of Northumbrian Water last year, Neil Bunting (Holdings) Limited has expanded, introduced advanced Swiss technology to the UK, launched new products, moved to new premises and shown a marked increase in profits.

Neil Bunting is concerned with the management of pipes, pipelines and related assets situated mainly, but not entirely, underground. Since its acquisition by Northumbrian Water in April 1990 it has been successfully integrated into the Group and both turnover and profitability have since increased significantly. Clients include not only water and sewerage companies but a variety of industrial pipeline users also, including the oil and gas industries. The company operates throughout much of the UK.

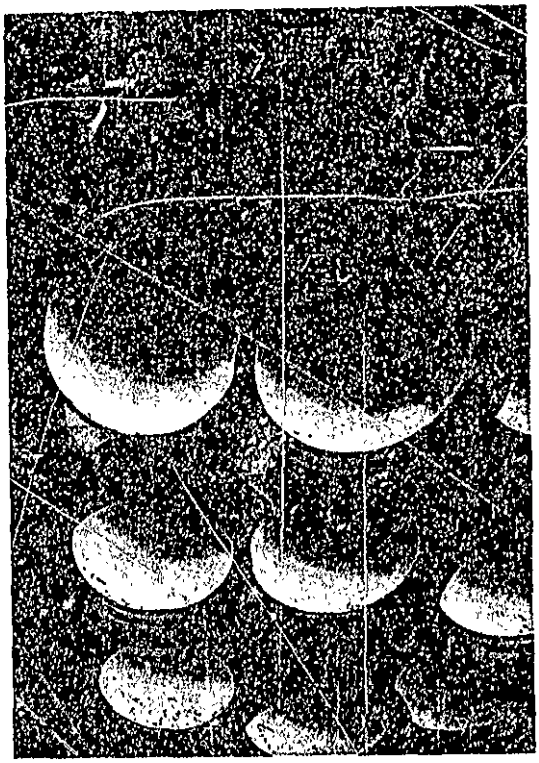
During this year of change and expansion the company has developed a detailed business plan for growth and diversification within its declared marketplace. In preparation, and to improve efficiency, company headquarters and the main depot were moved in June 1991 from Sheffield to premises near Chesterfield.

In May a Neil Bunting company, Repipe Limited, negotiated the heads of agreement for the master licence from KA-TE Systems Ltd of Zurich for that company's sewer repair robots, having introduced them to the UK four months earlier. KA-TE is an advanced remote-controlled repair system capable of a full range of operations on non-man-entry sewers without excavation work, and at considerably less cost than competing techniques. The robots, using high resolution cameras, can repair leaks, fractures and large holes in pipes between 200 and 800mm in diameter.

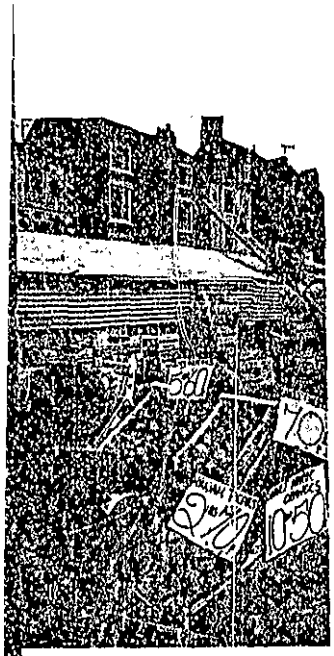
During the year the company launched two other new products; one is a sewer pipe-profiling system able to inspect surcharged pipes of a diameter between 150 and 6000mm. It uses an underwater high resolution colour scanner with 360° vision and a processor capable of real time measurement to trace cracks, breaks and silting, up to 300 metres from its operator and monitor.

The second new product is a software package, Examiner, which evaluates the information obtained by such video inspections.

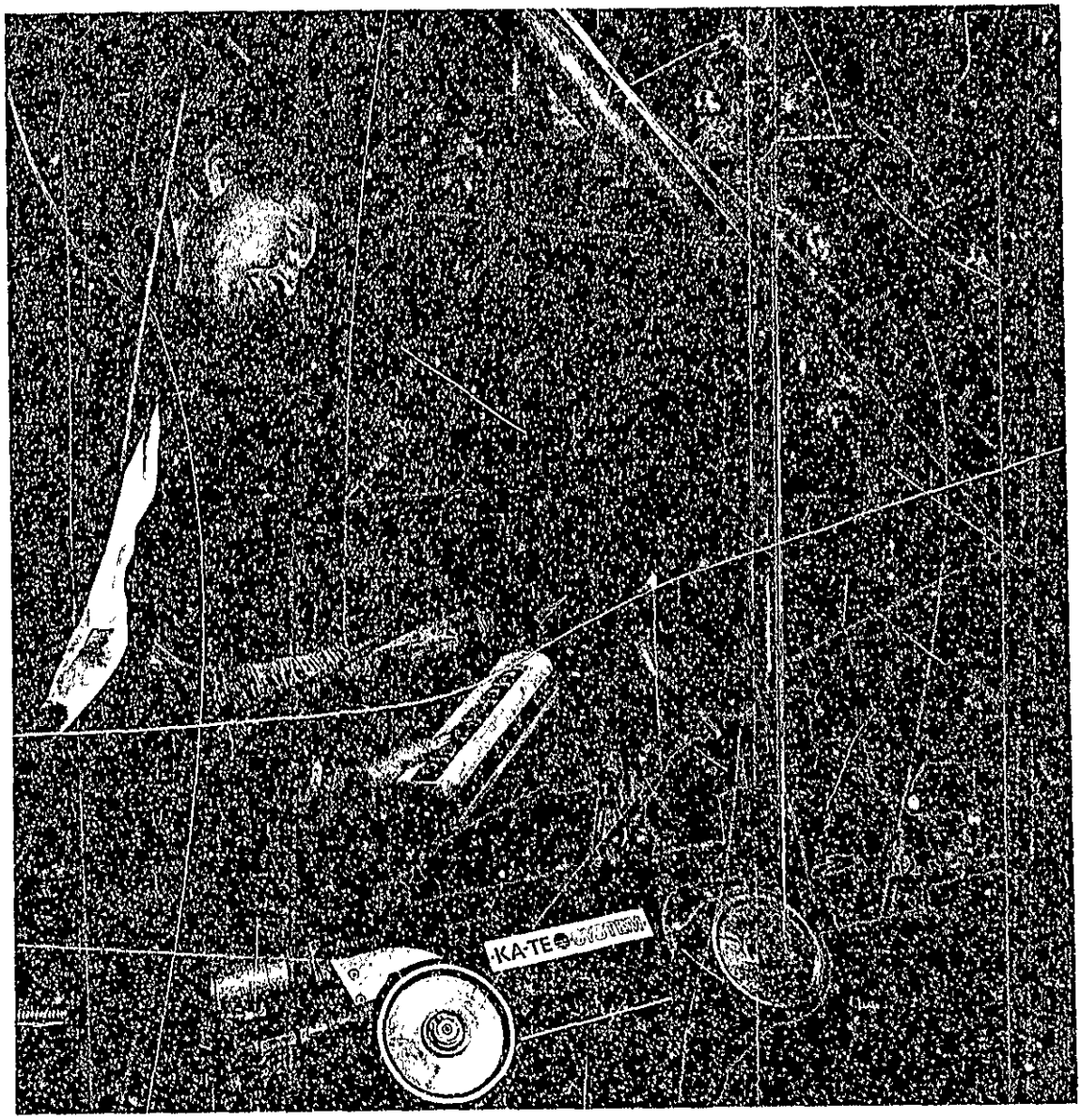
Closed-circuit TV cameras can relay images instantly to above-ground colour monitors.



The company's clients comprise a variety of industrial pipeline users including the oil and gas industries.



New technology in underground pipe repair and maintenance ensures that busy town centres such as Hexham no longer need to suffer the disruption of excavation works.



Ken Weatherstone, Team Leader, Neil Bunting (Holdings) with one of the KA-TE sewer robots – part of the remote-controlled repair system.

fresh

Fresh thinking to seize market opportunities will drive our development in operating and consultancy and corporate services.

The Group's specialised expertise is now being made available to markets outside the Group. New staff, premises, organisation and clients have all contributed to significant growth of the business.

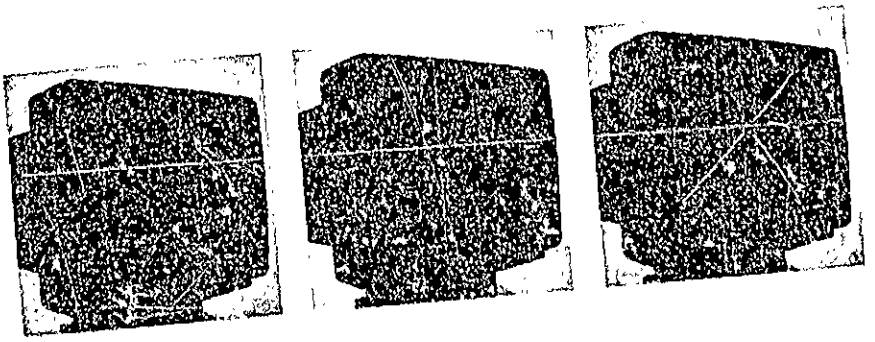
Operating and consultancy services currently comprise four divisions; Northumbrian Engineering Consultants, Model Solutions, Geotechnical & Testing Services (GTS) and Total Flow Surveys (TFS).

During the year Model Solutions, TFS and GTS were all moved into new offices and laboratories.

The initiative to market operating and engineering skills to a wider market began well, with 10% of income for the year arising from outside clients. GTS and TFS were particularly successful, 17% of their business being won from outside the Group. Operating and consultancy services now have industrial companies, urban development corporations, contractors and private developers among their clients. A design contract bid, in association with a contractor, for three sea outfalls was accepted by a Scottish Regional Council. Both GTS and TFS were successful in establishing themselves in the national market. GTS offer full site investigation with advanced facilities for laboratory and field testing of soils and engineering materials. TFS is now operating outside the North East region and is a leader in flow measurement techniques, particularly where low flows are involved. The company undertook commissions for several of the other water plcs, including a survey of the longest sewer in the UK.

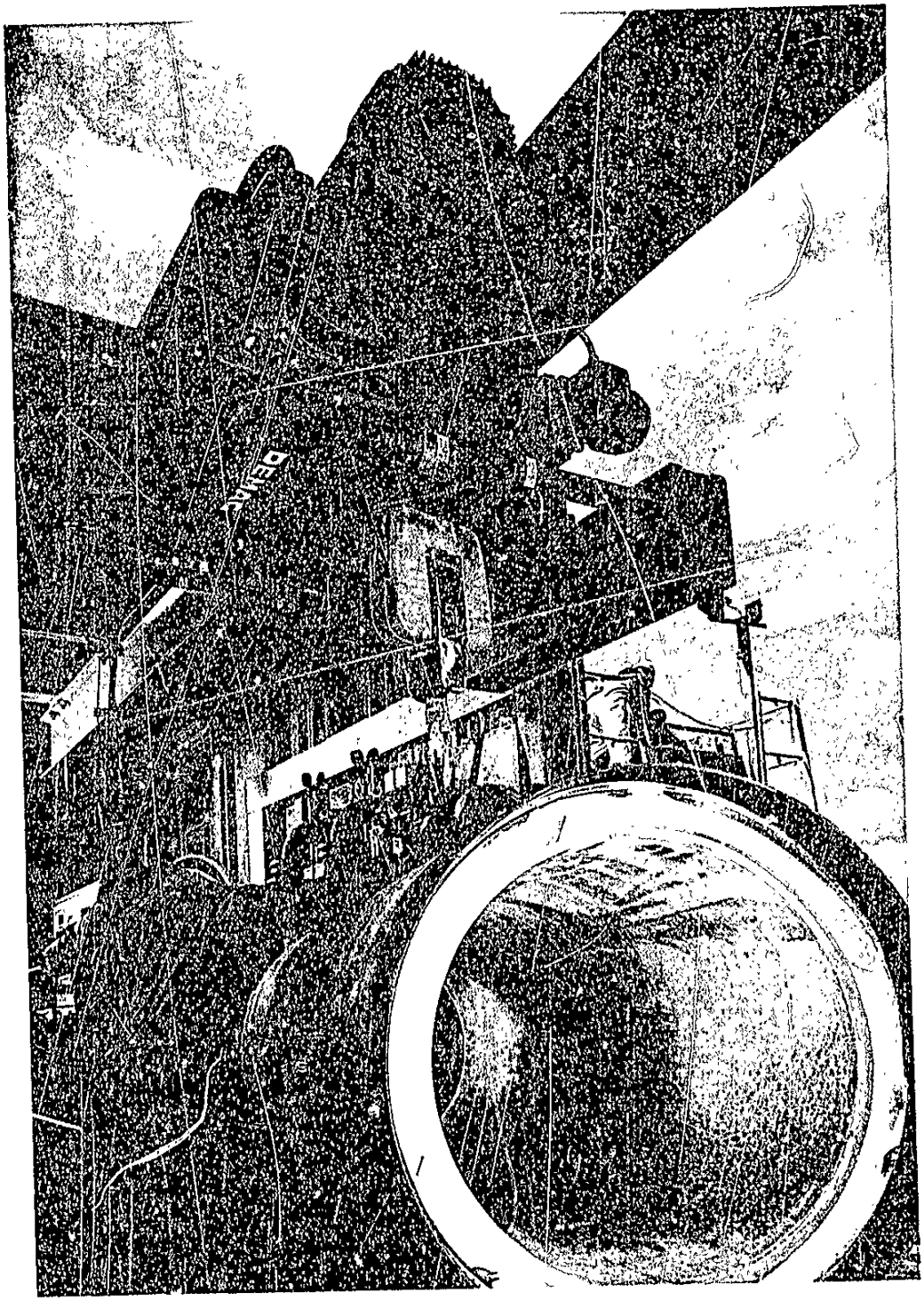
Studies in sewage and water treatment and sludge disposal, and for the design and provision of sludge treatment plant, were carried out for another Scottish Regional Council.

The increasing flexibility and commercial awareness of staff since privatisation have made possible the wider client base and increased level of performance. Together with the skills developed over many years in the efficient servicing of Northumbrian Water Limited, they form a strong basis for further business development.

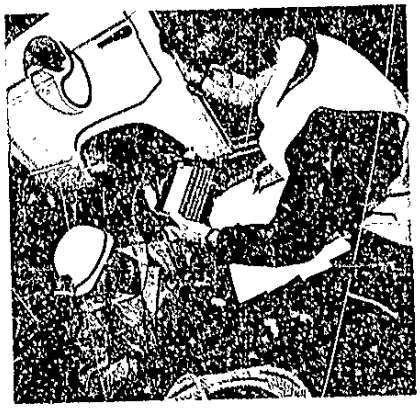


Model Solution's computer model of sewer systems at area, street and house level.

A major project to clean up the River Tyne and local beaches has involved design and construction of large diameter sewers to intercept over 200 outfalls which discharged into the river.



GTS drill and recover undisturbed soil samples and conduct tests to reflect behaviour under conditions similar to those anticipated during and after construction.



One of three Total Flow Survey teams, installing sewer flow monitoring equipment.

Since privatisation, those with latent enterprise and initiative have been given the opportunity to exploit their talents and resources and to generate increasing turnover from outside the Group.

Activities that were developed originally to serve the Group only have been formed into limited liability companies. They are now marketing their products and services in the UK and abroad.

Analytical and Environmental Services Limited provides a range of scientific services including environmental assessment, tidal water monitoring, organic and inorganic analytical chemistry and microbiology. Current clients include both water and non water companies.

CPCR Limited provides a full range of human resource consultancy services, including professional and executive recruitment, psychometric assessment, career planning, management development, organisational change programmes, stress management, and reward management. Clients include local government, health authorities, training and enterprise councils (TECs), manufacturing and service organisations.

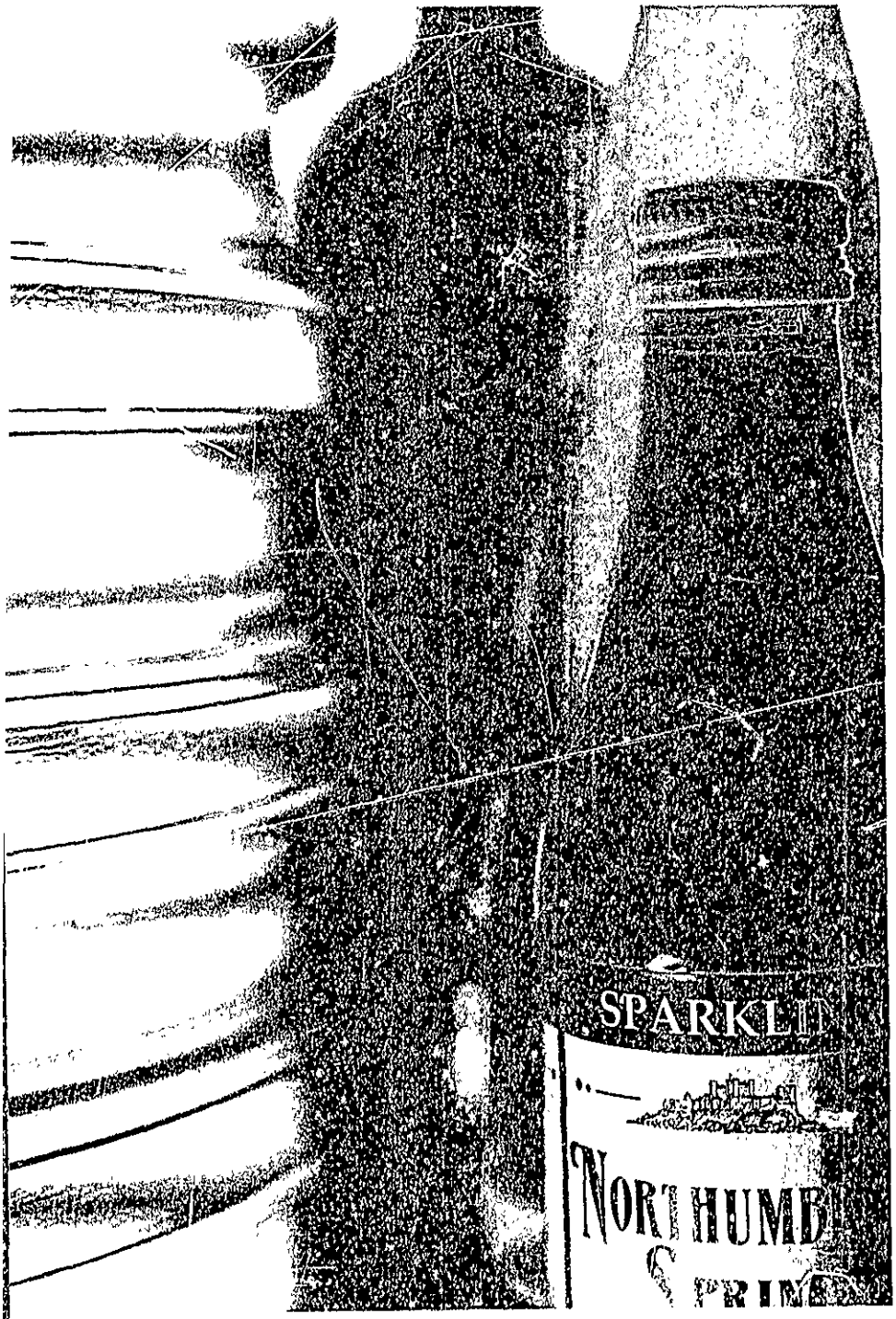
IMASS Limited (Information Management and Systems Solutions) was launched as a company in April 1991. Its strengths are in four areas: information technology and training; personal computer networks and communications; IBM AS400 services; information technology strategies. Over the year commissions were completed for European and UK companies, and public authorities.

Kelda Contract Hire Limited is a vehicle contract hire company which began trading in November 1990. Some 14% of its business came from outside the Group at the year end.

Aqua Trading Limited, acquired in April 1990, bottles and markets Northumbrian Spring Natural Mineral Water. The water source in Darlington, County Durham, is thought to be the largest source of natural mineral water in the country. The company has recently agreed to supply two national supermarket chains, and is one of the two leading suppliers to the UK chilled water dispenser market.

Anne Cuthbertson, Human Resource Consultant with CPCR, conducting a seminar on the management of change.

[illegible] *the Northumbrian Water Reclamation.*



John McCreton, IT consultant, working with the advanced technology of the Geographic Information System (GIS) to create a detailed map of underground assets.

Regular monitoring of the animal community in marine and estuarine environments allows AES to assess the effect of pollution-reduction schemes.

Our 1991 year saw the successful completion of capital investment plans, the establishment of a new structure and planned diversification moves beginning to yield benefits.

The capital investment programme of the core business was completed to budget, and one of similar size is in hand for the current year. This comprises some 800 projects designed to improve water supply and sewerage services for the benefit of our customers.

Our organisational structure is evolving to meet the demands of the Group's strategy. Good communication between companies within the Group is already producing new business opportunities, and the Group's assets in terms of expertise, experience and skills are thus already finding wider markets.

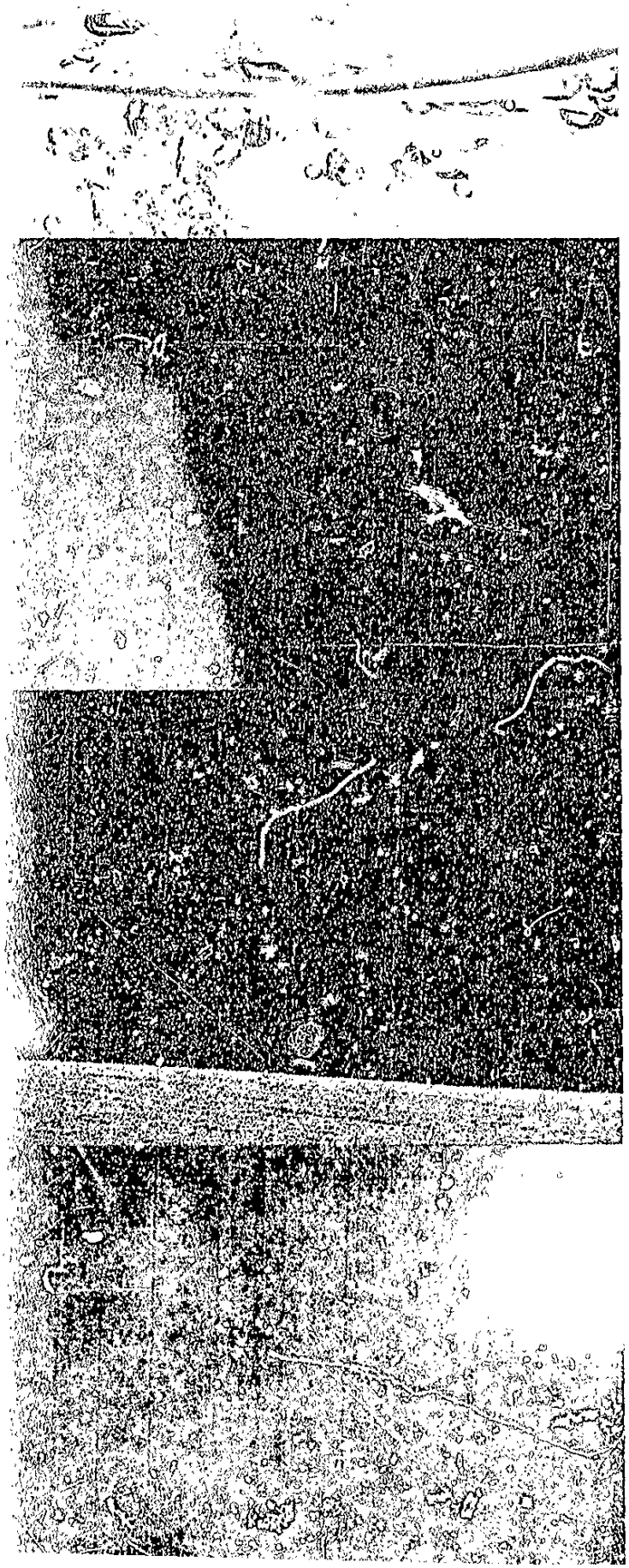
We are fully conscious of and share the concerns about diversification held by many observers of the industry.

Diversification is, therefore, part of a corporate strategy that is carefully planned and will not be undertaken at the expense of customers of the core business.

It is perhaps worth repeating that diversification is aimed at increasing shareholder value to a higher degree than would be possible with the core business alone, and that the core business will not be weakened as a result of such diversification. In fact, the core business will benefit from the increased strength of the Group as a whole.

We remain confident about the future. Our industry is going through a period of considerable change, which is likely to last a number of years. The continuing task of management is to secure that change against a background of demands for rapid improvements in the quality of services provided at reasonable cost to customers. It must also seek a fair balance between the interests of customers, shareholders and employees.

David G Cranston



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 Chief Executive's Review 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.

Profits and Dividends

Profit before taxation for the financial year to 31 March 1991 was £46.9m.

The directors are recommending a final dividend, payable in October 1991, to shareholders on the register on 22 July 1991 of 12.4p net per Ordinary Share. An interim dividend, payable in March 1991, to shareholders on the register on 28 January 1991 was 6.2p net per Ordinary Share.

After providing £4.1m for taxation and £12.2m for payment of dividend, the retained profit for the year amounted to £30.6m.

Share Capital

As at the 31 March 1991 the issued share capital of the Company was 65,495,433 Ordinary Shares of £1 each of which 5,433 were issued on the exercise of employee share options.

Offer for Sale

On 22 November 1989, the Secretary of State made available 65,490,000 Ordinary Shares of £1 each.

The Offer price was £2.40 per Ordinary Share, the final instalment of 70p is payable by 3.00pm on 30 July 1991.

Substantial Shareholdings

64,518,670 Ordinary Shares of £1 (98.5%) 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 14 June 1991 the Company's Register of substantial shareholdings showed the following interests in 3% or more of the Company's shares:

Norwich Union Fund Managers Limited – 5.01%

Abbey Life Investment Services Limited – 3.936%

Fixed Assets

Changes in fixed assets in the year are shown in notes 13 and 14 to the accounts.

Second Annual General Meeting

The Notice of the Company's second Annual General Meeting, which is to be held on Thursday, 5 September 1991 at 11.00am at Newcastle Playhouse, Barras Bridge, Newcastle upon Tyne, appears on page 56.

Directors

The names of the directors are set out on pages 6 and 7. During the year T Harrison and M J Murden resigned as directors of the Company on 31 December 1990 and 31 January 1991 respectively.

In accordance with the Articles of Association Professor Pescod will retire and offer himself for re-election at the Annual General Meeting. Professor Pescod does not have a service contract.

The shareholdings of directors are set out in note 25 to the accounts.

The Company has effected directors' and officers' liability insurance.

Donations

During the year, sponsorships and donations to charities, mostly by seconding staff to charitable, education or enterprise projects amounted to approximately £314,000. No political donations were made.

Research and Development

Research and development for the water industry is carried out by the Water Research Centre. During the year Northumbrian Water has continued its subscription to the Centre. The Company also supports initiatives at local universities, polytechnics and colleges and the Construction Industry Research and Information Assocation. During the year the Company has also undertaken applied research to solve operational problems as they have occurred, particularly in relation to sewage treatment works.

Employees

The total of persons in the employ of the Group at 31 March 1991 was 1687.

(a) Employment policy 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 Group is committed to improve the understanding and involvement of all the employees in the Group's business aims and performance. The Group achieves this by briefing employees and the use of an in-house monthly magazine. Company councils have been established for promoting effective communication and harmonious relations between the Group and its employees by providing a forum for Councillors to discuss those matters which directly affect the employees that they represent.

(b) Training 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.

(c) Health and safety Northumbrian Water takes a proactive approach to health and safety.

An Occupational Health Nurse offers basic screening and advises on issues concerning employee health in the workplace. To show commitment to the campaign the Company has recently joined the "Look After Your Heart" scheme which helps employees take preventative measures to reduce the risk of heart disease. This is in conjunction with Northumbrian Water's Medical Adviser, Dr Geoff Rawes.

The Group Safety Manager and two Safety Advisers carry out a continual audit against the Company's safety policies and standards. Any necessary improvements are implemented quickly and effectively.

(d) Welfare A Welfare Adviser offers counselling services or financial support to all of the Group's employees.

(e) Employee share option scheme There is a savings related share option scheme for employees at all levels.

(f) Pensions 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 Deloitte are auditors of the Company. 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
19 July 1991

Consolidated Profit and Loss Account

For the year ended 31 March 1991

	Note	1991 £m	1990 £m
TURNOVER	2	**167.0**	150.9
Operating costs	3	**(132.9)**	(114.3)
OPERATING PROFIT		**34.1**	36.6
Share of associated undertaking losses		**(1.4)**	–
Investment income	4	**0.9**	–
Net interest receivable/(payable)	5	**13.3**	(26.6)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	**46.9**	10.0
Tax on profit on ordinary activities	9	**(4.1)**	(2.3)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		**42.8**	7.7
Extraordinary item	10	**–**	(3.6)
PROFIT FOR THE FINANCIAL YEAR		**42.8**	4.1
Dividends	11	**(12.2)**	(7.0)
PROFIT/(LOSS) RETAINED FOR THE YEAR	27	**30.6**	(2.9)
EARNINGS PER ORDINARY SHARE (1990: Calculated on a pro forma basis)	12	**65.3p**	78.3p

The statement of Group Reserves is set out at note 27 to the accounts.

The notes on pages 38 to 54 form part of these accounts.
Auditors' report page 55.

Consolidated Balance Sheet

At 31 March 1991

	Note	1991 £m	1990 £m
FIXED ASSETS			
Tangible assets	13	**635.1**	567.8
Investments	14(a)	**0.4**	0.1
		635.5	567.9
CURRENT ASSETS			
Stocks	15	**3.1**	2.6
Debtors	16	**38.4**	21.2
Investments	17	**40.1**	–
Cash at bank and short term deposits		**169.4**	127.8
		251.0	151.6
CREDITORS: Amounts falling due within one year	18	**(101.5)**	(69.0)
NET CURRENT ASSETS		**149.5**	82.6
TOTAL ASSETS LESS CURRENT LIABILITIES		**785.0**	650.5
CREDITORS: Amounts falling due after more than one year	19	**(94.7)**	(0.7)
PROVISIONS FOR LIABILITIES AND CHARGES	22	**(18.9)**	(9.9)
ACCRUALS AND DEFERRED INCOME	23	**(20.0)**	(17.3)
		(133.6)	(27.9)
		651.4	622.6
CAPITAL AND RESERVES			
Called up share capital	24	**65.5**	65.5
Share premium account	27	**57.6**	57.6
Profit and loss account	27	**528.3**	499.5
		651.4	622.6

Approved by the Board on 19 July 1991

Sir Michael Straker *Chairman* Michael Straker

D G Cranston *Chief Executive* D G Cranston

The notes on pages 38 to 54 form part of these accounts.

Auditors' report page 55.

Company Balance Sheet

At 31 March 1991

	Note	1991 £m	1990 £m
FIXED ASSETS			
Investments	14(b)	**124.9**	0.1
		124.9	0.1
CURRENT ASSETS			
Debtors	16	**62.5**	9.7
Investments	17	**40.1**	–
Cash at bank and short term deposits		**131.8**	127.8
		234.4	137.5
CREDITORS: Amounts falling due within one year	18	**(66.5)**	(12.2)
NET CURRENT ASSETS		**167.9**	125.3
TOTAL ASSETS LESS CURRENT LIABILITIES		**292.8**	125.4
CREDITORS: Amounts falling due after more than one year	19	**(11.0)**	–
		281.8	125.4
CAPITAL AND RESERVES			
Called up share capital	24	**65.5**	65.5
Share premium account	27	**57.6**	57.6
Profit and loss account	27	**158.7**	2.3
		281.8	125.4

Approved by the Board on 19 July 1991

Sir Michael Straker *Chairman*

D G Cranston *Chief Executive*

The notes on pages 38 to 54 form part of these accounts.

Auditors' report page 55.

Consolidated Statement of Source and Application of Funds

For the year ended 31 March 1991

	1991 £m	1990 £m
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	**46.9**	10.0
Extraordinary item	**–**	(3.6)
Adjustments for items not involving movement of funds:		
Provision for infrastructure renewals	**24.6**	19.9
Depreciation of tangible fixed assets	**16.9**	10.7
Losses retained in associated undertaking	**1.4**	–
Amortisation of capital grants	**(0.4)**	(0.3)
Loss on sale of tangible fixed assets	**0.4**	0.1
	89.8	36.8
FUNDS FROM OTHER SOURCES		
Proceeds from issue of shares	**–**	122.6
Loans	**90.0**	75.0
Proceeds from sale of tangible fixed assets	**0.3**	0.1
Capital grants and contributions	**7.2**	5.0
Creditors: Amounts falling due after more than one year, excluding loans	**3.8**	(0.1)
	101.3	202.6
	191.1	239.4
APPLICATION OF FUNDS		
Purchase of tangible fixed assets	**(88.4)**	(55.9)
Infrastructure renewals expenditure	**(15.6)**	(10.0)
Loan repayments	**–**	(72.2)
Fixed asset investments	**(1.7)**	–
Purchase of subsidiary*	**(2.0)**	–
Current asset investments	**(40.1)**	–
Dividends paid	**(11.1)**	–
Taxation paid	**(2.3)**	–
	(161.2)	(138.1)
	29.9	101.3
INCREASE/(DECREASE) IN WORKING CAPITAL		
Stocks	**0.5**	0.6
Debtors	**16.4**	3.9
Creditors: Amounts falling due within one year, excluding taxation, proposed dividend, bank overdraft and loans	**(13.1)**	2.8
	3.8	7.3
Movement in net liquid funds:		
Cash at bank and short term deposits	**41.6**	117.7
Bank overdraft	**(15.5)**	(23.7)
	26.1	94.0
	29.9	101.3

*See note 14(f) for an analysis of the effect of the acquisition of the subsidiary.

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1 Accounting Policies

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom with the exception of the treatment of capital grants and contributions received in respect of infrastructure assets (note 13). A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

(a) Basis of accounting The accounts have been prepared under the historical cost convention.

(b) Basis of consolidation The consolidated accounts include the Company and its subsidiary undertakings with the exception of Three Rivers Insurance Company Limited (see note 14(d)). The results of subsidiaries acquired during the year are included in the consolidated profit and loss account from the date of their acquisition. Intra-group sales and profits are eliminated fully on consolidation.

(c) Associated undertakings The Group's share of profits less losses of associated undertakings is included in the consolidated profit and loss account, and the Group's share of their net assets is included in the consolidated balance sheet.

(d) Goodwill Goodwill arising on consolidation represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill arising on the acquisition of subsidiaries and associates is written off immediately against reserves.

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

(f) Tangible fixed assets and depreciation Tangible fixed assets, including assets in the course of construction, comprise:

infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines 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.

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

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. 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

(iii) ASSETS IN THE COURSE OF CONSTRUCTION Assets in the course of construction are not depreciated until commissioning.

(g) Government grants and contributions Revenue grants are credited to the profit and loss account when they are received.

Capital grants and contributions received in respect of infrastructure assets are treated as a deduction from the cost of these assets. This treatment has been consistently applied and is adopted in order to show a true and fair view. Infrastructure assets are not depreciated and in the opinion of the directors it is therefore not appropriate to recognise related capital grants and contributions as deferred income.

Capital grants and contributions relating to other assets are treated as deferred income and amortised in the profit and loss account over the expected useful economic lives of the qualifying assets. This treatment represents a change in accounting policy from the year ended 31 March 1990. The effect of this change in accounting policy is set out in notes 3(b), 13 and 23 to the accounts.

(h) Hire purchase and leasing Where assets are financed by hire purchase or leasing arrangements which transfer substantially all the risk and rewards of ownership to the Group, the assets are treated as if they had been purchased and the corresponding capital cost is treated as a liability. Rentals or leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the outstanding liability and the finance costs being written off to the profit and loss account over the period of the hire purchase contract or lease in proportion to the reducing outstanding liability.

Rental costs arising under operating leases are expensed in the year they are incurred.

(i) 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.

(j) 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 or provisions in the balance sheet.

(k) Taxation The charge for taxation is based on the profit for the year 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.

(l) 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.

(m) 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	
	1991 £m	1990 £m	1991 £m	1990 £m
Appointed business:				
Water supply	49.2	46.3	6.3	(13.2)
Sewerage services	97.3	80.6	18.8	14.9
	146.5	126.9	25.1	1.7
Other trading activities	20.5	24.0	21.8	8.3
	167.0	150.9	46.9	10.0

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 and sewerage undertaker for specific areas in the North East of England in accordance with the Water Act 1989.

3 Operating Costs

(a) Operating costs of the Group are made up as follows:

	1991 £m	1990 £m
Materials and consumables	10.2	7.1
Other external charges	16.0	13.2
Manpower costs (note 8)	24.8	19.7
Depreciation	16.9	10.7
Infrastructure renewals	24.6	19.9
Other operating charges	40.8	44.0
Other operating income	(0.4)	(0.3)
	132.9	114.3

(b) Amortisation of capital grants of £0.3m for the year ended 31 March 1990, previously reported within depreciation, has been reclassified as other operating income as a result of a change in accounting policy (note 1(g)).

3 Operating Costs *(continued)*

	1991 £m	1990 £m
(c) The preceding costs are stated after crediting:		
Amortisation of capital grants	**0.4**	0.3
And after charging:		
Depreciation of owned assets	**16.2**	10.5
Depreciation of assets held under hire purchase and finance leases	**0.7**	0.2
Operating leases:		
Plant and machinery	**–**	0.5
Other operating leases	**1.2**	1.0
Voluntary severance and early retirement costs	**1.0**	2.1
Costs of research and development	**1.5**	0.2
Directors' emoluments (note 6)	**0.4**	0.2
Members' emoluments (note 6)	**–**	0.1
Auditors' remuneration	**0.1**	0.1

4 Investment Income

	1991 £m	1990 £m
Dividends receivable from current asset investments (see note 17)	**0.9**	–

5 Net Interest Receivable/(Payable)

	1991 £m	1990 £m
Net interest receivable/(payable) is comprised as follows:		
Interest payable:		
Bank loans, overdrafts and other loans:		
Repayable within five years otherwise than by instalmants	**(6.2)**	(32.2)
Not wholly repayable within five years	**(0.9)**	–
	(7.1)	(32.2)
Hire purchase and finance leases	**(0.2)**	–
Total interest payable	**(7.3)**	(32.2)
Interest receivable	**20.6**	5.6
Net interest receivable/(payable)	**13.3**	(26.6)

6 Directors' Emoluments

The total emoluments for the year of directors of the Company, including employer's pension contributions, amounted to £355,000; this included £50,000 in respect of fees. In the year to 31 March 1990 the total emoluments for the directors of the Company and members of the Northumbrian Water Authority, including employer's pension contributions, amounted to £268,000; this included £55,000 in respect of fees.

The Company paid an amount of £185,000 for the premature termination of a service agreement to a director who resigned during the year.

The directors of the Company were appointed with effect from 1 September 1989. The emoluments disclosed below for the year to 31 March 1990 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. Emoluments, excluding employer's pension contributions, are as follows:

	1991 £'000	1990 £'000
Of the Company:		
Chairman	51	31
Highest paid director	82	50

Other directors within the following ranges:

	1991 Number	1990 Number
£0 – £ 5,000	–	4
£ 5,001 – £10,000	4	1
£15,001 – £20,000	1	–
£35,001 – £40,000	–	1
£40,001 – £45,000	–	1
£60,001 – £65,000	1	–
£75,001 – £80,000	1	–

	1990 £'000
Of the Authority:	
Chairman	12
Highest paid member	19

Other members within the following ranges:

	1990 Number
£0 – £ 5,000	8
£5,001 – £10,000	2

7 Transactions with Directors and Officers

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

8 Employee Information

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

	1991 £m	1990 £m
Wages and salaries	**24.9**	19.7
Social Security costs	**2.0**	1.5
Other pension costs	**2.5**	1.9
Total employment costs	**29.4**	23.1

(b) Total employment costs are charged as follows:

Capital schemes and infrastructure renewals	**4.6**	3.4
Manpower costs	**24.8**	19.7
	29.4	23.1

(c) The average number of employees on the Group's payroll during the financial year was 1,625 (1990: 1,404).

9 Tax on Profit on Ordinary Activities

	1991 £m	1990 £m
Advance corporation tax	**3.9**	2.3
Tax on franked investment income	**0.2**	–
	4.1	2.3

No tax arose on profits for the year owing to 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.

10 Extraordinary Item

	1991 £m	1990 £m
Expenses borne by the Group in connection with the Offer for Sale of the Company's shares	–	3.6

There is no taxation attributable to the extraordinary item.

11 Dividends

	1991 £m	1990 £m
Ordinary:		
Interim paid of 6.2p (1990: nil p) per share	**4.1**	–
Final proposed of 12.4p (1990: 10.69p) per share	**8.1**	7.0
	12.2	7.0

12 Earnings per Ordinary Share

(a) Earnings per share for the year to 31 March 1991 of 65.3p on a net basis have been calculated on a profit after taxation of £42.8m and by reference to 65.5 million Ordinary Shares, being the weighted average number of Ordinary Shares in issue and ranking for dividend during the year.

(b) Earnings per share for the year to 31 March 1990 of 78.3p on a net basis have been calculated on a pro forma basis which reflects the position of the Group as if the capital structure, as set out in the Secretary of State for the Environment's Offer for Sale dated 22 November 1989, had been in place since 1 April 1989. 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 numb. of Ordinary Shares in issu following the combined Offer for Sale. For this purpose it has been assumed that such Ordinary Shares had been in issue throughout the year to 31 March 1990.

(c) On the basis of a nil distribution of profit the earnings per share would be 71.3p (1990 pro forma basis: 83.7p).

13 Tangible Fixed Assets

The Group:

	Freehold land and buildings £m	Short leasehold land and buildings £m	Infrastructure assets £m	Operational structures plant and machinery £m	Fixtures fittings tools and equipment £m	Assets in the course of construction £m	Total £m
Cost:							
Balance at 1 April 1990	14.3	2.6	340.2	184.4	17.2	45.7	604.4
Prior year adjustment	0.7	–	–	17.2	–	–	17.9
Restated cost	15.0	2.6	340.2	201.6	17.2	45.7	622.3
Acquisition of subsidiary	–	–	–	0.9	–	–	0.9
Additions	3.3	–	22.0	20.9	8.2	34.0	88.4
Disposals	(0.5)	–	–	(0.7)	(0.3)	–	(1.5)
Grants – Infrastructure assets	–	–	(4.1)	–	–	–	(4.1)
Balance at 31 March 1991	**17.8**	**2.6**	**358.1**	**222.7**	**25.1**	**79.7**	**706.0**
Depreciation:							
Balance at 1 April 1990	3.0	0.2	–	40.5	10.2	–	53.9
Prior year adjustment	0.1	–	–	0.5	–	–	0.6
Restated depreciation	3.1	0.2	–	41.0	10.2	–	54.5
Acquisition of subsidiary	–	–	–	0.3	–	–	0.3
Provision for year	0.8	0.1	–	11.3	4.7	–	16.9
Disposals	(0.1)	–	–	(0.7)	–	–	(0.8)
Balance at 31 March 1991	**3.8**	**0.3**	**–**	**51.9**	**14.9**	**–**	**70.9**
Net book value: 31 March 1991	**14.0**	**2.3**	**358.1**	**170.8**	**10.2**	**79.7**	**635.1**
Net book value: 31 March 1990	11.9	2.4	340.2	160.6	7.0	45.7	567.8

The prior year adjustment arises from a change in accounting policy (note 1(g)).

The cost of infrastructure assets is stated net of capital grants and contributions received in respect of those assets. As a result the net book value of infrastructure assets is £30.4m lower than it would have been had this treatment not been adopted (1990: £26.3m lower).

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

The net book value of tangible fixed assets held under hire purchase and finance leases at 31 March 1991 was as follows:

	1991 £m	1990 £m
Operational structures, plant and machinery	**1.5**	–
Fixtures, fittings, tools and equipment	**1.2**	0.7
Assets in the course of construction	**1.2**	–
	3.9	0.7

14 Fixed Asset Investments

(a) *The Group:*

	Associated undertaking £m	Subsidiary excluded from consolidation £m	Other investments £m	Total £m
Cost:				
At 1 April 1990	–	–	0.1	0.1
Additions	1.5	0.2	–	1.7
Share of losses	(1.4)	–	–	(1.4)
At 31 March 1991	**0.1**	**0.2**	**0.1**	**0.4**

All fixed asset investments are unlisted.

(b) The Company:

	Interests in subsidiaries £m	Subsidiary excluded from consolidation £m	Total £m
Cost:			
At 1 April 1990	0.1	–	0.1
Additions	124.6	0.2	124.8
At 31 March 1991	**124.7**	**0.2**	**124.9**

All fixed asset investments are unlisted.

(c) Associated undertaking:

Name of undertaking	Description of shares held	Proportion of nominal value of issued shares held %
Integrated Environmental Management Limited	Ordinary Shares of £1	50
	Preference Shares of £1	50

Integrated Environmental Management Limited is a company registered in England and Wales to engage in the chemical, physical and thermal treatment of sewage sludge and industrial wastes.

(d) Subsidiary excluded from consolidation:

The accounts of Three Rivers Insurance Company Limited have not been consolidated because its activities are so different from those of other members of the Group. This company, which is wholly owned, is a captive insurance company registered in the Isle of Man.

Further details regarding this company have not been included with these accounts because the directors are of the opinion that the information is not material.

14 Fixed Asset Investments *(continued)*

(e) Interests in subsidiaries:

The Company's interests in trading subsidiaries are as follows:

Name of undertaking	Proportion of nominal value of issued Ordinary Shares of £1 each %	Business activity
Northumbrian Water Limited	100	Water and sewerage services
Northumbrian Services Limited	100	Engineering, information technology and analytical and environmental services
Northumbrian Environmental Management Limited	100	Waste management
Neil Bunting (Holdings) Limited (see note 14(f))	100	Inspection, cleaning and repair of hollow structures
Aqua Trading Limited	100	Bottled mineral water
CPCR Limited	100	Human resources consultancy
Kelda Contract Hire Limited	100	Contract hire of vehicles
Coquetdale Property Investment Limited	100	Property investment
Northumbrian Water Estates Limited	100	Property trading

All of the above companies are registered in England and Wales.

On 28 September 1990 the Company subscribed for a further 122.6 million Ordinary Shares, of £1 each at par for cash, in Northumbrian Water Limited.

(f) Acquisition of subsidiary:

On 2 April 1990 the Group acquired the whole of the issued share capital of Neil Bunting (Holdings) Limited for a total consideration of £2m.

The subsidiary made a profit of £0.1m in the financial year ended 31 March 1990.

The analysis of the acquisition, which has been accounted for using the acquisition method, is set out below.

	Book and fair value £m
Tangible fixed assets	0.6
Debtors	0.8
Bank overdraft	(0.5)
Creditors: Amounts falling due within one year	(0.5)
Creditors: Amounts falling due after more than one year	(0.2)
Net assets acquired	0.2
Goodwill	1.8
Purchase consideration	2.0

15 Stocks

	The Group	
	1991	1990
	£m	£m
Stores	2.4	1.9
Work in progress	0.7	0.7
	3.1	2.6

16 Debtors

	The Group		The Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Trade debtors	12.3	7.4	–	–
Amounts owed by group companies	–	–	52.3	5.6
Other debtors	6.4	4.6	1.9	1.8
Prepayments and accrued income	19.7	9.2	8.3	2.3
	38.4	21.2	62.5	9.7

The Group debtors disclosed above include £0.2m (1990: £nil m) of amounts falling due after more than one year. The Company debtors disclosed above include £10.5m (1990: £nil m) of amounts falling due after more than one year.

17 Current Asset Investments

During the year, the Company invested £40.1m in an equity fund managed by Kleinwort Benson Investment Management Limited. The fund is invested in UK fully listed companies and its composition is managed so as to track the FT-SE 100 index. The cost of the investment is protected from losses by option contracts, the cost of which have been met by other option contracts which limit gains.

The fund may not be readily realised as the options written are not freely traded and therefore it has been stated in the balance sheet at cost. At March 1991 the fund was valued at £42.9m by Kleinwort Benson Investment Management Limited.

18 Creditors: Amounts falling due within one year

	The Group		The Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Bank loans and overdraft	41.1	25.1	39.2	–
Obligations under hire purchase contracts and finance leases (note 21)	0.4	–	–	–
Trade creditors	5.1	0.9	0.1	–
Amounts owed to group companies (see (a) below)	–	–	10.4	1.6
Other creditors	35.0	28.2	1.8	1.3
Taxation and social security (see (b) below)	4.8	3.0	4.1	2.3
Proposed dividend	8.1	7.0	8.1	7.0
Accruals and deferred income	7.0	4.8	2.8	–
	101.5	69.0	66.5	12.2

(a) Included in amounts owed to group companies is £5.5m (1990: £1.6m) in respect of group tax relief.

(b) The creditor for taxation and social security includes advance corporation tax payable amounting to £3.9m (1990: £2.3m) and tax on franked investment income amounting to £0.2m (1990: £nil m).

19 Creditors: Amounts falling due after more than one year

	The Group		The Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Loans (note 20)	90.0	–	10.0	–
Obligations under hire purchase contracts and finance leases (note 21)	3.3	–	–	–
Other creditors	1.4	0.7	1.0	–
	94.7	0.7	11.0	–

(a) Included above are £40m in the Group of loans drawn down from a five year committed revolving credit facility and £10m of other loans due for repayment in less than one year in the Group and the Company. All of these amounts have been treated as falling due after more than one year because it is intended that the loans will be refinanced or rolled over; committed undrawn facilities are in place for this purpose.

(b) The Group entered into interest rate swap agreements with various counterparties during the year. These agreements do not involve the Group in additional borrowings but provide a hedge against fluctuations in interest rates during the period of the agreements. The terms of the agreements require the Group to pay amounts calculated by reference to fixed interest rates, ranging from 11.42% to 11.45%, in respect of a set capital figure to the counterparties who, in turn, pay the Group amounts calculated by reference to LIBOR on the same capital figure. The agreements are for five years and cover £50m (1990: £nil m) of the Group's borrowings. The related costs or income arising during the year are included in interest receivable/payable.

20 Loans

	The Group		The Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Loans are repayable as follows:				
Between one and two years	–	–	–	–
Between two and five years	50.0	–	10.0	–
In five years or more	40.0	–	–	–
	90.0	–	10.0	–

Loans repayable in five years or more are repayable by instalments at rates of interest in the range of 11.0% to 11.5%.

21 Obligations under Hire Purchase Contracts and Finance Leases

	The Group	
	1991	1990
	£m	£m
Obligations under hire purchase contracts and finance leases are as follows:		
Amounts due:		
Within 1 year	0.6	–
Within 2-5 years	3.0	–
After 5 years	5.2	–
	8.8	–
Less: finance charge allocated to future periods	(5.1)	–
	3.7	–
Disclosed as due:		
Within 1 year	0.4	–
After more than 1 year	3.3	–
	3.7	–

22 Provisions for Liabilities and Charges

	The Group
	£m
Infrastructure renewals expenditure:	
Balance at 1 April 1990	9.9
Transferred from profit and loss account	24.6
Utilised during the year	(15.6)
Balance at 31 March 1991	18.9

23 Accruals and Deferred Income

	The Group £m
Capital grants:	
At 1 April 1990 – as reported previously	–
Capital grants reclassified as deferred income	17.3
At 1 April 1990 – as restated (note 1(g))	17.3
Additions	3.1
Amortisation in year	(0.4)
At 31 March 1991	**20.0**

24 Called Up Share Capital

The share capital of the Company is shown below:

	1991 £m	1990 £m
Authorised:		
100 million Ordinary Shares of £1 each	**100.0**	100.0
Special Rights Redeemable Preference Share of £1	–	–
	100.0	100.0
Alloted, called up and fully paid:		
65.5 million Ordinary Shares of £1 each	**65.5**	65.5
Special Rights Redeemable Preference Share of £1	–	–
	65.5	65.5

(a) At 1 April 1990 the number of allotted, called up and fully paid Ordinary Shares stood at 65,490,000. During the year a further 5,433 Ordinary Shares were allotted to personnel who retired and were members of the Savings-Related Share Option Scheme; these Ordinary Shares were issued for cash at a price of £1.76 at a premium of 76p per Ordinary Share.

(b) The Special Rights Redeemable Preference Share is redeemable at any time at par at the option of the Secretary of State for the Environment after consulting the Company. This share, which may only be held by the Secretary of State or another person acting on behalf of H M 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.

25 Directors' Interests

The beneficial interests of directors at 31 March 1991 and their families in numbers of Ordinary Shares of the Company are set out below:

	31 March 1991			31 March 1990		
	Fully paid shares	Options Executive scheme	Options SAYE scheme	Fully paid shares	Options Executive scheme	Options SAYE scheme
Sir M I B Straker	1,264	38,314	–	1,264	38,314	–
D G Cranston	3,486	58,475	6,136	3,486	58,475	6,136
R H Smith	5,775	68,690	4,090	5,495	68,690	4,090
Dr R Iley	1,000	–	–	1,000	–	–
Professor M B Pescod	200	–	–	200	–	–
W F Ridley	3,000	–	–	3,000	–	–
J S Ward	400	–	–	400	–	–

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

None of the directors had any interest in the shares of other companies in the Group.

Further details of the share option schemes are set out in note 26 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.

26 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
218,986	299p	From January 1993 for 7 years.
113,188	310p	From February 1993 for 7 years.

(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
1,001,957	176p	From March 1995 for 6 months.
322,283	176p	From March 1997 for 6 months.
218,737	264p	From March 1996 for 6 months.
132,998	264p	From March 1998 for 6 months.

27 Reserves

	Share premium £m	Profit and loss account £m
The Group:		
Balance at 1 April 1990	57.6	499.5
Retained profit for the year	–	30.6
Premium on shares issued (see note 24(a))	–	–
Goodwill written off (see note 14(f))	–	(1.8)
Balance at 31 March 1991	**57.6**	**528.3**
The Company:		
Balance at 1 April 1990	57.6	2.3
Retained profit for the year	–	156.4
Premium on shares issued (see note 24(a))	–	–
Balance at 31 March 1991	**57.6**	**158.7**

28 Pensions

The Group operates two defined benefit final salary schemes, the Water Mirror Image Pension Scheme (MIS) and the Water Pension Scheme (WPS). The assets of the schemes are held separately from those of the Group in independently administered funds.

The employer's 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 the WPS and the attained age method for the MIS. For this purpose the main actuarial assumptions used are based upon a real investment return 2% above pay inflation, 3% above increases in pensions for the MIS and 3.75% above increases in pensions for the WPS.

The pension cost for the year was £2.5m (1990: £1.9m).

The first actuarial valuation of the two schemes was carried out as at 31 March 1990. The total market value of the assets at the valuation date (including transfer payments received from previous arrangements) was £27.3m. The actuarial value of the assets of both schemes represented 101% of the value of their respective accrued benefits after allowing for expected earnings increases.

Following the valuation the actuaries do not recommend a change in contribution rates.

Both the WPS and MIS comply with the anticipated requirements of the Social Security Act 1990 with regard to pension increases. Some changes may be required in the schemes to comply with the ruling of the European Court in May 1990 concerning equality for men and women. However, these are unlikely to involve significant costs provided appropriate related changes are made to the contracting out requirements of the State arrangements.

29 Commitments and Contingent Liabilities

	The Group		The Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
(a) Capital expenditure:				
Expenditure contracted for	32.7	36.8	–	–
Expenditure authorised by directors but not yet contracted for	78.5	71.8	–	–
	111.2	108.6	–	–

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		The Group	
	Land and buildings 1991 £m	Other 1991 £m	Land and buildings 1990 £m	Other 1990 £m
Leases which expire:				
Within 1 year	–	0.1	–	–
Within 2-5 years	0.1	1.0	0.1	0.7
After 5 years	0.1	–	0.1	–
	0.2	1.1	0.2	0.7

(c) Deferred taxation:

No deferred taxation provision has been made in the Group or Company. The full potential amount of deferred taxation calculated at 33% (1990: 35%) on all timing differences is as follows:

	The Group		The Company	
	1991	1990	1991	1990
	£m	£m	£m	£m
Accelerated capital allowances	80.6	49.3	–	–
Other timing differences	(8.2)	(2.6)	2.2	0.7
	72.4	46.7	2.2	0.7
Advance corporation tax	(6.2)	(2.3)	(1.6)	(0.5)
Losses carried forward	(22.2)	(12.2)	–	–
	44.0	32.2	0.6	0.2

(d) Contingent liabilities:

Northumbrian Water Group PLC is party to a cross guarantee arrangement with certain group companies in respect of their bank overdrafts. Overdrafts outstanding at 31 March 1991 amounted to £nil m (1990: £25.1m).

Auditors' report page 55.

Report of the Auditors

To the members of Northumbrian Water Group PLC

We have audited the accounts set out on pages 34 to 54 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 1991 and of the profit 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

COOPERS & LYBRAND DELOITTE
Chartered Accountants

Newcastle upon Tyne
19 July 1991

Group Structure *(July 1991)*

Northumbrian Water Group PLC

APPOINTED BUSINESS

Water Supply and Sewerage Services
Northumbrian Water Limited

ENTERPRISE

Waste Management
Northumbrian Environmental Management Limited

Underground Asset Management
Neil Bunting (Holdings) Limited

Operating and Consultancy Services
Northumbrian Engineering Consultants

Geotechnical & Testing Services

Total Flow Surveys

Model Solutions

Corporate Services
Analytical and Environmental Services Limited

CPCR Limited

IMASS Limited

Aqua Trading Limited

Kelda Contract Hire Limited

Shareholders who wish to receive a copy of the accounts of Northumbrian Water Limited, the company appointed under the Water Act 1989 to carry on the Water and Sewage Business, are asked to contact the Company Secretary.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Northumbrian Water Group PLC will be held at the Newcastle Playhouse, Barras Bridge, Newcastle upon Tyne on 5 September 1991 at 11:00am for the following purposes:

1 To receive and adopt the Company's accounts and the reports of the directors and auditors for the period ended 31 March 1991.

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 Professor M B Pescod who is due to retire as director by rotation.

4 To declare dividends on the Ordinary Shares.

5 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 £21,831,811 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.

6 To resolve as a Special Resolution that the directors be and they are hereby empowered in accordance with Section 95 of the Act pursuant to the authority conferred by Resolution 5 set out in the Notice convening this meeting (or, if Resolution 5 shall not be passed, pursuant to the authority conferred by Resolution 6 passed at the Annual General Meeting of the Company held on 30 August 1990) 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 money or money's worth (otherwise than as mentioned in paragraph (a) of this resolution) up to an aggregate nominal amount of £3,274,771.
and shall expire at the earlier of the conclusion of the Annual General Meeting of the Company to be held in 1992 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 expriry 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
19 July 1991

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 Lloyds Bank Plc, Registrars Department, 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 Newcastle Playhouse, Barras Bridge, Newcastle upon Tyne from 10.45am 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.
4 Arrangements have been made for holders whose shares were, at the date of despatch of the Notice of the Annual General Meeting, held by Lloyds Bank Plc, as custodian, to appoint a proxy and, subject to the terms of the Instalment Agreement, to attend, speak and exercise voting rights at the Meeting.

Registrar and Transfer Office
Lloyds Bank Plc Registrar's Department
54 Pershore Road South
Birmingham
B30 3EZ

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