

06-09-93

NORTHUMBRIAN
WATER GROUP PLC



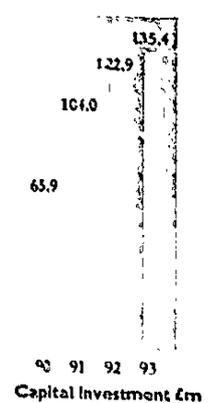
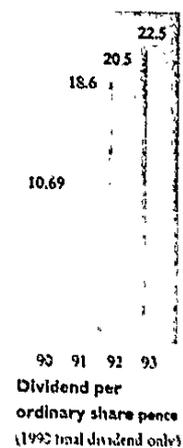
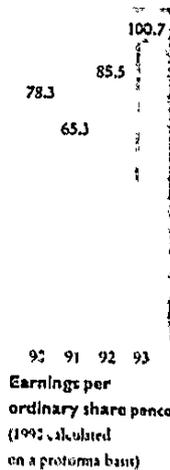
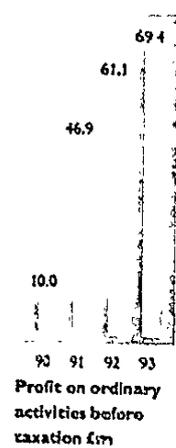
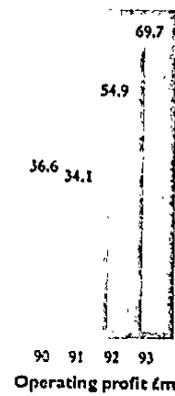
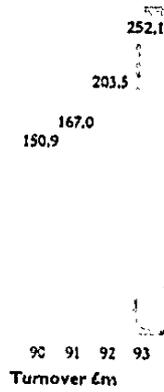
*"We have actively sought the views of our customers
to see what they think our priorities beyond our
legal obligations should be and what improvements
they are most willing to pay for."*

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FINANCIAL HIGHLIGHTS

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	1993 £m	1992 £m
Turnover	252.1	203.5
Operating profit	69.7	54.9
Profit on ordinary activities before taxation	69.4	61.1
Profit for the financial year	67.4	56.6
Shareholders' funds	727.8	685.5
Capital investment	135.4	122.9
Earnings per ordinary share	100.7p	85.5p
Dividend per ordinary share	22.5p	20.5p
Number of shareholders at year end	72,515	77,899



Northumbrian Water Group PLC



Over 150,000 tests were carried out on drinking water to ensure that strict quality standards were achieved. Here Inspector Robbie Johnson checks water in the home of Mrs Margaret Stephenson.

The finishing touches are put to the headworks of a £21 million project, our contribution to the cleaning of bathing waters at Seaton Carew in Cleveland. Entec Europe Limited carried out the design project on behalf of Northumbrian Water Limited.

Our appointed and other businesses aim to maximise
 shareholder value through continuous
 improvement in services to all our customers.

CHAIRMAN'S STATEMENT

The last year was again one in which the Group made significant progress, benefiting customers and shareholders alike.

Turnover in the year to 31 March 1993 increased from £203.5 million to £252.1 million. Profit before tax rose by £8.3 million from £61.1 million to £69.4 million. A final dividend of 15.0 pence net per Ordinary Share, payable on 1 October 1993, is being recommended by the Directors. Together with the interim dividend of 7.5 pence net, paid on 1 March 1993, this makes a total for the year of 22.5 pence net per Ordinary Share. This represents an increase of 9.3% on last year's dividend. £52.3 million has been retained within the Group for re-investment in the business.

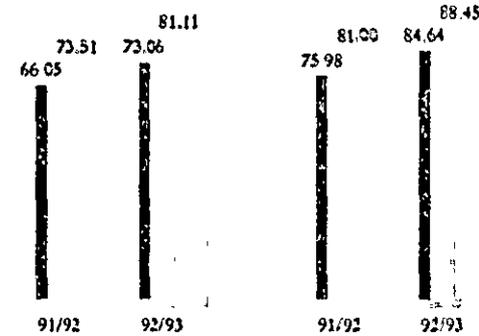
Northumbrian Water Limited had another successful year. Despite the recession, metered income continued to hold up well. The company also continued to achieve high levels of compliance for both water quality and sewage treatment. With the exception of our underground asset management business our other business activities performed satisfactorily but their ability to grow profits was hampered by the recession.

The debate about the rate of increase in water and sewerage charges has continued but I am pleased to report that those of our company remain below the average for the water and sewerage companies. It is of concern to us, of course, not only that we should meet the legally binding requirements laid down upon us by the UK and EC authorities but that the need to improve the quality of our environment should be balanced in a pragmatic way with the ability of our customers to pay for the improvements that we and our regulators wish to see. For this reason we have actively sought the views of our customers to see what they think our priorities

Household bills £

Water supply unmeasured

Sewerage unmeasured



■ Northumbrian Water Limited

□ Water and sewerage companies average*

*The average is a weighted average across the 10 water and sewerage companies.

Source: WSA Waterfacts 1992

beyond our legal obligations should be and what additional improvements they are most willing to pay for.

The Board supports the recommendations of the Report of the Committee on the Financial Aspects of Corporate Governance (Cadbury Report). Our Company already complies with the recommendations set out in The Code of Best Practice except those for which all industry and commerce are awaiting guidance from the appropriate professional bodies.

The environment, education and enterprise are the areas that we target for our charitable activities. This enables us to reinvest further in the communities that we serve. We continued support for Durham University Business School, Durham County Cricket Club and Sunderland University amongst others and, this year, the National Trust's coastal work. Our second year of sponsorship of the annual visit of the Royal Shakespeare Company to the North East was a great success.

Robert Smith, the former managing director of Northumbrian Water Limited, retired in April 1993,



Janet Langdon, Director and Secretary of the Water Services Association with Sir Michael Straker, Chairman of the Water Services Association for 1993

and his place was taken by Dr Jon Hargreaves. Both Frank Ridley and Dr Ralph Iley will be retiring from the Board at the Annual General Meeting. Frank Ridley was the architect of much of the success of the former Northumbrian Water Authority during the 1980's. Ralph Iley brought to the Company a depth and breadth of industrial experience that was particularly welcome as the Company moved into the private sector. I thank them both for the solid and inspiring support that they have given both to me and to the Company.

After ten years I, also, will be standing down as your Chairman following the Annual General Meeting. It has been a privilege and a joy to me to serve as your Chairman and to have been a part of a company that has, throughout my experience, sought

to safeguard the environment while seeking to secure higher standards of water quality and service for its customers. It is with confidence that I hand over the Chairmanship to Professor Sir Frederick Holliday, a businessman and an environmentalist. I wish him well as he picks up the reins.

Our employees are our greatest asset and the Board joins with me in expressing our thanks to them for the effort and loyalty that they have continued to demonstrate. We also extend a warm welcome to those who have joined the Group over the last year.

Sir Michael Straker

CHIEF EXECUTIVE'S REVIEW

As the country emerges from recession we are fortunate at Northumbrian Water Group that our principal business is an essential utility, protected from the worst effects of recession. Our aim is to use that strength to develop a more broadly based Company whilst regulation tightens on our principal business. The last year has seen us make considerable progress, though not without suffering some disappointments and frustrations.

Preparation for the Periodic Review, which will set the level of charges for water and sewerage services for five years from April 1995, is well advanced. We were pleased to reach agreement with the Office of Water Services (OFWAT) in October 1992 on the level of increases in our charges to be applied until then, a step which enables Northumbrian Water Limited to plan its investment programme up to the Periodic Review with more certainty. In the meantime, that company has continued to achieve an excellent performance.

The acquisitions of Wallace Whittle & Partners and of the European environmental businesses of Simon Engineering have greatly enhanced the capabilities of our engineering and environmental consultancy business. We were disappointed that the Secretary of State for the Environment dismissed our appeals for two integrated treatment centres in the North East. Nevertheless, our waste management company is seeking to develop other areas of its business. The performance of our asset management company has been disappointing but the new management team has implemented an extensive cost cutting and restructuring programme with the objective of restoring the company's profitability.

Turnover for the appointed water and sewerage

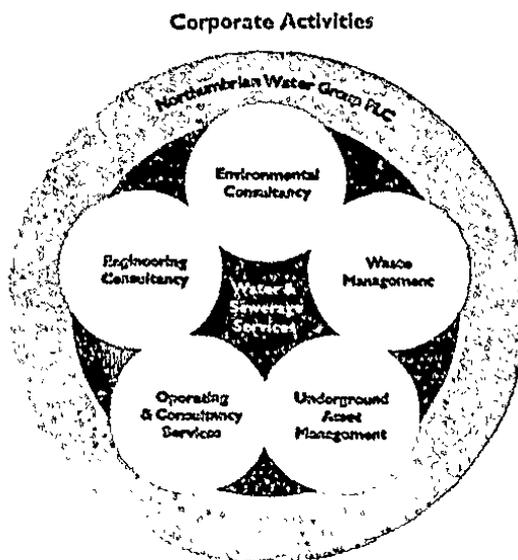
services was £186.1 million (1992: £169.5 million), for non-appointed water services, £20.8 million (1992: £20.1 million) and for other business activities £45.2 million, (1992: £13.9 million).

Operating profits for Northumbrian Water Limited improved from £49.3 million to £66.9 million.

Operating profits for our other business activities were on target with the exception of our asset management company.

The £41.7 million investment in the equity fund, acquired in the year to 31 March 1991, was realised on 30 September 1992, with a capital profit of £7.3 million.

Sir Michael Straker will be stepping down following the Annual General Meeting after being Chairman of the Company and its predecessor since October 1982. I have valued his wise counsel, encouragement and support over the years, particularly in the period running up to and since the privatisation of the Company. His judgment of the political scene and his unfailing sensitivity to the mood of customers and employees have been a source of great strength to me and to all his





"Our aim is to develop a more broadly based Company whilst regulation tightens on our principal business."

colleagues in the Company. I am pleased that he has accepted the Board's invitation to continue as a non-executive director. I welcome Professor Sir Frederick Holliday as our new Chairman and look forward to working closely with him.

Robert Smith retired as managing director of Northumbrian Water Limited after thirty years in the industry. Bob established the company at privatisation and managed the water and sewerage activities as they moved into a much more open and demanding regulatory regime, whilst achieving considerable improvement in the quality of services provided to customers.

The Group is continuing to go through a period of rapid change as we equip the appointed business to cope with new pressures during the second half

of the decade and as we build up our other businesses. It is vital that we reach a settlement of both our price limit and the statutory obligations to improve services at the Periodic Review which is, and is seen to be, fair to both our customers and our shareholders.

I would like to pay tribute to all our employees for their tremendous efforts on behalf of the Company during the year and for their support to me personally. I am confident that during the coming year we will generate new opportunities for the further development of the Group.

David G Cranston

WATER SUPPLY AND SEWERAGE SERVICES



Suzanne Adair of Northumbrian Water Limited, responding to customer queries. We are continuing to take a number of initiatives to improve our service to customers.

Northumbrian Water Limited, the water supply and sewerage services subsidiary and the largest company within the Group, had another successful year. The company maintained its high level of compliance for water quality. Sewage works compliance also continued at a high level. Major environmental benefits will result from capital schemes completed during the year.

Water resources and supply

Reservoirs were generally at higher levels than in 1991/92 due to increased rainfall. The company again had no need to restrict its customers' supplies in any way. In over 150,000 drinking water quality tests, 99.8% passed all the drinking water standards. Leakage investigation and repair was increased throughout the region and continuing improvements to the company's water mains network brought further benefits.

Debbie Harrison of AES, analysing drinking water samples for Northumbrian Water Limited.



Sewerage and sewage treatment

River water quality benefited further from a number of new and refurbished sewage treatment works which became operational during the year. These included works at Felton, Bishop Auckland, Witton Gilbert and several works along the Tyne Valley which improved the river's water quality along much of its length and in the estuary.

The company's largest full treatment sewage works, serving customers in Darlington, received BS 5750 quality accreditation during the year.

The company is currently reviewing the options available to allow it to meet the requirement to stop the disposal of sewage sludge to sea by 1998.

The ongoing campaign to alert customers to illegal discharges made to surface water sewers has been successful and has resulted in an improvement to the quality of the region's rivers and streams. Further improvements will result from the information gathered during a survey of over 1,000 storm sewage overflows and pumping stations.

Sewage treatment works falling their NRA standard at year end

88/89	89/90	90/91	91/92	92/93
19	11	1	1	2

Capital programme

The continuing high rate of investment by the company, £111 million in 1992/93, was maintained and is allowing the company to make further



Work is continuing on improvements to our water mains and treatment works to bring our water quality compliance performance to as near 100% as possible.

progress towards meeting EC and UK requirements.

Three bathing water projects, at Newbiggin-by-the-Sea, Seaton Sluice and Seaton Carew, were completed during the year to meet the EC bathing waters directive. Planning permissions were obtained for projects at Whitley Bay and Whitburn and work began at both locations. Planning approval has been sought for additional schemes at Seaham and Saltburn.

Water mains rehabilitation continued during the year. £12 million was invested throughout the region with consequent improvements in drinking water quality.

Customer service

During the year the company established a Customer Liaison Panel, under the independent chairmanship of Councillor Don Robson, the Leader of Durham County Council, with

representatives from industry, commerce, agriculture and the general public to help it find out what customers think of the service they are receiving. The panel first met in September 1992 and has discussed a wide range of issues including tariffs, the company's capital investment programme and priorities for future investment.

During the year work began on a customer

Number of customers billed (000's)

Water	91/92			92/93		
	Unmeasured	Measured	Total	Unmeasured	Measured	Total
Domestic	43	1	454	452	2	454
Commercial	14	23	37	13	23	36
Sewage						
Domestic	1,033	5	1,038	1,030	7	1,037
Commercial	68	29	96	63	29	97

WATER SUPPLY AND SEWERAGE SERVICES

Water demand: average for the year
million litres per day

	88/89	89/90	90/91	91/92	92/93
Metered potable	150	147	157	159	147
Unmetered potable	261	269	279	284	281
Metered raw	250	230	204	202	218
Total	661	646	640	645	646

service initiative to further improve the company's standards of service. A range of special services for disabled and elderly customers has now been introduced and in the current year this initiative will be extended to include a register of customers with special needs. Improvements were made in customer accounts procedures with the development of a direct line 'one stop, one voice' telephone facility for customers, at local call rates. In addition, payment of bills was made easier by

the introduction of direct debits and free payment by cash at a post office.

The priority that the company attaches to its relationship with customers was demonstrated by the appointment in January 1993 of a director of customer services who is responsible for all operations that have direct contact with customers.

Periodic review

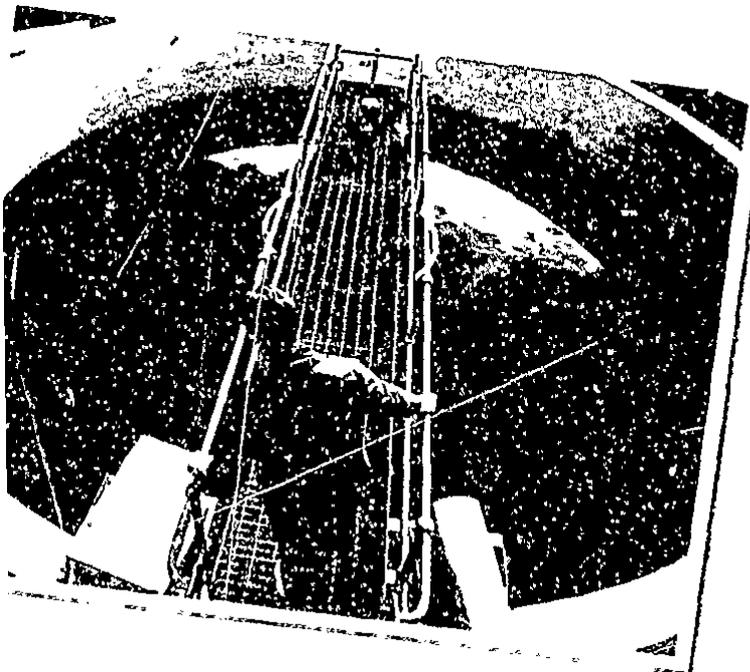
As part of the Director General of OFWAT's review of price setting limits for the five years from April 1995, the company has been formulating expenditure plans for the next twenty years which take account of the implementation of existing, new, proposed and possible obligations over that period, together with a range of potential discretionary objectives.

A key task will be the production of a Strategic Business Plan during the current year which will record details about the company's assets, their location, description and condition, the financial implications of repair and maintenance and an aggregate of the total future investment needed to upgrade and manage them properly. The finalised Plan will be submitted to OFWAT in March 1994.

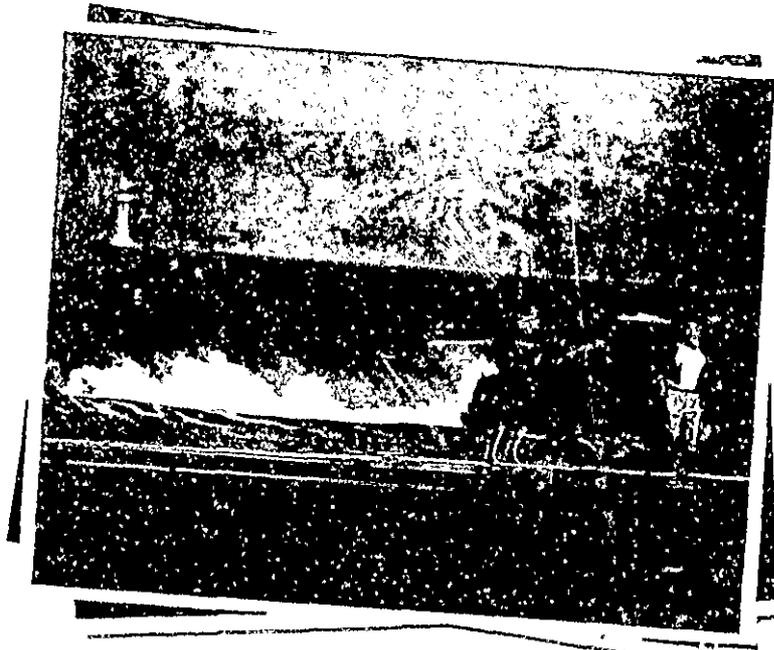
As part of this process a customer consultation exercise has been carried out to determine customers' views on future capital investment options and their likely impact on bills. These options have been summarised and during May 1993 were sent to every home in the North East inviting customers' responses. The results of these consultations will be given to OFWAT as support for the company's Strategic Business Plan.

Charges

Following discussions with OFWAT, the company agreed to reduce the 'K' element of its price setting



Over £30 million was spent on improvements to our inland sewage treatment works to further improve the high quality of the region's rivers.



Capital schemes along the coast will help ensure the region's bathing waters consistently meet EC standards. Some £20 million is being spent in North Tyneside alone, on a project to safely dispose of stormwater.



formula by 1% for 1993/94 to reflect lower levels of construction prices. This followed a similar reduction in 1992/93. OFWAT has agreed that the company's 'K' for 1994/95 will be 7%.

Billing cash flow and arrears levels throughout the year were satisfactory despite higher charges, the impact of recession and the decision by two local authorities to discontinue collecting water and sewerage charges together with rents from council tenants.

Employee relations

The company's employee councils operated effectively during the year and have continued to generate interest from companies outside the Group. All employee terms and conditions have now been fully harmonised. Low sickness levels (under 3%) and a low employee turnover rate (0.04% of total employees) were indicative of employee satisfaction and loyalty.

**Number of employees at year end:
Northumbrian Water Limited**

	92/91	91/92	92/93
Permanent	960	943	948
Contract	235	279	369
Total	1195	1222	1317

Recreation and conservation

Income from fishing and from the Kielder log cabins was higher than in 1991/92. The company is examining ways in which it can further improve facilities for visitors to Kielder.

At Bakethin reservoir three islands were constructed, two to attract wading and nesting wildowl. The third was purpose-built to attract otters. A number of conservation studies are being funded by the company.

OTHER BUSINESSES

Waste management

NEM (Northumbrian Environmental Management Limited) offers solutions to waste treatment and disposal problems, providing facilities or services for landfill and thermal and liquid treatment.

Appeals to build two integrated treatment centres, one at Howdon, the other at Portrack, were dismissed by the Secretary of State for the Environment in November 1992.

It is encouraging to note, however, that the Royal Commission on Environmental Pollution concluded in May 1993 that the new emission standards being introduced by Her Majesty's Inspectorate of Pollution (HMIP) for incinerators represent a major advance. These new standards are supported by NEM which also concurs with the view of Sir John Houghton, Chairman of the Royal

Commission that, "Incineration of waste at plants designed and operated to the new standards, and subject to firm regulation, should have an important and growing role in the national strategy the government should now prepare as soon as possible to cover all aspects of waste management."

Liquid treatment

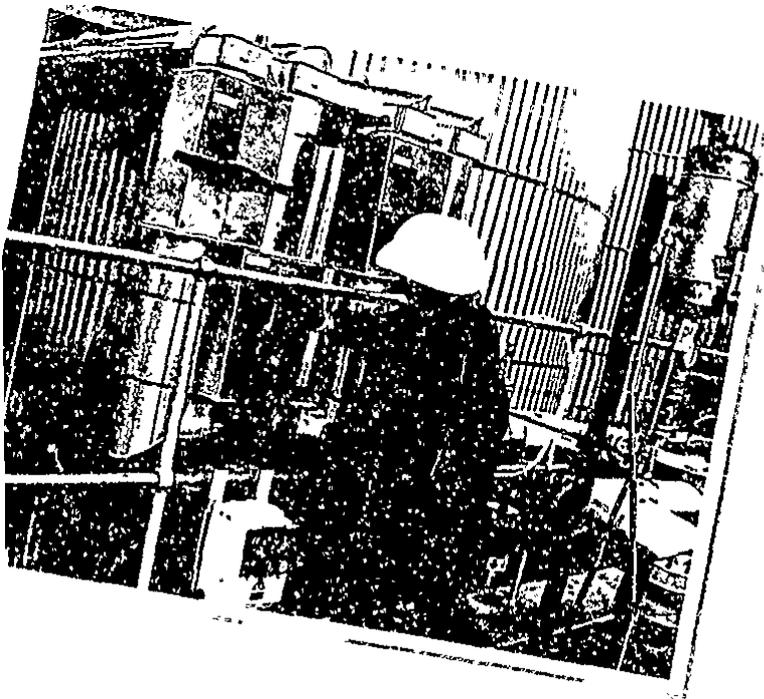
In November 1992, the company opened its second liquid treatment centre, at Howdon on Tyneside, for the disposal of treated liquid wastes. The plant has a capacity of 45,000 tonnes of waste per annum and is dedicated to the disposal of wastes arising from paracetamol production by a North East based pharmaceutical company.

Municipal waste incineration

In July 1992, NEM was chosen by Cleveland County Council as its joint venture partner to contract for the rebuilding and operating of the Portrack Municipal Waste Incinerator on Teesside. The company is currently awaiting the outcome of a planning application by the county council to Teesside Development Corporation to convert the existing incinerator into an energy from waste facility.

Landfill

The Brenkley landfill site which opened for business in February 1992 operated successfully during the year. A second landfill site, the former Burnhills sand quarry in Blaydon, Tyne and Wear, was acquired in January 1993. The site is the only landfill facility in the North East licensed for special and restricted wastes. Burnhills can accept up to 200,000 tonnes of waste per annum and has an expected lifespan of 20 years. Further potential sites in the North East and outside the region are under investigation.



NEM's liquid treatment plant at Howdon on Tyneside treats bio-degradable wastes from paracetamol production.



All Northumbrian Water Group companies are dedicated to improving the quality of the environment in which they operate.



Clinical incineration

During the year NEM reached an exclusive arrangement with ThermAll Inc of the United States to provide rotary kiln incineration technology to the UK clinical waste market. This technology is acknowledged by the United States Environmental Protection Agency as a standard for that particular market.

In May 1993, the Secretary of State for the Environment announced that he had decided to allow an appeal by the Northumbrian Water Group for outline planning permission for a proposed clinical waste disposal unit at Follingsby Lane, Gateshead. Tightening environmental standards mean that most existing hospital waste incinerators in the North East region will have to close by October 1995.

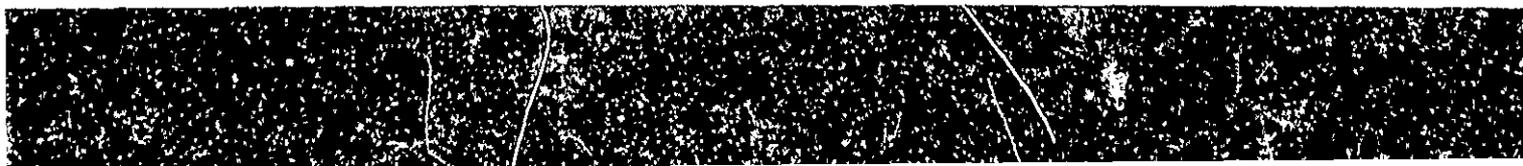
Acquisition

In February 1993, the Group completed the acquisition of Hydrogeologie GmbH, an environmental engineering company based in Nordhausen, in the former East Germany, with offices in all the new federal states. The company is active in applied hydrogeology, contaminated land investigation and remediation and engineering works related to waste management programmes.

Engineering and Environmental Consultancy
Entec Europe Limited is the vehicle through which the Group sells its engineering and environmental consultancy expertise.

Acquisitions

In April 1992, Wallace Whittle & Partners, a leading mechanical and electrical engineering consultancy based in Scotland was acquired for



OTHER BUSINESSES

£3.8 million. The European environmental consultancy businesses of Simon Engineering PLC were acquired in February 1993 for £10.6 million and provide the Group with a comprehensive capability in safety management, industrial environmental consultancy, groundwater assessment and investigation, environmental planning and conservation management.



Work in progress at Newbiggin-by-the-Sea on a sewerage project designed and overseen by Entec Europe Limited for Northumbrian Water Limited.

Projects

Through its existing operations and the acquisitions made over the year, Entec has undertaken a number of important projects including: a pumping station, pumping main and headworks for the Seaton Carew long sea outfall designed to achieve compliance with the EC bathing waters directive; and, contracts for ground investigation for widening the M6 and M40 motorways. The engineering division has also completed the mechanical and electrical design work for a Glasgow leisure centre housing manmade dinosaurs, swamps and erupting volcanoes!

Analytical & Environmental Services (AES) won contracts for analytical work on contaminated land sites and, from Durham University, for legionella risk assessment. AES has also made significant investments in new equipment both to expand its laboratory service and in anticipation of growing demand for dioxin analysis following the introduction of the Environmental Protection Act 1990.

Since their acquisition, the environmental consultancies have won a groundwater investigation scheme in Bali for the World Bank and have been retained by Union Rail for the Channel tunnel link.

Overseas

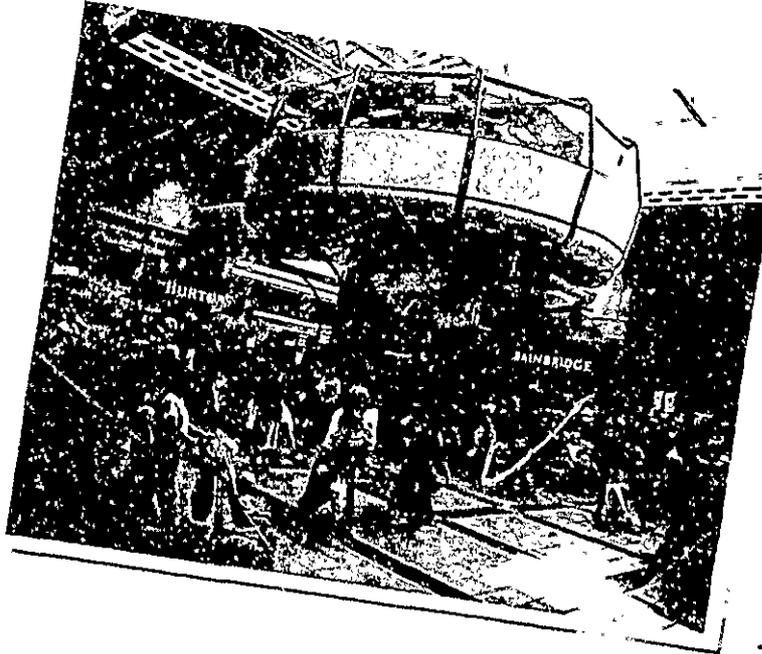
In September 1992, Obrascon-Northumbrian S.A won its first contract to operate seven sewage treatment works north west of Madrid. In May 1993, the company won a second two year renewable contract, to operate a sewage treatment works in Granada.

Asset management

Amtec Europe Limited provides surveying, cleaning and rehabilitation services for the management of pipelines and other hollow structures.



IMASS offers a complete information technology service including, pictured, geographic information systems, an advanced system of mapping underground assets.



'Business as normal' in Eldon Square, Newcastle upon Tyne's prestigious shopping centre. Using trenchless technology, Amtec Europe Limited works below ground enabling customers and businesses to carry on as normal without disruption.

Management performance in this company was disappointing during the year. In addition, the recession made the market place extremely competitive, more so than had been anticipated. An extensive cost cutting and restructuring programme has been put in place by a new management team with the objective of restoring the company's profitability.

Environmental protection equipment

Epic Products Limited, a manufacturer of automatic waste water samplers based in Salford, was acquired in April 1992, for £15 million. With effect from 2 October 1992, it was merged with the Group's earlier acquisition, Detectronic Limited, to form Montec International Limited, a company which manufactures flow and monitoring equipment for the water and liquid waste

management sectors.

Renovexx Technology Limited, a joint venture company, has successfully tested its membrane technology and is now seeking customers for this new method of treating liquid effluent.

Corporate services

In September 1992, NWG Leasing (Holdings) Limited acquired St Mary's Court Leasing Limited for £5.6 million. During the year NWG Leasing (Holdings) wrote £64 million in new leasing business.

Other Group corporate services companies include IMASS Limited, an information technology company and Kelda Contract Hire Limited, a vehicle contract hire company, both of which continue to gain new business from outside the Group.

POLICY ON THE ENVIRONMENT

The Group's approach to environmental management is predicated by the desire to achieve and maintain the British Standard BS 7750 for environmental management systems. This approach requires a company to: define its environmental commitments in the form of a policy statement; implement those commitments through action plans; and, demonstrate their achievement through monitoring and periodic auditing.

Policy and action plans

In June 1992, the Board approved a Group wide policy on the environment. Action plans to implement the policy have been developed with each operating company for the period to April 1994 and all have nominated directors responsible to the Chief Executive for completing and reporting progress on them and for preparing plans for subsequent years. Both the environmental policy and the accompanying action plans for 1992/93 and 1993/94 have been published and are available to shareholders and the public.

Procurement and environmental performance guidelines for suppliers are being developed by the Group. Initiatives are also being undertaken to encourage the use of environmentally friendly products including, for example, recycled or 'friendly' paper and the sorting of waste paper for recycling purposes.

Audit Committee

Progress in implementing the action plans and in fulfilling other obligations in the policy is monitored by the Board's Environmental Audit Committee, the majority of whose members are non-executive directors. The committee aims to commission independent audits to cover all Group companies during the next five years.

The Environmental Audit Committee has appointed an independent external auditor to review, assess and report on the Group's progress in the exercise of its environmental responsibilities. The auditor's statement for the year appears on page 20.

During the year preliminary audits were carried out on Entec Engineering and on Montec Internacional by Northumbrian Environmental Management and Aspinwall & Company respectively.

BS 7750 pilot programme

Northumbrian Water Limited was the first water services company to pilot the introduction of the British Standard BS 7750 into one of its five operating areas. The project is being jointly managed by Aspinwall & Company and Northumbrian Environmental Management.

Other Initiatives

In March 1993, NEM began a sponsorship programme that is providing 147 paperbanks throughout the region for newspapers and magazines. In partnership with a number of local authorities, NEM and Davidsons Waste Paper Limited have guaranteed a market for five years for all the waste paper collected.

The Group has also provided the chairman of Environmental Link, a self-help initiative established by the CBI, Business in the Community and the Northern Development Company to advise small and medium sized companies on their environmental policies.

The Group is a founder member of the Environmental Auditors Registration Association.

David G Cranston

Chief Executive

25 June 1993

DIRECTORS' REPORT

1 Information relating to a review of the activities of the company and its subsidiaries and of post-balance sheet events and future developments in the business is given in the Chairman's Statement and the Chief Executive's Review on pages 2 to 5.

2 **Directors at 31 March 1993** Sir Michael Straker (65), David G Cranston (55), Robert H Smith (56), Professor M B ('Warren') Pescod (60), Dr Ralph Iley (66), John S Ward (59), Frank Ridley (66), J Michael Guerin (46), Professor Sir Frederick Holliday (57), J Michael Taylor (47), Sir John Riddell (59).

Robert H Smith retired as a director on 1 April 1993. Dr Jon W Hargreaves (43) was appointed to the Board on 1 April 1993. J Michael Guerin resigned as a director on 9 June 1993.

3 **Corporate governance** The Report of the Committee on the Financial Aspects of Corporate Governance (Cadbury Report) was published on 1 December 1992. The Committee's recommendations are due to take effect for financial years ending after 30 June 1993. The directors are pleased to report that the Company already complies with the recommendations set out in The Code of Best Practice except for items 4.5 (effectiveness of the Company's internal control) and 4.6 (directors to report that the business is a going concern). The Board will determine its compliance with these two items when guidance is received from the accounting profession. The Company's auditors, Coopers & Lybrand, have notified the Board that they concur with this statement, insofar as it applies to those matters which the Cadbury Committee recommended that a company's auditors should review.

4 **Auditors** The auditors have issued an unqualified audit report on the Annual Accounts to 31 March 1993 containing no statement under section 237(2) (accounting records or returns inadequate or accounts not agreeing with records and returns) or section 237(3) (failure to obtain necessary information and explanations) of the Companies Act 1985.

Note

This summary financial statement is only a summary of information in the Group's Directors' Report and Accounts. It does not contain sufficient information to allow for a full understanding of the results of the Group and state of affairs of the Company or of the Group. For further information, the Directors' Report and Accounts and the Report of the Auditors should be consulted. Shareholders have the right to demand, free of charge, a copy of the Group's Directors' Report and Accounts.

By Order of the Board

David Watson

Secretary

25 June 1993

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1993

	1993	1992
	£m	as restated £m
Turnover		
Continuing operations	238.9	198.2
Acquisitions	13.2	5.3
Total turnover	252.1	203.5
Operating costs	(182.4)	(148.6)
Operating profit		
Continuing operations	67.2	55.2
Acquisitions	2.5	(0.3)
Total operating profit	69.7	54.9
Share of associated undertakings' losses	(0.6)	(0.7)
Investment income	9.3	2.5
Net interest (payable)/receivable	(9.0)	4.4
Profit on ordinary activities before taxation	69.4	61.1
Tax on profit on ordinary activities	(2.0)	(4.5)
Profit for the financial year	67.4	56.6
Dividends	(15.1)	(13.6)
Profit retained for the year	52.3	43.0
Earnings per ordinary share	100.7p	85.5p

The profit for the financial year includes all recognised gains and losses in the year.

CONSOLIDATED BALANCE SHEET

At 31 March 1993

	1993 £m	1992 £m
Fixed assets		
Tangible assets	813.6	718.6
Investments	2.1	2.4
	815.7	721.0
Current assets		
Stocks	7.1	4.5
Debtors: Receivable after more than one year	21.9	32.9
Debtors: Receivable within one year	148.3	58.9
Investments	1.6	41.7
Cash at bank and short term deposits	153.2	169.5
	332.1	307.5
Creditors: Amounts falling due within one year	(162.1)	(177.5)
Not current assets	170.0	130.0
Total assets less current liabilities	985.7	851.0
Creditors: Amounts falling due after more than one year	(214.7)	(122.5)
Provisions for liabilities and charges	(21.2)	(21.6)
Accruals and deferred income	(22.0)	(21.4)
	(257.9)	(165.5)
	727.8	685.5
Capital and reserves		
Called up share capital	67.3	66.6
Share premium account	60.2	60.4
Profit and loss account	600.3	558.5
	727.8	685.5

Approved by the Board of Directors on 25 June 1993.

Sir Michael Straker *Chairman*

J Michael Taylor *Group Finance Director*

SEGMENTAL ANALYSIS

(a) Analysis by Class of Business

Turnover

	Water and Sewerage Services				Other		Total	
	Appointed		Non-appointed		Business Activities		1993	1992
	1993	1992	1993	1992	1993	1992		
£m	£m	£m	£m	£m	£m	£m	£m	
Total turnover	189.0	172.7	21.0	20.8	99.6	58.3	309.6	251.8
Inter segment	(2.9)	(3.2)	(0.2)	(0.7)	(54.4)	(44.4)	(57.5)	(48.3)
Turnover	186.1	169.5	20.8	20.1	45.2	13.9	252.1	203.5

Profit on ordinary activities before taxation

	Water and Sewerage Services				Other		Total	
	Appointed		Non-appointed		Business Activities		1993	1992
	1993	1992	1993	1992	1993	1992		
£m	£m	£m	£m	£m	£m	£m	£m	
Operating profit	60.8	43.8	6.1	5.5	2.8	5.6	69.7	54.9
Share of associated undertakings' losses							(0.6)	(0.7)
Investment income							9.3	2.5
Net interest (payable)/receivable							(9.0)	4.4
Profit on ordinary activities before taxation							69.4	61.1

Share of associated undertakings' losses is shown after interest.

Net assets

	Water and Sewerage Services				Other		Total	
	Appointed		Non-appointed		Business Activities		1993	1992
	1993	1992	1993	1992	1993	1992		
£m	£m	£m	£m	£m	£m	£m	£m	
Group undertakings	425.9	399.0	132.1	128.6	195.4	104.2	753.4	631.8
Share of associated undertakings' net assets							0.9	1.2
Net operating assets							754.3	633.0
Unallocated net (liabilities)/assets							(26.5)	52.5
Net assets							727.8	685.5

SEGMENTAL ANALYSIS

Included within turnover of Other Business Activities are rentals receivable under finance lease agreements of £7.9m (1992: £0.2m) and under operating lease agreements of £1.0m (1992: £0.2m). Rentals receivable under finance lease agreements which relate to a repayment of capital amount to £46.7m (1992: £nil).

Net operating assets include tangible fixed assets, stocks, debtors, cash, borrowings 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 assets and 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 £4.6m (1992: £0.5m).

DIRECTORS' REMUNERATION

The remuneration of the directors of Northumbrian Water Group PLC was:	1993 £'000	1992 £'000
Fees of non-executive directors	99	79
Fixed remuneration	398	263
Annual bonus	25	37
Pension contributions and other benefits	77	50
Total remuneration	599	429
Emoluments disclosed above include:		
	£'000	£'000
Chairman - Sir M I B Straker:		
Fixed remuneration	91	76
Pension contributions	11	9
Other benefits	—	1
	102	86
Highest paid director - D G Cranston		
Fixed remuneration	100	87
Annual bonus	8	16
Pension contributions	12	10
Other benefits	9	7
	129	120

On 15 February 1993 D G Cranston exercised options to subscribe for 58,475 Ordinary Shares of the Company at a price of 299p per share. The market value on that day was 571p per share.

The emoluments of the executive directors, including the annual bonus, are determined by the Remuneration Committee, who receive independent external advice from Hay Management Consultants. The Remuneration Committee is comprised solely of non-executive directors. The annual bonus is determined by reference to performance against key business targets. For the year to 31 March 1993, the bonus awarded was less than the maximum as the targets were not wholly achieved. The Chairman does not participate in the annual bonus scheme.

REPORT OF THE AUDITORS
To the members of Northumbrian Water Group PLC

In our opinion the summary financial statement set out on pages 16 to 19 is consistent with the Directors' Report and Accounts of Northumbrian Water Group PLC for the year ended 31 March 1993 and complies with the requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

Coopers & Lybrand
Coopers & Lybrand

Chartered Accountants and Registered Auditors

Newcastle upon Tyne

25 June 1993

INDEPENDENT REVIEW OF ENVIRONMENTAL
PERFORMANCE 1993

The whole of the documentation submitted to the Environmental Audit Committee during the 18-month period since its inception in September 1991 has been reviewed. During this period the Group's environmental policy was developed and published, and an implementation plan initiated covering the period up to March 1994.

I have reported to the Group's Environmental Audit Committee with my independent assessment on compliance with the Group's policy. Progress made in the achievement of the action plans has been reviewed and recommendations made on ways to strengthen still further the Group's environmental performance.

Dr D R Davies

Aspinwall & Company

25 June 1993

Financial Calendar 1991/2

Interim Results	November
Interim Report Distributed	December
Interim Dividend Payment	March
Announcement of Final Results	June
Directors' Report and Accounts	June
Distributed	June
Annual General Meeting	July
Final Dividend Payment	October

In future, shareholders who wish to receive the Directors' Report and Accounts 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.

6-09-93

NORTHUMBRIAN WATER GROUP PLC



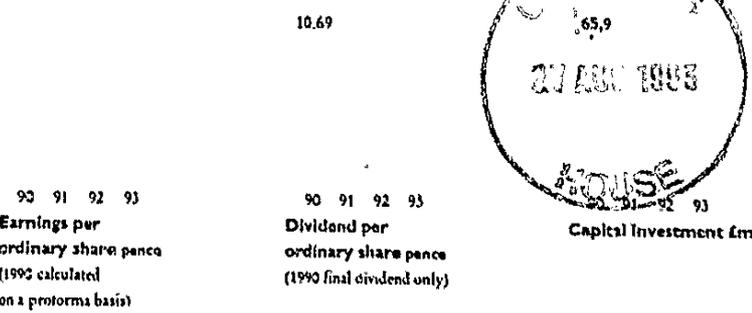
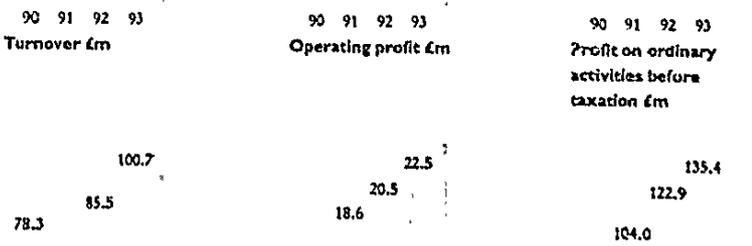
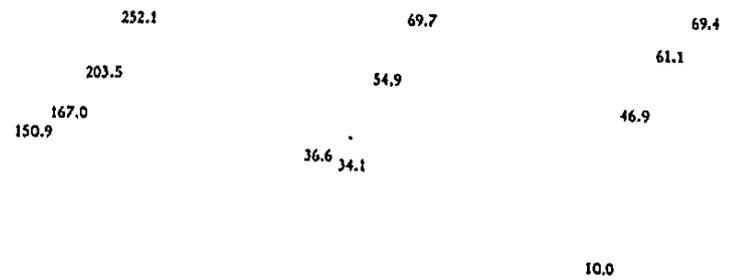
The Group is continuing to go through a period of rapid change as we equip the appointed business to cope with new pressures during the second half of the decade and as we build up our other businesses.

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FINANCIAL HIGHLIGHTS

Financial Highlights 1
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 Consolidated Cash Flow Statement 13
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	1993 £m	1992 £m
Turnover	252.1	203.5
Operating profit	69.7	54.9
Profit on ordinary activities before taxation	69.4	61.1
Profit for the financial year	67.4	56.6
Shareholders' funds	727.8	685.3
Capital Investment	135.4	122.9
<hr/>		
Earnings per ordinary share	100.7p	85.5p
Dividend per ordinary share	22.5p	20.5p
<hr/>		
Number of shareholders at year end	72,515	77,899



90 91 92 93
Earnings per ordinary share pence
 (1992 calculated on a proforma basis)

90 91 92 93
Dividend per ordinary share pence
 (1990 final dividend only)

90 91 92 93
Capital Investment £m

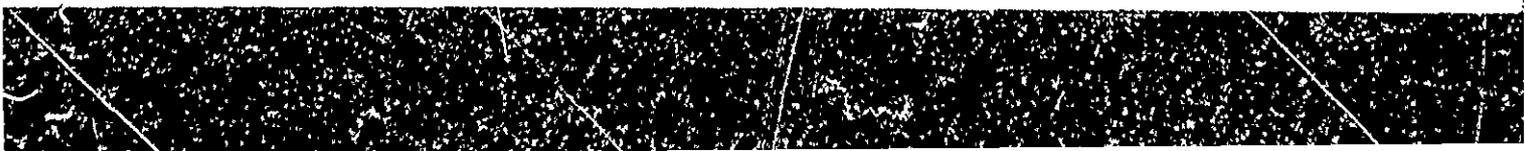
“The Northumbrian Water Group is dedicated to providing a quality service, gaining recognition by shareholders and customers as a leading integrated environmental company by 1995, offering a wide range of water-based and other services, principally in response to the requirements of EC and UK legislation.”

**The Water and
Sewerage Business**

We must position our principal business within the regulatory framework so as to maximise returns to shareholders, whilst having a proper regard for our obligations to customers.

Other Businesses

We must develop our other businesses in chosen markets related to our existing skill base and extend the Group's geographical spread beyond the North East of England.



FINANCIAL REVIEW

Summary

The Group continued to develop the breadth of its business activities during 1992/93, whilst maintaining strong control of its core water and sewerage business and the strength of the Group's balance sheet.

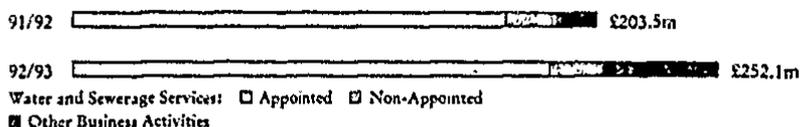
Accounting Standards

The Group's 1992/93 Accounts have been prepared in accordance with the new Financial Reporting Standard, FRS3 "Reporting Financial Performance". This introduces changes to the required presentation and content of the Accounts; of particular relevance in the Group's case is the separate disclosure of the performance of continuing and acquired operations.

Review of Operating Results

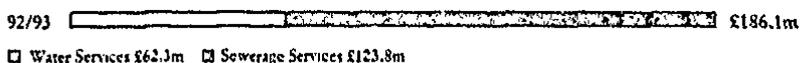
Group turnover increased by £48.6m (24%) from £203.5m to £252.1m. The profit for the financial year rose £10.8m (19%) from £56.6m to £67.4m.

Segmental contribution to Group turnover



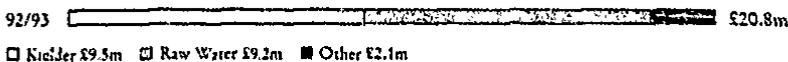
The proportion of turnover derived outside of the appointed business has grown from 17% to 26% in 1992/93.

**Appointed Water and Sewerage Services:
Sector contribution to segment turnover**



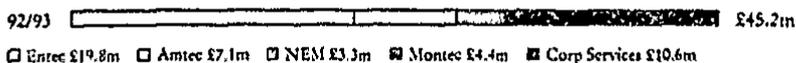
Appointed water and sewerage services turnover increased by 9.8%, broadly in line with the pricing formula. Continuing operating efficiencies are reflected in the improved operating profit margin which rose from 25.8% to 32.7%.

**Non-Appointed Water Services:
Sector contribution to segment turnover**



Non-Appointed water services continued to perform satisfactorily with operating profits increasing by 11% to £6.1m.

**Other Business Activities:
Sector contribution to segment turnover**



Considerable progress was made in the development of business activities outside of the appointed water and sewerage business with turnover increasing £31.3m from £13.9m to £45.2m. Operating profits in all sectors were on target, with the exception of Amtec, where significant losses impacted the segment results.

Investment income of £9.3m arose principally as a result of the gain on realisation of the £41.7m Kleinwort Benson managed equity fund on 30 September 1992, together with the associated dividends.

Interest expense of £9.0m, compared with a £4.4m receivable in 1991/92, results from the movement to a net borrowings position of £102.8m at 31 March 1993.

Taxation Tax on profit on ordinary activities is comprised of a charge to UK corporation tax less recovery of advance corporation tax (ACT) written off in prior periods, ACT written off in respect of dividends payable, less an overprovision for corporation tax in respect of prior years in subsidiaries acquired and group relief claimed by Javhold Limited, a subsidiary which is not consolidated.

Cash Flow, Investing Activity and Financing

Cash inflow from operating activities was £36.1m compared with £34.0m in 1991/92, principally reflecting improved operating profits partly offset by an increased investment in leasing business.

Capital investment was £135.4m (1992: £122.9m) principally reflecting the continued high level of capital expenditure within the appointed water and sewerage business. Acquisitions totalled £24.6m (1992: £11.8m) which includes the environmental businesses of Simon Engineering.

After net cash outflows for interest and dividends (£13.1m) and taxation (£3.3m), the Group has moved to net borrowings at 31 March 1993 of £102.8m from a net cash position of £6.1m at 31 March 1992. Gearing at 31 March 1993 was 14.1%.

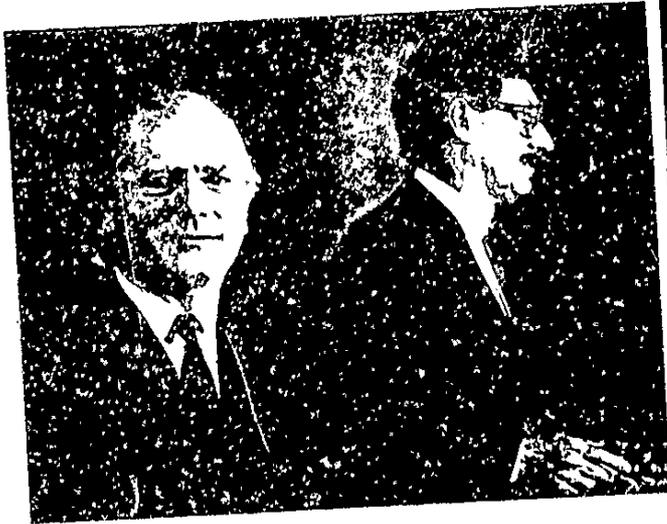
The Group raised £100m in October 1992 through its successful ten year Eurobond issue. The bonds were assigned an A+ credit rating by Standard and Poors.

At 31 March 1993, the Group had £326m of committed credit facilities and substantial uncommitted facilities.

Hedging Policies

The Group seeks to have a higher percentage of fixed rate debt than floating rate to reduce the level of uncertainty in the business planning process. This is achieved through fixed rate debt issues and interest rate swaps.

BOARD OF DIRECTORS



Sir Michael Straker
Professor M B 'Warren' Pescod



Robert H Smith
J Michael Guerin



Professor
Sir Frederick Holliday

Sir Michael Straker CBE DL (65)
Chairman, retires 23 July 1993, and becomes a non-executive Board Member, Northumbrian Water Group PLC; Chairman of Northumbrian Water Limited; farms at Hexham, Northumberland; Deputy Lieutenant of Northumberland; Chairman of the Council of the University of Newcastle upon Tyne, Member of the University Court; Chairman, Water Service Association, 1993, Water Training International and the Braith Committee of the International Water Supply Association; Board Member, Port of Tyne Authority.

Professor MB 'Warren' Pescod OBE (60)
Head of Department of Civil Engineering and Professor of Environmental Control Engineering at the University of Newcastle upon Tyne; Consultant to UN Agencies, Overseas Governments and Universities, the Overseas Development Administration and the British Council.

Robert H Smith C.Eng. MICE MIMechE MIWEM (56)
Managing Director, Northumbrian Water Limited, retired 1 April 1993.

J Michael Guerin BSc Hons MBA GRSC (46)
Group Commercial Director and Managing Director, Entec Europe Limited; formerly Managing Director, Northumbrian Water Group Enterprises, 1991-1992; resigned 9 June 1993.

Professor Sir Frederick Holliday CBE FRSE (57)
Chairman, Northumbrian Water Group PLC from 23 July 1993; Vice-Chancellor, Durham University, 1980-1990; Board Member, British Rail and Shell U.K. Limited; Chairman, Investors' Committee, Northern Venture Managers Ltd; former Chairman of the Nature Conservancy Council; President of the Scottish Marine Biological Association; Council Member of the Freshwater Biological Association.

Sir John Riddell CVO CA DL (59)
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.

Note: Directors' ages as at 31 March 1993



Sir John Riddell

John S Ward

Frank Ridley



J Michael Taylor



Dr Ralph Iley

David G Cranston

John S Ward OBE 59

Regional Director, Barclays Bank PLC and Chairman of Barclays Northern Region Board; Chairman, The Newcastle Initiative, Cruddas Park and Loadman Street Community Trust; Deputy Chairman, Tyne and Wear Development Corporation; Director, Northern Investors PLC; Director Trustee, Newcastle upon Tyne Theatre Royal Trust Ltd; Board Member, Newcastle upon Tyne West End Partnership City Challenge Board.

Frank Ridley BSc CEng FICE FIWEM 66

Deputy Chairman; Chairman of Board Environmental Committee; Chief Executive of Northumbrian Water Authority 1981-1989 and Director of Operations and Works, 1974-1981; retires from the Board at the Annual General Meeting 22 July 1993.

J Michael Taylor FCMA 47

Group Finance Director from March 1992; Group Finance Director, Hickson International PLC, 1986-1991.

Dr Ralph Iley CBE 66

Former Managing Director, Cookson Group PLC (retired April 1991, now non-executive Director, Cookson Group), Chairman, Cookson Fukuda; Director, Northern Investors; Board Member, Northern Development Company Limited, Tyne & Wear Development Corporation; Chairman, Tyneside TEC; Chairman, Rontag (1991); Board Member, Teesside Power (1991); Board Member, Durham County Waste Management Company since 1992; retires from the Board at the Annual General Meeting, 22 July 1993.

David G Cranston IPFA FBIM 55

Chief Executive; Group Finance Director 1989-1992, Finance Director, Northumbrian Water Authority, 1985-1989; 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, 1992-1992, Deputy Chairman, CBI Northern Region, from September 1992

Jon Hargreaves PhD BSc CBE MIBiol 43 *not pictured*

Managing Director of Northumbrian Water Limited and Director of Northumbrian Water Group PLC from 1 April 1993; formerly Managing Director, Entec Europe Limited, 1991-1992, Group Business Development Manager, 1992-1991, Chief Scientist, Northumbrian Water Authority, 1987-1992

DIRECTORS' REPORT

For the year ended 31 March 1993

Activities

The Chairman's Statement (page 2) and Chief Executive's Review (page 4) in the Summary Annual Review 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 1993 was £69.4m.

Subject to approval at the Annual General Meeting the directors are recommending a final dividend, payable on 1 October 1993, to shareholders on the register on 8 July 1993 of 15.0p net per ordinary share. It is proposed to make a further Share Dividend Offer in respect of the final dividend. An interim dividend of 7.5p net per ordinary share, with a Share Dividend Offer alternative, was paid on 1 March 1993, to shareholders on the register on 5 January 1993.

After providing £2.0m for taxation and £15.1m for payment of dividends, the retained profit for the year amounted to £52.3m.

Share Capital

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

Substantial Shareholdings

On 26 May 1993 the Company's Register of substantial shareholdings showed the following interests in 3% or more of the Company's shares:

Prudential Portfolio Managers Limited—11.87%

Norwich Union Investment Management Limited—4.98%

FMR Corporation—4.48%

Abbey Life Investment Services Limited—3.29%.

Fixed Assets

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

Fourth Annual General Meeting

The Notice of the Company's fourth Annual General Meeting, which is to be held on Thursday, 22 July 1993 at 11.00 am at the Marriott Hotel, MetroCentre, Gateshead, accompanies this Report.

The Meeting will consider, as "Special Business", resolutions to disapply pre-emption rights and to grant the directors authority to offer shares in place of any or all dividends payable between the date of this Annual General Meeting and the Annual General Meeting in 1997. These resolutions are set out fully in the Notice.

Directors

The names and biographical details of the directors who served during the year or were appointed since the year end are set out on pages 4 and 5. Mr Robert H Smith retired as a director on 1 April 1993. Dr Jonathan W Hargreaves was appointed to the Board on 1 April 1993. In accordance with the Company's Articles of Association he will offer himself for re-election at the Annual General Meeting. The unexpired term of Dr Hargreaves' contract is 24 months. Mr J Michael Guerin resigned from the Board on 9 June 1993.

Dr Ralph Fev and Mr Frank Ridley will retire by rotation at the Annual General Meeting but will not offer themselves for re-election. A resolution not to fill the two vacancies created by these retirements will be put to the Annual General Meeting.

The directors' shareholdings are set out in note 25 to the Accounts.
The Company has effected directors' and officers' liability insurance.

Corporate governance

The Report of the Committee on the Financial Aspects of Corporate Governance (Cadbury Report) was published on 1 December 1992. The Committee's recommendations are due to take effect for financial years ending after 30 June 1993. The directors are pleased to report that the Company already complies with the recommendations set out in the Code of Best Practice except for items 4.5 (effectiveness of the Company's internal control) and 4.6 (directors to report that the business is a going concern). The Board will determine its compliance with these two items when guidance is received from the accounting profession. The Company's auditors, Coopers & Lybrand, have notified the Board that they concur with this statement, insofar as it applies to those matters which the Cadbury Committee recommend that a company's auditors should review.

At the end of the financial year the Board of Directors of the Company comprised five executive directors and six non-executive directors. It meets regularly throughout the year and takes responsibility for overall Group strategy, acquisition and disposal of businesses, approval of major capital expenditure and consideration of significant financial matters. It reviews the business plans and budgets of trading subsidiaries and monitors their progress towards fulfilling those plans within budget.

The Board has established a number of standing committees which operate within defined terms of reference. The four principal standing committees are:

Audit Committee—this is comprised entirely of non-executive directors and is chaired by Mr John Ward. The principal purposes of the Committee are to ensure that an objective and professional relationship is maintained between the Company and its external auditors and to provide independent judgement in respect of all financial reporting matters.

Remuneration Committee—this committee is also comprised exclusively of non-executive directors and is also chaired by Mr John Ward. It determines the remuneration and other terms of service of the executive directors and a small number of other senior executives. The committee receives independent external advice from Hay Management Consultants, a leading firm of compensation and benefits consultants.

Nomination Committee—this committee is comprised, almost wholly, of non-executive directors. Sir Michael Straker is the only executive member. The committee is chaired by Professor Sir Frederick Holliday. The purpose of the committee is to propose candidates in respect of any new executive or non-executive appointments to the Board.

Executive Committee—this committee comprises all executive directors of the Company. It meets twice per month and deals with all day to day business matters other than those matters reserved to the Board itself.

The proceedings of all standing committees are reported to the Board.

The directors are required by the Companies Act to prepare accounts for each financial period which give a true and fair view of the state of affairs of the Company and its subsidiaries as at the end of that

DIRECTORS' REPORT

For the year ended 31 March 1993

period and of the profit or loss for that period. In preparing the accounts, appropriate accounting policies have to be used and applied consistently. Applicable accounting standards also must be followed, subject to any material departures being disclosed in the notes to the accounts. The directors are responsible for establishing procedures for the prevention of fraud and other irregularities.

The auditors are responsible for forming an independent opinion on the accounts presented by the directors, based on their audit, and reporting their opinion to shareholders. The Companies Act also requires the auditors to report to shareholders if the following requirements are not met:

- (a) that the Company has maintained proper accounting records;
- (b) that the accounts are in agreement with the accounting records;
- (c) that directors' emoluments and other transactions with the directors are properly disclosed in the accounts, and;
- (d) that they have obtained all information and explanations which, to the best of their knowledge and belief, are necessary for the purpose of their audit.

The auditors' opinion does not encompass the Directors' Report. The Companies Act, however, requires the auditors to report to the shareholders if the matters contained in the Directors' Report are inconsistent with the accounts.

Donations

During the year, donations for charitable purposes amounted to £193,000 (1992: £76,000). 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 Foundation for Water Research, the Water Research Centre and the Construction Industry Research and Information Association, and also supports initiatives at universities and colleges. During the year, research has been undertaken in a number of areas to support the Group in improving levels of service and to meet new environmental standards.

Employees and Employment Policies

The total number of employees in the Northumbrian Water Group as at 31 March 1993 was 3,596.

The Group's Human Resources policies recognise the importance of its employees and aim to facilitate their continuous improvement and development in order to maintain its competitive advantage.

A revised Equal Opportunities Policy was introduced early this year and will be monitored and reviewed to ensure its effective implementation. Disabled people are considered for all types of work and the Group endeavours to assist them to realise their full potential at work. Every effort is made to retrain employees who become disabled and sympathetic consideration is given to proposals for job modification.

The Group seeks to enhance the understanding and commitment of its employees by encouraging open and honest communication at all levels. A number of formal and informal mechanisms ranging from team briefings to notice boards are used to aid this process.

Arrangements for consultation with employee representatives vary across the Group according to the needs and structure of individual businesses. In some of the larger subsidiaries, company councils provide a forum to discuss matters affecting employees and to improve understanding of that company's business aims and performance.

The Group aims to foster a culture in which individuals are committed to developing themselves in order to attain their full potential, and in which they feel confident in using their skills and initiative to add maximum value. Team and individual performance is reviewed regularly, partly by means of development interviews for all employees. The Group supports a wide range of training and general educational opportunities.

The Group takes a proactive approach to health and safety. Its safety team conducts a progressive review of occupational health and safety, in the context of the Group's safety policies, standards and procedures. Its medical policy is constantly reviewed and developed by the Group's medical adviser, and specific policies and procedures are in place to address issues such as AIDS, alcohol abuse and smoking and to promote a healthier lifestyle amongst employees.

The Company operates an Inland Revenue approved profit sharing scheme and employees at all levels are able to enjoy the benefits of a savings-related share option scheme.

Employees are represented on the Boards of Trustees of the Group's final salary pension schemes and members of the schemes are provided with regular briefing notes on benefits and pension issues. A Group Personal Pension Plan has also recently been introduced and employees are being offered this scheme where appropriate.

Taxation

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

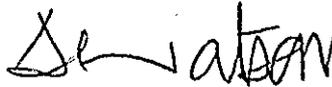
Auditors

A resolution to re-appoint the auditors, Coopers & Lybrand, and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

David Watson *Secretary*

25 June 1993



INDEPENDENT REVIEW OF ENVIRONMENTAL
PERFORMANCE 1993

The whole of the documentation submitted to the Environmental Audit Committee during the 18-month period since its inception in September 1991 has been reviewed. During this period the Group's environmental policy was developed and published, and an implementation plan initiated covering the period up to March 1994.

A report has been submitted to the Group's Environmental Audit Committee with our independent assessment on compliance with the Group's policy. Progress made in the achievement of the action plans has also been reviewed. Recommendations have been made on ways to strengthen still further the Group's environmental performance.

Dr D R Davies

Aspinwall & Company

25 June 1993

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1993

	Notes	1993 £m	1992 as restated £m
Turnover			
Continuing operations		238.9	198.2
Acquisitions		13.2	5.3
Total turnover	2	252.1	203.5
Operating costs	3	(182.4)	(148.6)
Operating profit			
Continuing operations		67.2	55.2
Acquisitions		2.5	(0.3)
Total operating profit	2	69.7	54.9
Share of associated undertakings' losses		(0.6)	(0.7)
Investment income	4	9.3	2.5
Net interest (payable)/receivable	5	(9.0)	4.4
Profit on ordinary activities before taxation	2	69.4	61.1
Tax on profit on ordinary activities	9	(2.0)	(4.5)
Profit for the financial year		67.4	56.6
Dividends	10	(15.1)	(13.6)
Profit retained for the year	27	52.3	43.0
Earnings per ordinary share	11	100.7p	85.5p

The profit for the financial year includes all recognised gains and losses in the year.

The notes on pages 14 to 37 form part of these accounts.

CONSOLIDATED BALANCE SHEET

At 31 March 1993

	Notes	1993 £m	1992 £m
Fixed assets			
Tangible assets	12	813.6	718.6
Investments	13(e)	2.1	2.4
		815.7	721.0
Current assets			
Stocks	15	7.1	4.5
Debtors: Receivable after more than one year	16(a)	21.9	32.9
Debtors: Receivable within one year	16(b)	148.3	58.9
Investments	17	1.6	41.7
Cash at bank and short term deposits		153.2	169.5
		332.1	307.5
Creditors: Amounts falling due within one year	18	(162.1)	(177.5)
Not current assets		170.0	130.0
Total assets less current liabilities		985.7	851.0
Creditors: Amounts falling due after more than one year	19	(214.7)	(222.5)
Provisions for liabilities and charges	22	(21.2)	(21.6)
Accruals and deferred income	23	(22.0)	(21.4)
		(257.9)	(165.5)
	2	727.8	685.5
Capital and reserves			
Called up share capital	24	67.3	66.6
Share premium account	27	60.2	60.4
Profit and loss account	27	600.3	558.5
		727.8	685.5

Approved by the Board of Directors on 25 June 1993.

Sir Michael Straker *Chairman*J Michael Taylor *Group Finance Director*

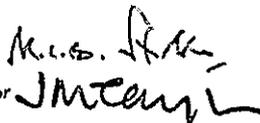
The notes on pages 14 to 37 form part of these accounts.

COMPANY BALANCE SHEET

At 31 March 1993

	Notes	1993 £m	1992 £m
Fixed assets			
Investments	13(b)	177.5	136.9
Current assets			
Debtors: Receivable after more than one year	16(a)	60.4	56.5
Debtors: Receivable within one year	16(b)	133.8	75.3
Investments	17	1.6	41.7
Cash at bank and short term deposits		115.0	137.4
		310.8	310.9
Creditors: Amounts falling due within one year	18	(55.4)	(104.0)
Net current assets		255.4	206.9
Total assets less current liabilities		432.9	343.8
Creditors: Amounts falling due after more than one year	19	(101.2)	(43.5)
		331.7	300.3
Capital and reserves			
Called up share capital	24	67.3	66.6
Share premium account	27	60.2	60.4
Profit and loss account	27	204.2	173.3
		331.7	300.3

Approved by the Board of Directors on 25 June 1993.

Sir Michael Straker *Chairman*J Michael Taylor *Group Finance Director*


The notes on pages 14 to 37 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 1993

	Notes	1993 £m	1992 £m
Net cash inflow from operating activities	29	36.1	34.0
Returns on investments and servicing of finance			
Interest received		11.0	30.0
Interest paid		(13.9)	(19.9)
Interest paid on hire purchase contracts and finance leases		(0.7)	(0.3)
Dividends received from fixed asset investments		0.6	—
Dividends received from current asset investments		1.0	2.5
Profit on realisation of current asset investments		7.3	—
Dividends paid		(12.8)	(12.6)
Net cash (outflow) from returns on investments and servicing of finance		(5.8)	(0.3)
Taxation			
Taxation paid		(3.3)	(4.7)
Investing activities			
Purchase of tangible fixed assets	12	(90.8)	(76.7)
Disposal of tangible fixed assets		0.8	0.8
Purchase of subsidiary undertakings (net of cash/overdrafts acquired)	14(b)	(23.1)	(4.5)
Purchase of business		(0.8)	—
Repayment/(payment) of deferred consideration		0.2	(1.4)
Investments in associated undertakings		(0.7)	(3.5)
Purchase of other fixed asset investments		—	(0.9)
Purchase of short term deposits		(177.0)	(247.0)
Disposal of short term deposits		167.0	290.0
Purchase of current asset investments		(1.6)	(1.6)
Disposal of current asset investments		41.7	—
Net cash (outflow) from investing activities		(84.3)	(44.8)
Net cash (outflow) before financing		(57.3)	(15.8)
Financing			
(Repayment)/issue of commercial paper		(60.0)	60.0
Issue of Eurobond	19	99.5	—
Expenses on issue of Eurobond		(0.4)	—
Capital grants received		4.0	5.5
Loans received		17.0	20.0
Repayment of amounts borrowed		—	(50.0)
Payment of principal under hire purchase contracts and finance leases		(2.5)	(0.6)
Issue of ordinary shares		0.8	—
Net cash inflow from financing		58.4	34.9
Increase in cash and cash equivalents	30	1.1	19.1
Movement in net (borrowings)/cash:			
Increase in cash and cash equivalents		1.1	19.1
Net (increase) in loans, commercial paper and Eurobond		(57.0)	(30.0)
Increase/(decrease) in short term deposits		10.0	(43.0)
(Increase) in obligations under hire purchase contracts and finance leases		(21.3)	(16.3)
(Decrease)/increase in current asset investments (see below)		(41.7)	1.6
		(108.9)	(68.6)
Net (borrowings)/cash at 31 March		(102.8)	6.1

Net (borrowings)/cash is the sum of all cash and short term deposits and all borrowings. At 31 March 1992 net cash included a current asset investment of £41.7 million which related to the equity fund investment managed by Kleinwort Benson Investment Management Limited (note 17).

NOTES TO THE ACCOUNTS

For the year ended 31 March 1993

1 Accounting Policies

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. Following the adoption of Financial Reporting Standard number 3, "Reporting Financial Performance", the profit and loss account for the year ended 31 March 1992 has been restated. 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. Subsidiary undertakings not held for long term investment are included in current asset investments at cost and not consolidated into these accounts.

Where, for commercial reasons, the accounting reference date of a subsidiary is a date other than 31 March, interim accounts made up to 31 March have been used.

The results of subsidiaries acquired during the year are included from the date of their acquisition. The results of subsidiaries disposed of during the year are included to the date of their disposal. 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 relating to infrastructure assets have been deducted from the cost of those assets as permitted under Statement of Standard Accounting Practice number 4. This is not in accordance with the Companies Act 1985 which requires fixed assets to be stated at their purchase price or production cost without deduction of grants and contributions which are treated as deferred income. This departure from the requirement of the Act is, in the opinion of the directors, necessary for the accounts to give a true and fair view; infrastructure assets are not depreciated and it is therefore not appropriate to recognise related capital grants and contributions as deferred income. The effect of the departure on the value of tangible fixed assets is disclosed in note 12.

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.

Rental income from operating leases is recognised on a straight line basis over the period of the lease.

(i) **Stocks** Stores are stated at cost less any provisions necessary to recognise damage and obsolescence. Work in progress and finished goods are 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) **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

1 Segmental Analysis

(a) Analysis by Class of Business

Turnover

	Water and Sewerage Services				Other		Total	
	Appointed		Non-appointed		Business Activities		1993	1992
	1993	1992	1993	1992	1993	1992		
£m	£m	£m	£m	£m	£m	£m	£m	
Total turnover	189.0	172.7	21.0	20.8	99.6	58.3	309.6	251.8
Inter segment	(2.9)	(3.2)	(0.2)	(0.7)	(54.4)	(44.4)	(57.5)	(48.3)
Turnover	186.1	169.5	20.8	20.1	45.2	13.9	252.1	203.5

Profit on ordinary activities before taxation

	Water and Sewerage Services				Other		Total	
	Appointed		Non-appointed		Business Activities		1993	1992
	1993	1992	1993	1992	1993	1992		
£m	£m	£m	£m	£m	£m	£m	£m	
Operating profit	60.8	43.8	6.1	5.5	2.8	5.6	69.7	54.9
Share of associated undertakings' losses							(0.6)	(0.7)
Investment income							9.3	2.5
Net interest (payable)/receivable							(9.0)	4.4
Profit on ordinary activities before taxation							69.4	61.1

Share of associated undertakings' losses is shown after interest.

Net assets

	Water and Sewerage Services				Other		Total	
	Appointed		Non-appointed		Business Activities		1993	1992
	1993	1992	1993	1992	1993	1992		
£m	£m	£m	£m	£m	£m	£m	£m	
Group undertakings	425.9	399.0	132.1	128.6	195.4	104.2	753.4	631.8
Share of associated undertakings' net assets							0.9	1.2
Net operating assets							754.3	633.0
Unallocated net (liabilities)/assets							(26.5)	52.5
Net assets							727.8	685.5

2 Segmental Analysis continued

Included within turnover of Other Business Activities are rentals receivable under finance lease agreements of £7.9m (1992: £0.2m) and under operating lease agreements of £1.0m (1992: £0.2m). Rentals receivable under finance lease agreements which relate to a repayment of capital amount to £46.7m (1992: £nil).

Net operating assets include tangible fixed assets, stocks, debtors, cash, borrowings 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 assets and 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 £4.6m (1992: £0.5m).

3 Operating Costs

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

	Continuing	Acquisitions	Total	Continuing	Acquisitions	Total
	operations	1993	1993	operations	1992	1992
	1993	1993	1993	1992	1992	1992
	£m	£m	£m	£m	£m	£m
Materials and consumables	15.1	1.2	16.3	12.1	0.9	13.0
Other external charges	26.9	1.2	28.1	20.2	0.6	20.8
Manpower costs (note 8)	43.7	5.9	49.6	31.3	2.3	33.6
Depreciation	19.4	0.3	19.7	15.6	0.4	16.0
Infrastructure renewals (see below)	18.5	—	18.5	24.3	—	24.3
Other operating charges	48.5	2.1	50.6	39.8	1.4	41.2
Other operating income	(0.4)	—	(0.4)	(0.3)	—	(0.3)
	171.7	10.7	182.4	143.0	5.6	148.6

The basis upon which the value of the infrastructure renewals charge is maintained, in the light of inflation, was revised during the year. As a result, the charge for the year is £6.5m lower than it would have been had this revision not been adopted. Furthermore, it is anticipated that this reduction in the level of charge will be sustained for each of the next two years to 31 March 1995.

NOTES TO THE ACCOUNTS

3 Operating Costs <i>continued</i>	1993	1992
(b) Operating costs are stated:	£m	£m
After crediting:		
Amortisation of capital grants	0.6	0.5
And after charging:		
Depreciation of owned tangible fixed assets	16.4	14.8
Depreciation of tangible fixed assets held under hire purchase contracts and finance leases	3.3	1.2
Operating leases:		
Plant and machinery	0.4	0.1
Other	0.2	0.2
Costs of research and development	1.9	1.4
Directors' emoluments (note 6)	0.6	0.4
Auditors' remuneration:		
Audit (Company £4,000; 1992: £3,500)	0.1	0.1
For non audit services	0.4	0.4
<hr/>		
4 Investment Income	1993	1992
	£m	£m
Dividends receivable from fixed asset investments	0.6	—
Dividends receivable from current asset investments (note 17)	1.4	2.5
Profit on realisation of current asset investments (note 17)	7.3	—
	9.3	2.5
<hr/>		
5 Net Interest (Payable)/Receivable	1993	1992
	£m	£m
Interest payable:		
On bank loans, overdrafts, Eurobond and commercial paper:		
Repayable within five years otherwise than by instalments	(10.8)	(11.6)
Repayable within five years by instalments	(0.3)	(0.6)
Not wholly repayable within five years	(10.7)	(7.6)
	(21.8)	(19.8)
On hire purchase contracts and finance leases	(2.7)	(1.0)
Total interest payable	(24.5)	(20.8)
Interest receivable	15.5	25.2
Net interest (payable)/receivable	(9.0)	4.4

6 Directors' Remuneration

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

	1993 £'000	1992 £'000
Fees of non-executive directors	99	79
Fixed remuneration	398	263
Annual bonus	25	37
Pension contributions and other benefits	77	50
Total remuneration	599	429

Emoluments disclosed above include:

	£'000	£'000
Chairman – Sir M I B Straker:		
Fixed remuneration	91	76
Pension contributions	11	9
Other benefits	—	1
	102	86

Highest paid director – D G Cranston:

Fixed remuneration	100	87
Annual bonus	8	16
Pension contributions	12	10
Other benefits	9	7
	129	120

On 15 February 1993 D G Cranston exercised options to subscribe for 58,475 Ordinary Shares of the Company at a price of 299p per share. The market value on that day was 571p per share.

The emoluments of the executive directors, including the annual bonus, are determined by the Remuneration Committee, who receive independent external advice from Hay Management Consultants. The Remuneration Committee is comprised solely of non-executive directors. The annual bonus is determined by reference to performance against key business targets. For the year to 31 March 1993, the bonus awarded was less than the maximum as the targets were not wholly achieved. The Chairman does not participate in the annual bonus scheme.

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:

	1993 Number	1992 Number		1993 Number	1992 Number
£0–£5,000	—	1	£75,001–£80,000	—	1
£5,001–£10,000	—	2	£85,001–£90,000	1	1
£10,001–£15,000	5	3	£90,001–£95,000	2	—
£25,001–£30,000	1	1	£110,001–£115,000	—	1
£35,001–£40,000	—	1	£115,001–£120,000	1	—
£65,001–£70,000	1	—			

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:

	1993 £m	1992 £m
Wages and salaries	48.7	34.0
Social security costs	4.0	2.6
Other pension costs	3.9	2.9
Total employment costs	56.6	39.5

(b) Total employment costs were charged as follows:

Capital schemes and infrastructure renewals	7.0	5.9
Manpower costs	49.6	33.6
	56.6	39.5

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

	1993 Number	1992 Number
Water and Sewerage Services		
Appointed	1,170	1,086
Non-appointed	132	107
	1,302	1,193
Other business activities	1,601	975
	2,903	2,168

9 Tax on Profit on Ordinary Activities

	1993 £m	1992 £m
Current UK corporation tax at 33%	6.9	—
Net advance corporation tax (recoverable)/payable	(1.6)	3.9
Tax on franked investment income	0.5	0.6
Over-provision in respect of prior years' current tax in subsidiaries acquired	(3.1)	—
Group relief receivable (see below)	(0.8)	—
Associated undertakings	0.1	—
	2.0	4.5

Group relief receivable represents an amount payable to the appointed business by a subsidiary undertaking, Jayhold Limited, which has not been consolidated into these accounts (note 17).

10 Dividends

	1993 £m	1992 £m
Ordinary:		
Interim paid of 7.5p (1992: 6.8p) per share	5.0	4.5
Final proposed of 15.0p (1992: 13.7p) per share	10.1	9.1
	15.1	13.6

11 Earnings per Ordinary Share

(a) Earnings per share for the year to 31 March 1993 of 100.7p (1992: 85.5p) on a net basis have been calculated on a profit for the financial year of £67.4m (1992: £56.6m) and by reference to 66.9 million (1992: 66.2 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 105.1p (1992: 91.4p).

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 con- struction £m	Total £m
Cost:							
At 1 April 1992	27.8	2.7	387.1	270.2	35.8	87.6	806.2
In respect of new subsidiaries	0.4	—	—	1.1	3.5	—	5.0
Additions	11.6	0.4	30.8	42.8	10.1	19.4	115.1
Disposals	—	—	—	(2.1)	(0.1)	—	(2.2)
Grants—Infrastructure assets	—	—	(2.8)	—	—	—	(2.8)
At 31 March 1993	39.8	3.1	415.1	312.0	44.3	107.0	921.3
Depreciation:							
At 1 April 1992	4.6	0.4	—	63.0	19.6	—	87.6
In respect of new subsidiaries	0.1	—	—	0.6	1.2	—	1.9
Provision for year	1.2	0.1	—	12.8	5.6	—	19.7
Disposals	—	—	—	(1.4)	(0.1)	—	(1.5)
At 31 March 1993	5.9	0.5	—	75.0	26.3	—	107.7
Net book value: 31 March 1993	33.9	2.6	415.1	237.0	18.0	107.0	813.6
Net book value: 31 March 1992	23.2	2.3	387.1	207.2	11.2	87.6	718.6

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 £36.8m (1992: £34m) 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 1993 was as follows:

	1993 £m	1992 £m
Operational structures, plant and machinery	35.4	11.2
Fixtures, fittings, tools and equipment	1.1	1.2
Assets in the course of construction	1.5	5.7
	38.0	18.1

Additions to tangible fixed assets for the year ended 31 March 1993 have been funded as follows:

	£m
Expenditure:	
Cash	90.8
Increase in accrual	0.7
Hire purchase contracts and finance leases	23.6
	115.1

13 Fixed Asset Investments

(a) The Group:

	Associated undertakings £m	Loan to associated undertaking £m	Other investments £m	Total £m
At 1 April 1992	(0.2)	1.4	1.2	2.4
Additions	0.7	—	—	0.7
Reduction in contingent deferred consideration	—	(1.4)	—	(1.4)
Share of results for the year	(0.6)	—	—	(0.6)
Goodwill written off	(0.4)	—	—	(0.4)
Share of associated undertaking's goodwill written back	1.4	—	—	1.4
At 31 March 1993	0.9	—	1.2	2.1

All fixed asset investments are unlisted.

(b) The Company:

	Associated undertakings £m	Loan to associated undertaking £m	Interests in subsidiaries £m	Other investments £m	Total £m
At 1 April 1992	3.3	1.4	131.1	1.1	136.9
Additions	0.5	—	47.1	—	47.6
Disposals (see (d) below)	—	—	(2.0)	—	(2.0)
Reductions in contingent deferred consideration	—	(1.4)	(0.8)	—	(3.2)
Write down following transfers of trade and assets	—	—	(2.8)	—	(2.8)
At 31 March 1993	3.8	—	172.6	1.1	177.5

All fixed asset investments are unlisted.

Included in additions to the Company's interests in subsidiaries is £44.4m investment in preference share capital of subsidiary undertakings and £2.7m of acquisitions made during the year.

The Company's interests in Earth Services Limited and Epic Products Limited were written down by £2.8m following the transfer of the trade and assets of these companies to fellow subsidiaries (see (d) below).

The Company received dividend income of £2.3m and £0.9m from Earth Services Limited and Epic Products Limited respectively following the transfers.

(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
Renovex 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	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
Accessac Limited	England and Wales	Ordinary Shares of £1 Convertible Preference Shares of £1	24.7 100	Human resource consultancy

Northumbrian Water Group PLC

NOTES TO THE ACCOUNTS

13 Fixed Asset Investments *continued*

(d) Interests in subsidiaries

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

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held by		Business activity
			Group %	Company %	
Northumbrian Water Limited	England and Wales	Ordinary Shares of £1	100	100	Water and sewerage services
Northumbrian Environmental Management Limited	England and Wales	Ordinary Shares of £1 Preference Shares of £1	100	100	Waste management
Hydrogeologie GmbH	Germany	Ordinary Share of DM100,000	100		Geotechnical surveys and land remediation
Entec Europe Limited	England and Wales	Ordinary Shares of £1 Preference Shares of £1	100	100	Engineering services and geotechnical surveys
Simon Environmental Companies comprising:					
ULG Consultants Limited	England and Wales	Ordinary Shares of £1	100		Rural environmental consultants
SA Agroz NV	Belgium	Shares of no face value	100		Rural environmental consultants
Gremer & Warner Limited	England and Wales	Ordinary Shares of £1	100		Safety and environmental consultants
Shankland Cox Limited	England and Wales	Ordinary Shares of £1	100		Planning and development consultants
Simon Hydrotechnica Limited	England and Wales	Ordinary Shares of £1	100		Hydrogeological consultants
Fisheries Development Limited	England and Wales	Ordinary Shares of £1	100		Fisheries consultants
Gould Consultants Limited	England and Wales	Ordinary Shares of £1	100		Agriculture, foods and water consultants
Sauveterre Ingenieurs Conseils SA	France	Shares of Ffr100	100		Landscape planning
Compagnie de Prospection Geophysique Francaise SA	France	Shares of Ffr100	100		Environmental consultants
Analytical & Environmental Services Limited	England and Wales	Ordinary Shares of £1	100		Analytical and environmental services
Wallace Whittle & Partners Limited	Scotland	Ordinary Shares of £1	100		Mechanical and electrical engineering consultancy
Amtec Europe Limited	England and Wales	Ordinary Shares of £1 Preference Shares of £1	100	100	Inspection, cleaning and repair of hollow structures
Montec International Limited (formerly Detectronic Limited)	England and Wales	Ordinary Shares of £1 Preference Shares of £1	100	100	Manufacture of flow measurement and sampling equipment
IMASS Limited	England and Wales	Ordinary Shares of £1	100	100	Information technology services
Kelda Contract Hire Limited	England and Wales	Ordinary Shares of £1	100	100	Contract hire of vehicles
NWG Leasing (Holdings) Limited	England and Wales	Ordinary Shares of £1	100	100	Lessor
St Mary's Court Leasing Limited*	England and Wales	Ordinary Shares of £1	100		Lessor
Coquendale Property Investment Limited	England and Wales	Ordinary Shares of £1	100	100	Property investment
Northumbrian Water Estates Limited	England and Wales	Ordinary Shares of £1	100	100	Property trading
Northumbrian Spring Limited (formerly Aqua Trading Limited)	England and Wales	Ordinary Shares of £1	100	100	Bottled mineral water

*The accounting reference date of St Mary's Court Leasing Limited is 22 September.

13 *Fixed Asset Investments continued*

On 1 April 1992 the Company disposed of its interest in CPCR Limited to Accessace Limited. The Company holds a 24.7% interest in the Ordinary Share Capital and a 100% interest in the Convertible Preference Share Capital of Accessace Limited.

On 1 April 1992 Earth Services Limited transferred its trade and assets to Entec Europe Limited.

On 1 April 1992 the Company sold its interest in Amtec Bunting Limited to Amtec Europe Limited, a wholly owned subsidiary of the Company, for £2.0m. On 1 October 1992 Amtec Bunting Limited and DCS (Technical Services) Limited transferred their trades and net assets to Amtec Europe Limited. Prior to 1 April 1992, Amtec Europe Limited was dormant.

On 3 April 1992 the Company purchased a 100% interest in the Ordinary Share Capital of Epic Products Limited, a company registered in England and Wales. On 2 October 1992 the trade and assets of Epic Products Limited were transferred to Montec International Limited (formerly Detecronic Limited).

The principal activity of Epic Products Limited was the manufacture of sampling equipment. Earth Services Limited, Amtec Bunting Limited, DCS (Technical Services) Limited and Epic Products Limited have been dormant since the dates of the above transfers.

(e) *Other investments*

The Company holds, at a cost of £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 of Hartlepoons Water Company is water supply.

NOTES TO THE ACCOUNTS

14 Acquisitions of subsidiaries

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

	Simon Environmental Companies £m	St Mary's Court Leasing Limited £m	Wallace White & Partners Limited £m	Others £m	Total £m
Fair value of assets and liabilities acquired:					
Tangible fixed assets	1.4	—	0.5	1.2	3.1
Current assets	10.3	38.4	1.5	6.2	56.4
Creditors: amounts falling due within one year	(6.7)	(32.8)	(1.0)	(5.0)	(45.5)
Creditors: amounts falling due after more than one year	—	—	(0.1)	(0.1)	(0.2)
Fair value reorganisation provisions	(1.1)	—	—	(0.9)	(2.0)
	3.9	5.6	0.9	1.4	11.8
Fair value of consideration	10.6	5.6	3.8	4.6	24.6
Goodwill arising	6.7	—	2.9	3.2	12.8
Consideration was satisfied by:					
Cash	10.6	5.6	3.8	4.1	24.1
Deferred consideration	—	—	—	0.5	0.5
	10.6	5.6	3.8	4.6	24.6

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

Included in the above acquisitions are £2.7m made by the Company (note 13(b)).

(b) Acquisitions absorbed £2.6m of the Group's net operating cash flows, paid £0.7m in respect of net returns on investments and servicing of finance and paid £0.1m in respect of taxation.

Net outflow of cash and cash equivalents in respect of acquisitions may be analysed as follows:

	£m
Cash consideration	24.1
Cash acquired	(2.2)
Bank overdrafts acquired	1.2
Net outflow in respect of acquisitions	23.1

14 Acquisitions of subsidiaries *continued*

(c) The effect of the principal acquisitions, disclosed in note 14(a), on the Group accounts is as follows:

	Simon Environmental Companies	St Mary's Court Leasing Limited	Wallace Whittle & Partners Limited
Date of acquisition	2 February 1993	23 September 1992	2 April 1992
Proportion of nominal share capital acquired	100%	100%	100%
Contribution to turnover in year	£4.1m	£2.2m	£3.7m
Contribution to profit on ordinary activities before taxation in year	£0.1m	£1.4m	£0.4m

The business of the Simon Environmental Companies made a loss on ordinary activities before taxation of £0.2m from 1 January 1993, the beginning of its financial year, to the date of acquisition, and made a profit of £0.9m for the previous financial year.

St Mary's Court Leasing Limited made a profit on ordinary activities before taxation of £0.1m from 21 May 1992, the beginning of its financial year, to the date of acquisition, and made a profit of £0.2m for the previous financial year.

Wallace Whittle & Partners Limited made a profit on ordinary activities before taxation of £0.2m from 1 June 1991, the beginning of its financial year, to the date of acquisition, and made a profit of £0.4m for the previous financial year.

(d) The cumulative amount of goodwill arising on acquisitions of subsidiaries and businesses which has been written off directly to reserves is set out below:

	£m	£m
At 1 April 1992		14.6
Written off to reserves in year arising on:		
Subsidiary undertakings (note 14(a))	12.8	
Associated undertakings (note 13(a))	0.4	
Asset and business purchase	0.8	
		14.0
Written back to reserves in year arising on:		
Subsidiary undertakings (note 13(b))	(0.8)	
Associated undertakings (note 13(a))	(1.4)	
		(2.2)
At 31 March 1993		26.4

NOTES TO THE ACCOUNTS

15 Stocks

	The Group	
	1993 £m	1992 £m
Stores	5.0	4.0
Work in progress	0.8	0.5
Finished goods	0.5	—
	7.1	4.5

16 Debtors

	The Group		The Company	
	1993 £m	1992 £m	1993 £m	1992 £m
(a) Debtors: Receivable after more than one year:				
Net investment in finance leases	21.9	32.9	—	—
Amounts owed by subsidiary undertakings	—	—	60.4	56.5
	21.9	32.9	60.4	56.5
(b) Debtors: Receivable within one year:				
Trade debtors	37.1	20.8	—	—
Net investment in finance leases	74.8	8.1	—	—
Amounts owed by subsidiary undertakings	—	—	127.9	67.8
Corporation tax recoverable	3.5	—	—	—
Other debtors	18.0	14.4	2.6	3.5
Prepayments and accrued income	14.9	15.6	3.3	4.0
	148.3	58.9	133.8	75.3

During the year assets with a gross cost of £102.4m (1992: £24.1m) were acquired for letting under finance leases of which £38.4m were held by St. Mary's Court Leasing Limited on acquisition.

Finance leases with a net investment value at the date of sale of £60.8m (£65.5m at 31 March 1993) have been sold for £62.7m since the year end.

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 was invested in UK fully listed companies and its composition was managed so as to track the FT-SE 100 index with option contracts purchased, at a net cost of £1.6m, to protect the fund. On 30 September 1992 the fund was realised for £49.0m at a profit of £7.3m.

On 1 May 1992 the Company acquired, for the short term, at a cost of £1.6m, a 100% interest in Jayhold Limited an investment company registered in England and Wales.

18 Creditors: Amounts falling due within one year

	The Group		The Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Bank loans and overdrafts	37.7	65.1	23.5	51.6
Commercial paper	—	20.0	—	1
Obligations under hire purchase contracts and finance leases (note 21)	5.3	1.6	—	—
Trade creditors	10.9	8.2	0.6	0.7
Amounts owed to subsidiary undertakings (see (a) below)	—	—	6.4	12.1
Other creditors	70.6	59.4	3.4	4.2
Taxation and social security (see (b) and (c) below)	7.5	5.6	6.1	4.0
Dividends payable	10.1	9.1	10.1	9.1
Accruals and deferred income	20.0	8.5	5.3	2.3
	162.1	177.5	55.4	104.0

(a) Included in amounts owed to subsidiary undertakings is £nil (1992: £5.7m) in respect of group tax relief.

(b) The creditor for taxation and social security in the Group includes advance corporation tax payable amounting to £4.4m (1992: £4.2m), tax on franked investment income amounting to £nil (1992: £0.2m) and corporation tax amounting to £1.7m (1992: £0.1m).

(c) The creditor for taxation and social security in the Company includes advance corporation tax payable amounting to £4.3m (1992: £3.7m), tax on franked investment income amounting to £nil (1992: £0.2m) and corporation tax amounting to £1.7m (1992: £nil).

19 Creditors: Amounts falling due after more than one year

	The Group		The Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Loans (note 20)	77.0	60.0	—	—
Commercial paper	—	40.0	—	40.0
Eurobond (see (a) below)	100.0	—	100.0	—
Obligations under hire purchase contracts and finance leases (note 21)	36.0	18.4	—	—
Other creditors	1.7	4.1	1.2	3.5
	214.7	122.5	101.2	43.5

(a) During the year the Company issued a £100m Eurobond maturing on 1 February 2002 which bears an interest rate of 9.25%. Part of the proceeds, which amounted to £99.5m after discounting nominal fees, were used to repay £60m of commercial paper.

(b) The Group has entered into interest rate swap agreements with various counter-parties. 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 6.62% to 11.45%, in respect of a notional amount to the counter-parties, who, in turn, pay the Group amounts calculated by reference to LIBOR on the same notional amount. The agreements, which range from two to eight years, cover £164.1m (1992: £101.8m) of the Group's borrowings. The related costs or income arising during the year are included in interest payable/receivable.

NOTES TO THE ACCOUNTS

20 Loans

	The Group	
	1993	1992
	£m	£m
Loans are repayable as follows:		
Between two and five years	8.5	3.2
In five years or more	68.5	56.0
	77.0	69.0

Loans repayable in five years or more are repayable by instalments at rates of interest in the range of 9.23% to 11.5% (1992: 10.4% to 11.5%).

The aggregate amount of loans any part of which falls due for repayment in five years or more is £77m (1992: £60m).

21 Obligations under Hire Purchase Contracts and Finance Leases

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

	The Group	
	1993	1992
	£m	£m
Amounts due:		
In less than one year	4.2	1.9
Between one and two years	6.3	2.9
Between two and five years	6.2	6.4
In five years or more	93.9	50.8
	110.6	62.0
Less: finance charge allocated to future periods	(69.3)	(42.0)
	41.3	20.0
Disclosed as due:		
Within one year	5.3	1.6
After more than one year	36.0	18.4
	41.3	20.0

22 Provisions for Liabilities and Charges

Provisions for liabilities and charges for the Group are as follows:

	Fair value reorganisation provisions £m	Infrastructure renewals expenditure £m	Total £m
At 1 April 1992	—	21.6	21.6
On acquisitions	2.0	—	2.0
Transferred from profit and loss account	—	18.5	18.5
Utilised during the year	(0.6)	(20.3)	(20.9)
At 31 March 1993	1.4	19.8	21.2

23 Accruals and Deferred IncomeThe Group
£m

Capital grants:	
At 1 April 1992	21.4
Additions	1.2
Amortisation in year	(0.6)
At 31 March 1993	22.0

24 Called Up Share Capital

The share capital of the Company is shown below:

	1993 £m	1992 £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:		
67.3 (1992: 66.6) million Ordinary Shares of £1 each	67.3	66.6
Special Rights Redeemable Preference Share of £1	—	—
	67.3	66.6

(a) At 1 April 1992 the number of allotted, called up and fully paid Ordinary Shares stood at 66,572,155. During the year a further 683,507 Ordinary Shares were allotted as follows:

	Number allotted	Issue price £	Premium £m
Under the Northumbrian Water Profit Sharing Scheme at an average of mid-market values between 15 and 17 June 1992	149,060	4.33	0.5
For cash to retired employees under the Savings-Related Share Option Scheme	9,866	1.76	—
For cash under the Executive Share Option Scheme	268,439	2.99-3.78	0.5
Script dividends (note 27)	256,142	1.0	—
	683,507	—	1.0

(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 of 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.

NOTES TO THE ACCOUNTS

25 Directors' interests

(a) The beneficial interests of directors at 31 March 1993 and their families in numbers of Ordinary Shares of the Company are set out below:

	31 March 1993			31 March 1992		
	Fully paid shares	Executive scheme	Options SAYE scheme	Fully paid shares	Executive scheme	Options SAYE scheme
Sir M I B Straker	4,493	33,105	—	1,364	71,419	—
D G Cranston	23,161	50,337	7,757	3,588	94,284	6,136
J M Guerin	1,564	57,469	6,477	1,400	37,301	4,856
R H Smith	3,565	17,136	5,438	6,179	81,498	5,438
J M Taylor	1,600	60,462	—	—	—	—
Professor Sir F G Holliday	411	—	—	360	—	—
Dr R Iley	1,000	—	—	1,000	—	—
Professor M B Pescod	229	—	—	200	—	—
Sir J Riddell	1,000	—	—	—	—	—
W F P:ddley	3,439	—	—	3,000	—	—
J S Ward	408	—	—	400	—	—

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

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

Further details of the share option schemes are set out in note 26 below. Non-executive directors are not entitled to participate in either of such schemes.

(b) During the year ended 31 March 1993, the changes in the interests of directors in the executive scheme options are set out below:

	Executive scheme options	
	Granted	Exercised
Sir M I B Straker	—	38,314
D G Cranston	14,528	53,475
J M Guerin	20,168	—
R H Smith	4,328	68,690
J M Taylor	60,462	—

(c) From the end of the financial year to 26 May 1993, the only change in the above mentioned beneficial interests of the directors to be disclosed is the sale of 11,200 fully paid shares by D G Cranston.

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
12,449	299p	From January 1993 for 7 years.
55,433	310p	From February 1993 for 7 years.
206,149	378p	From July 1994 for 7 years.
367,228	440p	From June 1995 for 7 years.
26,103	550p	From December 1995 for 7 years.

26 Share Option Schemes *continued*

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

Number	Price per share	Exercise period
893,278	176p	From March 1995 for 6 months.
298,184	176p	From March 1997 for 6 months.
203,912	264p	From March 1996 for 6 months.
124,410	264p	From March 1998 for 6 months.
201,872	278p	From March 1997 for 6 months.
191,324	278p	From March 1999 for 6 months.
436,651	447p	From March 1998 for 6 months.
185,538	447p	From March 2000 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 34(d).

27 Reserves

	Share premium account £m	Profit and loss account £m
The Group:		
At 1 April 1992	60.4	558.5
Adjustment in respect of scrip dividends (note 24(a))	(0.3)	1.3
Shares issued (note 24(a))	1.0	—
Profit retained for the year	—	52.3
Goodwill written off (note 14(d))	—	(14.0)
Goodwill written back (note 14(d))	—	2.2
Expenses and discount on issue of Eurobond	(0.9)	—
At 31 March 1993	60.2	600.3
The Company:		
At 1 April 1992	60.4	173.3
Adjustment in respect of scrip dividends (note 24(a))	(0.3)	1.3
Shares issued (note 24(a))	1.0	—
Profit retained for the year	—	29.6
Expenses and discount on issue of Eurobond	(0.9)	—
At 31 March 1993	60.2	204.2

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.

NOTES TO THE ACCOUNTS

28 Reconciliation of Movement in Shareholders' Funds	1993 £m	1992 £m
Profit for the financial year	67.4	56.6
Dividends	(15.1)	(13.6)
Profit retained for the year	52.3	43.0
Shares allotted—nominal value	0.7	1.1
—premium	1.0	2.8
Goodwill written off (note 14(d))	(14.0)	(12.8)
Goodwill written back (note 14(d))	2.2	—
Expenses and discount on issue of Eurobond	(0.9)	—
Increase in shareholders' funds	41.3	34.1
Opening shareholders' funds	685.5	651.4
Net adjustment in respect of scrip dividends	1.0	—
Closing shareholders' funds	727.8	685.5

29 Net Cash Inflow from Operating Activities	1993 £m	1992 £m
Operating profit	69.7	54.9
Depreciation of tangible fixed assets	19.7	16.0
Amortisation of capital grants	(0.6)	(0.5)
Infrastructure renewals provision	18.5	24.3
Infrastructure renewals spend	(20.3)	(21.6)
(Profit) on disposal of tangible fixed assets	(0.1)	(0.1)
(Increase) in stocks	(0.8)	(0.5)
(Increase) in debtors	(24.4)	(34.4)
(Decrease) in creditors	(26.2)	(4.7)
Issue of shares under Northumbrian Water Profit Sharing Scheme	0.6	0.6
Net cash inflow from operating activities	36.1	34.0

30 Analysis of the Balances of Cash and Cash Equivalents

	1993 £m	1992 £m	Change in year £m
Cash at bank and short term deposits	68.2	94.5	(26.3)
Bank overdrafts	(37.7)	(65.1)	27.4
	30.5	29.4	1.1

Cash at bank and short term deposits excludes short term deposits with maturity dates greater than three months amounting to £85m (1992: £75m).

31 Analysis of Changes in Financing during the Year

	Obligations under hire purchase contracts and finance leases £m
At 1 April 1992	20.0
Net cash outflow from financing	(2.5)
Finance lease obligations of subsidiary undertakings acquired	0.2
Inception of finance lease contracts	23.6
At 31 March 1993	41.3

32 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 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 £3.9m (1992: £2.9m).

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

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

NOTES TO THE ACCOUNTS

33 Financial Commitments

(a) Capital Expenditure:

	The Group		The Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Expenditure contracted for	38.1	57.6	—	—
Expenditure authorised by directors but not yet contracted for	52.3	59.4	0.8	—
	100.4	117.0	0.8	—

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			
	1993		1992	
	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	0.5	0.3	—	0.1
After five years	0.6	—	0.1	—
	1.2	0.3	0.2	0.2

34 Contingent Liabilities**(a) Deferred taxation:**

No deferred taxation provision has been made in the Group or Company as it is not expected that any liabilities will crystallise in the foreseeable future. The full potential amount of deferred taxation calculated at 33% (1992: 33%) on all timing differences is as follows:

	The Group		The Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Accelerated capital allowances	129.4	78.2	—	—
Other timing differences	(10.5)	(10.1)	(0.1)	1.3
	118.9	68.1	(0.1)	1.3
Advance corporation tax	(8.0)	(10.1)	—	(1.0)
	110.9	58.0	(0.1)	0.3

Potential deferred tax at 31 March 1993 has been increased by £21.6m as a result of losses surrendered to Jayhold Limited, a subsidiary which is not consolidated, and by £12.8m in respect of a restatement of the opening potential liability.

(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 1993 amounted to £14.5m (1992: £nil).

(c) On 25 February 1993, the Company provided a guarantee to National Westminster Bank PLC in respect of amounts owing to the bank by the Company's associated undertaking Subterra Holdings Limited. The contingent and maximum liability of the Company at 31 March 1993 was £1.2m.

(d) 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 1993, under this guarantee was £4.0m.

(e) The Company may become liable to make a payment of £18.8m (1992: £nil) in respect of Group tax relief provisionally claimed by Jayhold Limited from subsidiary undertakings for which payment has been postponed. Payment will be due when, and to the extent that, the subsidiary undertakings which have surrendered the losses become liable to pay mainstream corporation tax.

REPORT OF THE AUDITORS

To the members of Northumbrian Water Group PLC

We have audited the accounts set out on pages 10 to 37

Respective responsibilities of directors and auditors

As described on pages 7 and 8 the Company's directors are responsible for the preparation of the accounts and it is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

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 1993 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 Auditors

Newcastle upon Tyne

25 June 1993

SUMMARY OF ACCOUNTS

For the four years ended 31 March

Results	1993 £m	1992 £m	1991 £m	1990 £m
Turnover	252.1	203.5	167.0	150.9
Operating profit	69.7	54.9	34.1	36.6
Profit on ordinary activities before taxation	69.4	61.1	46.9	19.0
Profit for the financial year	67.4	56.6	42.8	7.7
Extraordinary item	—	—	—	(3.6)
Dividends (1990: final dividend only)	(15.1)	(13.6)	(12.2)	(7.0)
Retained profit/(loss)	52.3	43.0	30.6	(2.9)
Net assets employed				
Fixed assets	815.7	721.0	635.5	567.9
Net current assets	170.0	130.0	149.5	82.6
Total assets less current liabilities	985.7	851.0	785.0	650.5
Non current liabilities	(214.7)	(122.5)	(94.7)	(0.7)
Provisions for liabilities and charges	(21.2)	(21.6)	(18.9)	(9.9)
Accruals and deferred income	(22.0)	(21.4)	(20.0)	(17.3)
Net assets employed	727.8	685.5	651.4	622.6
Ratios				
Operating margin	27.6%	27.0%	20.4%	24.3%
Earnings per ordinary share (1990: calculated on a proforma basis)	100.7p	85.5p	65.3p	78.3p
Dividend per ordinary share (1990: final dividend only)	22.5p	20.5p	18.6p	10.69p

SHAREHOLDER INFORMATION

Shareholder Profile: Analysis of Ordinary Fully Paid Share Register
as at 30 April 1993

Type of Shareholder	Number of holders	%	Number of shares	%
Insurance company	33	0.05	13,447,807	19.97
Nominee company	1,671	2.33	32,339,645	48.03
Bank	17	0.02	22,533	0.03
Pension fund	24	0.03	1,632,188	2.42
Public limited companies	9	0.01	3,860	0.01
Other limited companies	354	0.49	6,610,185	9.82
Other corporate body	103	0.14	2,185,808	3.25
Male	41,979	58.58	6,267,398	9.31
Female	23,843	33.27	3,856,178	5.73
Joint account	3,639	5.08	962,629	1.43
Totals	71,672	100.00	67,328,231	100.00

Balance Analysis Summary: Ordinary Shares
as at 30 April 1993

Range	Number of Holdings	%	Balances as at 30 April 1993	%
1-499	68,793	95.99	9,357,652	13.90
500-999	1,147	1.60	774,794	1.15
1,000-4,999	1,264	1.76	2,238,447	3.33
5,000-9,999	130	0.18	871,474	1.29
10,000-49,999	174	0.24	3,993,737	5.93
50,000-999,999	153	0.21	27,567,698	40.95
1,000,000+	11	0.02	22,524,429	33.45
Totals	71,672	100.00	67,328,231	100.00

Financial Calendar 1983/84

Interim Receipts	November
Interim Report Distributed	December
Interim Dividend Payment	March
Announcement of Final Results	June
Directors' Report and Accounts Distributed	June
Annual General Meeting	July
Final Dividend Payment	October

In future, shareholders who wish to receive the Directors' Report and Accounts 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 NE1 3PN.