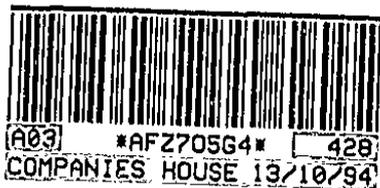


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NORTHUMBRIAN WATER GROUP PLC

Annual Report & Accounts 1994

...at the heart of our new vision of
the Group's future is the need for
us all within Northumbrian Water
to focus our efforts ever more
intensely on the needs and desires
of our customers.



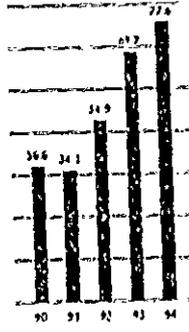
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FINANCIAL HIGHLIGHTS

	1994 £m	1993 £m
Turnover	298.6	252.1
Operating profit	77.6	69.7
Profit on ordinary activities before taxation	62.8	69.4
Profit for the financial year	56.4	67.4
Shareholders' funds	772.4	727.8
Capital investment	88.6	131.4
Earnings per ordinary share	83.5p	100.7p
Dividend per ordinary share	24.3p	22.5p
Number of shareholders at year end	67,594	72,515



Turnover (£m)



Operating profit (£m)



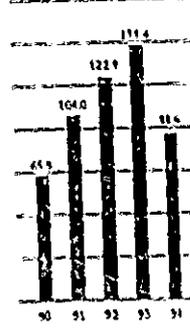
Profit on ordinary activities before taxation (£m)



Earnings per ordinary share pence
(1990 calculated on a proforma basis)



Dividend per ordinary share pence
(1990 total dividend only)



Capital investment (£m)

CHAIRMAN'S STATEMENT



Professor Sir Frederick Holliday

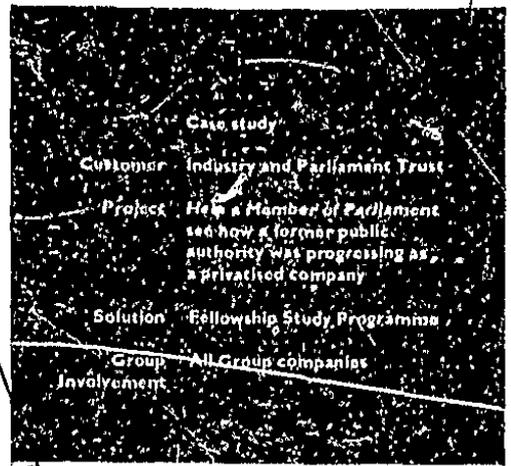
Succeeding Sir Michael Straker as Chairman has been a privilege for me; it is difficult to overstate Sir Michael's contribution to our company and to the water industry of England and Wales. He has given 19 years of service to this vital part of the region's infrastructure and during 1993 he served as Chairman of the national Water Services Association. We all owe him a large debt of gratitude for the skill and dedication he has demonstrated and we wish him a long and happy retirement.

The history and tradition of Northumbrian Water is one of service to the public of the North East. That public includes families, industry, hospitals and schools to name but a few. Behind that history of service lies the concept of 'fitness to serve'. That fitness has been made up of technical skill, operational reliability, assurance of quality, care for the environment, financial probity, foresight in investment, openness in communication and pride in the region. Thus you find us providing abundant high quality water but we also receive, process and dispose of the region's sewage and many other wastes. Waste disposal is not a glamorous business but it is essential; we tackle it professionally, objectively and in the most cost-effectively clean and safe ways possible.

In our biological functions we are all polluters, hence we must all pay. Setting charges that are fair concerns us just as it must concern all who provide a service. Doubt is often expressed about profits. But without profit it would not be possible to invest for the future; we reinvested 71% of our profits back into the business last year. But what about dividends? Overwhelmingly they go to provide pensions and for life assurance. They form part of the financial security of families and should not be regarded as 'windfall goodies'.

The Board of Northumbrian Water Group has in the past year concentrated much effort on re-examining and reshaping our business and our approach to customers. We see all our Group resources as being at the disposal of all our customers. The needs of our customers for environmental services are varied but above all they seek peace of mind: that quality water is available, that waste can be removed without prejudice to the environment and that technical expertise is available to advise on environmental quality matters, whether air, soil or water. We aim to provide that peace of mind.

The Board has worked at appraisal and up-date programmes under the spur and guidance of international business and environment experts. We are carrying our new philosophies and practices deep into our companies. We believe that we now



have objectives and plans that will ensure that we remain a potent and profitable company that undertakes work both locally and, selectively, world-wide. We must be selective; many opportunities come our way but not all look secure and profitable. We have too many people dependent upon us to be profligate with our resources.

We are acutely aware that if we make a mistake or perform with less than the best technology and practice we may cause serious harm. We are under close scrutiny and we have cause for pride in what we are doing but not complacency. We and our families do, after all, live with our customers in the communities we serve.

Quite clearly we cannot hold high aspirations without a skilled and dedicated group of employees. We attract high quality, ambitious people into the group, we provide challenging and satisfying training opportunities and we are confident in the abilities and dedication of our staff. I thank them for their commitment and hard work.

Companies, like individuals, have duties and obligations, rights and freedoms. We take our place within the North East community and try to serve it beyond the calls of business. We support a number of charitable and other causes in, for example, the arts, education, health and welfare. In all we do we seek to promote the region as a desirable place in which to live and work. We do that best by being a successful, profitable company, but we have regard to the many other aspects of North East corporate and communal life.

We have now completed three years sponsorship of the Newcastle season of the Royal Shakespeare Company and are working with others to form a consortium to ensure that the RSC continues to make its annual visit to the North East. Other bodies have also continued to receive our support over the year including Durham County Cricket Club, Sunderland University and Durham University Business School.

The Board is not a large one but it encompasses considerable expertise. We are, of course, supported by a large number of experts drawn from within our own staff. Membership and size of the Board is under continual review to ensure that we are able to guide the company so that, whatever the nature of the future, Northumbrian Water will continue to ensure a region that is attractive for life and work.

F. G. M. Holliday

Professor Sir Frederick Holliday Chairman



The Industry and Parliament Trust is an educational charity set up in 1977 one of whose purposes is to enable Members and officers of both Houses of Parliament to increase their knowledge of industry.

Derek Enright, M.P. for Hemsworth in West Yorkshire and a fellow of the Trust, asked it to help in finding a company privatised by the Government with which he could undertake a study programme. He wanted to see for himself how such a company had developed since privatisation and identify and understand the challenges that it is facing in the private sector.



Northumbrian Water Group as a member of the Trust was able to help. Having started in April 1993, Derek is now well into a period of about 18 months during which he is spending around 25 days in different parts of the Group learning as much as he can about all aspects of the Group's activities, the better to help the quality of debate and legislation arising in Parliament.



BOARD OF DIRECTORS

Sir John Riddell CVO CA DL (60)

Deputy Chairman, CS First Boston Limited since 1990 (Director, 1978-1985); Deputy Chairman, Northern Rock Building Society since May 1992 (Director, 1981-1985, 1990-1992); Private Secretary and Treasurer to Their Royal Highnesses, The Prince and Princess of Wales, 1985-1990; Director, First Boston (Europe) Limited, 1975-1985; Deputy Chairman, IBA, 1981-1985.

Professor M B 'Warren' Pescod OBE (61)

Head of Department of Civil Engineering and Professor of Environmental Control Engineering at the University of Newcastle upon Tyne; Adviser to UN Agencies, Overseas Governments and Universities, the Overseas Development Administration and the British Council; Council Member of the Institution of Water and Environmental Management.

Sir Michael Straker CBE DL (66)

Retired as Chairman of Northumbrian Water Group PLC on 23 July 1993; retires as a non-executive director of Northumbrian Water Group PLC on 21 July 1994, following the Annual General Meeting; retired as Chairman of Northumbrian Water Limited on 31 March 1994; farms at Hexham, Northumberland; Deputy Lieutenant of Northumberland; Member of the University Court, the University of Newcastle upon Tyne; Chairman, Water Services Association, 1993; Board Member, Port of Tyne Authority.

David G Cranston IPFA FBIM (56)

Chief Executive; Group Finance Director 1989-1992; Finance Director, Northumbrian Water Authority, 1980-1989; Financial Representative of the Water Authorities' Negotiating Team, 1988-1989; Member of the Director General of Water Services Working Group on Accounting Issues for Regulation to November 1993; Non-executive Member of Newcastle Health Authority, 1990-1992; Chairman, CBI Northern Region, from March 1994.

Group Board meeting

Place: Board meetings usually take place in Newcastle or, as to this one, the head office of Northumbrian Water Limited, in Durham.

Time: 9am Friday, 27 May 1994.

Agenda: There were a number of items on the agenda including, inter alia, the minutes of the last Board meeting; the Chairman's report; the Board's analysis of the monthly performance briefing from each of the Group's principal businesses; a review of the Preliminary Results for the year.

to 21 March 1994 and consideration of a Final Dividend proposal for the year; the Board also received a presentation on the merits of an overseas market offering the Group potential growth opportunities.

Outcome The Board agreed in principle on the level of Final Dividend to be recommended to shareholders at the Annual General Meeting on 21 July 1994 and agreed that negotiations should take place with a view to identifying a joint venture partner in the overseas market reviewed.

Jon Hargreaves PhD BSc CEng MIBiol (44)

Managing Director of Northumbrian Water Limited and Director of Northumbrian Water Group PLC from April 1993; Managing Director, Entec Europe Limited, 1990-1992; Group Business Development Manager, 1990-1991; Chief Scientist, Northumbrian Water Authority, 1987-1990.

John S Ward OBE (60)

Deputy Chairman, Northumbrian Water Group PLC since July 1993; retired as Regional Director, Barclays Bank PLC and Chairman of Barclays Northern Region Board in September 1993; Deputy Chairman, North of England Building Society; Deputy Chairman, Tyne and Wear Development Corporation; Director, Northern Investors PLC; Director, Grainger Trust PLC; Director/Trustee, Newcastle upon Tyne Theatre Royal Trust Ltd; Chairman, Cruddas Park and Loadman Street Community Trust, Board Member, The Newcastle Initiative; Board Member, Newcastle upon Tyne West End Partnership City Challenge Board; Council Member of Durham University.

J Michael Taylor ICMA (48)

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

Professor Sir Frederick Holliday CBE DL FRSE (58)

Chairman, Northumbrian Water Group PLC from 23 July 1993; Board Member, Union Railways from 1993; Board Member, Shell U.K. Limited; Chairman, Investors' Committee, Northern Venture Managers Ltd; Board Member, British Rail, 1990-1993; Vice Chancellor, Durham University, 1980-1990; Chairman, Northern Regional Board, Lloyds Bank, 1986-1989; former Chairman of the Nature Conservancy Council; President of the Scottish Marine Biological Association; Council Member of the Freshwater Biological Association.

CHIEF EXECUTIVE'S REVIEW



David G Cranston

INTRODUCTION

The last year has been one of significant progress for the Group, though not without some disappointments that have been, or are being, addressed. The North East economy, as with those elsewhere in the country, has begun to improve and this has been reflected in the results of our water and sewerage company.

Working closely with the International Institute for Management Development (IMD) we have developed a new vision of the Group's future. At the heart of this vision is the need for all of us within Northumbrian Water to focus our efforts ever more intensely on the needs and desires of our customers. At the same time we are both simplifying and unifying the structure of the Group to enable it to respond better to the way we see the environmental market place developing in the future. Our intention is that our three key businesses: water and sewerage, environmental engineering and consultancy and waste management will blend together to form a seamless whole from the customers' point of view.

Of vital importance to the Group and its customers is the Periodic Review which the Director General of the Office of Water Services is conducting this year. He is due to announce on 28 July 1994 the 'K' percentage figure that the appointed business will be allowed to apply to its annual increases in charges, over and above the Retail Price Index, for the ten years from April 1995.

Northumbrian Water Limited (NWL) provides excellent value for money to its customers; its prices are well below the industry average, yet levels of service and compliance with existing standards are amongst the highest in the country. NWL has an unusually high legally required expenditure programme compared with the size of the company, with annual investment expenditure in the five years from 1995 estimated to be substantially higher than the level required in the previous five years.

While continuing to deliver high standards of environmental compliance, the company has done everything practicable to keep future investment expenditure, and therefore charges to customers, down in the short term by, for example: negotiating for the removal or delay of obligations; deferring maintenance expenditure; eliminating discretionary expenditure; setting challenging capital efficiency targets; and accepting a higher level of risk on non-compliance with



prescribed standards. Delaying some projects now, however, inevitably means that required improvements cannot be made within the required timescale. Following a detailed investigation of the scope for efficiency savings we have also set ourselves aggressive operating efficiency targets. Despite these measures, however, NWL will still have a high requirement for external funding during and beyond the ten year duration of the Periodic Review.

Turnover for the appointed water and sewerage business was £204.1 million (1993: £186.1 million), for non-appointed water services £20.8 million (1993: £20.8 million) and for our other continuing business activities £67.6 million (1993: £38.2 million). Operating profits for Northumbrian Water Limited improved by 21% from £66.9 million to £80.8 million. The performance of our other business activities was disappointing. This principally reflects the £12.4 million loss associated with the Group's withdrawal from the underground asset management market, but also the continuing low level of activity in the construction market place which lead to losses in the Group's ground investigation business.

The Chairman has paid tribute to Sir Michael Straker, our former chairman, who will be standing down from the Board following the Annual General Meeting. I endorse that tribute on behalf of all who work within the company. At the same time I would like to congratulate and welcome Sir Frederick as our new Chairman. He brings with him a wealth of experience in the environmental field and as a director of a number of companies.

I, too, would like to thank all our employees for their efforts over the last year. In a period of great change, such as the one the company is going through, our staff have been and will remain under considerable pressure to adapt quickly and positively as we position the Group for the future. That they are meeting the challenge is an indication of the quality of our people and gives us all a sense of confidence about that future.

CLEAN WATER SERVICES

Water resources and supply: NWL's water customers continued to enjoy a plentiful supply of excellent quality water. In almost 150,000 tests of water quality, total water compliance was 99.8%, maintaining the high standard achieved in 1992/93. Demand for water during the year continued to be robust.

Case study

Customer: North East teenagers

Project: The 'Square Mile Project'

Solution: Find a way to develop environmental and social awareness among North East teenagers

Group involvement: NWL

Over 700 youngsters making up 120 teams took part in this competition organised during 1993 by NWL with the Durham Agency. Against time and the three local police forces to improve a Square Mile of their local environment to make it a cleaner, safer, more caring place to live. As a result gardens were planted for the disabled, graffiti removed, nature reserves established, streams freed of shopping trolleys and swimming trolleys.



The winners of the competition were the Problem Posers from Bewick Middle School, and their prize was a week at Space Camp in Alabama, USA, where they trained and participated as astronauts.



The competition is being repeated in 1994, with a week of wild west fun in Arizona as the prize. It was founded in March 1992 by Mike Trevallie, Juvy Parwez, who stepped into the shoes of... provide the essential... between the two... final prizes.



**Water demand: average for the year
million litres per day**

	89/90	90/91	91/92	92/93	93/94
Metered					
potable	147	157	154	147	149
Unmetered					
potable	269	279	284	281	278
Metered Raw	250	234	232	218	242
Total	666	670	675	646	669

The company's water conservation activities were further developed with the increased use of automatic flow and leak detection equipment on the district metering network. Working with staff from Entec, another Group company, NWL achieved further reductions in water losses from the distribution system.

Customer services: In recognition of the importance of customers to the future of the company, a customer focus programme has been developed with IMD which all employees in NWL will have attended by the end of 1995. During the programme, employees will be encouraged to explore major customers' activity cycles and to consider ways in which the Group can increase its commercial opportunities and better serve the needs of its customers.

In support of this initiative, NWL has also developed a training programme for staff who come into direct contact with customers. The training is designed to cover the key issues affecting customers, to increase employees' technical awareness and to standardise customer contact procedures. This programme is one of the main outcomes of the customer service initiative begun in 1993, another is the extension of the company's opening hours to allow for increased customer contact and convenience.

In addition to its range of special services for disabled and elderly customers, the company has also introduced a register of customers with special needs and a confidential password scheme to deter bogus callers.

In recent years, some customers have found it difficult to pay their accounts by the established payment methods offered by all water companies. For those customers in genuine financial difficulty, the company is providing considerable assistance through special payment arrangements and the establishment of direct payment through the Department of Social Security from Income Support payments. As a result, the company has substantially reduced the need to take legal action to recover unpaid water charges.

For those customers who wish to pay their accounts in more frequent instalments, the company introduced a Budget Scheme at the beginning of 1994. Using the Budget Scheme customers can pay in twelve monthly instalments by direct debit or by cash at a post office as frequently as they wish, subject to an agreed minimum payment. The latter takes advantage of new technology recently installed in all the region's post

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

	90/91	91/92	92/93	93/94
Permanent	960	943	948	940
Contract	235	279	369	430
Total	1195	1222	1317	1370



Case study

Customer: Domestic, commercial and industrial water services customers in the North East

Project: Customer Liaison Panel

Solution: Improve consultation with customers on a wide range of issues concerning the running of the business and customer services

Group Involvement: NWL

offices and involves the use of a plastic card which bears the customer's account details. The Budget Scheme was developed following consultation with the company's Customer Liaison Panel and with Ofwat at both the local and national levels and is the first scheme of its kind to be provided by a water services company.

Despite increases in charges, the high quality of water and improved customer services have again contributed to a very low level of customer complaint, and the lowest level of complaints to Ofwat of all the water services companies for the third successive year.

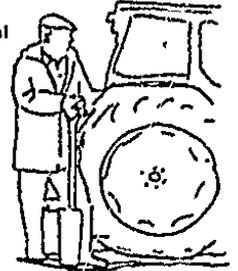
One unusual activity during the year was the inspection of the 34km long Kielder tunnel which is used to transfer water from the River Tyne to the Rivers Wear and Tees. This is the first time since its commissioning in the early 1980s that the complete tunnel has been emptied and inspected. A novel aspect of the inspection was the use of mountain bikes by the engineers involved, which substantially reduced the amount of time taken.

Capital investment in clean water services: Improvements to all aspects of the company's water supply business in the Tees Valley have been made. A new inlet was completed at Lartington water treatment works which will allow much better control of the water entering the works and hence the water being supplied to customers.

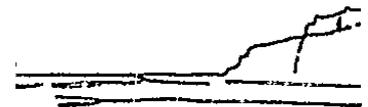
Further down the valley, at the company's biggest water treatment works at Broken Scar, Darlington, several projects were completed and the final phase of the improvement programme was begun, new sludge centrifuges and sludge handling equipment were installed and the new extension to the water treatment works was commissioned, allowing the old plant to be demolished, bringing even more reliable water supplies. The Baydale Beck diversion scheme was also completed. This stream, which drains agricultural land and runs under the A1M motorway, joined the River Tees immediately upstream of the intake to the works. By diverting the beck downstream of the intake, the quality of the incoming water to the works has been significantly improved and the threat of pollution from the motorway removed.

Teesdale also saw improvements to two of its six reservoirs. Television personality, Selina Scott, opened the new spillway and visitor centre at Grassholme reservoir, and at nearby Blackton reservoir the valve shaft refurbishment and the first phase of the overflow improvements were completed and the reservoir refilled.

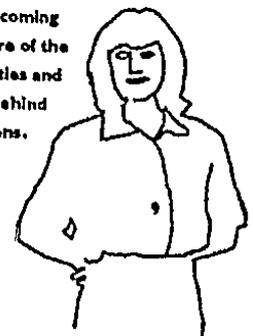
Domestic and industrial customers, farmers, businesses and local authorities are all represented on Northumbrian Water Limited's Customer Liaison Panel, which meets bi-monthly, under the independent chairmanship of Don Robson, Leader of Durham County Council. Its activities complement those of the Ofwat Customer Service Committee and a member of the committee attends the Panel meetings as an observer.



The Panel was extensively used during the customer consultation exercise in 1993 on the future size of bills, and has discussed a wide range of topics of interest to the members. These have included payment methods, profits and dividends, customer information, educational involvement and public relations. The Panel's discussions have been very useful in helping to identify ways in which NWL can improve its services to customers.



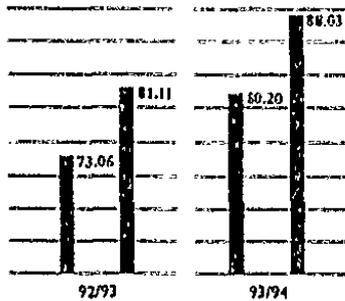
Over the last year Panel members were able to visit Broken Scar water treatment works and the coastal improvement schemes at Whitley Bay and Seaton Carew. Both visits were well attended and Panel members are becoming increasingly aware of the company's activities and of the reasons behind its policy decisions.



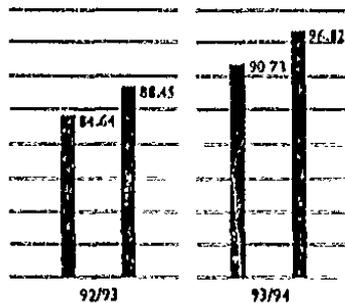
Improvements were made to the water treatment works at Pontburn in Northumberland, and the twin trunk mains which supply water from Pontburn to Morpeth and North Tyneside were also cleaned and relined. In Weardale, work continued on the refurbishment of water mains in the Tunstall water supply zone, following the relining of the Tunstall trunk main last year. The mains refurbishment programme also continued at other locations across our water supply region, bringing continued water quality improvements to customers.

Household bills £

Water Supply unmeasured



Sewerage unmeasured



■ Northumbrian Water Limited
 ■ Water and sewerage companies average*

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

Source: WSA Waterfacts 1991

WASTE MANAGEMENT SERVICES

Liquid Waste Services

Sewerage services: The environment of the North East continued to improve as a result of the company's continued vigilance and increasing levels of investment in sewerage and sewage treatment. The company continued its excellent record of sewerage treatment works performance and at the end of the year only one out of the company's 385 works was not meeting the standards set for it by the National Rivers Authority (NRA). River and sea water quality have also benefited as a result of the completion of capital schemes.

The good working relationship developed with the company's sewerage agencies has continued and common standards across the region and improvements in the customer care procedures are being developed. A better understanding of the needs of the sewerage system has allowed agency costs to move downwards. The large investment in asset records has given important information for the development of policy and the direction of the sewer refurbishment programme.

The completion during the year of the region's best known sewerage system, the Tyneside interceptor sewer, was officially celebrated with the help of one of the region's most famous people, Kevin Keegan, director of football and coaching for Newcastle United.

The company is committed to identifying sewage treatment processes which bring innovative solutions to the challenges provided by current and anticipated environmental legislation. Test sites have been established at several sewage

treatment works to test a number of new and novel treatment techniques, often running in parallel with existing treatment methods to allow direct comparison. Several of the trials have received a great deal of interest nationally from within the water industry, most notably in the area of odour control.

The company's concern for the environment is also demonstrated in the piloting of the new environmental standard, BS7750, in its Northumberland operating area. The company has gained national recognition for its work on implementing this new standard and has accepted an invitation from the British Standards Institute to represent the water industry on the national steering committee.

Capital investment in sewerage services: The major focus of NWL's capital investment during the year was on further improving the bathing waters of the North East coast. The two largest schemes were the storm water disposal projects at Whitley Bay and Whitburn. New long sea outfalls were constructed at both locations during the summer of 1993, each more than 1km in length, and work is well underway on the interceptor sewer tunnels and pumping stations.

Further down the coast, work began on another major scheme at Seaham. Here sewage from Seaham and Dawdon, currently being discharged directly to sea, will be intercepted and treated, bringing a dramatic improvement to Seaham's two bathing waters. In Cleveland, planning permission has been gained and work begun on the pumping station and pipeline which will end the disposal of sewage to sea at Saltburn. Work has also started on a major extension to Berwick sewage treatment works which will not only improve the quality of the River Tweed, but will also enhance the quality of the town's bathing water at Spittal.

Two coastal schemes completed in 1993 demonstrated their value in the summer of that year. At Newbiggin the town's two bathing waters passed the European standards for the first time. The scheme was officially opened in May 1994 by keen fisherman, Jack Charlton, who was born in nearby Ashington and is manager of the Irish Republic's World Cup football team.

At Seaton Carew the bathing waters were also much improved and the company celebrated completion of the scheme by holding a beach party at which the special



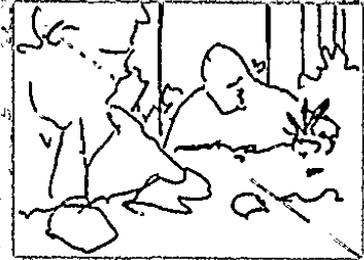
Case study

Customer: Durham University

Project: Refurbish the sewage treatment works solving the University while minimising disruption

Solution: Continue to operate the existing works while constructing replacement processes

Group Involvement: NWL, Entec Europe



Entec Europe acted as design and build contractor for this difficult £1.5 million

project. Not only did Entec have to cope with the congested site access and restricted working area,

but it also had to construct a considerable length of pipeline to take the treated waste water off the site.

An added complication was that the pipeline had to go through a woodland which forms part of the University's Botanic Garden and contains imported species of trees of special importance.



The project was completed however, within time and budget and earned the praise of the botanist staff, who were impressed with the sympathetic manner in which the works were designed and constructed and the care of the site.



Northumbrian Water Group Plc

Sewage treatment works failing their NRA standard at year end

89/90	90/91	91/92	92/93	93/94
11	1	1	2	1

guest was Olympic gold medallist swimmer, Duncan Goodhew, and by sponsoring the town's annual fireworks display, which was held on the beach for the first time.

Substantial improvements, including some total rebuilding, at Cramlington, Felton, Haltwhistle, Witton Gilbert, Brownney, Bishop Auckland, Carlton, Swainby and Bishop Middleham sewage treatment works were completed during the year, bringing widespread benefits to river water quality. Sewage transfer schemes at Prudhoe, Blackhall Mill, Swarland and Longframlington were also completed, allowing the closure and removal of these outdated works. Major improvements at Morpeth and Blyth sewage treatment works are underway.

The sustained buoyancy in the new house market in the region was reflected in the high number of requests for water and sewerage services handled over the year. In Longbenton, new sewers were provided to Balliol Business Park, a site of some 35 hectares.

On Teesside the imminent completion of the Tees Barrage will result in a raising of the river level. To take account of this, several of the company's storm outfalls which discharge to the river have been replaced, diverted or closed, following discussions with the NRA and the Teesside Development Corporation. The work has been carried out by the local authorities, acting as NWL's capital investment agent and, where possible, 'no-dig' techniques have been used to reduce disruption.

Specialised liquid waste services: Liquid waste treatment facilities are provided by Northumbrian Environmental Management (NEM) at plants at Howdon on Tyneside and at Billingham on Teesside. Producers of aqueous biodegradable wastes who do not have easy access to a sewerage system can transport the waste by road tanker to the facilities, which have a combined capacity of 195,000 tonnes per annum.

Whilst the Howdon facility represents a 'made to measure' solution for a North East based pharmaceutical company needing to dispose of paracetamol waste the liquid treatment plant at Billingham offers merchant facilities for a range of customers including the food processing and brewing industries. Further opportunities to expand the liquid waste treatment service are being investigated in the region.

Number of Customers Billed (000's)

	92/93	93/94
Domestic water		
Unmeasured	452	457
Measured	2	2
Total	454	459
Commercial water		
Unmeasured	13	13
Measured	23	23
Total	36	36
Domestic sewage		
Unmeasured	1,030	1,018
Measured	7	11
Total	1,037	1,029
Commercial sewage		
Unmeasured	68	79
Measured	29	29
Total	97	108



NEM joined up with the Royal Engineers in coming to the rescue of Chillingham Road Primary School in Heaton. The 'Chilly Road' school children had challenged Anneka Rice to help them demolish a building which had stood derelict on the school playground for over 20 years and replace it with a garden in celebration of the school's 100th Anniversary.

Solid Waste Services

Sewage sludge disposal: NWL is required by legislation to cease the disposal of sewage sludge to sea by the end of 1998. In anticipation of this contingency, NWL engaged a consultancy consortium to advise on the development of a sludge disposal strategy. The results of this strategy development are expected to be known towards the end of 1994.

Recent UK legislation resulting from European Union directives is concerned to ensure the safe disposal of sludge arising from waste water treatment and will be a key factor in future capital expenditure by NWL.

Dry waste collection services: In November 1993, NEM acquired Enviricare Limited, a specialist waste collection company operating in the North East. This acquisition brought with it more than 500 industrial and commercial customers throughout the region and enables NEM to provide a waste collection and transport service in addition to its existing disposal services.

Landfill services: NEM's existing landfill sites in the North East, at Brenkley and Burnhills, have operated successfully during the year. Both were built, and are operated, to stringent standards, ensuring the safe and secure disposal of all wastes and the protection of the environment.

A third site at Binn Farm, Glenfarg, in Perthshire, was acquired in September 1993 and is planned to become operational in September 1994. Binn Farm will provide a further 2.25 million cubic metres of landfill space for non-hazardous domestic, commercial and industrial wastes and offers a high quality disposal route serving the east coast of Scotland, from Edinburgh to Dundee. A 15 year contract has already been secured to dispose of domestic waste from the Perth & Kinross District Council area. Extensive engineering works to provide full containment, including a unique triple lining system, will ensure that Binn Farm is operated to the same high standards as Brenkley and Burnhills and above those required for simple compliance with environmental legislation.

Binn Farm will also incorporate a composting system for turning garden and other green wastes into a valuable soil conditioner made available for use to the local



Case Study

Customer: Chillingham Road Primary School, Heaton, Newcastle

Project: To clear a space for a new garden in celebration of the school's 100th Anniversary in November 1993

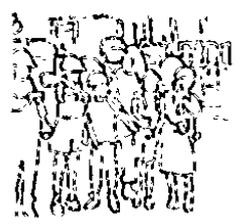
Solution: The Royal Engineers demolished a derelict building on the school playground and NEM disposed safely of the demolition waste

Group Involvement: NEM, with the Royal Engineers

As Anneka wasn't available, the headmaster of the school, who had tried for 10 years to get the building removed, called in the Royal Engineers to knock the eyesore down.



However, the school was at a loss as to what to do with all the resulting demolition waste. NEM offered B. nkley landfill site free of charge as a final destination for the rubble, enabling the Royal Engineers to finish off the work over one weekend and paving the way for a new play garden, designed by the children themselves.



chilly road



community. The composting scheme will also help Perth & Kinross District Council to reach its recycling target set by Government.

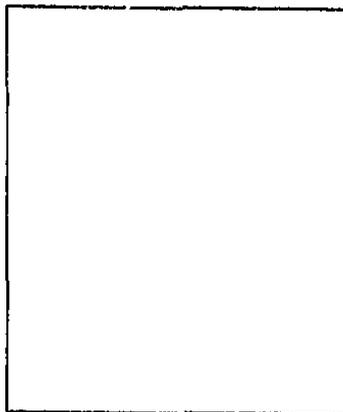
Further potential sites are being investigated in the North East region and beyond to provide high quality, modern landfill in areas which currently lack adequate facilities.

Waste-to-Energy: Having been chosen by Cleveland County Council as its joint venture partner in a LAWDC (local authority waste disposal company) to tender for the County's waste disposal contract, NEM was granted planning permission in November 1993 to build a modern waste-to-energy plant on ICI land at Billingham, Teesside. During 1994/95, the joint venture company will tender for the County's waste disposal contract in accordance with Government policy that local authorities should put their waste disposal services out to competitive tender. The new facility, if built, will replace the County's existing municipal waste incinerator at Portrack, Stockton-on-Tees, which is incapable of meeting new emission standards and is due to close in December 1996.

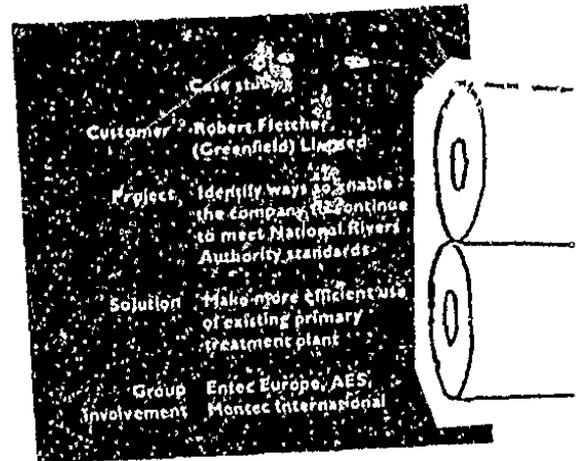
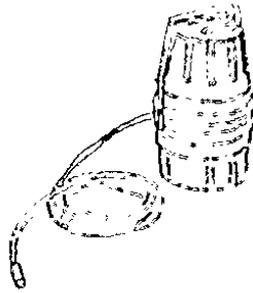
The UK is now beginning to follow other European countries which increasingly see domestic waste as a resource rather than as a problem. The proposed Billingham waste-to-energy plant will convert 200,000 tonnes of waste per year into about 20 megawatts of electricity for sale to the National Grid. Further waste-to-energy projects are being investigated elsewhere in the UK.

Clinical waste disposal: NEM was granted outline planning permission in May 1993 for a clinical waste incinerator at Follingsby Lane, Gateshead. The proposed incinerator would fulfil a need in the region for modern, high standard facilities for the proper handling and disposal of healthcare wastes. The decision by the Secretary of State for the Environment to grant planning permission for the facility was subsequently challenged in the High Court and the Court of Appeal by Gateshead Council. The High Court concluded in September 1993 that the Secretary of State had been correct in his decision to grant outline planning permission. In May 1994 the Court of Appeal further endorsed the High Court's decision and ruled in favour of NEM.

Total waste management: NEM's total waste management service appraises



At Brenkley, Somerset netting is used to help maintain the highest possible environmental standards at the landfill site.



all the technical and commercial options available to customers for dealing with waste both on- and off-site and implements appropriate steps to relieve customers of their waste problem. The service is designed for customers who wish to focus on matters relating to their own business objectives and operations and leave their ancillary waste problems for a specialist service to resolve safely and effectively. As no two companies will require exactly the same waste management service the nature of the service provided to any one customer is designed specifically for that customer.

Waste paper recycling: NEM supports recycling through its sponsorship of the Tyne & Wear/Darlington Paperbank Scheme, the largest co-ordinated waste paper recovery programme in the UK. This enabled 3,500 tonnes of newspapers and magazines to be saved for recycling over 1993/94. In partnership with the six local authorities of Darlington, Gateshead, Newcastle, North & South Tyneside and Sunderland, NEM and Davidsons Waste Paper secured a five year contract from 1993 to guarantee a market outlet for all the paper collected for recycling through 147 paperbanks distributed throughout the region.

Environmental Protection Equipment

Samplers and flowmeters: Montec International designs, assembles and markets a range of instrumentation to meet a variety of environmental monitoring and sampling requirements. With its headquarters in Salford Quays, Manchester, Montec employs over 70 people, and exports over 40% of its production to 20 countries worldwide.

The company's product range includes automatic waste water samplers and ultrasonic flow measurement equipment marketed respectively under the Epic and Detec brand names. In March 1994, Montec International was one of the first manufacturers of flow monitoring and measurement instrumentation to have all its quality assurance procedures independently certified by the International Standards Organisation with the award of ISO 9001, the international quality management standard.

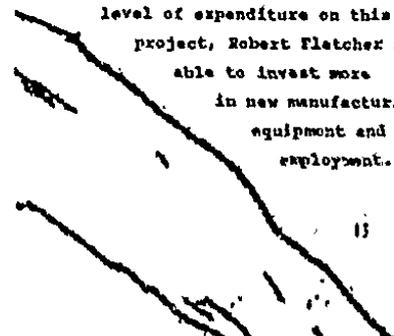
On 31 May 1994, Montec acquired the waste water sampling and distribution activities of Edmund Bühler. Together, they will form one of the leading suppliers of waste water sampling equipment worldwide.

Robert Fletcher (Greenfield) Limited, a specialist manufacturer of fine grain paper, needed to identify a way in which it could continue to comply with higher National Rivers Authority (NRA) standards. The company's management considered that an investment of up to £5 million in secondary treatment facilities might have been required to bring its effluent, which was already meeting existing NRA standards, up to the new standards required as the NRA seeks to improve river quality in the north west.



Entec Europe, AES and Montec, combined forces to identify a solution to the effluent problem for Robert Fletcher. Entec Europe undertook a detailed survey over several months involving the collection of data on the plant and its effluent streams, assessing the efficiency of existing equipment, and recommending ways in which it could best be utilized. Montec supplied flow measurement equipment and software expertise for the study and AES undertook scientific analysis of the effluents produced.

Following the study the Group was able to recommend to Robert Fletcher that to meet the new NRA standards it needed undertake a capital expenditure programme of only £100,000 for modifications to its existing effluent treatment plant to make it more efficient. This programme is now being implemented, and with the much lower than expected level of expenditure on this project, Robert Fletcher is able to invest more in new manufacturing equipment and employment.



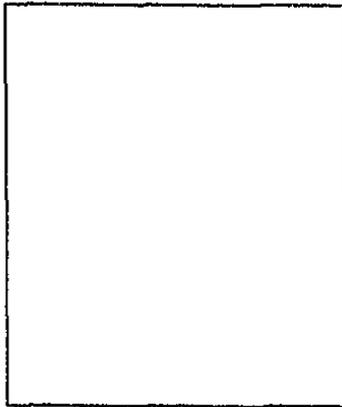
CONSULTANCY

Engineering and environmental consultancy: Entec Europe Limited provides consultancy services which specialise in assessing and solving environmental problems. The company adds value to its clients' businesses by enhancing their relationships with their various environments - industrial, working, natural and living and leisure. The main areas of expertise offered to customers cover water and wastewater treatment, groundwater investigation, land remediation (including contaminated sites), air and noise monitoring, waste management advice, building design including internal systems, technical and corporate risk management and the development of corporate environmental policy. Consultancy work is undertaken worldwide from offices located in the UK, France, Germany, Belgium, Hong Kong and the United Arab Emirates.

Projects completed during the past year range from providing the mechanical, electrical, public address, lighting and safety systems for Scotland's national football stadium - Hampden Park - during its recent refurbishment, to providing a detailed study for the European Union on the potential for mixed use development of European cities.

Currently consultancy work is being undertaken in a number of countries including, for example, the provision of technological and operating advice to a water supply company in Albania, ground investigation in Germany, the design of services systems for a leisure centre in Scotland and project design for a new headquarters building in Abu Dhabi for the National Drilling Company, part of the Abu Dhabi National Oil Company.

Rural and economic development: With the acquisition in February 1993 of the European environmental consultancies of Simon Engineering PLC the Group acquired, amongst other skills, an expertise in rural and economic development. From bases in the UK and Belgium, Entec Europe is able to offer customers worldwide a number of services including, for example, agricultural impact assessments; land use and management studies; pollution risk surveys; project planning and technical assistance to agriculture, fisheries and the agro-industries; regional and sectoral planning for economies in transition; national park planning, development and management; integrated rural development and conservation; fisheries development and management studies and training in these areas. Clients for these services include governments, international aid agencies and companies in both the public and private sectors.



The Emirates Insurance Building, in Al Ain, for which Entec undertook the architectural design and supervision.

One such development project completed during the year involved advising the government of Zimbabwe on the opportunities for improving and increasing the exportation of cut flowers from the country.

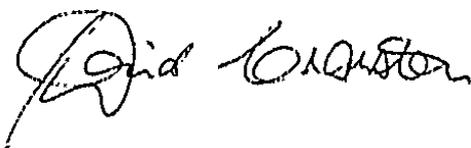
Rural development projects being undertaken currently include one in Russia in which Entec is providing advice on the training of farmers, increasing agricultural production, and on resolving distribution problems to overcome food shortages within the next five to seven years. The work includes drawing up curricula and courses for the relevant disciplines, improving the professional qualifications for the teaching staff, helping the authorities to set up demonstration farms and processing units and assessing the requirements for technical equipment and supplies. Work is also being undertaken in the Central African Republic, on behalf of the European Commission, as part of a regional development programme.

Laboratory services: Analytical & Environmental Services (AES) provides both Group and other companies with analytical and environmental monitoring services.

This year has seen AES expand the range of its services for customers through the installation of a high resolution gas chromatography mass spectrometer (GC-MS) for the analysis of dioxins and furans some of which are highly toxic. One of AES' first clients for this service was the environmental watchdog, Greenpeace.

In February 1994, AES expanded its capacity for soil analysis by taking over the management of a specialist laboratory in Consett, County Durham formerly managed by ERM. This development has significantly increased AES' client base in terms of both volume and business diversity.

Ground Investigation: Exploration Associates provides ground investigation and associated services with in excess of 90% of its turnover being derived from customers outside the Group. During 1993/94 the company contracted in the face of adverse trading conditions. However, the company has maintained its strong position in the ground investigation sector, recently completing a major ground investigation contract for Union Railways, the Channel Tunnel Rail Link. During 1993/94, a further two of its regional offices obtained NAMAS accreditation.



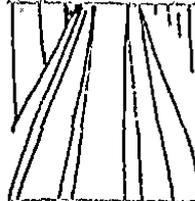
David G Cranston Chief Executive

In January 1994 the geophysical expertise of Entec's French company, CPGF

Horizons, was called



in by SNCF, the French national rail company, to provide an initial investigation into part of the

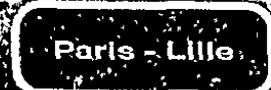


Paris - Lille line following the derailment of a high speed TGV train and the

discovery that the stretch of track involved had been built on foundations containing voids.

CPGF Horizons was asked by SNCF to complete the discovery of the line by the end of February

1994. By



finishing in addition to equipment and with staff

volunteering to work 24 hours a day throughout the work CPGF

Horizons was able to complete the work on time and provide SNCF with a detailed survey of

the 12 km of the line revealing taken more than 40,000 measurements over the distance.



Case study	
Customer	SNCF
Project	Void detection on railway line
Solution	Geophysical survey
Group involvement	CPGF Horizons

ENVIRONMENTAL REVIEW

This year the Group will publish its first environmental performance report. The report will include the Group's policy statement on the environment, comment on its performance against the 1993 targets and set new targets for 1994. The report will be concise and factual and will use diagrams, tables and maps to help readers to better understand the Group's environmental policies and performance. Copies of the report will be available from the corporate affairs department at the Group's headquarters in Gosforth, Newcastle upon Tyne.

Performance

The Group's principal subsidiary company, Northumbrian Water Limited (NWL), achieved a very high level of compliance with environmental and public health legislation. At the end of the 1993/94 financial year all but one of its 385 sewage treatment works were conforming with the effluent discharge standards set for the works by the National Rivers Authority. There were no prosecutions of any Group company for non-compliance with environmental legislation during 1993/94.

Environmental Audit Committee

The Environmental Audit Committee met on three occasions during 1993/94. It commissioned compliance audits of the water engineering group in Entec Europe and of Montec International, and chemical substances audits of NWL and of Montec International also. The committee was satisfied with the findings of the audits and the actions now being taken to implement their recommendations. During the year the Chairman, Prof. Sir Frederick Holliday was appointed Chairman of the Committee, and Dr J W Hargreaves, Managing Director of NWL, Mr J A Foster, Managing Director of Entec Europe and Mr M Wellbank, Director of Entec Shankland Cox, joined the Committee. During the year Mr R H Smith and Mr W F Ridley retired from the Committee.

BS 7750 Pilot Programme

The Group continues to be actively involved in the piloting of this new standard. The environmental management system was put in place in the Northumberland operating area of NWL during 1993. Accredited certification of the management system is expected to be achieved by the end of 1994. Implementation of the standard is being project managed jointly by Entec Cremer & Warner and Aspinwall & Company.

Other Activities

In January 1993, NWL began a three year sponsorship of the National Trust for its coastal conservation work. The Group also sponsors the Ecology Centre at the University of Sunderland.

David G Cranston Chief Executive
24 June 1994

FINANCIAL REVIEW

Review of operating results

Group turnover in the year was £298.6 million (1992/3 : £252.1 million), an increase of 18%, whilst operating profit increased 11% from £69.7 million to £77.6 million. Profit before tax, after losses on disposal/closure of discontinued operations of £8.4 million and higher interest payable of £15.7 million, decreased by £6.6 million from £69.4 million to £62.8 million.

Segmental contribution to Group turnover from continuing operations

1992/3		£243.1m
1993/4		£292.5m

Water and Sewerage Services : ■ Appointed £204.1m (192/3 £186.1m) ■ Non Appointed £20.8m (£20.8m) □ Other Business Activities £67.6m (£38.2m)

Group turnover from continuing operations increased by 19% to £292.5 million. The proportion of this turnover derived from outside of the Appointed Business rose from 24% to 30%, largely reflecting the growth of the Entec consulting business, both in the UK and overseas. Sales to overseas markets increased to 11% of the Group's total turnover from continuing operations (1992/3 : 2%).

Appointed Water and Sewerage Services : Sector contribution to segment turnover

1993/4		£204.1m
	■ Water Services £68.0m (192/3 £62.3m) ■ Sewerage Services £136.1m (£123.8m)	

The Appointed Water and Sewerage Services' turnover increased by 9.7% to £204.1 million, broadly in line with the pricing formula. The operating margin improved from 32.2% to 35.3% as a result of the continuing drive for greater operating efficiency.

Non-Appointed Water Services : Sector contribution to segment turnover

1993/4		£20.8m
	■ Kielder £9.4m (192/3 £9.5m) ■ Raw Water £10m (£9.2m) □ Other £1.4m (£2.1m)	

Whilst Non-Appointed Water Services' turnover remained static, operating profit grew by 38% to £8.4 million enhanced by the agreement of prior year charges.

Other Business Activities : Sector contribution to segment continuing activities turnover

1993/4		£67.6m
	■ Entec £39.8m (192/3 £10.3m) ■ NEM £4.1m (£1.8m) ■ Montec £3.2m (£4.4m) □ EAL £9.7m (£11m) Corporate Services £10.8m (£10.7m)	

Substantial progress has been made in the development of the other business activities, though the operating subsidiaries have still to convert this progress into profit.

Entec has had an intensely challenging year, the main feature of which was the ongoing integration of the former Simon Environmental companies. The combination of the skills, experience and track record of several smaller specialist companies under a unified Entec umbrella has created the necessary foundation for Entec to take a position amongst a small but prestigious group of consultancies who are beginning to tackle the growing demand from major organisations for business consultancy with an environmental and technical focus.

NEM had an encouraging year operationally, with both of its landfill sites and both of its liquid treatment facilities operating profitably from strong demand. The acquisitions of an additional landfill site at Binn Farm in Perthshire and of Envircare, a specialist waste collection company in the North East, provide the basis for further progress in the current year. Detectronic and Epic were successfully integrated during the year into a single business, Montec International,

operating from a single site. On 1 June 1994 Montec announced the acquisition of the waste water sampling and distribution activities of Edmund Bühler GmbH, thereby creating one of the leading manufacturers of sampling equipment world wide.

Exploration Associates has had a difficult year due to adverse trading conditions in the construction market, leading to a loss being incurred. During the second half of the year the business was rationalised and re-organised and is now in a position to generate profits from a lower level of activity.

Corporate Services benefited from the continuing operation of the Group's tax-based leasing business.

Losses on disposal/closure of discontinued operations

As reported in the interim accounts, the continuing decline of the underground asset management market led the Board to conclude that the Company should withdraw from this market. The full year results reflect this decision through charges totalling £8.4 million, including a £6 million adjustment to pass goodwill through the profit and loss account which had previously been written off to reserves.

Investment Income

Investment income for the year of £9.8 million (1992/93 : £9.3 million) includes an £8.6 million return from a short term investment made in Jayhold Limited on 1 May 1992 which was realised during the year.

Net Interest payable

Net interest payable increased from £9 million in 1992/93 to £15.7 million in the current year, despite a reduction in net borrowings of £38.7 million to £64.1 million. This increase arose as a result of fixed interest payable on gross debt, which totalled £249.3 million at 31 March 1994, only partly offset by interest receivable on cash and short term deposits which were impacted by declining interest rates throughout the year.

Taxation

The tax on profit for the year of £6.4 million represents a charge of 10.2%. The charge comprises a provision for corporation tax on profit for the current period, an under provision for prior periods, tax on franked investment income and the recovery of ACT written off in prior periods less ACT written off in respect of dividends payable.

Cash Flow, Investing Activities and Financing

Net cash of £146.7 million was generated from operating activities, substantially enhanced by a net divestment of £46.3m in leasing business. Capital investment of £88.6 million (1992/93 : £135.4 million) was principally expended on improvements to water and sewerage services as part of an ongoing long term programme required to meet changing legal obligations. Cash consideration on acquisitions, principally Enviricare Limited and Binn Farm, totalled £7 million. After net cash outflows for interest and dividends of £19 million and corporation tax of £3.6 million, Group net borrowings reduced to £64.1 million at 31 March 1994 and gearing to 8%. At 31 March 1994, the Group had cash and short term deposits of £185.2 million, undrawn committed borrowing facilities of £50 million and a £150 million commercial paper programme was fully available. This positive position allowed the release of short term bank lines which were in place last year.

Hedging policies

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

DIRECTORS' REPORT*For the year ended 31 March 1994***Activities**

Details of the activities and development of the Company and its subsidiaries ("the Group") during the financial year and the outlook for the future are reported in the Chairman's Statement (page 2) and the Chief Executive's Review (page 6). The main business of the Group is the provision of water, waste and environmental services.

Profits and Dividends

Profit before taxation for the financial year to 31 March 1994 was £62.8m.

An interim dividend of 8.1p net per ordinary share, with a Share Dividend Offer alternative, was paid on 6 April 1994 to shareholders on the register on 25 November 1993. Subject to approval at the Annual General Meeting, the directors are recommending a final dividend of 16.2p net per ordinary share payable on 3 October 1994 to shareholders on the register on 8 July 1994, making a total of 24.3p net for the year. After providing £6.4m for taxation and £16.5m for payment of dividends, the retained profit for the year amounted to £39.9m.

Share Capital

Changes to the issued share capital of the Company are set out in note 25 to the Accounts.

Substantial Shareholdings

On 27 May 1994 the Company's Register of substantial shareholdings showed the following interests in 3% or more of the Company's ordinary shares:

Prudential Portfolio Managers Limited - 12.62%
 Norwich Union Investment Management Limited - 4.94%
 FMR Corporation - 3.48%

Fixed Assets

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

Annual General Meeting

The Notice convening the 1994 Annual General Meeting to be

held on Thursday, 21 July 1994 at 11.00 am at the Marriott Hotel, MetroCentre, Gateshead, accompanies this Report. The resolutions to be considered are set out fully in the Notice and those resolutions to be proposed under the heading of Special Business are explained in the notes appended to it.

Directors

Details of the present directors of the Company are set out on pages 4 and 5.

Professor M B Pescod will retire and offer himself for re-election at the Annual General Meeting. Professor Pescod is a non-executive director of the Company and does not have a service contract.

Mr Robert H Smith retired as a director of the Company on 1 April 1993. Dr Jonathan W Hargreaves was appointed a director of the Company on 1 April 1993.

Sir Michael I B Straker will be retiring as a director of the Company at the Annual General Meeting and will not be offering himself for re-election. A resolution not to fill the vacancy created by Sir Michael's retirement will be put to the Annual General Meeting. During the year Mr J Michael Guerin resigned as a director of the Company on 9 June 1993 and Mr Frank Rüdley and Dr Ralph Iley retired from the Company's Board of Directors on 22 July 1993.

The directors' interests are set out in note 26 to the Accounts. The Company has effected directors' and officers' liability insurance.

Donations

During the year the Group made charitable donations totalling £96,000 (1993: £193,000). No political donations were made.

Research and Development

The Group supports research and development through a number of initiatives, both in house and through co-operation with third parties. Dr Jonathan Hargreaves is the Chairman of the UK Water Industry Research Group which was formed in 1993. In house research seeks to support the Group in continuing to improve its levels of service and to meet new environmental standards.

DIRECTORS' REPORT

Employees and Employment Policies

The total number of people employed by the Group at 31 March 1994 was 3,202.

The Group's Human Resources policies and practices have been modified during the course of the last twelve months in response to changes in UK and European legislation and the development of the Group's new vision of a more closely integrated group of businesses.

Over the past year the Group has continued to work on ensuring the full and effective implementation of its Equal Opportunities policy. This sets out its commitment to fair and equal treatment of all employees regardless of gender, race, nationality, ethnic background or disability.

The Group continues to give fair and full consideration to applications for employment from disabled people and it seeks to retain and, when necessary, retrain employees who become disabled.

Open and honest communication between employees is encouraged at all levels within the Group. Effective communication with employees is achieved through a number of channels such as Team Briefing, notice boards and the Group's corporate newspaper "Ebb and Flow". The active involvement of employees in the business decision making process is encouraged and this is aided by the existence of a number of formal consultative mechanisms. The Group is committed to the continuous development of all of its employees so that they feel confident to use their skills and capabilities to add maximum value to the business. The Development Interview process, a system used within the Group for reviewing individual performance and training needs, has been developed across a number of the newly acquired businesses over the past year in line with the Group's policy which entitles all employees to at least one Development Interview per year.

The Group's safety team continues to work to ensure effective implementation of its safety policies and full compliance with Health and Safety legislation.

The Group's occupational Health Nurse and Welfare Adviser provide expert, confidential services to employees and their families and, with its Medical Adviser, seek to develop policies and proactive strategies for improving employee health and welfare.

The Company operates an Inland Revenue approved profit sharing scheme and a savings-related share option scheme. Employees at all levels are able to participate in these schemes and, wherever practicable, part-time employees of the Group are eligible to receive the same benefits as full time employees.

The Group offers a choice of pension arrangements to suit the needs of the businesses and their employees. Members of its final salary pension schemes receive regular updates on benefits and pension issues and are represented on the Boards of Trustees. In addition to the final salary schemes, a Group Personal Pension Plan has 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.

Corporate Governance

In December 1992 the Committee on the Financial Aspects of Corporate Governance published a Code of Best Practice ("the Code"). The Code contains nineteen recommendations covering best practice in terms of the control and reporting functions of boards of directors. The directors cannot report on the Company's compliance with two of these recommendations, relating to the effectiveness of the Company's internal control and confirmation that the business is a going concern, as guidance on these matters is awaited. The directors can report that the Company has complied throughout the year with the remaining seventeen recommendations.

At the end of the financial year the Board of Directors of the Company comprised eight directors, five of whom were non-executive directors.

The Board takes responsibility for decisions relating to Group strategy, the acquisition and disposal of businesses, approval of major capital expenditure and the consideration of all significant financial matters. It monitors the businesses of its trading subsidiaries through reviews of performance against individual company business plans and budgets. The Company maintains a number of standing committees which operate within defined terms of reference. The four principal standing committees are:

Audit Committee - this is comprised of non-executive directors and is chaired by Mr John Ward. It ensures that an objective and professional relationship is maintained between the Company and its external auditors and provides independent judgement in respect of all financial reporting matters.

Remuneration Committee - this is comprised exclusively of non-executive directors and is chaired by Mr John Ward. It determines the remuneration and other terms of service of the executive directors and a small number of senior executives. The committee receives independent external advice from Hay Management Consultants and New Bridge Street Consultants.

Nomination Committee - this is comprised of all board members and is chaired by Professor Sir Frederick Holliday. The committee's purpose is to propose candidates for 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.

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

Directors' Responsibilities In respect of the preparation of the accounts

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 period and of the profit or loss for that period. In preparing the accounts on pages 26 to 44, appropriate accounting policies have to be used and applied consistently and reasonable and prudent judgements and estimates must be made. Applicable accounting standards also must be followed, subject to any material departures being disclosed in the notes to the accounts and the accounts must be prepared on the going concern basis unless it is inappropriate to do so. 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 purposes 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.

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
24 June 1994




**REPORT BY THE AUDITORS TO NORTHUMBRIAN WATER GROUP PLC ON THE
STATEMENT OF COMPLIANCE WITH THE CODE OF BEST PRACTICE**

We have reviewed the directors' statement on pages 22 and 23 concerning the Company's compliance with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance insofar as it relates to those paragraphs of the Code which the London Stock Exchange has specified for our review. We carried out our review having regard to the Bulletin 'Disclosures relating to corporate governance' issued by the Auditing Practices Board.

Our procedures primarily comprised enquiry of appropriate directors and officers and examination of relevant documents. We are not required to review, and have not reviewed, the effectiveness of the Company's governance procedures.

Based on our review we have satisfied ourselves that the directors' statement appropriately reflects the Company's compliance with the specified paragraphs of the code.

Cooper & Lybrand
Coopers & Lybrand
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
24 June 1994

REPORT OF THE AUDITORS

To the members of Northumbrian Water Group PLC

We have audited the accounts set out on pages 26 to 44.

Respective responsibilities of directors and auditors

As described on page 23 the Company's directors are responsible for the preparation of the accounts. 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 1994 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Cooper & Lybrand
Coopers & Lybrand
Chartered Accountants and Registered Auditors
Newcastle upon Tyne
24 June 1994

NORTHUMBRIAN
WATER GROUP PLC

Accounts 1994



BALANCE SHEETS

At 31 March 1994

	Notes	Group		Company	
		1994 £m	1993 £m	1994 £m	1993 £m
Fixed assets					
Tangible assets	12	865.8	813.6	-	-
Investments	13	2.2	2.1	178.6	177.5
		868.0	815.7	178.6	177.5
Current assets					
Stocks	15	3.4	7.1	-	-
Debtors: Receivable after more than one year	16	29.7	21.9	63.5	60.4
Debtors: Receivable within one year	16	95.5	148.3	89.8	133.8
Investments	17	1.9	1.6	-	1.6
Cash at bank and short term deposits	18	185.2	153.2	171.8	115.0
		315.7	332.1	325.1	310.8
Creditors: Amounts falling due within one year	19	(143.6)	(162.1)	(76.4)	(55.4)
Net current assets		172.1	170.0	248.7	255.4
Total assets less current liabilities		1,040.1	985.7	427.3	432.9
Creditors: Amounts falling due after more than one year	20	(216.9)	(214.7)	(100.2)	(101.2)
Provisions for liabilities and charges	23	(27.2)	(21.2)	-	-
Accruals and deferred income	24	(23.6)	(22.0)	-	-
		(267.7)	(257.9)	(100.2)	(101.2)
		772.4	727.8	327.1	331.7
Capital and reserves					
Called up share capital	25	67.8	67.3	67.8	67.3
Share premium account	28	60.5	60.2	60.5	60.2
Profit and loss account	28	644.1	600.3	198.8	204.2
		772.4	727.8	327.1	331.7

Approved by the Board of Directors on 24 June 1994.

Sir Frederick Holliday Chairman

J Michael Taylor Group Finance Director

F. G. M. Holliday
J. Michael Taylor

The notes on pages 30 to 44 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 March 1994*

	Notes	1994 £m	1993 £m
Net cash inflow from operating activities	A	146.7	36.1
Returns on investments and servicing of finance			
Interest received		7.9	11.8
Interest paid		(23.3)	(13.9)
Interest paid on hire purchase contracts and finance leases		(2.0)	(0.7)
Dividends received from fixed asset investments		-	0.6
Dividends received from current asset investments		7.9	1.9
Profit on realisation of current asset investments		-	7.3
Dividends paid		(0.7)	(12.8)
Net cash (outflow) from returns on investments and servicing of finance		(19.0)	(5.8)
Taxation			
Taxation paid		(3.6)	(3.3)
Investing activities			
Purchase of tangible fixed assets	12	(73.6)	(90.8)
Disposal of tangible fixed assets		2.0	0.8
Purchase of subsidiary undertakings (net of cash/overdrafts acquired)	J	(8.2)	(23.1)
Purchase of business		-	(0.8)
Disposal of subsidiary undertakings (net of cash transferred)		(0.1)	-
Repayment of deferred consideration		-	0.2
Investments in associated undertakings		(1.4)	(0.7)
Purchase of other fixed asset investments		(0.3)	-
Disposal of other fixed asset investments		1.4	-
Purchase of short term deposits		(227.0)	(177.0)
Disposal of short term deposits		237.0	167.0
Purchase of current asset investments		(1.9)	(1.6)
Disposal of current asset investments		-	41.7
Net cash (outflow) from investing activities		(72.1)	(84.3)
Net cash inflow/(outflow) before financing		52.0	(57.3)
Financing			
Repayment of commercial paper		-	(60.0)
Issue of Eurobond		-	99.5
Expenses on issue of Eurobond		-	(0.4)
Capital grants received		4.8	4.0
Loans received		-	17.0
Payment of principal under hire purchase contracts and finance leases	c	(5.0)	(2.5)
Issue of ordinary shares		0.4	0.8
Net cash inflow from financing		0.2	58.4
Increase in cash and cash equivalents	b	52.2	1.1
Movement in net borrowings:			
Increase in cash and cash equivalents		52.2	1.1
Net (increase) in loans and Eurobond		-	(57.0)
(Decrease)/increase in short term deposits		(10.0)	10.0
(Increase) in obligations under hire purchase contracts and finance leases		(3.5)	(21.3)
(Decrease) in current asset investments		-	(41.7)
		38.7	(108.9)
Net borrowings at 31 March		(64.1)	(102.8)

Net borrowings is the sum of all cash and short term deposits and all borrowings.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 1994

a Net Cash Inflow from Operating Activities

	1994 £m	1993 £m
Operating profit	77.6	69.7
Depreciation of tangible fixed assets	22.9	19.7
Amortisation of capital grants	(0.7)	(0.6)
Infrastructure renewals provision	19.0	18.5
Infrastructure renewals spend	(11.6)	(20.3)
Net expenditure on fair value provisions	(2.1)	-
Loss/(profit) on disposal of tangible fixed assets	1.3	(0.1)
Decrease/(increase) in stocks	3.7	(0.8)
Decrease/(increase) in investment in finance leases	146.8	(17.3)
(Decrease) in creditors of finance lease businesses	(99.4)	(32.8)
(Increase) in debtors	(0.1)	(7.1)
(Decrease)/increase in creditors	(11.2)	6.6
Issue of shares under Northumbrian Water Profit Sharing Scheme	0.3	0.6
Net cash inflow from operating activities	146.7	36.1

Included in the above net cash inflow from operating activities is £0.6m (1993:£(4.7)m) in respect of discontinued operations.

b Analysis of the Balances of Cash and Cash Equivalents

	1994 £m	1994 Change in year £m	1993 £m	1993 Change in year £m	1992 £m
Cash at bank and short term deposits	105.2	32.0	153.2	(16.3)	169.5
Less short term deposits with maturity dates greater than 3 months	(75.0)	10.0	(85.0)	(10.0)	(75.0)
	110.2	42.0	68.2	(26.3)	94.5
Bank overdrafts	(27.5)	10.2	(37.7)	27.4	(65.1)
	82.7	52.2	30.5	1.1	29.4

c Analysis of Changes in Financing during the Year

	1994 £m	1993 £m	1992 £m
At 1 April 1993			41.3
Net cash outflow from financing			(5.0)
Finance lease obligations of subsidiary undertakings disposed			(0.5)
Inception of finance lease contracts			9.0
At 31 March 1994			44.8

Included in the net cash outflow from financing is a repayment of capital of hire purchase contracts and finance leases of £0.7m within discontinued operations.

d Purchase of Subsidiary Undertakings

Net outflow in respect of cash and cash equivalents is analysed as follows:

	£m
Cash consideration	7.0
Bank overdrafts acquired	1.2
Net outflow in respect of acquisitions	8.2

Acquisitions contributed £74.6m to the Group's net operating cash flows and paid £1.7m in respect of net returns on investments and servicing of finance.

NOTES TO THE ACCOUNTS

1 Accounting Policies

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. The profit and loss account for the year ended 31 March 1993 has been restated in accordance with Financial Reporting Standard number 3 "Reporting Financial Performance". 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 or lease term if shorter; 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 at a constant periodic rate of return 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** Stocks 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.

(m) **Foreign currencies** Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year and the results of foreign subsidiaries are translated at the average rate of exchange for the year. Differences on exchange arising from the retranslation of the opening net investment in subsidiary companies, and from the translation of the results of those companies at average rate, are taken to reserves and are reported in the statement of total recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account in the year in which they arise.

2 Segmental Analysis

(a) Analysis by Class of Business and by Geographical Origin

	Water and Sewerage Services				Other Business Activities		Total	
	Appointed		Non-appointed		1994	1993	1994	1993
	£m	£m	£m	£m	£m	£m	£m	£m
Turnover: UK	204.9	189.0	20.0	21.0	94.0	96.7	319.7	306.7
Rest of Europe, Middle East and Far East	-	-	-	-	21.6	2.9	21.6	2.9
Total turnover	204.9	189.0	20.0	21.0	115.6	99.6	341.3	309.6
Inter segment	(0.0)	(2.9)	-	(0.2)	(41.9)	(54.4)	(42.7)	(57.5)
External turnover	204.1	186.1	20.0	20.8	73.7	45.2	298.6	252.1
Operating profit: UK	72.4	60.8	8.4	6.1	(3.3)	2.9	77.5	69.8
Rest of Europe, Middle East and Far East	-	-	-	-	0.1	(0.1)	0.1	(0.1)
Operating profit/(loss)	72.4	60.8	8.4	6.1	(3.2)	2.8	77.6	69.7
Losses on disposal/closure of discontinued operations	-	-	-	-	(8.4)	-	(8.4)	-
	72.4	60.8	8.4	6.1	(11.6)	2.8	69.2	69.7
Net common costs							(6.4)	(0.3)
Profit on ordinary activities before taxation							62.8	69.4

Net common costs, comprising share of associated undertakings' losses, investment income and net interest payable, are analysed on the profit and loss account.

	1994	1993	1994	1993	1994	1993	1994	1993
	£m	£m	£m	£m	£m	£m	£m	£m
Net assets								
Group undertakings	482.9	425.9	137.2	132.1	96.5	195.4	716.6	753.4
Share of associated undertakings' net assets							1.5	0.9
Net operating assets							718.1	754.3
Unallocated net assets/(liabilities)							54.3	(26.5)
Net assets							772.4	727.8

The above analysis includes, within Other Business Activities in the UK, the results from acquisitions and discontinued operations as follows:

	Acquisitions		Discontinued Operations	
	1994	1993	1994	1993
	£m	£m	£m	£m
Turnover	4.5	-	9.4	12.1
Inter segment	-	-	(3.3)	(5.1)
External turnover	4.5	-	6.1	7.0
Operating profit/(loss)	3.9	-	(3.5)	(4.7)

Included within turnover of Other Business Activities are rentals receivable under finance lease agreements of £6.7m (1993: £7.9m) and under operating lease agreements of £1.7m (1993: £1m). Rentals receivable under finance lease agreements which relate to a repayment of capital amount to £166.6m (1993: £46.7m).

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

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

The net assets of the Group are almost entirely situated in the United Kingdom.

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.

NOTES TO THE ACCOUNTS

2 Segmental Analysis continued

(b) Analysis of External Turnover by Geographical Destination

	1994 £m	1993 £m
UK	267.7	247.5
Rest of Europe, Middle East and Far East	25.3	3.0
Rest of World	5.6	1.6
External turnover	298.6	252.1

3 Operating Costs

	Continuing operations 1994 £m	Acquisitions 1994 £m	Discontinued operations 1994 £m	Total 1994 £m	As restated		
					Continuing operations 1993 £m	Discontinued operations 1993 £m	Total 1993 £m
Materials and consumables	15.4	-	1.1	16.5	14.9	1.4	16.3
Manpower costs (note 8)	58.7	0.2	3.4	62.3	45.5	4.1	49.6
Depreciation on tangible fixed assets:							
owned	17.6	0.1	0.7	18.4	15.9	0.5	16.4
under hire purchase contracts and finance leases	3.9	-	0.6	4.5	2.5	0.8	3.3
Infrastructure renewals	19.0	-	-	19.0	18.5	-	18.5
Other operating charges	90.7	0.3	3.4	94.4	70.9	4.4	75.3
Operating leases:							
plant and machinery	0.9	-	0.2	1.1	0.1	0.3	0.4
other	0.8	-	0.2	1.0	-	0.2	0.2
Costs of research and development	3.1	-	-	3.1	1.9	-	1.9
Auditors' remuneration:							
audit (Company £5,000; 1993:£4,000)	0.2	-	-	0.2	0.1	-	0.1
non-audit services	0.5	-	-	0.5	0.4	-	0.4
	210.8	0.6	9.6	221.0	170.7	11.7	182.4

4 Investment Income

	1994 £m	1993 £m
Dividends receivable from fixed asset investments	0.6	0.6
Dividends receivable from current asset investments (note 17)	0.6	1.4
Profit on disposal of fixed asset investments	0.6	-
Profit on realisation of current asset investments	-	7.3
	9.8	9.3

5 Net Interest Payable

	1994 £m	1993 £m
Interest payable:		
On bank loans, overdrafts and Eurobonds:		
Repayable within five years otherwise than by instalments	(8.8)	(10.8)
Repayable within five years by instalments	-	(0.3)
Not wholly repayable within five years	(17.5)	(10.7)
On hire purchase contracts and finance leases	(26.3)	(21.8)
Total interest payable	(29.0)	(24.5)
Interest receivable	13.3	15.5
Net interest payable	(15.7)	(9.0)

6 Directors' Remuneration

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

	£'000	£'000
Fees of non-executive directors	150	99
Fixed remuneration	312	398
Annual bonus	-	25
Compensation for loss of office	184	-
Pension contributions and other benefits	76	77
Total remuneration	722	599

Compensation for loss of office includes £14,975 and £20,000 in respect of two cars retained by the directors, and £30,000 in respect of additional pension contributions.

Emoluments disclosed above include:

	£'000	£'000
Chairman - Sir M Y B Straker (1 April 1993 to 23 July 1993):		
Fixed remuneration	29	91
Pension contributions	-	11
	29	102
Chairman - Sir Frederick Holliday (23 July 1993 to 31 March 1994):		
Fixed remuneration	41	-
Other benefits	13	-
	54	-
Highest paid director - D G Cranston:		
Fixed remuneration	123	100
Annual bonus	-	8
Pension contributions	15	12
Other benefits	12	9
	150	129

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 and New Bridge Street 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 1994, no bonus was awarded as the targets were not 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:

	1994 Number	1993 Number		1994 Number	1993 Number
£0-£5,000	2	-	£70,001-£75,000	2	-
£5,001-£10,000	1	-	£85,001-£90,000	-	1
£10,001-£15,000	3	5	£90,001-£95,000	1	2
£15,001-£20,000	1	1	£115,001-£120,000	-	1
£20,001-£25,000	1	-	£130,001-£135,000	1	-
£25,001-£30,000	-	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:

	1994 £m	1993 £m
Wages and salaries	57.7	48.7
Social security costs	6.4	4.0
Other pension costs	4.4	3.9
Total employment costs	68.5	56.6

(b) Total employment costs were charged as follows:

Capital schemes and infrastructure renewals	6.2	7.0
Manpower costs	62.3	49.6
	68.5	56.6

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

	1994 Number	1993 Number
Water and Sewerage Services:		
Appointed	1,315	1,170
Non-appointed	45	132
	1,360	1,302
Other business activities	1,954	1,601
	3,314	2,903

9 Tax on Profit on Ordinary Activities

	1994 £m	1993 £m
Current UK corporation tax at 33% (see (a) below)	3.7	6.9
Net advance corporation tax recoverable	(1.5)	(1.6)
Tax on franked investment income	2.9	0.5
Under/(over)-provision in respect of prior years' current tax	1.3	(3.1)
Group relief	-	(0.8)
Associated undertakings	-	0.1
	6.4	2.0

(a) The tax charge for the year has been reduced by the availability of capital allowances.

10 Dividends

	1994 £m	1993 £m
Interim declared of 8.1p (1993: 7.5p) per share	5.5	5.0
Final proposed of 16.2p (1993: 15.0p) per share	11.0	10.1
	16.5	15.1

11 Earnings Per Ordinary Share

(a) Earnings per share for the year to 31 March 1994 of 83.5p (1993: 100.7p) on a net basis have been calculated on a profit for the financial year of £56.4m (1993: £67.4m) and by reference to 67.5 million (1993: 66.9 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 88.7p (1993: 105.1p).

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 1993	39.8	3.1	415.1	312.0	44.3	107.0	921.3
In respect of new subsidiaries	3.3	-	-	0.6	0.6	-	4.7
Additions	0.7	-	-	6.0	2.9	67.4	77.0
Schemes commissioned	2.9	-	34.3	49.8	0.4	(37.9)	-
Disposals	(0.3)	(0.1)	-	(3.5)	(1.8)	-	(5.7)
Grants - Infrastructure assets	-	-	(1.3)	-	-	(1.2)	(2.5)
At 31 March 1994	46.6	3.0	448.6	364.9	46.4	85.3	994.8
Depreciation:							
At 1 April 1993	5.9	0.5	-	75.0	26.1	-	107.7
In respect of new subsidiaries	0.1	-	-	0.2	-	-	0.3
Provision for year	1.8	0.1	-	15.6	5.4	-	22.9
Disposals	(0.1)	-	-	(1.2)	(0.6)	-	(1.9)
At 31 March 1994	7.7	0.6	-	89.6	31.1	-	129.0
Net book value: 31 March 1994	38.9	2.4	448.6	275.3	15.3	85.3	865.8
Net book value: 31 March 1993	33.9	2.6	415.1	237.0	18.0	107.0	813.6

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, including those assets in the course of construction, is £39.3m (1993: £36.8m) 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 1994 was as follows:

	1994 £m	1993 £m
Operational structures, plant and machinery	36.6	35.4
Fixtures, fittings, tools and equipment	0.4	1.1
Assets in the course of construction	2.2	1.5
	39.2	38.0

Additions to tangible fixed assets for the year ended 31 March 1994 have been funded as follows:

	£m
Cash	73.6
Decrease in accrual	(5.6)
Hire purchase contracts and finance leases	9.0
	77.0

NOTES TO THE ACCOUNTS

13 Fixed Asset Investments

(a) The Group:

	Associated undertakings £m	Other investments £m	Total £m
At 1 April 1993	0.9	1.2	2.1
Additions	1.4	0.3	1.7
Share of results for the year	(0.5)	-	(0.5)
Goodwill written off	(0.3)	-	(0.3)
Disposals	-	(0.8)	(0.8)
At 31 March 1994	1.5	0.7	2.2

All fixed asset investments are unlisted.

(b) The Company:

	Associated undertakings £m	Interests in subsidiaries £m	Other investments £m	Total £m
At 1 April 1993	3.8	172.6	1.1	177.5
Additions	1.3	14.2	0.3	15.8
Disposals	(0.2)	-	(0.8)	(1.0)
Decrease in contingent deferred consideration	-	(0.2)	-	(0.2)
Write down following transfers of trade and assets	-	(13.5)	-	(13.5)
At 31 March 1994	4.9	173.1	0.6	178.6

All fixed asset investments are unlisted. The additions to the Company's interests in subsidiaries of £14.2m relate to additional investment in preference share capital of subsidiary undertakings. During the year the Company has discontinued the operations of Amire Europe Limited, the underground asset management subsidiary. The Company has provided £13.5m against its investments in this subsidiary.

(c) The Group's interests in principal trading associates are as follows:

Name of undertaking	Country of incorporation or registration and operation	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 (carrying 50% of voting rights)	99	Development of effluent treatment processes
Obrazcon-Northumbrian S.A.	Spain	Shares of 1,000 pesetas	40	Operational and engineering services
Sulterra Holdings Limited	England and Wales	Ordinary Shares of £1	40	Pipe lining services
Accessace Limited	England and Wales	Ordinary Shares of £1 Convertible Preference Shares of £1	24.7 100	Human resource consultancy

(d) The Group's interests in principal trading subsidiaries are as follows:

Name of undertaking	Country of incorporation or registration and operation	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
Entec (Holdings) Limited (and subsidiary companies)	England and Wales	Ordinary Shares of £1	100	100	Environmental & engineering consultancy and laboratory services
Entec Europe Limited (and subsidiary companies)	England and Wales	Ordinary Shares of £1 Preference Shares of £1	100 100	- 100	Environmental & engineering consultancy and laboratory services
Hydrogeologie GmbH	Germany	Ordinary Share of DM100,000	100	-	Geotechnical surveys and land remediation
Northumbrian Environmental Management Limited (and subsidiary companies)	England and Wales	Ordinary Shares of £1 Preference Shares of £1	100 100	100 100	Waste management
Montec International Limited	England and Wales	Ordinary Shares of £1 Preference Shares of £1	100 100	100 100	Manufacture of flow measurement and sampling equipment
Exploration Associates Limited (formerly North Eastern Water Services Limited)	England and Wales	Ordinary Shares of £1 Preference Shares of £1	100 100	100 100	Geotechnical surveys
NWGL Leasing (Holdings) Limited (and subsidiary companies)	England and Wales	Ordinary Shares of £1	100	100	Lessor

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The above information relates to those subsidiary undertakings or groups of undertakings whose results or financial position, in the opinion of the directors, principally affect the figures of the Group. On 31 March 1994 the trade and assets of the business of Exploration Associates were transferred from Entec Europe Limited to Exploration Associates Limited (formerly North Eastern Water Services Limited) a company dormant prior to this date.

14 Acquisitions of Subsidiaries

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

	Leasing businesses			Others			Total fair value £m
	Book values £m	Fair value adjustments £m	Fair value £m	Book values £m	Fair value adjustments £m	Fair value £m	
Tangible fixed assets	-	-	-	2.6	1.8	4.4	4.4
Current assets	110.1	(9.6)	100.5	0.4	-	0.4	100.9
Creditors: amounts falling due within one year	(108.6)	9.2	(99.4)	(1.8)	(0.5)	(2.3)	(101.7)
	1.5	(0.4)	1.1	1.2	1.3	2.5	3.6
Fair value of consideration (cash)			1.1			5.9	7.0
Goodwill arising			-			3.4	3.4

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

The companies acquired during the year are NWG Leasing Limited (formerly Hambros Leasing (June) Limited), NWG Leasing (Summer) Limited (formerly JI (SW Leasing (Summer) Limited), NWG Finance Limited (formerly Robert Fleming Finance Limited), Envirocare Limited and Binu Landfill (Glenfarg) Limited.

(b) The cumulative amount of goodwill which has been written off directly to reserves is set out below:

	£m	£m
At 1 April 1993		26.4
Written off to reserves in year arising on:		
Subsidiary undertakings acquired during the year (note 14(a))	3.4	
Subsidiary undertakings acquired in prior year (note 23)	0.7	
Associated undertakings (note 13(a))	0.3	
		4.4
Written back to reserves in year arising on:		
Decrease in contingent deferred consideration (note 13(b))	(0.2)	
Subsidiary undertakings on disposal/closure	(6.0)	
		(6.2)
At 31 March 1994		24.6

15 Stocks

	Group	
	1994 £m	1993 £m
Stores	2.9	5.8
Work in progress	0.3	0.8
Finished goods	0.2	0.5
	3.4	7.1

NOTES TO THE ACCOUNTS

16 Debtors

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
(a) Debtors: Receivable after more than one year:				
Net investment in finance leases	29.7	21.9	-	-
Amounts owed by subsidiary undertakings	-	-	63.5	60.4
	29.7	21.9	63.5	60.4
(b) Debtors: Receivable within one year:				
Trade debtors	26.4	37.1	-	-
Net investment in finance leases	20.7	74.8	-	-
Amounts owed by subsidiary undertakings	-	-	77.9	127.9
Amounts owed by associated undertakings	4.8	-	4.8	-
Corporation tax and ACT recoverable	3.7	3.5	1.9	-
Other debtors	10.6	18.0	1.2	2.6
Prepayments and accrued income	19.3	14.9	4.0	3.3
	95.5	148.3	89.8	33.8

During the year assets with a gross cost of £120.3m (1993: £102.4m) were acquired for letting under finance leases of which £100.5m were held by the leasing businesses on acquisition.

17 Current Asset Investments

On 31 March 1994 the Company received a gross dividend of £10.2m from its current asset investment, Jayhold Limited, after which the operations of Jayhold Limited ceased and the Company's cost of investment of £1.6m was written off.

On 25 August 1993 the Group acquired for the short term, at a cost of £1.9m, a 100% interest in Mastfoot Limited, an invoice discounting company registered in England and Wales.

18 Cash at Bank and Short Term Deposits

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Short term cash deposits	98.6	72.0	98.6	72.0
Certificates of deposit	8.0	-	8.0	-
Managed funds	40.0	40.0	40.0	40.0
Cash at bank	38.6	41.2	25.2	3.0
	185.2	153.2	171.8	115.0

All cash and short term deposits are realisable on demand.

19 Creditors: Amounts falling due within one year

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Bank loans and overdrafts	27.5	37.7	-	23.5
Obligations under hire purchase contracts and finance leases (note 22)	5.9	5.3	-	-
Trade creditors	11.4	10.9	0.1	0.6
Amounts owed to subsidiary undertakings	-	-	46.6	6.4
Other creditors	30.9	70.6	3.2	3.4
Taxation and social security (see (a) and (b) below)	9.6	7.5	6.3	6.1
Dividends payable	15.8	10.1	15.8	10.1
Accruals and deferred income	22.5	20.0	4.4	5.3
	143.6	162.1	76.4	55.4

(a) The creditor for taxation and social security in the Group includes advance corporation tax payable amounting to £3.5m (1993: £4.4m) and corporation tax amounting to £4.1m (1993: £1.7m).

(b) The creditor for taxation and social security in the Company includes advance corporation tax payable amounting to £3.5m (1993: £4.3m) and corporation tax amounting to £2.7m (1993: £1.7m).

20 Creditors: Amounts falling due after more than one year

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Loans (note 21)	77.0	77.0	-	-
Eurobond (see (a) below)	100.0	100.0	100.0	100.0
Obligations under hire purchase contracts and finance leases (note 22)	38.9	36.0	-	-
Other creditors	1.0	1.7	0.2	1.2
	216.9	214.7	100.2	101.2

(a) The Eurobond matures on 1 February 2002 and bears an interest rate of 9.25%.

(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 one to seven years, cover £159.3m (1993: £164.1m) of the Group's borrowings. The related costs or income arising during the year are included in net interest payable.

21 Loans

	Group	
	1994 £m	1993 £m
Loans are repayable as follows:		
Between two and five years	13.9	8.5
In five years or more	63.1	68.5
	77.0	77.0

Loans repayable in five years or more are repayable by instalments at rates of interest in the range of 9.23% to 11.5% (1993: 9.23% to 11.5%).
The aggregate amount of loans any part of which falls due for repayment in five years or more is £77m (1993: £77m).

22 Obligations under Hire Purchase Contracts and Finance Leases

	Group	
	1994 £m	1993 £m
Amounts due:		
In less than one year	6.4	4.2
Between one and two years	1.4	6.3
Between two and five years	4.5	6.2
In five years or more	108.7	93.9
Gross obligations	121.0	110.6
Less: finance charge allocated to future periods	(76.2)	(69.3)
	44.8	41.3
Disclosed as due:		
Within one year	5.9	5.3
After more than one year	38.9	36.0
	44.8	41.3

The aggregate gross amount of obligations under hire purchase contracts and finance leases any part of which falls due for repayment in five years or more is £114m (1993: £98.8m).

NOTES TO THE ACCOUNTS

23 Provisions for Liabilities and Charges

	Group		Total £m
	Fair value reorganisation provisions £m	Infrastructure renewals expenditure £m	
At 1 April 1993	1.4	19.8	21.2
Net adjustments on acquisitions made during the year ended 31 March 1993 (note 14(b))	0.7	-	0.7
Transferred from profit and loss account	-	19.0	19.0
Utilised during the year	(2.1)	(11.6)	(13.7)
At 31 March 1994	-	27.2	27.2

24 Accruals and Deferred Income

	Group £m
Capital grants:	
At 1 April 1993	22.0
Additions	2.3
Amortisation in year	(0.7)
At 31 March 1994	23.6

25 Called Up Share Capital

The share capital of the Company is shown below:

	1994 £m	1993 £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:		
67.8 (1993: 67.3) million Ordinary Shares of £1 each	67.8	67.3
Special Rights Redeemable Preference Share of £1	-	-
	67.8	67.3

(a) At 1 April 1993 the number of allotted, called up and fully paid Ordinary Shares stood at 67,255,662.

During the year a further 580,704 Ordinary Shares were allotted as follows:

	Number allotted	Issue price £	Premium £m
Under the Northumbrian Water Profit Sharing Scheme at a mid-market value on 24 June 1993	73,224	5.55	0.3
For cash earned employees under the Savings-Related Share Option Scheme	18,400	1.76-4.47	-
For cash under the Executive Share Option Scheme	119,401	3.10-4.40	0.4
Scrip dividends (note 28)	369,679	1.00	-
	580,704	-	0.7

(b) The Special Rights Redeemable Preference Share is redeemable at any time prior to 31 December 1994 at par at the option of the Secretary of State for the Environment after consulting the Company. Unless so redeemed the Special Share will be redeemed by the Company on that date at par. 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.

26 Directors' Interests

(a) The beneficial interests of directors at 31 March 1994 and their families in numbers of Ordinary Shares of the Company are set out below.

	31 March 1994			31 March 1993		
	Fully paid shares	Options Executive scheme	SAYF scheme	Fully paid shares	Options Executive scheme	SAYF scheme
Sir P G Holiday	421	-	-	411	-	-
D G Cranston	11,993	62,277	7,757	23,161	50,317	7,757
J M Taylor	1,032	64,693	-	1,000	60,462	-
J W Hargreaves	3,335	29,986	5,711	770	25,703	5,711
Sir M I B Straker	4,525	33,105	-	4,493	33,105	-
Professor M B Prescod	235	-	-	229	-	-
Sir J Riddell	1,000	-	-	1,000	-	-
J S Ward	213	-	-	408	-	-

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

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

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

Further details of the share option schemes are set out in note 27 below. Non-executive directors are not entitled to participate in either of such schemes.

(b) During the year ended 31 March 1994, the changes in the interests of directors in the executive scheme options are set out below:

	Executive scheme options granted	Executive scheme options exercised
D G Cranston	11,940	-
J M Taylor	4,231	-
J W Hargreaves	15,503	11,220

(c) From the end of the financial year to 25 May 1994, there was no change in the above mentioned beneficial interests of the directors.

27 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.
156,040	378p	From June 1994 for 7 years.
353,369	440p	From June 1995 for 7 years.
26,103	550p	From December 1995 for 7 years.
67,021	555p	From June 1996 for 7 years.

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

Number	Price per share	Exercise period
876,509	176p	From March 1995 for 6 months.
293,412	176p	From March 1997 for 6 months.
193,972	264p	From March 1996 for 6 months.
117,935	264p	From March 1998 for 6 months.
184,293	278p	From March 1997 for 6 months.
180,610	278p	From March 1999 for 6 months.
406,393	447p	From March 1998 for 6 months.
169,859	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 32(d).

NOTES TO THE ACCOUNTS

28 Reserves

	Share premium account £m	Profit and loss account £m
The Group:		
At 1 April 1993	60.2	600.3
Adjustment in respect of scrip dividends (note 25(a))	(0.4)	2.1
Shares issued (note 25(a))	0.7	-
Profit retained for the year	-	39.9
Goodwill written off (note 14(b))	-	(4.4)
Goodwill written back (note 14(b))	-	6.2
At 31 March 1994	60.5	644.1
The Company:		
At 1 April 1993	60.2	204.2
Adjustment in respect of scrip dividends (note 25(a))	(0.4)	2.1
Shares issued (note 25(a))	0.7	-
Loss for the year	-	(7.5)
At 31 March 1994	60.5	198.8

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. Of the Group consolidated profit for the financial year £9m (1993: £44.7m) is dealt with in the accounts of the holding company.

29 Reconciliation of Movement in Shareholders' Funds

	1994 £m	1993 £m
Profit for the financial year	56.4	67.4
Dividends	(16.5)	(15.1)
Profit retained for the year	39.9	52.3
Shares allotted - nominal value	0.5	0.7
- premium	0.7	1.0
Goodwill written off (note 14(b))	(4.4)	(14.0)
Goodwill written back (note 14(b))	6.2	2.2
Expenses and discount on issue of Eurobond	-	(0.9)
Increase in shareholders' funds	42.9	41.3
Opening shareholders' funds	727.8	685.5
Net adjustment in respect of scrip dividends	1.7	1.0
Closing shareholders' funds	772.4	727.8

30 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 to WPS and MIS 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 adopted are based upon investment growth of 9% per annum, pay growth of 7% per annum and increases to pensions in payment and deferred pensions of 5% per annum.

The last actuarial valuation of the two schemes was carried out as at 31 March 1993. The total market value of the assets at the valuation date was £74m and the combined actuarial value of the assets represented 99% of the value of the accrued benefits after allowing for expected future earnings increases. The total pension cost for the year was £4.4m (1993:£3.9m).

31 Financial Commitments**(a) Capital expenditure:**

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Expenditure contracted for	24.5	38.1	-	-
Expenditure authorised by directors but not yet contracted for	68.2	62.3	0.4	0.8
	92.7	100.4	0.4	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			
	1994		1993	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Leases which expire:				
Within one year	0.4	0.2	0.1	-
Within two to five years	0.3	0.4	0.5	0.3
After five years	0.7	-	0.6	-
	1.4	0.6	1.2	0.3

NOTES TO THE ACCOUNTS

32 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% on all timing differences is as follows:

	Group		Company	
	1994 £m	1993 £m	1994 £m	1993 £m
Accelerated capital allowances	169.1	129.4	-	-
Other timing differences	(14.5)	(10.5)	(0.5)	(0.1)
	154.6	118.9	(0.5)	(0.1)
Advance corporation tax	(6.5)	(8.0)	-	-
	148.1	110.9	(0.5)	(0.1)

Potential deferred tax at 31 March 1994 has been increased by £1m as a result of losses surrendered to Jayhold Limited, a subsidiary which is not consolidated, and by £2.6m 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 1994 amounted to £24.9m (1993: £14.5m).

(c) The Company has 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 1994 was £1.2m (1993: £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 1994 under this guarantee was £4m (1993: £4m).

(e) The Company may become liable to make a payment of £18.8m (1993: £18.8m) 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.

(f) The Company has guaranteed loan and bank facilities of subsidiary undertakings which in aggregate amount to £130.3m at 31 March 1994 (1993: £115.9m) and interest rate swap agreements of subsidiary undertakings the contingent liability of which cannot be determined since it is dependent on future variable interest rates.

FIVE YEAR RECORD

Results	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Turnover	298.6	252.1	203.5	167.0	150.9
Operating profit	77.6	69.7	54.9	34.1	36.6
Profit on ordinary activities before taxation	62.8	69.4	61.1	46.9	10.0
Profit for the financial year	56.4	67.4	56.6	42.8	7.7
Extraordinary item	-	-	-	-	(3.6)
Dividends (1990: final dividend only)	(16.5)	(15.1)	(13.6)	(12.2)	(7.0)
Retained profit/(loss)	39.9	52.3	43.0	30.6	(2.9)
Net assets employed					
Fixed assets	868.0	815.7	721.0	635.5	567.9
Net current assets	172.1	170.0	130.0	149.5	82.6
Total assets less current liabilities	1,040.1	985.7	851.0	785.0	650.5
Non current liabilities	(216.9)	(214.7)	(122.5)	(94.7)	(0.7)
Provisions for liabilities and charges	(27.2)	(21.2)	(21.6)	(18.9)	(9.9)
Accruals and deferred income	(23.6)	(22.0)	(21.4)	(20.0)	(17.3)
Net assets employed	772.4	727.8	685.5	651.4	622.6
Ratios					
Operating margin	26.0%	27.6%	27.0%	20.4%	24.3%
Earnings per ordinary share (1990: calculated on a proforma basis)	83.5p	100.7p	83.5p	65.3p	78.3p
Dividend per ordinary share (1990: final dividend only)	24.3p	22.5p	20.5p	18.6p	10.69p

SHAREHOLDER INFORMATION

**Shareholder Profile: Analysis of Ordinary Fully Paid Share Register
as at 30 April 1994**

Type of shareholder	Number of holders	%	Number of shares	%
Insurance company	30	0.04	13,894,968	20.48
Nominee company	1,818	2.67	31,321,480	46.17
Bank	18	0.03	24,177	0.04
Pension fund	20	0.03	1,390,498	2.05
Public limited companies	11	0.02	6,123	0.00
Other limited companies	344	0.51	7,884,856	11.62
Other corporate body	111	0.16	2,612,681	3.85
Male	39,347	57.59	5,918,848	8.73
Female	22,803	33.54	3,813,190	5.63
Joint account	3,477	5.11	970,802	1.43
Totals	67,979	100.00	67,842,623	100.00

**Balance Analysis Summary: Ordinary Shares
as at 30 April 1994**

Range	Number of holdings	%	Balances as at 30 April 1994	%
1-499	64,893	95.47	8,929,818	13.16
500-999	1,338	1.97	902,404	1.33
1,000-4,999	1,269	1.87	2,164,947	3.19
5,000-9,999	140	0.20	937,916	1.38
10,000-49,999	170	0.25	3,797,138	5.60
50,000-999,999	156	0.23	32,538,168	47.96
1,000,000+	5	0.01	18,572,232	27.38
Totals	67,979	100.00	67,842,623	100.00

Financial Calendar 1994/95

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

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

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

