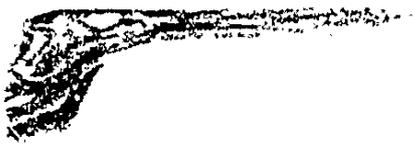
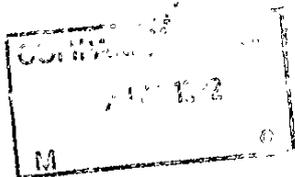


NORTHUMBRIAN
WATER GROUP PLC



02-07-92
B 563



NORTHUMBRIAN WATER GROUP PLC

REGISTERED NUMBER: 0200000



**NORTHUMBRIAN
WATER LIMITED**

Our core business is committed to achieving recognition as a high performer with a reputation for customer service in the provision of quality water supply and sewerage services.

ENTERPRISE

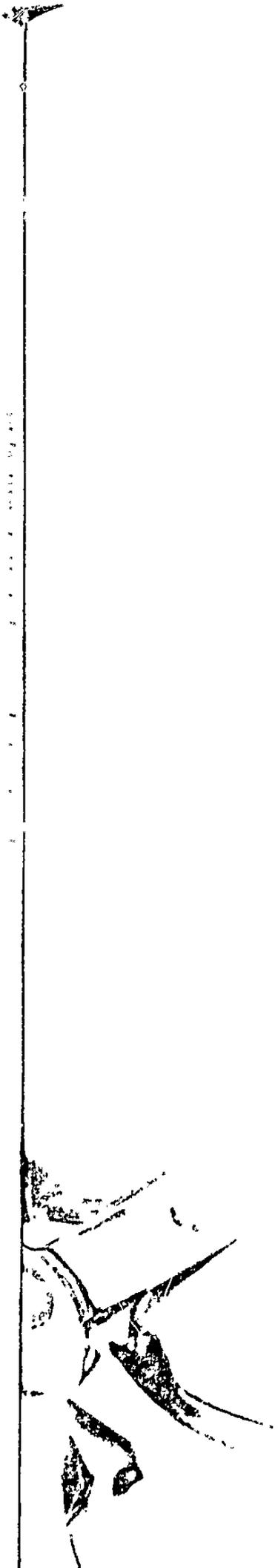
Our Enterprise businesses seek profitable development in new markets adjacent to our existing skill base or where related skills can readily be gained through acquisitions or joint ventures.

**The Northumbrian Water Group
is dedicated to providing a quality
service gaining recognition by
shareholders and customers as a
leading integrated environmental
company by 1995.**

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Financial Highlights

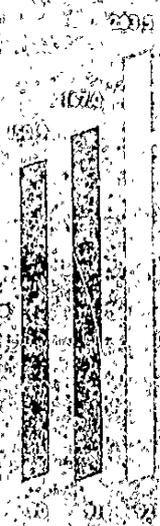
	1992 £m	1991 £m
TURNOVER	203.5	167.0
OPERATING PROFIT	54.9	34.1
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	61.1	46.9
PROFIT FOR THE FINANCIAL YEAR	56.6	42.8
SHAREHOLDERS' FUNDS	685.5	651.4
CAPITAL INVESTMENT	122.9	104.0
EARNINGS PER ORDINARY SHARE	85.5p	65.3p
DIVIDEND PER ORDINARY SHARE	20.5p	18.6p
NUMBER OF SHAREHOLDERS AT YEAR END	77,899	87,867





**Northumbrian
Water Group PLC**

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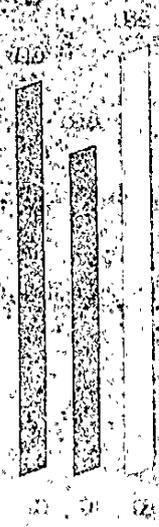
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Our third year as a Company operating in the private sector has been one of considerable progress benefiting shareholders and customers alike.

Turnover in the year to 31 March 1992 increased by 21.9% from £167.0 million to £203.5 million. Profit before tax improved by £14.2 million from £16.9 million to £31.1 million, an increase of 30.3%. The Directors are recommending a final dividend

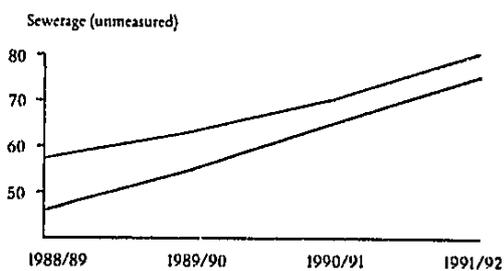
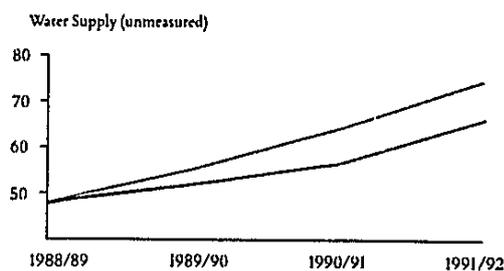
of 13.7 pence net per Ordinary Share payable on 1 October 1992. The interim dividend, paid on 2 March 1992, was 6.8 pence net which makes a total for the year of 20.5 pence net per Ordinary Share. In keeping with our declared intention to maintain a progressive dividend policy, subject to financial results and investment commitments, this represents an increase of 10.2% on last year's dividend. £43 million of Group earnings has been retained for reinvestment in the business.

In the months leading up to the general election on 9 April 1992 there was much uncertainty within the privatised companies about the future industry structure and framework, uncertainty that had a depressing effect upon our share price. That this uncertainty has now been removed can only be for the good of our Company and our industry. It is worth repeating the observation I made in my report last year that we are now much better placed to improve our services to customers and thus meet the needs of both customers and shareholders alike. The ability that we now have to raise funds for capital investment enables us not only to undertake more environmental improvement schemes than ever before but also to meet the higher EC standards now being promulgated.

While Northumbrian Water Limited continues to have some of the lowest levels of water and sewerage charges in England and Wales, our customers, in common with those in other parts of the country are, of course, concerned at the rate at which their bills are increasing. Water charges are currently rising at a faster rate than inflation so that the

Company can rectify the underinvestment that took place in the industry for many years prior to privatisation. Much of the investment is required by EC and UK regulations. It is not discretionary expenditure that the Company could delay or abandon so that increases in charges to customers could be reduced.

Household Bills £



- England & Wales (average)
- Northumbrian Water Limited

Source: CRI, The UK Water Industry: Charges for Water Services 1991/92



The Northumbrian Water Group sponsorship of the Newcastle season has ensured that the Royal Shakespeare Company continues to return to the city, its third home.

As we move further into the capital investment programme and as the financial implications of the EC Urban Waste Water Treatment Directive become more apparent, our customers may come increasingly to question the marginal benefits to be gained in some instances from the higher levels of capital expenditure which will, of course, have to be funded by them. It is against this background that we are actively engaged in trying to establish with our customers what they see as the major priorities and concerns for our core business.

Our business expansion programme has continued during the year. A number of companies have been acquired and joint ventures entered into in support of our strategy of maximising the value of the Group for our owners. The state of the economy has not allowed all of them to prosper as much as we wished. The performance of the Enterprise companies has been very positive, however, with turnover rising from £3.8 million to £13.9 million.

Shareholders will know that issues of corporate governance are increasingly in the minds of the investment community. During the year codes were published by the Institutional Shareholders' Committee on the role and duties of directors and on the responsibilities of institutional shareholders. More recently the Committee on the Financial Aspects of Corporate Governance, chaired by Sir Adrian Cadbury, has recommended a number of measures intended to improve the quality of information given to shareholders and to improve Board accountability. We welcome these moves and will endeavour to see that the Northumbrian Water Group continues to adopt the best practice recommended by such bodies.

I reported in my last annual statement that the Group had already established audit and remuneration committees, the memberships of which are made up entirely of independent directors. We also have an environmental audit committee of the Board, the majority of whose members are independent directors.

The Board has been strengthened further by the appointment of four new directors. J Michael Guerin, who joined the Group in March 1991, was appointed to the Board in October and is responsible for the Group's enterprise activities. J Michael Taylor, who joined us in March 1992, has been appointed Group Finance Director and I would like to take this opportunity to welcome him to the Board. His appointment will enable our

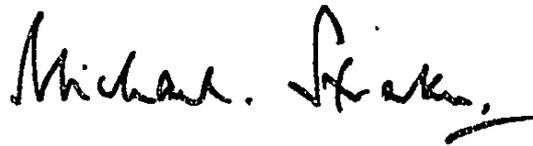
Chief Executive, David Cranston, to devote more of his time to the strategic development of the Group. Two new independent directors have also been appointed to the Board. Professor Sir Frederick Holliday, a leading expert on the environment and Board Member of both Shell U.K. Limited and British Rail, joined the Board in November 1991. Sir John Riddell, Deputy Chairman of Credit Suisse First Boston Limited, was also welcomed on to the Board in January 1992. Following these appointments your Board has eleven directors, six of whom are independent.

The Group continues to be very conscious of its responsibilities towards the local communities in which it operates. In addition to our existing sponsorship activities we undertook this year to sponsor the Newcastle season of the Royal Shakespeare Company for the three years 1992-94. The six week visit of the RSC to the region is one of the cultural highlights of the year. It is a mark of our Group's increasing stature that the RSC, a theatre company known throughout the world, has chosen to be associated with the Northumbrian Water Group as its main sponsor in the North East. We have also given our support for an initial five years as a Vice-President Founder member to Durham

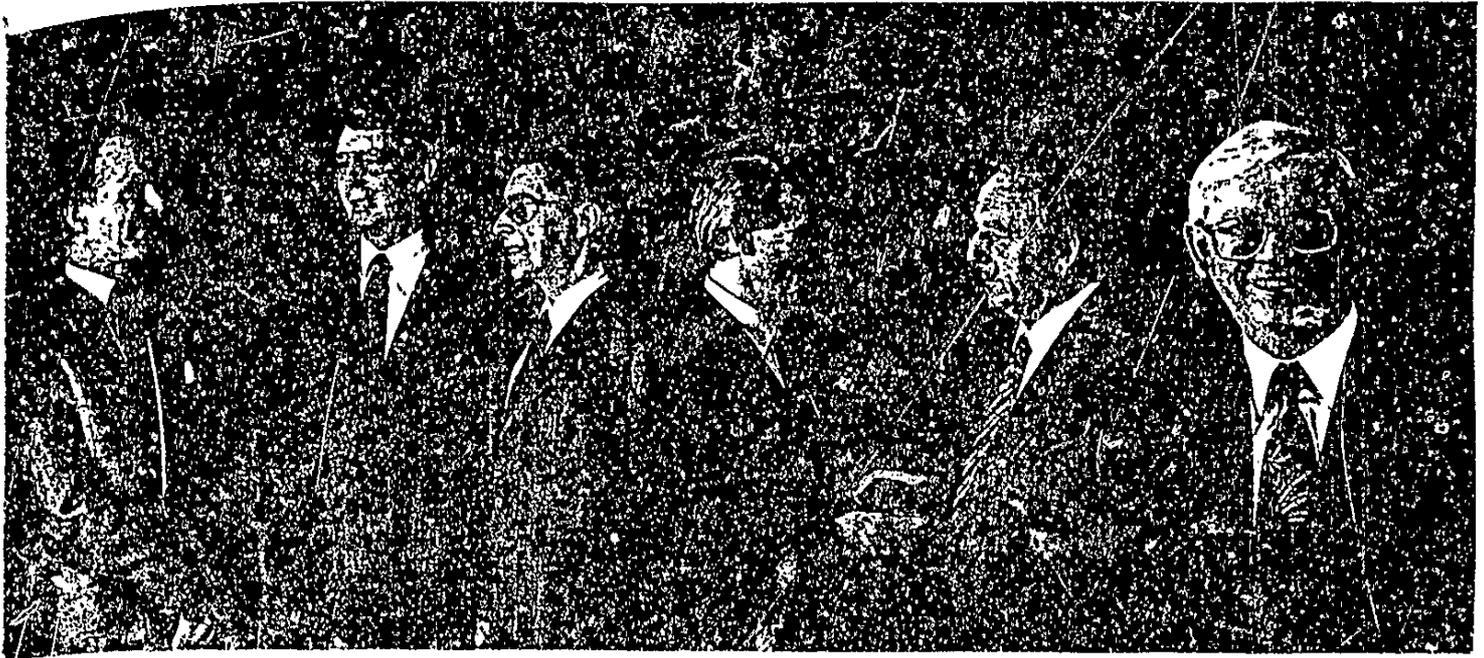
County Cricket Club as it starts its opening season in the first class county championship.

Although with a lower profile, the Group is also supporting a number of other organisations including Business in the Community, The Newcastle Initiative, Common Purpose, the Tyne and Wear and Cleveland Foundations and the Training and Enterprise Councils.

The Board joins with me in congratulating our employees for another year of sterling effort and performance. We would also like to welcome those new employees who have joined the Group over the last year, many as a result of recent acquisitions.



Sir Michael Straker



Sir John Riddell

John S Ward

Frank Ridley

J Michael Taylor

Dr Ralph Iley

David G Cranston

Sir John Riddell

Deputy Chairman, Credit Suisse First Boston Limited since 1990 (Director, 1978-1985); Director, First Boston (Europe) Limited, 1975-1985; Director, Northern Rock Building Society, 1981-1985, 1990-1992, appointed Deputy Chairman, 1992; Deputy Chairman, IBA 1981-1985.

John S Ward CBE

Regional Director, Barclays Bank PLC; Chairman, The Newcastle Initiative, Cruddas Park and Loadman Street Community Trust; Deputy Chairman, Tyne & Wear Development Corporation; Governor of the University of Northumbria at Newcastle upon Tyne; Director, Northern Investors PLC; Director Trustee, The Theatre Royal Trust Limited

Frank Ridley BSc, CEng, FR, FIWEM

Deputy Chairman; Chairman of Board Environmental Committee; Chief Executive of NWA, 1981-1989 and Director of Operations and Works, 1974-1981

J Michael Taylor FCMA

Group Finance Director from March 1992; Group Finance Director, Hickson International PLC, 1986-1991; Financial Director, Worley Ltd, 1982-1986; Financial Controller; Executive Director Finance of Alladin Industries Ltd, 1977-1982.

Dr Ralph Iley CBE

Former Managing Director, Cookson Group PLC (retired April 1991, now non-executive Director, Cookson Group); Board Member, Northern Development Company, Tyne & Wear Development Corporation; Chairman, Tyneside TEC; Chairman, Romag (1991); Board Member, Teesside Power (1991)

David G Cranston IPFA, FBIM

Chief Executive, Group Finance Director 1989-1992, Finance Director, NWA, 1980-1989; Financial Representative of the Water Authorities' Negotiating Team, 1988-1989; Member of the Director General of Water Services' Working Group on Accounting Issues for Regulation since November 1989; Non-executive Member of Newcastle Health Authority since 1990



Corporate Strategy

The Group's strategy is predicated on a desire to build shareholder value throughout the decade against the tightening regulatory framework governing the main water and sewerage business. The principal form of economic regulation is a limit on the level of price increases - a price cap termed 'K' which was initially set at privatisation for a ten-year period with provision for a review to take effect for the five years from April 1995.

The Director General of Water Services announced during the year that he intends to undertake such a review. Another key date in the strategic calendar is December 1994 which is the date on which the Government's "golden share" in the Group will cease to have effect.

Anticipating such matters, the Group has embarked upon a measured programme of business development in addition to the appointed water supply and sewerage business with the intention of being recognised by customers and shareholders as a leading integrated environmental company by 1995.

The selected areas of development, which are all in markets adjacent to our existing skill base or where skills can readily be acquired through acquisitions or joint ventures, are waste management, asset management, environmental engineering and, to a lesser extent, environmental protection equipment. There is also some development of core support services such as information technology. Further details are given later in this review. None of the new

businesses is expected to contribute significantly to profits during their early years of development. Since privatisation, however, some solid foundations have been laid.

Complementing the areas of business development are a number of themes which are equally strategic and which pervade the operations of all parts of the Group. These themes concern the identification and adoption of an environmental policy, a continuous improvement programme, a customer care programme and policies for employee development.

In terms of its geographical spread the Group aims to continue its domination in its area in the north east of England for water and sewerage services. In its new businesses it aims to extend its markets into Scotland, the remainder of the UK, the Iberian peninsula, and elsewhere in Europe, seizing opportunities beyond these territories only in exceptional circumstances.

As part of the Group's corporate strategy it has undertaken a number of financial initiatives.

In October 1990 the Group established a £40.1 million investment fund to mirror the

FT-SE 100 share index, protected by put and call options. This year the opportunity has been taken to secure a maturity value of £48.9 million by buying a new put option.

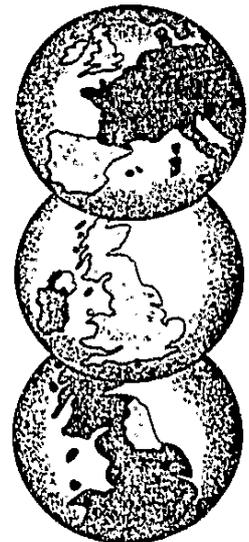
The Group has also acquired two financial companies in order to advance the benefit of its favourable tax position and thereby create additional value in the Group. Robert Fleming Leasing Limited was acquired in March 1992 for £0.2 million and Jayhold Limited, an investment company, was acquired in May 1992 for £1.5 million.

The Group also purchased 12% of the ordinary stock of Hartlepoons Water Company for £0.8 million in November 1991.

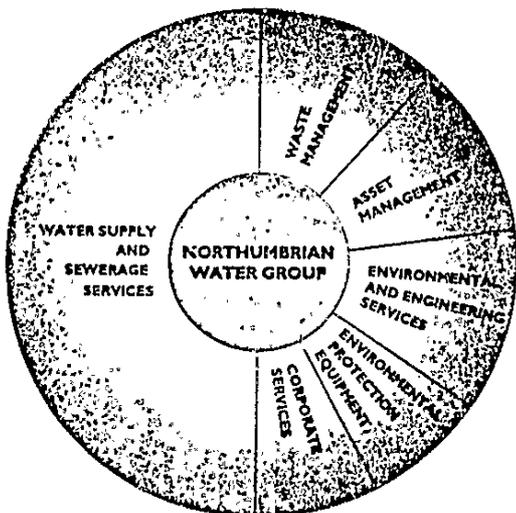
Operating Results

As the analysis of operating results on page 42 of the accounts demonstrates, operating profits are dominated by the results from the appointed water and sewerage business. Profits of non-appointed businesses were £11.1 million.

Turnover growth largely follows the increase in charges permitted by the price cap formula, showing an increase of 21.9% over 1990/1991. The operating margin has improved to 27% (1991 - 20.4%) and profit before tax by 30.3% to £61.1 million. Capital investment was £122.9 million (1991 - £104.0 million). Net cash at the year end had declined to £6.1 million (1991 - £74.7 million).



From its North East base the Northumbrian Water Group has now expanded its operations across the UK and is seeking to develop opportunities in the Iberian peninsula.



The Group has two major customers based on Teesside – ICI and British Steel – which together contribute about one quarter of the Group's water supply income under medium-term agreements. It has been gratifying that revenues generally have held up during the recent recession which, by consensus, seems to have affected the North East less severely than elsewhere.

Acquisitions during the year have involved net cash outflows of £4.5 million. Detailed plans for their integration with existing businesses have largely been accomplished. The corporate structure is kept under continuous review.

Operations

Northumbrian Water Limited, the appointed business, had a very successful year. Water demand in the region held up well despite the recession. Reservoirs were full at the beginning of the new financial year despite the shortage of rainfall for most of 1991. The capital programme was maintained at about the same level as last year and for two months of the year all the Company's sewage treatment works were passing their consent levels set by the National Rivers Authority. A number of initiatives are being undertaken, in, for example, energy efficiency and, particularly, customer services. In industrial relations two major successes were achieved

during the year: a three year pay award which will contribute significantly to the control of costs and the introduction of harmonised terms and conditions which allows greater flexibility and further potential for efficiency improvements.

Northumbrian Environmental Management Limited, the Group's environmental and waste management subsidiary, is now operating a new treatment centre in Billingham and, since February 1992, has been taking in waste at the Brenkley landfill site. The Company still awaits the outcomes of the planning inquiries for incinerators entered into by itself and by Integrated Environmental Management Limited, a 50/50 joint venture company.

The Group's asset management subsidiary, Amtec Europe Limited, has expanded into Scotland through the acquisition of the James Duncan Group. The Company now operates nationally from a series of depots from Dundee in the north to Exeter in the south.

Entec Europe Limited serves the environmental and engineering services market. A number of acquisitions in areas related to its existing skill base have been made and it has achieved 'quality' accreditations (BS 5750, NAMAS and BDA) in a number of its specialist services.

A fourth and closely related business concerned with the manufacture of environmental protection equipment is now being developed. In December 1991 the Group acquired Detectronic Limited, a company based in Blackburn, which manufactures a range of flow measurement products for the water, sewage and industrial



Northumbrian Water Limited sponsors the Jack Charlton trout fishing competition during a week of activities for the disabled at Kielder Water.

effluent markets. Since the year end Epic Products Limited, based in Salford, has been acquired. Epic manufactures automatic samplers for waste water treatment applications. It is the UK's leading manufacturer of such samplers and exports a third of its output.

There are also a number of other companies which provide services to both the Group and third party markets. These include, principally, human resource and information technology companies.

Several joint ventures have been established by the Group during the year including: Renovexx Technology Limited, a company established to examine the commercial potential of membrane technology in the treatment of sewage and other bio-degradable effluents; Subterra Holdings Limited, with Thames Water Environmental Services Limited, which has an extensive range of products and processes for the lining and repair of pipes; Ambinor-Gestao De Aguas LDA, in Portugal, to establish operating contracts with municipalities and local industries to develop water, sewage and solid waste management systems; and Obrascon-Northumbrian S.A., in Spain, which will provide operating contracts for municipal sewerage systems.

Financial Needs and Resources

The Group remained in a net cash position throughout the year, though by 31 March 1992 this had reduced to £6.1 million (1991 - £74.7 million). All the cash resources are held in sterling and invested in the equity and money markets in accordance with policies approved by the Board.



The Northumbrian Water Group recently gave the Chillingham Wild Cattle Association a Land Rover to support their efforts to maintain a rare herd of ancient wild cattle of which there are only 61 left in the world.



Geoff Turner and Elaine Cunningham of Analytical and Environmental Services examine marine samples collected during offshore diving surveys.

The Group will move into a net borrowing position during the current year and, in anticipation of this planned movement, has put in place appropriate facilities. The continuation of the heavy capital expenditure programme in the appointed business is backed by a £400 million revolving credit facility, 15 year European Investment Bank facilities totalling £60 million and a £50 million leasing facility. Investment will also be required for growth and development of the Group's related business activities and, to this end, the Group has a £150 million commercial paper programme which is being backed up by a series of 364 day bilateral facilities.

Shareholders' Return and Value

The Chairman has commented on the proposed final dividend. Such a dividend is covered 4.2 times by earnings, thus emphasising the immediate reinvestment of over 75% of earnings.

The Environment

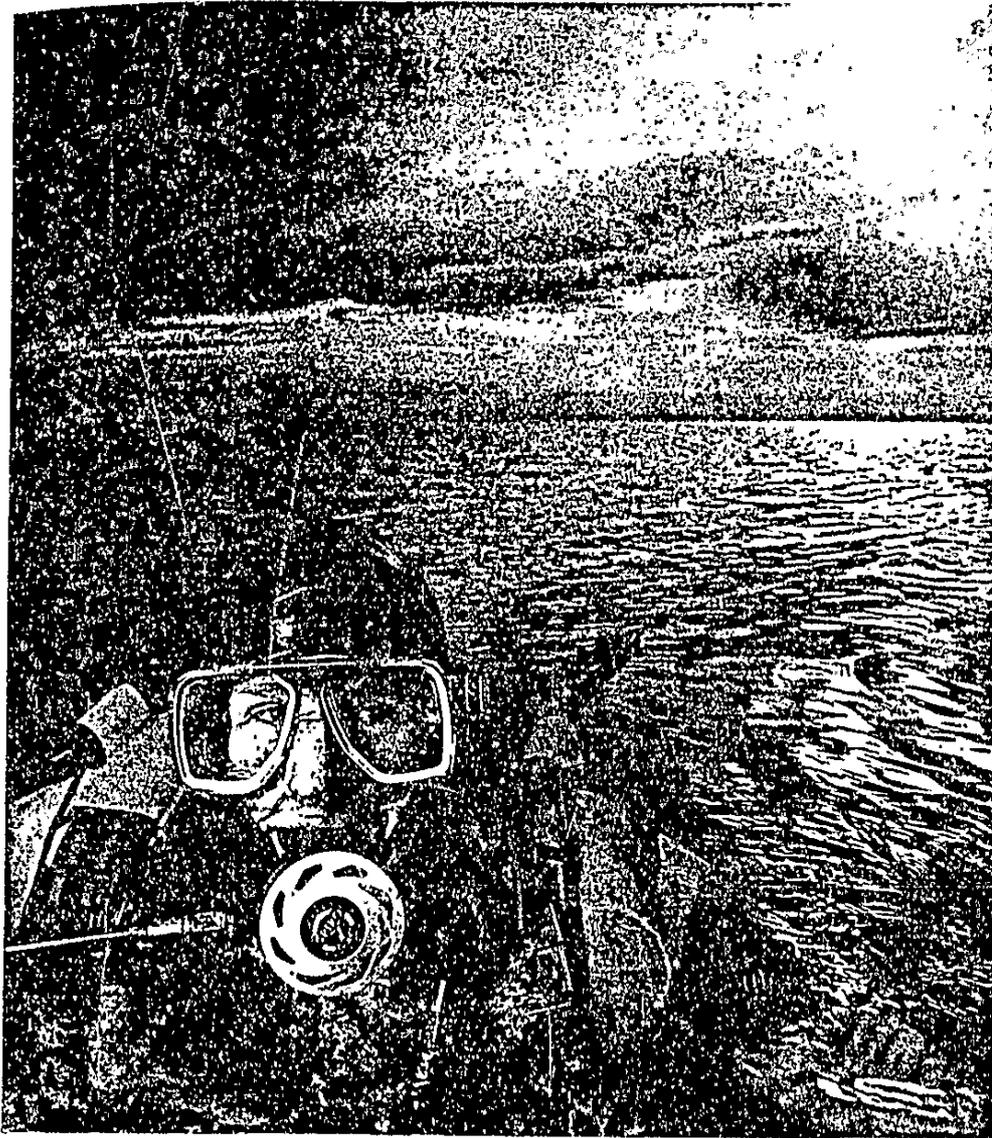
The Group, working with an independent firm of environmental consultants, is now in the final stages of formulating an environmental policy statement. In this, the Group will fully accept its stewardship role

and commit itself both to reducing harmful environmental impacts and to seeking continuous environmental improvement. The principles embodied in the policy will be fully consistent with those in the International Chamber of Commerce Business Charter for Sustainable Development to which the Group is a signatory. In November the Group appointed an Environment and Technology Director who will oversee the development and implementation of the policy working to the Environmental Committee of the Board. Once adopted, the intention is to set targets for environmental care and operational performance for different parts of the Group. Progress against these targets will be audited by a body of independent experts.

Conclusion

As the Chairman has written, the Group welcomes moves to improve corporate governance, including fuller disclosure of its activities. In preparing this review, regard has been paid to the Accounting Standards Board consultation paper on the preparation of an operating and financial review, partly to respond to the proposals and partly to invite comments from shareholders and other readers of this report.

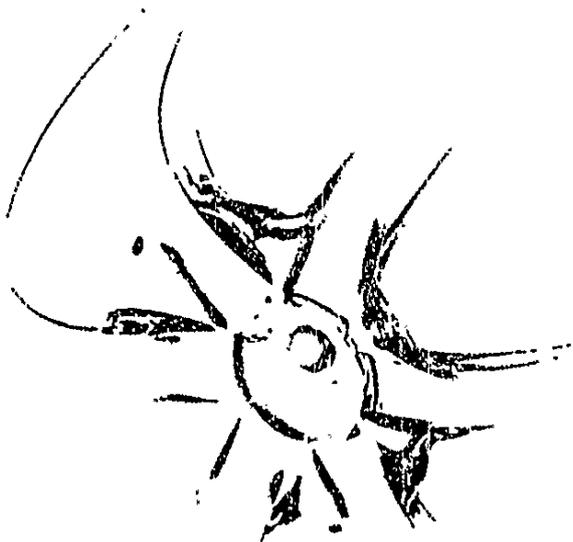
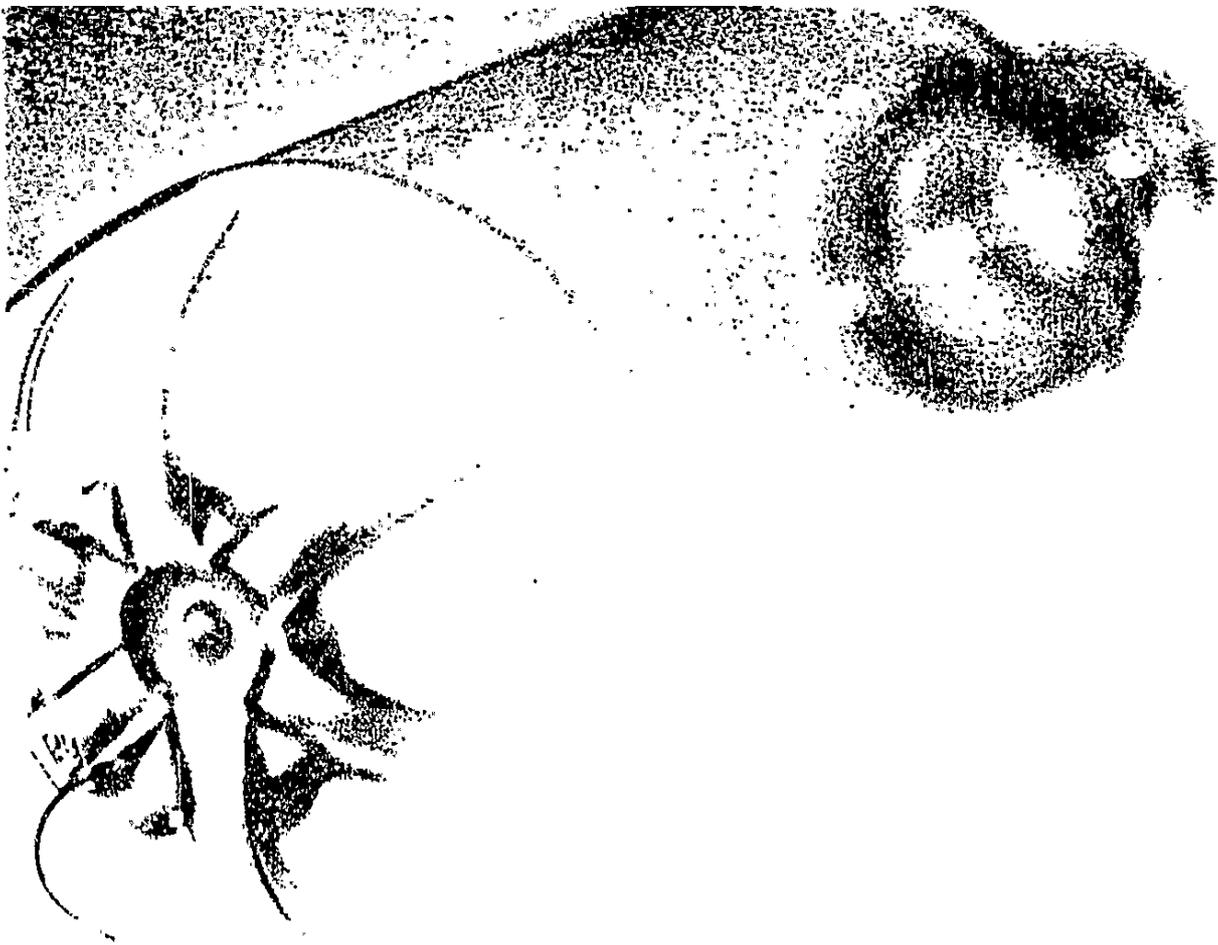
During the next year, it is hoped that some conclusion will be reached on outstanding planning applications which have a significant bearing on the Group's development. Other important issues include the clarification of



Charlotte Johnston of the Analytical and Environmental Services diving team surfaces after collecting marine samples taken alongside sea outfalls – just one of the ways in which Northumbrian Water carries out its commitment to playing a full and active role as a custodian of the environment.

the requirements of EC directives to enable proposals to be made for the periodic price review within the water and sewerage business in 1995 and the opportunities presented by the Competition and Services (Utilities) Act 1992. There may also be developments in the thinking of the National Rivers Authority about the availability of water resources. It will be important to defend the strong competitive position the Group enjoys because of the Kielder Scheme

David G. Cranston



The core business is at the heart of the Group's strategic programme as it strives to meet the growing demands of customers and shareholders alike.



Water Supply and Sewerage Services

Northumbrian Water Limited is the principal subsidiary company of the Group and is engaged in the provision of water supply and sewerage services in the north east of England.

The Company had a very successful year again, and has continued to earn a good reputation for the standard of service provided to its customers.

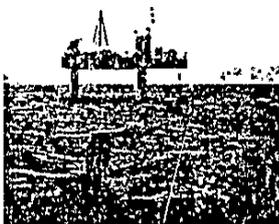
Demand for services in the region has continued to hold up well, despite the current economic downturn, due in part to inward investment such as that by Fujitsu and the power generation projects on Teesside.

Capital Programme

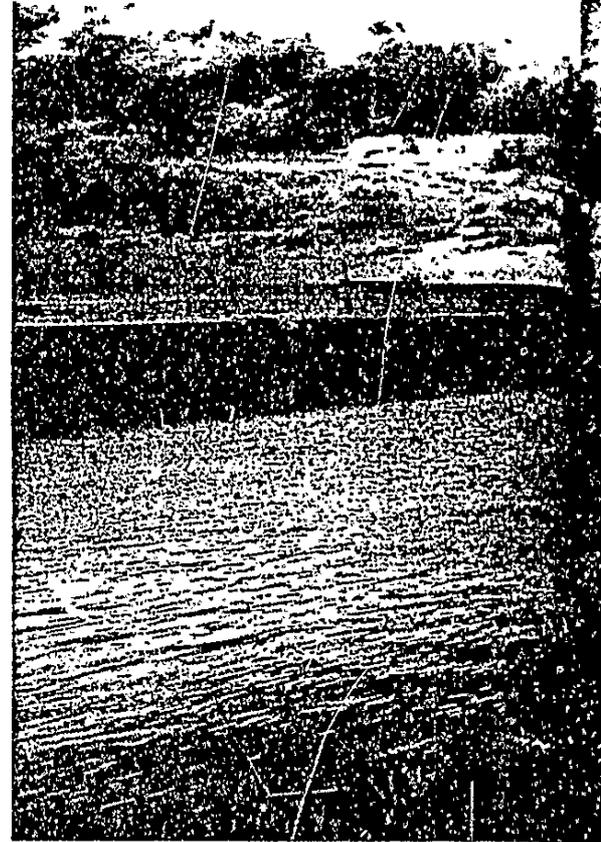
The investment programme at £105 million, or over £2 million a week, enabled the Company to move significantly towards meeting the UK and EC legal requirements and further improve customer service.

A major extension of the Broken Scar Water Treatment Works will provide continuity of water supply to Teesside for the foreseeable future. The Company set a UK record for the longest micro-tunnelling drive on the last leg of the Tyneside Interceptor Sewer Scheme.

Increases in the spillway capacity at several large raw water reservoirs will provide even further protection against freak storm conditions. Preparation began on the programme necessary to ensure that the coastal waters of the North Sea will meet the standards required by the EC Bathing Water Directive and on estimating the potential impact of the EC Urban Waste Water Treatment Directive. Some of this work has benefited from the favourable market conditions in the construction industry.



A drilling rig at Whitley Bay, investigating ground conditions for a proposed sea outfall designed to improve the quality of bathing waters to EC standards.



Sewage Treatment Works falling their NRA Standard at Year End

1988/89	1989/90	1990/91	1991/92
19	11	1	1

Number of Employees at Year End: Northumbrian Water Limited

	1990/91	1991/92
Permanent	960	943
Contract	235	279
Total	1195	1222



Water Resources

In common with the rest of the country the Northumbrian region suffered from below average rainfall for the third year in succession. However, because of the Kielder Scheme, the Company had no difficulties in maintaining supplies to its customers, with no restrictions on water usage. Due to a period of intensive rainfall in March the Company started the new financial year with full reservoirs.

During the year, significant lengths of water mains were either relined or relaid. These activities, together with the continuing investment in water treatment are enabling the Company to meet the high water

qualities required under the EC directives and to make significant improvements in the colour, taste and pressure of water supplies to customers.

Sewerage

New Sewerage Agency agreements have been negotiated with the local authorities for the operation and maintenance of the sewerage system in their areas based on improved and increased standards set by the Company.

The mouth of the River Tyne, now considered to be the best salmon river in England – a situation that reflects the Group's continuing investment in sewerage services to improve the quality of the region's rivers, estuaries and coastline.

Water Supply and Sewerage Services

Two agents have chosen to relinquish their agreements and one has been integrated into the Company's existing local area structure. In addition, the capital investment design programme for sewerage has been focused into five centres of excellence run by consortia of all the local authorities within the Company's area of operation.

Water Demand: Average for the Year (million litres per day)

	1988/89	1989/90	1990/91	1991/92
Metered Potable	150	147	157	159
Unmetered Potable	261	269	279	284
Metered Raw	250	250	234	232
Total	661	666	670	675

During the year, the Company, working closely with the National Rivers Authority, undertook a campaign to alert its domestic customers to the potential existence of wrong connections for surface water drains resulting in polluted water being discharged into rivers and streams. Considerable success is being achieved in persuading customers to correct such connections.

Significant improvements have been carried out to many existing sewage treatment works over the last few years and a new sewage treatment works has been opened at Windlestone. As a result of these improvements, in both December 1991 and



Kielder Water and a highly integrated network of reservoir storage has enabled Northumbrian Water Limited to fully satisfy all the water requirements of its customers.

January 1992, all 435 of the Company's sewage treatment works passed the standards for discharges from works set by the National Rivers Authority. This is the first time that the Company has achieved such a record. Only one sewage treatment works was failing its consent at the end of the year.

Customer Service

Targets set for the year by the various regulatory bodies were either bettered or, where no targets exist, there was a significant improvement on the previous year's performance. This included a number of areas: water quality (both bacteriological and chemical); water acceptability to the customer; water pressure; interruptions to water supply; flooding from sewers; the operation of sewage treatment works; overflows and sea outfalls; sludge disposal and responses to customer queries and complaints. Exceptional performance was achieved in all of these areas and it is particularly pleasing to report a continuing high level of compliance in respect of water quality for which 99.7% of all samples taken complied with the various Water Directives. The Company was also pleased to note that the National Rivers Authority announced a continuing improvement in both river and bathing water quality in the Northumbria Region.

The Company already offers a significant range of facilities to its customers including, for example, leisure facilities and improved methods of payment for water charges. Measures to help the elderly and disabled are being introduced and further initiatives will



be taken in the future. During February 1992, market research was undertaken to gain a better understanding of customers' concerns and priorities. These will be taken into account in planning services for the future. A close working relationship exists with the Northumbria Customer Services Committee of the Office of Water Services. The Company and the Committee are jointly promoting the

Our customers can be sure that the water we supply is of a consistently high quality throughout the year.

Water Supply and Sewerage Services

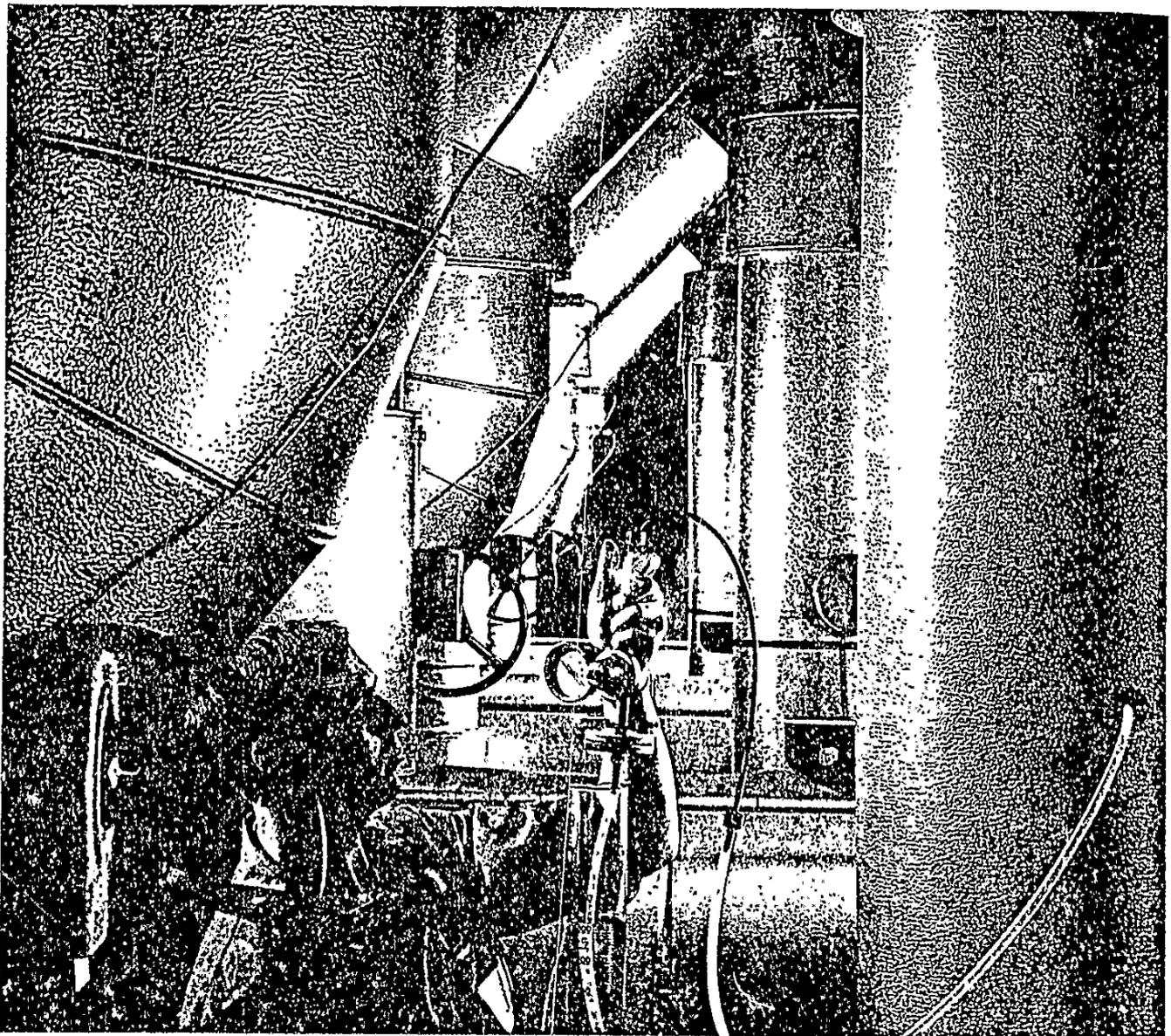
The ability of Northumbrian Water Limited to provide a reliable and high quality water supply was an important factor considered by Fujitsu when deciding to site their new factory at Newton Aycliffe.

use of 'milestones' for a number of customer service areas against which improvements can be monitored over specified timescales.

Industrial Relations

There were two significant industrial relations achievements in the last year following the establishment of a Company

Council in 1992. One was a three-year pay agreement, linked to the Retail Price Index, which took effect from July 1991. This will contribute significantly to the control of the Company's costs and will complement the existing extensive use of fixed term and indefinite contracts. In March 1992, the Company Council agreed on the introduction



of harmonised terms and conditions to replace the separate manual, craft and staff arrangements; this will be implemented without additional costs to the Company. This agreement, which came into force on 1 April 1992, will benefit the Company by introducing even greater flexibility and further potential for efficiency into working practices and procedures.

Recreation/Conservation

Very visible parts of the Company's activities are those of recreation and conservation. The number of visits by anglers to reservoirs was greater than ever before. During the year, the three wildlife trusts in the region surveyed all the Company's operating sites of more than an acre to assess their wildlife/ecological potential. Other conservation initiatives have included providing archaeologists with access to underground engineering works and refilling or replenishing natural ponds affected by the dry weather conditions.

Energy Efficiency

The Company is undertaking a number of initiatives in the field of energy efficiency. In January 1992, David Bellamy presented a certificate to the Company confirming that it had subscribed to the former Department

of Energy guidelines on good energy conservation. The Company has also committed itself to a reduction in energy consumption over the next five years.

Charges

Reflecting its successful business performance, the Company announced in October 1991 that its charges in 1992-93 would increase less than the maximum permitted under its Water and Sewerage Appointment. This has enabled the Company to share the benefits of its performance with its customers as well as shareholders. Over the last few years, water and sewerage charges for domestic customers have been kept at a level consistently below the average in England and Wales.

OFWAT

Following discussions, the Director General of Water Services has confirmed that the operation of Kielder Reservoir and Transfer Scheme and the Non-potable Water Supply System to major industrial customers on Teesside are to be treated, along with other parts of the Company's operation, as non-appointed business.



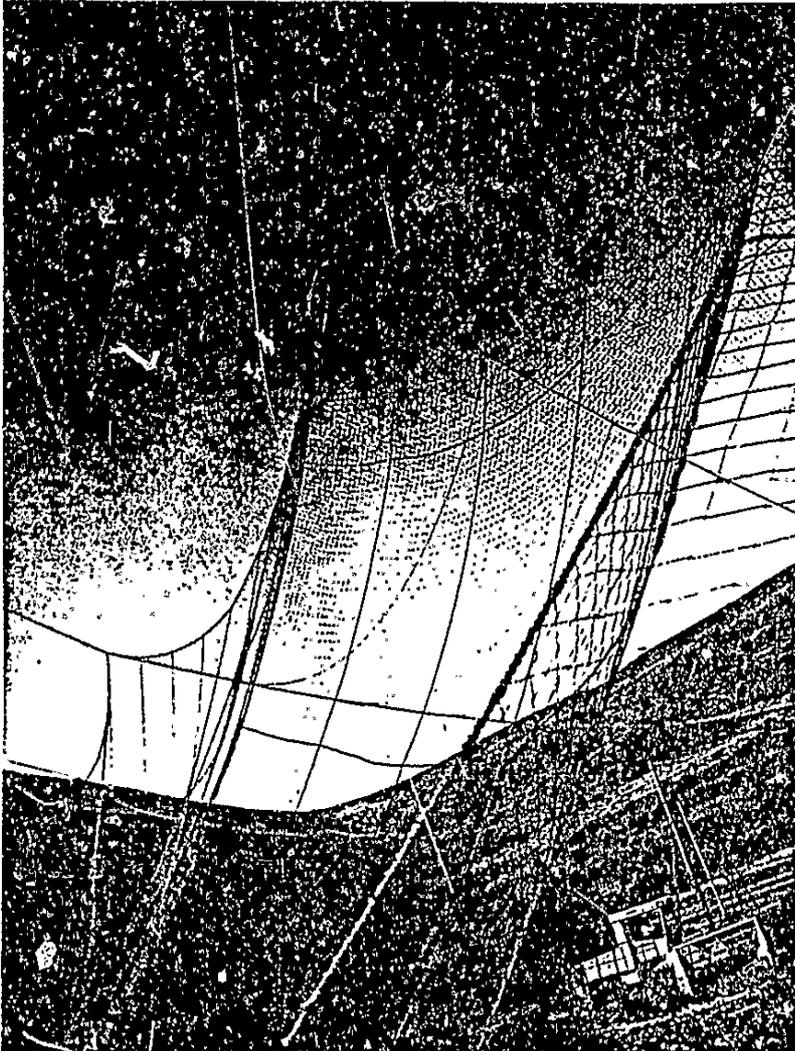
Sue Mitchell at the Broken Scar control room supervises the treatment of up to 200 megalitres of water daily for Teesside customers.

Number of Customers Billed (000's)

	1990/91			1991/92		
	Unmeasured	Measured	Total	Unmeasured	Measured	Total
Water						
Domestic	452	1	453	453	1	454
Commercial	15	23	38	14	23	37
Sewage						
Domestic	1040	3	1043	1033	5	1038
Commercial	61	27	88	68	28	96



**Through its Enterprise businesses
the Group is putting in place the building
blocks needed to secure alternative
sources of income in the future.**



The Brenkley landfill site is operated to the highest possible environmental standards, to ensure minimum impact on the local community, with whom NEM consults closely.

Northumbrian Environmental Management Limited (NEM) is the Group's environmental and waste management subsidiary. The Company offers a range of services including liquid waste treatment, hazardous waste treatment, contaminated land remediation, landfill and a range of consultancy services. It also seeks to offer municipal and clinical waste incineration. Current clients range from industrial, chemical, engineering and pharmaceutical companies to the brewing and food trade, law firms and other consultancies.

The new Duty of Care imposed under the Environmental Protection Act which came into force on 1 April 1992, places the ultimate responsibility for the safe disposal of waste firmly at the producer's door. Industry is now facing the prospect of large financial penalties, the personal liability of managers and directors, and private prosecutions by individuals and environmental groups. This is an important market for NEM.

Billingham Treatment Plant

In November 1991, NEM opened a new centre for the treatment of bio-degradable wastes at Billingham, on Teesside. The plant can handle up to 70,000 tonnes of waste per annum from the dairy, brewing, food and animal processing industries. It provides these and other waste producers with a fully licensed disposal option which will assist them in meeting their Duty Of Care obligations.

Municipal Incineration

In January 1992 NEM signed a co-operation agreement with Danish ecology specialists, Vølund Ecology Systems A/S, a company whose expertise lies in the recycling of waste into energy, an approach which many local authorities are seeing as a satisfactory environmental option. This agreement will enable the Company to provide local authorities and their waste disposal companies (LAWDCs) with expertise, technology and finance for the development and operation of new and existing municipal incinerator facilities.

Brenkley Landfill

In February 1992 NEM's first landfill site at Brenkley, near Dinnington, in Northumberland opened for business following engineering of the site. It is the first major landfill operation to open in the north east of England for eight years and provides approximately 850,000 cubic metres of space for the safe disposal of non-hazardous domestic, commercial and industrial waste. NEM aims to take 100,000 tonnes of waste per year at the site before it is returned to the community properly restored and landscaped in sympathy with the environment.

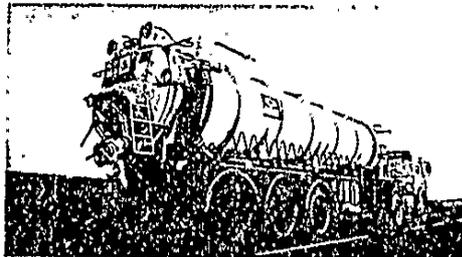
Integrated Environmental Management

Planning applications by Integrated Environmental Management, the joint venture company in which NEM has a 50% interest, to build two integrated treatment centres to incinerate industrial wastes and sewage sludge and treat industrial liquid wastes were the subject of a public inquiry in 1990/91. At the time of writing IEM had not

been informed of any decision made by the Secretary of State for the Environment upon the applications.

Clinical Incineration

NEM is also waiting for a decision from the Secretary of State in respect of a planning application for a proposed clinical waste incinerator in Felling, near Gateshead. The majority of existing hospital incinerators are more than 15 years old and will not meet the tighter emission standards now being imposed. The implementation of 'Integrated Pollution Control' under the Environmental Protection Act, has introduced a much tighter framework of regulation and control of clinical wastes, while the removal of Crown Immunity opens up the likelihood of prosecution of health authorities for non-compliance.



Bio-degradable waste is carried from industry to NEM's treatment centre at Billingham on Teesside.



Total Flow Surveys project manager Hilko Meljer, Australian contractor, Michael Higgins and TFS surveyor, Marcello Alello in Sydney, Australia carrying out a sewer flow survey for the Sydney Water Board.

Amtec Europe Limited is the name adopted in October 1991 for the holding Company of the Group's asset management businesses. The Company comprises the former Neil Bunting (Holdings) Limited, acquired by the Group in April 1990, and the James Duncan Group of companies, acquired in August 1991, a development that establishes the Group in Scotland.

Amtec Europe provides surveying, cleaning and rehabilitation services related to the management of pipelines and other hollow structures. These include CCTV and sonar surveys, radar, robotic repair and renovation, flow surveys, sewer and drain cleaning and graffiti removal. Work is undertaken on both term contract and spot market bases depending upon the nature of market demand. Customers include local authorities, water and sewerage companies, industrial pipeline users and the domestic household market.

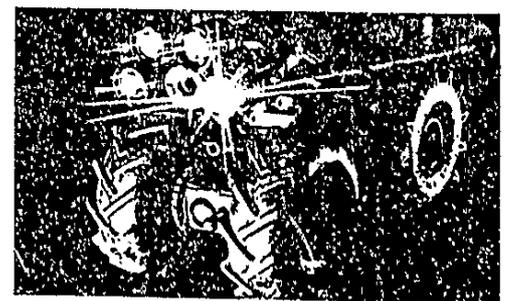
The Company operates nationally from a number of depots, the principal sites being Chesterfield and Glasgow, with smaller offices in Dundee, Edinburgh, Newcastle, Middlesbrough and, since January 1992, Exeter. Further depots are planned for 1992/93.

Technology

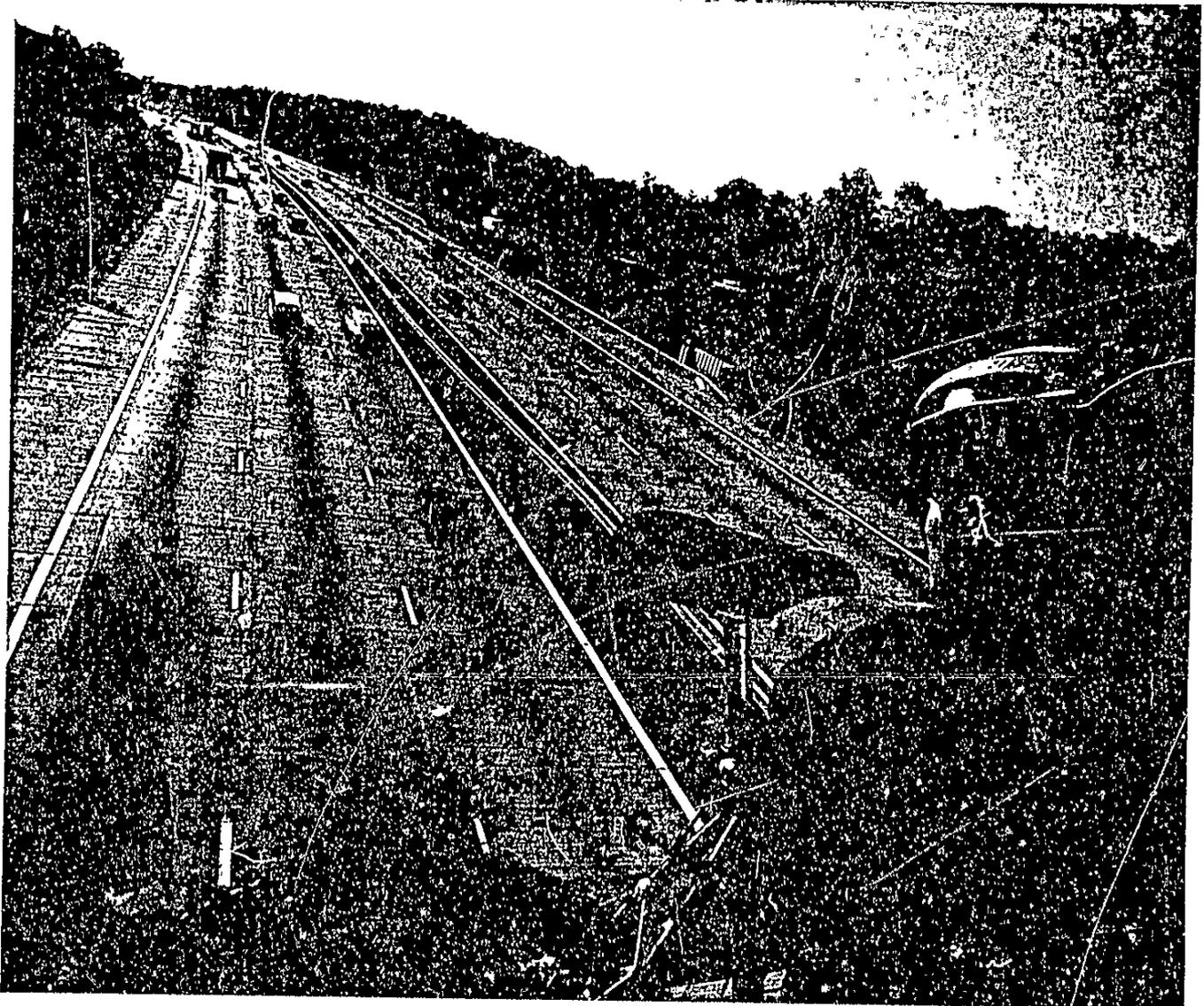
In May 1991 the Company acquired an exclusive licence and distribution agreement for the KA-TE robotic repair system in the United Kingdom. This method of trenchless sewer rehabilitation has proven to be very popular with customers and the Company was able to take delivery of its second system in September 1991. In December the Company secured an exclusive licence for the UK and Ireland of an Australian localised patch repair system also for use in trenchless applications.

Research

Research work is being undertaken to develop a system for re-rounding deformed sewers and into ground probing radar techniques that will detect voids surrounding pipelines. Coupled with other technologies these techniques will enable the Company to identify for its customers the most cost effective and relevant rehabilitation technique when renovating sewage systems.



A remote controlled crawler fitted with halogen lights and high resolution CCTV allows Amtec Bunting to inspect pipelines, causing minimal disruption above ground.



Overseas

Outside the UK, small surveying contracts were undertaken in Portugal and in Hong Kong. Further small contracts are to be undertaken in both locations in 1992/93.

Subterra

The Group's 40% interest in Subterra Holdings Limited, which specialise in the laying and repair of pipes and which operate mainly in the south of England, is managed through Amtec Limited.

Using trenchless technology, Amtec Bunting make initial pipe investigations with closed circuit television and sonar equipment and carry out repairs using robotic technology, enabling motorway traffic to flow undisturbed.

Engineering and Environmental Services

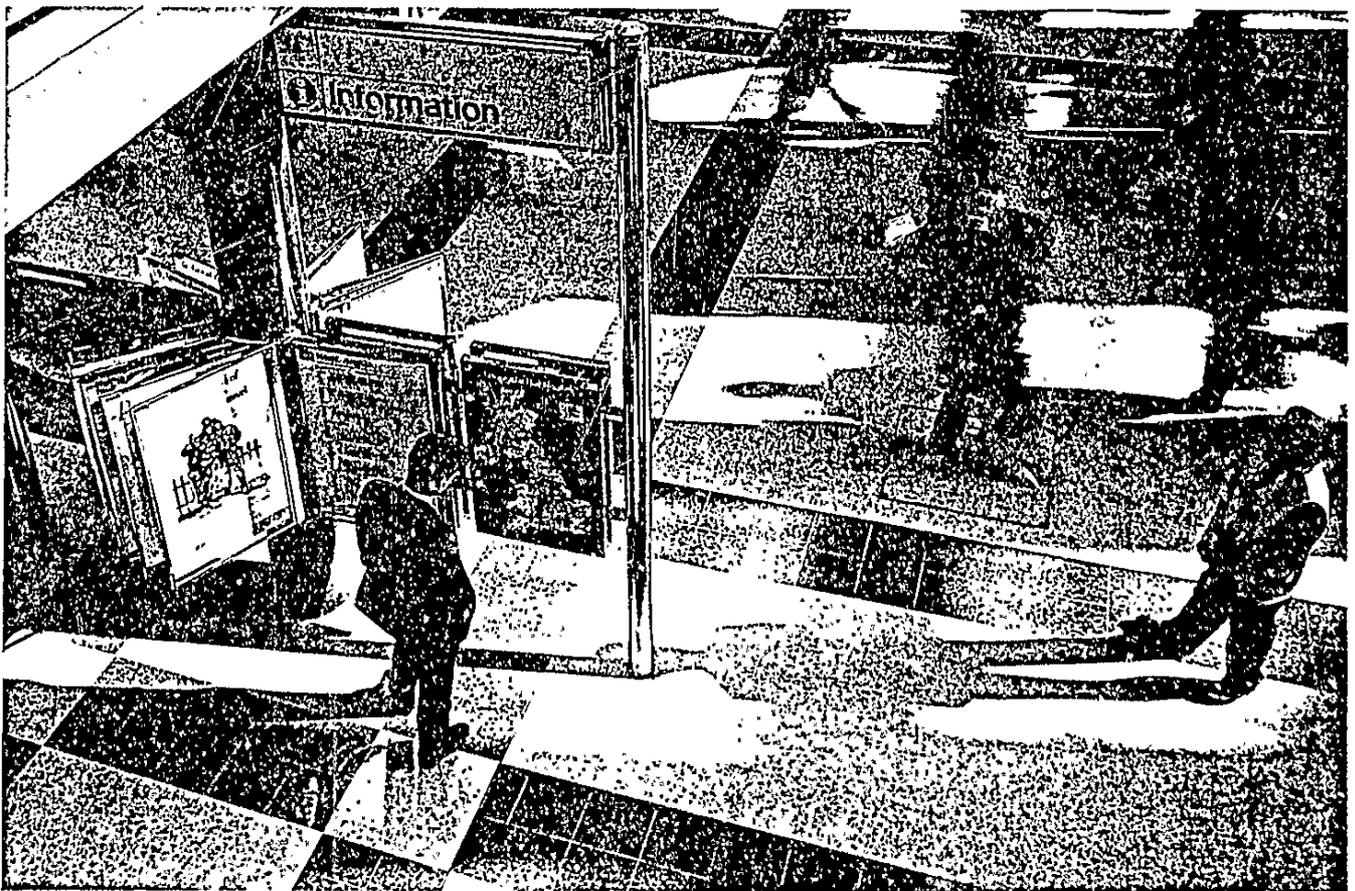
Exploration Associates, now a part of Entec Europe, is undertaking site investigations for the new underground Crossrail link which will reduce travel times across London between Paddington and Liverpool Street stations.

Entec Europe Limited, incorporating the Group's former engineering and consultancy services, began trading under that name in October 1991. It is the vehicle through which the Group is selling its expertise in the environmental and engineering services market both nationally and internationally. The Company operates from 12 offices throughout the United Kingdom and has associate offices in Spain and Portugal. The Company has operating divisions addressing markets for scientific and environmental analysis and assessment, site investigation, ground engineering, contaminated land

investigation, hydrographic and geophysical surveys, engineering services including studies, design, procurement and commissioning for process plants, service reservoirs, pipelines and pumping stations, long sea outfalls and tunnelling as well as building services. The Company also supplies mathematical modelling, leakage control, network modelling, operational management and consultancy.

Acquisitions

During the year Entec Europe was active in acquiring a number of businesses so that it is now better placed to help its customers



meet the environmental performance standards required of them. These acquisitions included a specialist ground engineering business and, in November 1991, Earth Services Limited, one of the UK's three leading site investigation specialists was acquired by the Group. Since the year end the Company has also acquired Wallace Whittle and Partners, a leading mechanical and electrical consultancy, based in Scotland.

Spain/Portugal

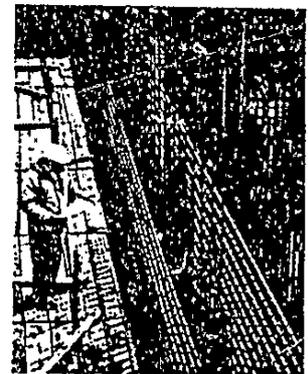
In January 1992 the Group, as part of its environmental and engineering services strategy, acquired 30% of the equity of a Portuguese environmental consultancy and, with that company, established Ambinor-Gestao De Aguas LDA, a 50/50 joint venture company. In February 1992 the Group reached agreement with a Spanish construction firm, Obrascon S.A. to take a minority holding in a 40/60 joint venture company, Obrascon-Northumbrian S.A. Both Spain and Portugal offer the Group expansion opportunities as they seek to upgrade their water and sewage treatment facilities in line with EC directives. The joint venture companies seek to establish operating contracts with municipalities and local industries to develop their water supply, sewage treatment and disposal and solid waste management systems.

Projects

Through its existing operations and the acquisitions made during the year, Entec Europe has undertaken a number of projects including: an environmental survey in northern Spain; an ongoing operating concession from the Ministry of Defence in North Yorkshire; a contract for leakage control and network modelling for the Government of Gibraltar; site investigation contracts for the Crossrail link across London and the design and project management of five long sea outfalls in the UK.

Quality Accreditation

Entec Europe is totally committed to quality improvement and over the last year has successfully achieved quality assurance standards in different parts of the Company. These include: NAMAS accreditation for soils and materials testing laboratories; BS5750/ISO 9000 accreditation for engineering design and project management and BDA accreditation for geo-technical drilling.



Construction work underway at Seaton Carew on a scheme to bring the bathing water up to the very demanding standards of the European Directive.

Environmental Protection Equipment and Corporate Services

Environmental Protection Equipment

The two principal activities of the Environmental Protection Equipment division are research into membrane technology for treatment of sewage and other bio-degradable effluents and the manufacture of equipment used in the environmental services sector. The division comprises three operating units at present.

Renovex Technology Limited is a joint venture with H.T.W. Hi-Tech Water International B.V. examining the commercial applications of membrane technology.

Detectronic Limited, based in Blackburn, was acquired in December 1991 and manufactures a range of flow measurement products for the water, sewage and industrial effluent markets.

Since the year end the Group has also acquired Epic Products Limited, based in Salford. This Company is the UK's leading manufacturer of automatic waste water samplers and exports a third of its output.

Corporate Services

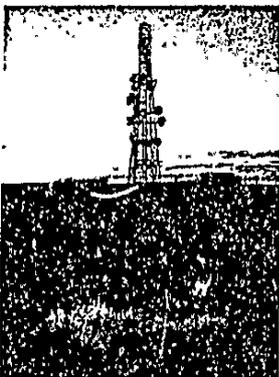
The Corporate Services division comprises a number of activities that began principally as support operations pre-privatisation and are now established as companies in their own right.

IMASS Limited is an information technology company which provides a range of mainstream computing services and products including telecommunications and geographic information systems. During the year the Company commissioned the UK water industry's first digital microwave trunked mobile radio system which integrates

voice, data and image transmission facilities and should help businesses to improve the quality of their services to customers.

CPCR Limited is a human resource consultancy whose four main product areas include assessment/recruitment, training/development, organisational change and business planning/marketing. Apart from the Group, other clients include manufacturing and service organisations, health authorities, training and enterprise councils, local government and utilities. New offices were opened in Leeds and Oxford during the year.

Kelda Contract Hire Limited is a vehicle contract hire company and Aqua Trading Limited bottles and markets Northumbrian Spring Natural Mineral Water from a source near Darlington, County Durham.



One of the many hilltop radio sites used by IMASS to provide regional communications for the Northumbrian Water Group.

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Directors' Report

For the financial year ended 31 March 1992

Activities

The Chairman's Statement (page 4) and Chief Executive's Review (page 10) report on the development of the Company and its subsidiaries ("the Group") during the financial year and on the outlook for the future. The main business of the Group is the provision of water supply and sewerage services.

Profits and Dividends

Profit before taxation for the financial year to 31 March 1992 was £61.1m.

The directors are recommending a final dividend, payable on 1 October 1992, to shareholders on the register on 3 July 1992 of 13.7p net per ordinary share. An interim dividend was paid on 2 March 1992, to shareholders on the register on 30 December 1991 of 6.8p net per ordinary share.

After providing £4.5m for taxation and £13.6m for payment of dividend, the retained profit for the year amounted to £43m.

Share Capital

Changes to the share capital of the Company are set out in note 24 to the Accounts.

Substantial Shareholdings

On 27 May 1992 the Company's Register of substantial shareholdings showed the following interests in 3% or more of the Company's shares:

Prudential Portfolio Managers Limited - 10.43%

Norwich Union Fund Managers Limited - 5.10%

FMR Corporation - 4.81%

Abbey Life Investment Services Limited - 3.41%

Fixed Assets

Changes in fixed assets in the year are shown in notes 12, 13 and 14 to the Accounts.

Third Annual General Meeting

The Notice of the Company's third Annual General Meeting, which is to be held on Thursday, 23 July 1992 at 11.00am at the Marton Hotel and Country Club, Marton, Middlesbrough, appears on pages 62 and 63.

The Meeting will consider as "Special Business" resolutions to disapply pre-emption rights, amend the Rules of the Northumbrian Water Executive Share Option Scheme, amend the Articles of Association of the Company to permit the directors to offer shares in place of dividends up to 1997 and to grant the directors authority to offer shares in place of the dividends payable on 1 October 1992 and 1 March 1993. These resolutions are set out fully in the Notice.

Directors

The names and biographical details of the directors are set out on pages 8 and 9. During the year, the following directors were appointed to the Board:

1 October 1991	J Michael Guerin
1 November 1991	Professor Sir Frederick Holliday
1 January 1992	Sir John Riddell
20 March 1992	J Michael Taylor

In accordance with the Company's Articles of Association the above directors and Mr John S Ward will retire and offer themselves for re-election at the Annual General Meeting. Mr Ward, Professor Sir Frederick Holliday and Sir John Riddell do not have service contracts with the Company. The unexpired term of Mr Guerin's and Mr Taylor's service contracts is 24 months.

The directors' shareholdings 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, partly by seconding staff to charitable, education or enterprise projects, amounted to approximately £383,000 (1991: £314,000). No political donations were made.

Research and Development

The Group is committed to a programme of research and development activities, both in-house and in co-operation with third parties. The Group subscribes to the Water Research Centre and supports initiatives at universities, polytechnics and colleges and the Construction Industry Research and Information Association. During the year, the Group 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 1992 was 2517.

(a) Employment policy The Group is committed to the continuous improvement and development of all its employees in order to maintain its competitive advantage. It is recognised that an Equal Opportunities Policy can assist the effective use of human resources in the best interests of both the organisation and its employees. To this end the existing policy is being revised and a more effective plan of implementation and monitoring is being introduced.

The Group aims to ensure that disabled people have full and fair consideration for all jobs for which they apply and to assist disabled people to realise their full potential at work. In particular, newly disabled employees are retained in employment wherever possible and sympathetic consideration is given to proposals for job modification. The Group aims to communicate effectively with its employees by means of regular briefings, an in-house monthly magazine and cross-company project teams.

Employee representation operates in the Group by arrangements suitable to the structure of the company concerned. In some of the larger subsidiaries, Company Councils facilitate discussion of matters affecting the employees they represent and improve understanding of that company's business aims and performance.

(b) Employee Development and Training The Group recognises the value of continuous development of employees and aims to enable them to attain their full potential and to use their skills and initiative to add maximum value.

The Group promotes performance reviews and development interviews for employees at all levels and provides and supports a wide range of training and general educational opportunities.

(c) Health and Safety The Group takes a proactive approach to health and safety.

General medical policy is constantly reviewed and developed by the Group's medical adviser and an Occupational Health Nurse offers basic screening and promotes health and well being in the workplace. The Group has vigorous policies to reduce smoking and promote healthy eating and fitness as part of the "Look After Your Heart" campaign.

Appropriate vaccinations are provided for employees in high risk jobs.

The Safety Manager and two Safety Advisers conduct a progressive review of occupational health and safety in the context of the Group's safety policies, standards and procedures. Improvements prompted by development of the Group's business, by internal audit and by changes in legislation and technology are implemented quickly and effectively.

(d) Welfare A Welfare Adviser offers counselling and support to employees. These services also extend to retired 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 Boards of Trustees of the Group's pension schemes and members of the schemes are provided with regular briefing notes on benefits and pension issues.

(g) Profit Sharing Opportunities The Company has introduced an Inland Revenue approved profit sharing scheme.

Taxation

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

Auditor

A resolution to reappoint the auditor, Coopers & Lybrand, and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting. Until 1 June 1992 the Firm practised in the name of Coopers & Lybrand Deloitte.

By Order of the Board

Stuart Raistrick
Secretary

26 June 1992



Consolidated Profit and Loss Account

For the year ended 31 March 1992

	Notes	1992 £m	1991 £m
TURNOVER	2	203.5	167.0
Operating costs	3	(148.6)	(132.9)
OPERATING PROFIT		54.9	34.1
Share of associated undertakings' losses		(0.7)	(1.4)
Investment income	4	2.5	0.9
Net interest receivable	5	4.4	13.3
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	61.1	46.9
Tax on profit on ordinary activities	9	(4.5)	(4.1)
PROFIT FOR THE FINANCIAL YEAR		56.6	42.8
Dividends	10	(13.6)	(12.2)
PROFIT RETAINED FOR THE YEAR	27	43.0	30.6
EARNINGS PER ORDINARY SHARE	11	85.5p	65.3p

The notes on pages 40 to 60 form part of these accounts.

Consolidated Balance Sheet

At 31 March 1992

	Notes	1992 £m	1991 £m
FIXED ASSETS			
Tangible assets	12	718.6	635.1
Investments	13(a)	2.4	0.4
		721.0	635.5
CURRENT ASSETS			
Stocks	15	4.5	3.1
Debtors	16	91.8	38.4
Investments	17	41.7	40.1
Cash at bank and short term deposits		169.5	169.4
		307.5	251.0
CREDITORS: Amounts falling due within one year	18	(177.5)	(101.5)
NET CURRENT ASSETS		130.0	149.5
TOTAL ASSETS LESS CURRENT LIABILITIES		851.0	785.0
CREDITORS: Amounts falling due after more than one year	19	(122.5)	(94.7)
PROVISIONS FOR LIABILITIES AND CHARGES	22	(21.6)	(18.9)
ACCRUALS AND DEFERRED INCOME	23	(21.4)	(20.0)
		(165.5)	(133.6)
	2	685.5	651.4
CAPITAL AND RESERVES			
Called up share capital	24	66.6	65.5
Share premium account	27	60.4	57.6
Profit and loss account	27	558.5	528.3
		685.5	651.4

Approved by the Board of Directors on 26 June 1992.

Sir Michael Straker *Chairman*

J Michael Taylor *Group Finance Director*

M. S. Straker
J. M. Taylor

The notes on pages 40 to 60 form part of these accounts.

Company Balance Sheet

At 31 March 1992

	Notes	1992 £m	1991 £m
FIXED ASSETS			
Investments	13(b)	136.9	124.9
CURRENT ASSETS			
Debtors	16	131.8	62.5
Investments	17	41.7	40.1
Cash at bank and short term deposits		137.4	131.8
		310.9	234.4
CREDITORS: Amounts falling due within one year	18	(104.0)	(66.5)
NET CURRENT ASSETS		206.9	167.9
TOTAL ASSETS LESS CURRENT LIABILITIES		343.8	292.8
CREDITORS: Amounts falling due after more than one year	19	(43.5)	(11.0)
		300.3	281.8
CAPITAL AND RESERVES			
Called up share capital	24	66.6	65.5
Share premium account	27	60.4	57.6
Profit and loss account	27	173.3	158.7
		300.3	281.8

Approved by the Board of Directors on 26 June 1992.

Sir Michael Straker *Chairman*

J Michael Taylor *Group Finance Director*

M. S. Straker
J. M. Taylor

The notes on pages 40 to 60 form part of these accounts.

Consolidated Cash Flow Statement
For the year ended 31 March 1992

	Notes	1992 £m	1991 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	28	34.0	56.8
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		30.0	15.3
Interest paid		(19.9)	(4.1)
Interest paid on hire purchase contracts and finance leases		(0.3)	(0.2)
Dividends received from current asset investments		2.5	0.4
Dividends paid		(12.6)	(11.1)
NET CASH (OUTFLOW)/INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(0.3)	0.3
TAXATION			
UK advance corporation tax paid		(4.7)	(2.3)
INVESTING ACTIVITIES			
Purchase of tangible fixed assets	12	(76.7)	(83.7)
Disposal of tangible fixed assets		0.8	0.3
Purchase of subsidiary undertakings (net of cash/overdrafts acquired)	14(b)	(4.5)	(1.1)
Payment of deferred consideration		(1.4)	—
Investments in associated undertakings		(3.5)	(1.5)
Purchase of other fixed asset investments		(0.9)	(0.2)
Purchase of short term deposits		(247.0)	(152.8)
Disposal of short term deposits		290.0	106.8
Purchase of current asset investments		(1.6)	(40.1)
NET CASH (OUTFLOW) FROM INVESTING ACTIVITIES		(44.8)	(172.3)
NET CASH (OUTFLOW) BEFORE FINANCING		(15.8)	(117.5)
FINANCING			
Issue of commercial paper		60.0	—
Capital grants received		5.5	7.2
Loans received		20.0	90.0
Repayment of amounts borrowed		(50.0)	—
Payment of principal under hire purchase contracts and finance leases		(0.6)	(0.1)
NET CASH INFLOW FROM FINANCING		34.9	97.1
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	29	19.1	(20.4)
Movement in net cash:			
Increase/(decrease) in cash and cash equivalents		19.1	(20.4)
(Increase) in loans and commercial paper		(30.0)	(90.0)
(Decrease)/increase in short term deposits		(43.0)	46.0
(Increase) in obligations under hire purchase contracts and finance leases		(16.3)	(3.7)
Increase in current asset investments		1.6	40.1
(Decrease) in net cash		(68.6)	(28.0)

Net cash is the net sum of all cash and short term deposits, current asset investments and all borrowings.

Notes to the Accounts

For the year ended 31 March 1992

I Accounting Policies

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. 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. The results of subsidiaries acquired during the year are included 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/(liabilities) 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 investment in associates is written off immediately against reserves.

(e) Turnover Turnover, which excludes value added tax, 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.

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 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.

(h) Hire purchase and leasing

(i) AS LESSEE Where assets are financed by hire purchase or leasing arrangements which transfer substantially all the risks 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.

(ii) AS LESSOR The Group's net investment in finance leases is stated at the total value of rentals receivable, less finance charges allocated to future periods.

Rentals receivable are treated as consisting of a capital repayment and a finance charge, the capital element reducing the net investment in the lease and the finance charge being credited to the profit and loss account.

Finance charges are allocated to accounting periods on an annuity basis over the period of the lease.

(i) Stocks Stocks are stated at cost less any provisions 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. 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. 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. 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. Foreign exchange differences are taken to the profit and loss account in the year in which they arise.

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

Notes to the Accounts

2 Segmental Analysis

(a) Analysis by Class of Business

TURNOVER

	Water and Sewerage Services				Other		Total	
	Appointed		Non-appointed		Business Activities		1992	1991
	1992	1991	1992	1991	1992	1991		
	£m	£m	£m	£m	£m	£m	£m	
Total turnover	172.7	150.9	20.8	16.7	58.3	43.6	251.8	211.2
Inter segment	(3.2)	(4.4)	(0.7)	—	(44.4)	(39.8)	(48.3)	(44.2)
TURNOVER	169.5	146.5	20.1	16.7	13.9	3.8	203.5	167.0

PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	Water and Sewerage Services				Other		Total	
	Appointed		Non-appointed		Business Activities		1992	1991
	1992	1991	1992	1991	1992	1991		
	£m	£m	£m	£m	£m	£m	£m	
Operating profit	43.8	29.5	5.5	2.7	5.6	1.9	54.9	34.1
Share of associated undertakings' losses							(0.7)	(1.4)
Investment income							2.5	0.9
Net interest receivable							4.4	13.3
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION							61.1	46.9

Share of associated undertakings' losses is shown after interest.

NET ASSETS

	Water and Sewerage Services				Other		Total	
	Appointed		Non-appointed		Business Activities		1992	1991
	1992	1991	1992	1991	1992	1991		
	£m	£m	£m	£m	£m	£m	£m	
Group undertakings	399.0	372.9	128.6	124.2	104.2	39.8	631.8	536.9
Share of associated undertakings' net assets							1.2	0.1
Net operating assets							633.0	537.0
Unallocated net assets							52.5	114.4
NET ASSETS							685.5	651.4

2 Segmental Analysis (continued)

The appointed business included in the business segment Water and Sewerage Services was analysed between Water Supply and Sewerage Services in the year ended 31 March 1991. The segments have been combined in 1992 as they are related services provided by a single subsidiary of the Group. The non-appointed business included within Water and Sewerage Services was included within Other Trading Activities in the year ended 31 March 1991.

Net operating assets include tangible fixed assets, stocks, debtors and creditors which relate to segmental operating activities.

Unallocated net assets include other fixed asset investments, current investments, cash and short term deposits, borrowings, current taxation balances, dividends and other common liabilities.

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

(b) Analysis by Geographical Area

An analysis by geographical area has not been given as the Group's results are derived almost entirely in the United Kingdom. The aggregate turnover derived outside of the United Kingdom amounted to £0.5m (1991: £nil).

3 Operating Costs

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

	1992 £m	1991 £m
Materials and consumables	13.0	10.2
Other external charges	20.8	16.0
Manpower costs (note 8)	33.6	24.8
Depreciation	16.0	16.9
Infrastructure renewals	24.3	24.6
Other operating charges	41.2	40.8
Other operating income	(0.3)	(0.4)
	148.6	132.9

(b) The preceding costs are stated after crediting:

Amortisation of capital grants	0.5	0.4
And after charging:		
Depreciation of owned tangible fixed assets	14.8	16.2
Depreciation of tangible fixed assets held under hire purchase contracts and finance leases	1.2	0.7
Operating leases:		
Plant and Machinery	0.1	—
Other	0.2	1.2
Voluntary severance and early retirement costs	—	1.0
Costs of research and development	1.4	1.5
Directors' emoluments (note 6)	0.4	0.4
Auditor's remuneration (Company £3,500; 1991 £2,500)	0.1	0.1

Notes to the Accounts

4 Investment Income

	1992 £m	1991 £m
Dividends receivable from current asset investments (note 17)	2.5	0.9

5 Net Interest Receivable

	1992 £m	1991 £m
Interest payable:		
On bank loans, overdrafts and other loans:		
Repayable within five years otherwise than by instalments	(17.6)	(6.2)
Repayable within five years by instalments	(0.6)	—
Not wholly repayable within five years	(7.6)	(0.9)
	(19.8)	(7.1)
On hire purchase contracts and finance leases	(1.0)	(0.2)
Total interest payable	(20.8)	(7.3)
Interest receivable	25.2	20.6
Net interest receivable	4.4	13.3

6 Directors' Remuneration

The remuneration of the directors of Northumbrian Water Group PLC was:

	1992 £'000	1991 £'000
Fees of non-executive directors	79	50
Fixed remuneration	263	239
Annual bonus	37	22
Pension contributions and other benefits	50	44
Total emoluments	429	355
Premature termination of service agreement	—	185
Total remuneration	429	540
Emoluments disclosed above (excluding pension contributions) include:		
	£'000	£'000
Chairman:		
Fixed remuneration	76	51
Other benefits	1	—
	77	51
Highest paid director:		
Fixed remuneration	87	65
Annual bonus	16	12
Other benefits	7	5
	110	82

The number of directors (including the chairman and highest paid director) who received fees and other emoluments (excluding pension contributions) within the following ranges was:

	1992 Number	1991 Number
£0 — £ 5,000	1	—
£ 5,001 — £ 10,000	2	4
£ 10,001 — £ 15,000	3	—
£ 15,001 — £ 20,000	—	1
£ 25,001 — £ 30,000	1	—
£ 35,001 — £ 40,000	1	—
£ 50,001 — £ 55,000	—	1
£ 60,001 — £ 65,000	—	1
£ 75,001 — £ 80,000	1	1
£ 80,001 — £ 85,000	—	1
£ 85,001 — £ 90,000	1	—
£110,001 — £115,000	1	—

The emoluments of the executive directors, including the annual bonus, are determined by the Remuneration Committee, who receive independent advice from external consultants. The Remuneration Committee is comprised solely of non-executive directors. The annual bonus is determined by reference to performance against key business targets. The Chairman does not participate in the annual bonus scheme.

Notes to the Accounts

7 Transactions with Directors and Officers

There are no transactions or arrangements which would require disclosure 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:

	1992 £m	1991 £m
Wages and salaries	34.0	24.9
Social security costs	2.6	2.0
Other pension costs	2.9	2.5
Total employment costs	39.5	29.4

(b) Total employment costs were charged as follows:

Capital schemes and infrastructure renewals	5.9	4.6
Manpower costs	33.6	24.8
	39.5	29.4

(c) The average number of employees of the Group during the financial year was:

	1992 Number	1991 Number
Water and Sewerage Services		
Appointed	1,086	1,053
Non-appointed	107	102
	1,193	1,155
Other business activities	1,184	470
	2,377	1,625

9 Tax on Profit on Ordinary Activities

	1992 £m	1991 £m
Advance corporation tax	3.9	3.9
Tax on franked investment income	0.6	0.2
	4.5	4.1

No tax arose on profits for the year owing to the utilisation of tax allowances arising on qualifying capital expenditure in the year.

10 Dividends

	1992 £m	1991 £m
Ordinary:		
Interim paid of 6.8p (1991: 6.2p) per share	4.5	4.1
Final proposed of 13.7p (1991: 12.4p) per share	9.1	8.1
	13.6	12.2

11 Earnings per Ordinary Share

(a) Earnings per share for the year to 31 March 1992 of 85.5p (1991: 65.3p) on a net basis have been calculated on a profit for the financial year of £56.6m (1991: £42.8m) and by reference to 66.2 million (1991: 65.5 million) Ordinary Shares, being the weighted average number of Ordinary Shares in issue and ranking for dividend during the year.

(b) On the basis of a nil distribution of profit the earnings per share would be 91.4p (1991: 71.3p).

Notes to the Accounts

12 Tangible Fixed Assets

The Group:

	Freehold land and buildings £m	Short leasehold land and buildings £m	Infra- structure assets £m	Operational structures plant and machinery £m	Fixtures fittings tools and equipment £m	Assets in the course of construction £m	Total £m
Cost:							
At 1 April 1991	17.8	2.6	358.1	222.7	25.1	79.7	706.0
In respect of new subsidiaries	1.0	0.2	—	2.4	0.7	—	4.3
Additions	9.1	—	32.6	46.5	5.2	7.9	101.3
Disposals	(0.1)	(0.1)	—	(1.4)	(0.2)	—	(1.8)
Grants – Infrastructure assets	—	—	(3.6)	—	—	—	(3.6)
At 31 March 1992	27.8	2.7	387.1	270.2	30.8	87.6	806.2
Depreciation:							
At 1 April 1991	3.8	0.3	—	51.9	14.9	—	70.9
In respect of new subsidiaries	0.2	0.1	—	1.2	0.3	—	1.8
Provision for year	0.6	0.1	—	10.8	4.5	—	16.0
Disposals	—	(0.1)	—	(0.9)	(0.1)	—	(1.1)
At 31 March 1992	4.6	0.4	—	63.0	19.6	—	87.6
Net book value: 31 March 1992	23.2	2.3	387.1	207.2	11.2	87.6	718.6
Net book value: 31 March 1991	14.0	2.3	358.1	170.8	10.2	79.7	635.1

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 £34m (1991: £30.4m) lower than it would have been had this treatment not been adopted.

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 contracts and finance leases at 31 March 1992 was as follows:

	1992 £m	1991 £m
Operational structures, plant and machinery	11.2	1.5
Fixtures, fittings, tools and equipment	1.2	1.2
Assets in the course of construction	5.7	1.2
	18.1	3.9
Additions to tangible fixed assets for the year ended 31 March 1992 have been funded as follows:		
Expenditure:		£m
Cash		76.7
Increase in accrual		8.5
Hire purchase contracts and finance leases		16.1
		101.3

13 Fixed Asset Investments

(a) The Group:

	Associated undertakings £m	Loan to associated undertaking £m	Other investments £m	Total £m
Cost:				
At 1 April 1991	0.1	—	0.3	0.4
Additions	3.8	1.4	0.9	6.1
Share of results for the year	(0.7)	—	—	(0.7)
Share of associated undertaking's goodwill written off	(3.4)	—	—	(3.4)
At 31 March 1992	(0.2)	1.4	1.2	2.4

All fixed asset investments are unlisted.

Of the £3.8m of additions to investments in associated undertakings, £2.5m relates to the investment in Subterra Holdings Limited.

(b) The Company:

	Associated undertakings £m	Loan to associated undertaking £m	Interests in subsidiaries £m	Other investments £m	Total £m
Cost:					
At 1 April 1991	—	—	124.7	0.2	124.9
Additions	3.3	1.4	11.8	0.9	17.4
Disposals (note 14(a))	—	—	(3.8)	—	(3.8)
Less: dividend paid from pre-acquisition reserves	—	—	(1.6)	—	(1.6)
At 31 March 1992	3.3	1.4	131.1	1.1	136.9

All fixed asset investments are unlisted.

Of the £3.3m of additions to investments in associated undertakings, £2.5m relates to the investment in Subterra Holdings Limited.

(c) Associated undertakings:

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held by Group %	Nature of business
Integrated Environmental Management Limited	England and Wales	Ordinary Shares of £1	50	Chemical, physical and thermal treatment of sewage sludge and industrial wastes
		Preference Shares of £1	50	
Renovexx Technology Limited	England and Wales	'B' Ordinary Shares of £1	50	Development of effluent treatment processes
Ambinor-Gestao De Aguas LDA	Portugal	One quota of 200,000 escudos	50	Water and sewerage services
Obrascon- Northumbrian S.A.	Spain	Shares of 1,000 pesetas	40	Operational and engineering services
Subterra Holdings Limited (formerly Wearside Network Limited)	England and Wales	Ordinary Shares of £1	40	Pipe lining services
Watson España S.A.	Spain	Shares of 1,000 pesetas	39	Engineering consultancy
Ambitec LDA	Portugal	One quota of 3,000,000 escudos	30	Environmental consultancy

Notes to the Accounts

13 Fixed Asset Investments *(continued)*

(d) 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
Entec Europe Limited (formerly Northumbrian Services Limited)	100	Engineering services
IMASS Limited	100	Information technology services
Analytical and Environmental Services Limited	100	Analytical and environmental services
Northumbrian Environmental Management Limited	100	Waste management
Amtec Bunting Limited (formerly Neil Bunting (Holdings) Limited)	100	Inspection, cleaning and repair of hollow structures
Aqua Trading Limited	100	Bottled mineral water
CPCR Limited	100	Human resource consultancy
Kelda Contract Hire Limited	100	Contract hire of vehicles
Coquetdale Property Investment Limited	100	Property investment
Northumbrian Water Estates Limited	100	Property trading
DCS (Technical Services) Limited	100	Inspection, cleaning and repair of hollow structures
Earth Services Limited	100	Geotechnical surveys
Detectronic Limited	100	Manufacture of flow measurement equipment
NWG Leasing (Holdings) Limited (formerly Robert Fleming Leasing Limited)	100	Lessor

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

During the year Entec Europe Limited (formerly Northumbrian Services Limited) transferred parts of its trade and assets to fellow subsidiaries IMASS Limited and Analytical and Environmental Services Limited.

(e) Other investments:

The Company acquired during the year for £0.8m a 12% interest in the ordinary stock of Hartlepoons Water Company, a public limited company incorporated by the Hartlepoons Water Acts and Orders 1874 to 1988.

The principal business activity of Hartlepoons Water Company is water supply.

14 Acquisitions of subsidiaries

(a) The acquisitions made during the year, assets and liabilities acquired and goodwill arising were as follows:

	DCS (Technical Services) Limited*	Earth Services Limited	Detronic Limited	NWG Leasing (Holdings) Limited	Total £m
	£m	£m	£m	£m	
Fair value of assets and liabilities acquired:					
Tangible fixed assets	1.3	0.6	0.6	—	2.5
Current assets	1.3	3.0	1.4	20.0	25.7
Creditors: amounts falling due within one year	(1.4)	(1.6)	(1.6)	(20.0)	(24.6)
Creditors: amounts falling due after more than one year	(0.9)	(0.3)	—	—	(1.2)
	0.3	1.7	0.4	—	2.4
Fair value of consideration	3.8	3.7	4.1	0.2	11.8
Goodwill arising	3.5	2.0	3.7	0.2	9.4
Consideration was satisfied by:					
Cash	0.5	2.1	1.3	0.2	4.1
Loan notes	—	1.6	1.7	—	3.3
Shares	3.3	—	—	—	3.3
Deferred consideration	—	—	1.1	—	1.1
	3.8	3.7	4.1	0.2	11.8

* The figures shown above for DCS (Technical Services) Limited arise from the acquisition by the Company on 29 August 1991 of the James Duncan (Holdings) Limited Group of companies. On that same day the net operating assets of this Group were sold to DCS (Technical Services) Limited, a newly formed, wholly-owned subsidiary of the Company. The purchased goodwill of £3.5m arising in DCS (Technical Services) Limited has been written off against reserves in that company's accounts. On 23 March 1992 the Company disposed of its investment in James Duncan (Holdings) Limited at its net book value.

The subsidiaries have been consolidated by the Group using the acquisition method of accounting.

Notes to the Accounts

14 Acquisitions of subsidiaries (continued)

(b) Acquisitions absorbed £23.7m of the Group's net operating cash flows, received £0.1m in respect of net returns on investments and servicing of finance, paid £0.6m in respect of taxation and received £0.1m from investing activities.

Net outflow of cash and cash equivalents in respect of acquisitions may be analysed as follows:	£m
Cash consideration	4.1
Cash acquired	(1.0)
Bank overdrafts acquired	1.4
Net outflow in respect of acquisitions	4.5

(c) The effect of the above acquisitions on the Group accounts is as follows:

	DCS (Technical Services) Limited	Earth Services Limited	Detectronic Limited	NWG Leasing (Holdings) Limited
Date of Acquisition	29 August 1991	7 November 1991	28 December 1991	16 March 1992
Proportion of nominal share capital acquired	100%	100%	100%	100%
Contribution to turnover in year	£2.3m	£2.3m	£0.5m	£0.2m
Contribution to profit on ordinary activities before taxation in year	£(0.1)m	£(0.2)m	£(0.1)m	£0.1m

The business of DCS (Technical Services) Limited made a profit on ordinary activities before taxation of £0.2m from 1 April 1991, the beginning of its financial year, to the date of acquisition, and made a profit of £0.3m for the previous financial year.

Earth Services Limited made a profit on ordinary activities before taxation of £nil from 1 April 1991, the beginning of its financial year, to the date of acquisition, and made a profit of £0.5m for the previous financial year.

Detectronic Limited made a profit on ordinary activities before taxation of £0.5m from 1 October 1990, the beginning of its accounting period, to the date of acquisition, and made a profit of £0.3m for the previous financial year.

NWG Leasing (Holdings) Limited (formerly Robert Fleming Leasing Limited) made a profit on ordinary activities before taxation of £0.5m from 1 April 1991, the beginning of its financial year, to the date of acquisition, and made a profit of £0.8m for the previous financial year.

(d) The cumulative amount of goodwill arising on acquisitions which has been written off is set out below:

	£m
At 1 April 1991	1.8
Written off to reserves in year arising on:	
Subsidiary undertakings (note 14(a))	9.4
Associated undertakings (note 13(a))	3.4
At 31 March 1992	14.6

15 Stocks

	The Group	
	1992	1991
	£m	£m
Stores	4.0	2.4
Work in progress	0.5	0.7
	4.5	3.1

16 Debtors

	The Group		The Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Amounts falling due within one year:				
Trade debtors	20.8	12.3	—	—
Net investment in finance leases	8.1	—	—	—
Amounts owed by subsidiary undertakings	—	—	67.8	42.0
Other debtors	14.4	6.2	3.5	1.7
Prepayments and accrued income	15.6	19.7	4.0	8.3
	58.9	38.2	75.3	52.0
Amounts falling due after more than one year:				
Net investment in finance leases	32.9	—	—	—
Amounts owed by subsidiary undertakings	—	—	56.5	10.3
Other debtors	—	0.2	—	0.2
	91.8	38.4	131.8	62.5

During the year assets with a gross cost of £24.1m were acquired for letting under finance leases.

17 Current Asset Investments

During the year ended 31 March 1991, 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.

During the year ended 31 March 1991 the cost of the investment was protected from losses by option contracts, the cost of which was met by other option contracts which limited gains.

During the year ended 31 March 1992 the value of the fund reached £48.9m, the exercise value of the option contracts which limit gains. This value has been protected by the purchase of further option contracts at a cost of £1.7m and the original option contracts have been partly sold for £0.1m.

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 31 March 1992 the fund was valued at £47.4m (1991: £42.9m) by Kleinwort Benson Investment Management Limited.

Notes to the Accounts

18 Creditors: Amounts falling due within one year

	The Group		The Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Bank loans and overdrafts	65.1	41.1	51.6	39.2
Commercial paper	20.0	—	20.0	—
Obligations under hire purchase contracts and finance leases (note 21)	1.6	0.4	—	—
Trade creditors	8.2	5.1	0.7	0.1
Amounts owed to subsidiary undertakings (see (a) below)	—	—	12.1	10.4
Other creditors	59.4	35.0	4.2	1.8
Taxation and social security (see (b) and (c) below)	5.6	4.8	4.0	4.1
Dividends payable	9.1	8.1	9.1	8.1
Accruals and deferred income	8.5	7.0	2.3	2.8
	177.5	101.5	104.0	66.5

(a) Included in amounts owed to subsidiary undertakings is £5.7m (1991: £5.5m) in respect of group tax relief.

(b) The creditor for taxation and social security in the Group includes advance corporation tax payable amounting to £4.2m (1991: £3.9m), tax on franked investment income amounting to £0.2m (1991: £0.2m) and corporation tax amounting to £0.1m (1991: £nil).

(c) The creditor for taxation and social security in the Company includes advance corporation tax payable amounting to £3.7m (1991: £3.9m) and tax on franked investment income amounting to £0.2m (1991: £0.2m).

19 Creditors: Amounts falling due after more than one year

	The Group		The Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Loans (note 20 and (a) below)	60.0	90.0	—	10.0
Commercial paper	40.0	—	40.0	—
Obligations under hire purchase contracts and finance leases (note 21)	18.4	3.3	—	—
Other creditors	4.1	1.4	3.5	1.0
	122.5	94.7	43.5	11.0

(a) Included above are £40m (1991: £50m) of commercial paper and loans in the Group and £40m (1991: £10m) in the Company all of which are due for repayment within one year. These amounts have been treated as falling due after more than one year because it is intended that the commercial paper and loans will be refinanced or rolled over. Committed undrawn facilities, which bear interest rates at 0.25% over LIBOR, are in place for this purpose and are not due for review until 14 September 1995.

(b) The Group entered into interest rate swap agreements with various counter-parties 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 10.125% to 11.45%, in respect of a set capital figure to the counter-parties who, in turn, pay the Group amounts calculated by reference to LIBOR on the same capital figure. The agreements, which range from three to seven years, cover £101.8m (1991: £50m) of the Group's borrowings. The related costs or income arising during the year are included in interest payable/receivable.

20 Loans

	The Group		The Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Loans are repayable as follows:				
Between two and five years	3.2	50.0	—	10.0
In five years or more	56.8	40.0	—	—
	60.0	90.0	—	10.0

Loans repayable in five years or more are repayable by instalments at rates of interest in the range of 10.4% to 11.5% (1991: 11.0% to 11.5%).

The aggregate amount of loans any part of which falls due for repayment in five years or more is £60m (1991: £40m).

21 Obligations under Hire Purchase Contracts and Finance Leases

Obligations under hire purchase contracts and finance leases are as follows:

	The Group	
	1992 £m	1991 £m
Amounts due:		
In less than one year	1.9	0.6
Between one and two years	2.9	1.0
Between two and five years	6.4	2.0
In five years or more	50.8	5.2
	62.0	8.8
Less: finance charge allocated to future periods	(42.0)	(5.1)
	20.0	3.7
Disclosed as due:		
Within one year	1.6	0.4
After more than one year	18.4	3.3
	20.0	3.7

22 Provisions for Liabilities and Charges

	The Group £m
Infrastructure renewals expenditure:	
At 1 April 1991	18.9
Transferred from profit and loss account	24.3
Utilised during the year	(21.6)
At 31 March 1992	21.6

Notes to the Accounts

23 Accruals and Deferred Income

	The Group £m
Capital grants:	
At 1 April 1991	20.0
Additions	1.9
Amortisation in year	(0.5)
At 31 March 1992	21.4

24 Called Up Share Capital

The share capital of the Company is shown below:

	1992 £m	1991 £m
Authorised:		
100 million Ordinary Shares of £1 each	100.0	100.0
Special Rights Redeemable Preference Share of £1	—	—
	100.0	100.0
Allotted, called up and fully paid:		
66.6 (1991: 65.5) million Ordinary Shares of £1 each	66.6	65.5
Special Rights Redeemable Preference Share of £1	—	—
	66.6	65.5

(a) At 1 April 1991 the number of allotted, called up and fully paid Ordinary Shares stood at 65,495,433. During the year a further 1,076,722 Ordinary Shares were allotted as follows:

	Number allotted	Issue price £	Premium £m
Under the Northumbrian Water Profit Sharing Scheme at market value on 28 June 1991	154,450	3.40	0.4
For cash to retired employees under the Savings-Related Share Option Scheme	5,605	1.76	—
Part consideration for the acquisition of the ordinary share capital of James Duncan (Holdings) Limited (note 14(a)) at market value on 28 August 1991	916,667	3.60	2.4
	1,076,722		2.8

(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 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.

25 Directors' Interests

The beneficial interests of directors at 31 March 1992 and their families in numbers of Ordinary Shares of the Company are set out below:

	31 March 1992			31 March 1991		
	Fully paid shares	Options Executive scheme	Options SAYE scheme	Fully paid shares	Options Executive scheme	Options SAYE scheme
Sir M I B Straker	1,364	71,419	—	1,264	38,314	—
D G Cranston	3,588	94,284	6,136	3,486	58,475	6,136
J M Guerin (see (a) below)	1,400	37,301	4,856	1,400	37,301	—
R H Smith	6,179	21,498	5,438	5,775	68,690	4,090
J M Taylor (see (a) below)	—	—	—	—	—	—
Professor Sir F G Holliday (see (a) below)	360	—	—	360	—	—
Dr R Iley	1,000	—	—	1,000	—	—
Professor M B Pescod	200	—	—	200	—	—
Sir J Riddell (see (a) below)	—	—	—	—	—	—
W F Ridley	3,000	—	—	3,000	—	—
J S Ward	400	—	—	400	—	—

(a) For directors appointed during the year comparative figures are shown as at the date of their appointment. 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.

On 9 April 1992 J M Taylor acquired a beneficial interest in 1,000 fully paid shares. From the end of the financial year to 26 May 1992, no other changes took place in the above mentioned beneficial interests 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.
210,296	378p	From July 1994 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
917,206	176p	From March 1995 for 6 months.
309,397	176p	From March 1997 for 6 months.
211,637	264p	From March 1996 for 6 months.
127,885	264p	From March 1998 for 6 months.
209,691	278p	From March 1997 for 6 months.
194,883	278p	From March 1999 for 6 months.

(c) The Company has established an Employee Benefit Trust which may purchase shares in order to meet obligations under the above share option schemes and the Northumbrian Water Profit Sharing Scheme. The consequent contingent liability is disclosed in note 33(c).

Notes to the Accounts

27 Reserves

	Share premium account £m	Profit and loss account £m
The Group:		
At 1 April 1991	57.6	528.3
Profit retained for the year	—	43.0
Shares issued (note 24(a))	2.8	—
Goodwill written off (note 14(a))	—	(9.4)
Share of Associate's goodwill written off (note 13(a))	—	(3.4)
At 31 March 1992	60.4	558.5
The Company:		
At 1 April 1991	57.6	158.7
Profit retained for the year	—	14.6
Shares issued (note 24(a))	2.8	—
At 31 March 1992	60.4	173.3

As permitted by Section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these accounts.

28 Net Cash Inflow from Operating Activities

	1992 £m	1991 £m
Operating profit	54.9	34.1
Depreciation of tangible fixed assets	16.0	16.9
Amortisation of capital grants	(0.5)	(0.4)
Infrastructure renewals provision	24.3	24.6
Infrastructure renewals spend	(21.6)	(15.6)
(Profit)/loss on disposal of tangible fixed assets	(0.1)	0.4
(Increase) in stocks	(0.5)	(0.5)
(Increase) in debtors	(34.4)	(10.6)
(Decrease)/increase in creditors	(4.7)	7.9
Issue of shares under Northumbrian Water Profit Sharing Scheme	0.6	—
Net cash inflow from operating activities	34.0	56.8

29 Analysis of the Balances of Cash and Cash Equivalents

	1992 £m	1991 £m	Change in year £m
Cash at bank and short term deposits	94.5	51.4	43.1
Bank overdrafts	(65.1)	(41.1)	(24.0)
	29.4	10.3	19.1

Cash at bank and short term deposits excludes short term deposits with maturity dates greater than three months amounting to £75m (1991: £118m).

30 Analysis of Changes in Financing during the Year

	Obligations under hire purchase contracts and finance leases £m
At 1 April 1991	3.7
Net cash outflow from financing	(0.6)
Loans and finance lease obligations of subsidiary undertakings acquired	0.8
Inception of finance lease contracts	16.1
At 31 March 1992	20.0

31 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 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 £2.9m (1991: £2.5m).

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.

32 Financial Commitments

(a) Capital expenditure:

	The Group		The Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Expenditure contracted for	57.6	32.7	—	—
Expenditure authorised by directors but not yet contracted for	59.4	78.5	—	—
	117.0	111.2	—	—

Notes to the Accounts

32 Financial Commitments (continued)

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 within the appointed business.

(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			
	1992		1991	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Leases which expire:				
Within one year	0.1	0.1	—	0.1
Within two to five years	—	0.1	0.1	1.0
After five years	0.1	—	0.1	—
	0.2	0.2	0.2	1.1

33 Contingent Liabilities

(a) Deferred taxation:

No deferred taxation provision has been made in the Group or Company. The full potential amount of deferred taxation calculated at 33% (1991: 33%) on all timing differences is as follows:

	The Group		The Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Accelerated capital allowances	78.2	80.6	—	—
Other timing differences	(10.1)	(8.2)	1.3	2.2
	68.1	72.4	1.3	2.2
Advance corporation tax	(10.1)	(6.2)	(1.0)	(1.6)
Losses carried forward	—	(22.2)	—	—
	58.0	44.0	0.3	0.6

Losses set off against deferred tax at 31 March 1991 were based on capital allowances available to the Group being claimed in full. It is now expected that capital allowances available in 1991, and those in 1992, will be partially disclaimed. This will not create any losses to be carried forward at 31 March 1992 but will result in higher potential capital allowances' claims in future years.

(b) Northumbrian Water Group PLC is party to a cross guarantee arrangement with certain group companies in respect of their bank overdrafts. The potential liability outstanding at 31 March 1992 amounted to £nil (1991: £nil).

(c) The Trustee of the Employee Benefit Trust has call options on 1.1m shares in Northumbrian Water Group PLC held by the Toronto-Dominion Bank. In the event that the Trustee does not exercise those call options in full by 20 January 1997 the Toronto-Dominion Bank may exercise a put option it holds with the Trustee in respect of any remaining shares it owns. The Company has provided a guarantee to the Toronto-Dominion Bank to provide sufficient funds to the Trustee to meet any liability that may arise under the put option.

The maximum liability outstanding to the Company, at 31 March 1992, under this guarantee is £3.7m.

Summary of Accounts
For the three years ended 31 March

	1992 £m	1991 £m	1990 £m
Results			
Turnover	203.5	167.0	150.9
Operating profit	54.9	34.1	36.6
Profit on ordinary activities before taxation	61.1	46.9	10.0
Profit for the financial year	56.6	42.8	7.7
Extraordinary item	—	—	(3.6)
Dividends (1990: final dividend only)	(13.6)	(12.2)	(7.0)
Retained profit/(loss)	43.0	30.6	(2.9)
Net assets employed			
Fixed assets	721.0	635.5	567.9
Net current assets	130.0	149.5	82.6
Total assets less current liabilities	851.0	785.0	650.5
Non current liabilities	(122.5)	(94.7)	(0.7)
Provisions for liabilities and charges	(21.6)	(18.9)	(9.9)
Accruals and deferred income	(21.4)	(20.0)	(17.3)
Net assets employed	685.5	651.4	622.6
Ratios			
Operating margin	27.0%	20.4%	24.3%
Earnings per ordinary share (1990: calculated on a proforma basis)	85.5p	65.3p	78.3p
Dividend per ordinary share (1990: final dividend only)	20.5p	18.6p	10.69p

Report of the Auditor

To the members of Northumbrian Water Group PLC

We have audited the accounts set out on pages 36 to 60 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 1992 and of the profit and cash flow of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

COOPERS & LYBRAND

Chartered Accountants and Registered Auditor

Newcastle upon Tyne

26 June 1992

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Northumbrian Water Group PLC will be held at the Marston Hotel and Country Club, Stokesley Road, Marston, Middlesbrough, Cleveland on 23 July 1992 at 11.00 am 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 year ended 31 March 1992.
- 2 To re-appoint Coopers & Lybrand as auditor of the Company and to authorise the directors to fix their remuneration.
- 3 To declare a dividend on the Ordinary Shares.
- 4 To re-appoint as a director Mr J S Ward who is retiring by rotation.
- 5 To re-appoint as a director Mr J M Guerin.
- 6 To re-appoint as a director Professor Sir Frederick Holliday.
- 7 To re-appoint as a director Sir John Riddell.
- 8 To re-appoint as a director Mr J M Taylor.

Special Business

- 9 To resolve as a Special Resolution that the directors be and they are hereby empowered in accordance with Section 95 of the Companies Act 1985 ("the Act") pursuant to the authority conferred by Resolution 5 passed at the Annual General Meeting of the Company held on 5th September 1991 to allot equity securities (as defined in Section 94 of the Act) as if sub-section (1) of 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 practical 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 £3,328,607and shall expire at the earlier of the conclusion of the Annual General Meeting of the Company to be held in 1993 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.
- 10 To resolve as an Ordinary Resolution that the directors be hereby authorised to alter the Rules of the Northumbrian Water Executive Share Option Scheme to permit the price at which options are granted to reflect changes made by the Finance Act 1991 and as further described in the explanatory notes relating to this resolution.
- 11 To resolve as a Special Resolution that Article 135 of the Articles of Association of the Company be amended as follows:
 - (a) that the first paragraph and paragraph (i) be deleted and the following wording be substituted therefor:

"The directors may offer the holders of Ordinary Shares the right to elect to receive Ordinary Shares, credited as fully paid, instead of cash in respect of such dividend or dividends (or part thereof) as are specified in such offer (any such offer being called a "Share Dividend Offer").

The following provisions shall apply:
 - (i) the authority of the Company in general meeting by Ordinary Resolution shall be required before the directors implement any Share Dividend Offer;
 - (ii) the said Resolution may specify a particular dividend or may specify all or any dividends payable during a specified period but such period may not end later than the date of the Annual General Meeting of the Company in 1997 provided nevertheless that the directors may in their absolute discretion suspend or terminate (whether temporarily or otherwise) such right to elect and may do such things and acts considered necessary or expedient with regard to, or in order to effect, any such suspension or termination."
 - (b) that the following wording be inserted as paragraph (iv):

"(iv) The basis of allotment shall be such that no member may receive a fraction of a share and the directors may make such provision as they think fit for any unallotted balances including provisions whereby any unallotted balance shall be accrued and/or retained, and in any such case accumulated on behalf of such members and that such accruals or retentions be applied to the allotment by way of bonus or cash subscription of fully paid Ordinary Shares on behalf of such members upon and subject to the terms and conditions set out herein."
 - (c) that the existing paragraphs (ii), (iii), (iv), (v), (vi) and (vii) be re-numbered paragraphs (iii), (v), (vi), (vii), (viii) and (ix) respectively.
 - (d) that the following be inserted as paragraphs (x) and (xi) respectively:

"(x) the directors shall apply to the London Stock Exchange for the additional Ordinary Shares so allotted to be admitted to the Official List; and

(xi) the directors shall have power to do all acts and things as they consider necessary or expedient to give effect to this Article."
- 12 To resolve as an Ordinary Resolution that the directors be authorised to exercise the power contained in Article 135 of the Articles of Association to offer shareholders the right to elect to receive Ordinary Shares of £1 each credited as fully paid on the basis determined by the directors in accordance with the Articles of Association in respect of the final dividend for the financial year of the Company ended 31 March 1992 and in respect of any dividend or part thereof declared at any time after the date of the passing of this resolution and prior to the date of the next Annual General Meeting of the Company.

By Order of the Board

Stuart Raistrick
Secretary
26 June 1992

Registered Office:
Northumbria House
Regent Centre
Gosforth
Newcastle upon Tyne
NE3 3PX
Registered Company Number: 2366698

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 Marton Hotel and Country Club, Stokesley Road, Marton, Middlesbrough, Cleveland from 10.45 am 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
Registrars Department
54 Pershore Road South
Birmingham
B30 1DR

Explanation of Resolutions 9, 10, 11 and 12

- 9 The Companies Act 1985 requires new shares issued for cash to be offered to current shareholders in proportion to their holdings. This Resolution which replaces a similar authority conferred upon the Board at the last Annual General Meeting, permits the Board not to apply that requirement to any allotment of shares in a rights issue and to allotments which do not exceed 5% of the Company's current issued share capital.
- 10 The Finance Act 1991 permits the granting of executive share options at a 15% discount to market value provided that the Company has established an all employee share scheme. The Company satisfies this condition since it established both a profit sharing scheme and a savings-related share option scheme at the time of flotation in 1989.
The Company wishes to amend the Rules of its Executive Share Option Scheme to permit the grant of discounted options in the future. This Resolution empowers the directors to make such amendments and to make further amendments to permit the issue of "parallel" options.
It is the intention of the Board that options granted with the benefit of a discount shall be exercisable only in accordance with guidelines issued by the Association of British Insurers from time to time. These guidelines currently provide that discounted options may not in normal circumstances be exercisable before the fifth anniversary of the date of grant and unless and until the growth in the Company's earnings per share over a five year period has exceeded the increase in the Retail Price Index over the same period by at least 10%. In addition, it is the intention of the Board to restrict the number of options granted with the benefit of discount to that permitted under the Association of British Insurers' guidelines from time to time, currently being one-quarter of the total options granted to an individual.
The amendments will be prepared having regard to the relevant guidelines of the Association of British Insurers and other bodies representing institutional investors.
- 11 The Company wishes to have the option to offer shareholders the opportunity to take shares in place of all or part of any dividend to be paid during the next five years. This resolution details the necessary amendments to the Articles of Association.
The amended Articles will give the Company power to offer shares in place of dividend through a Share Dividend Offer. The amendments will, further, give the Company power to offer shareholders the opportunity to sign a mandate to the effect that they wish to receive shares in place of dividend at any time such an offer is made.
The amended Articles of Association will also permit the Company to retain the value of any unallotted balance on behalf of a shareholder. Any such retentions will be accumulated and, when the retained value is sufficient, will be converted into shares which will be allotted to the shareholder at the time of the next Share Dividend Offer.
- 12 This Resolution authorises the Board to make a Share Dividend Offer to all members in respect of dividends payable between the date of this Annual General Meeting and the date of the Annual General Meeting in 1993.

Shareholder Information

Financial Calendar 1992/93

INTERIM RESULTS:	NOVEMBER
INTERIM REPORT DISTRIBUTED:	DECEMBER
INTERIM DIVIDEND PAYMENT:	MARCH
ANNOUNCEMENT OF FINAL RESULTS:	JUNE
ANNUAL REPORT DISTRIBUTED:	JUNE
ANNUAL GENERAL MEETING:	JULY
FINAL DIVIDEND PAYMENT:	OCTOBER

In future shareholders who wish to receive the full Annual Report should please complete and return the Option Card (Card D) accompanying the proxy form.

Shareholder enquiries should be addressed to:

Shareholder Relations Officer, Northumbrian Water Group PLC, Northumbria House, Regent Centre, Gosforth, Newcastle upon Tyne NE3 3PX

Shareholder Profile: Analysis of Ordinary Fully Paid Share Register

as at 1 May 1992

Type of Shareholder	Number of holders	%	Number of shares	%
1 INDIVIDUALS	75,068	97.95	10,965,457	16.47
2 NOMINEE COMPANIES	1,067	1.39	33,106,442	49.73
3 INSURANCE COMPANIES	35	0.05	12,613,530	18.95
4 OTHER COMPANIES	423	0.55	7,768,520	11.66
5 PENSION FUNDS	25	0.03	2,087,356	3.14
6 BANKS	21	0.03	30,850	0.05
TOTALS	76,639	100.00	66,572,155	100.00

Balance Analysis Summary: Ordinary Shares

Range	Number of Shareholders	Shares %
1-499	75,010	14.48
500-999	573	0.56
1,000-4,999	659	1.73
5,000-9,999	105	1.04
10,000-49,999	146	5.09
50,000-999,999	139	49.19
1,000,000 +	7	27.91
TOTALS	76,639	100.00