

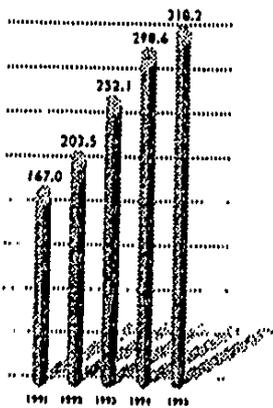
08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

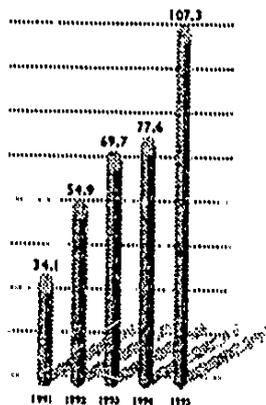
2366698

## CONTENTS

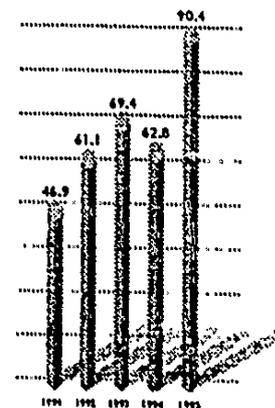
Chairman's Statement	2	Consolidated Profit and Loss Account	26
Board of Directors	4	Balance Sheets	27
Chief Executive's Review	6	Consolidated Cash Flow Statement	28
Water and Sewerage Services	8	Notes to the Consolidated Cash Flow Statement	29
Environmental Services	12	Notes to the Financial Statements	30
Other Services	16	Five Year Record	48
Environmental Review	16	Shareholder Information	49
Financial Review	18	Financial Calendar	49
Directors' Report	20		
Reports of the Auditors	25		



TURNOVER £m



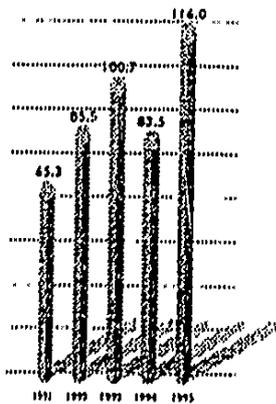
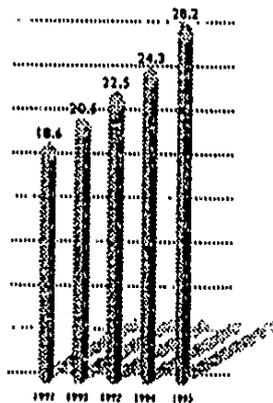
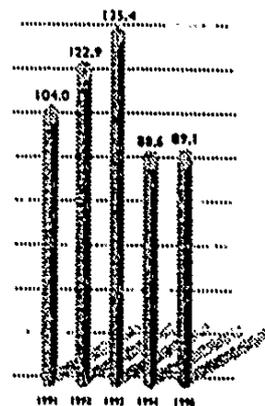
OPERATING PROFIT £m

PROFIT ON ORDINARY  
ACTIVITIES BEFORE TAXATION £m

08 - 08 - 95

## FINANCIAL HIGHLIGHTS

	1995	1994
	£m	£m
Turnover	318.2	298.6
Operating profit	107.3	77.6
Profit on ordinary activities before taxation	90.4	62.8
Profit for the financial year	79.1	56.4
Shareholders' funds	830.1	772.4
Capital investment	89.1	88.6
Earnings per ordinary share	116.0p	83.5p
Dividend per ordinary share	28.2p	24.3p
Number of shareholders at year end	65,038	67,594

EARNINGS PER  
ORDINARY SHARE-PENCEDIVIDEND PER  
ORDINARY SHARE-PENCE

CAPITAL INVESTMENT £m

08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

## CHAIRMAN'S STATEMENT



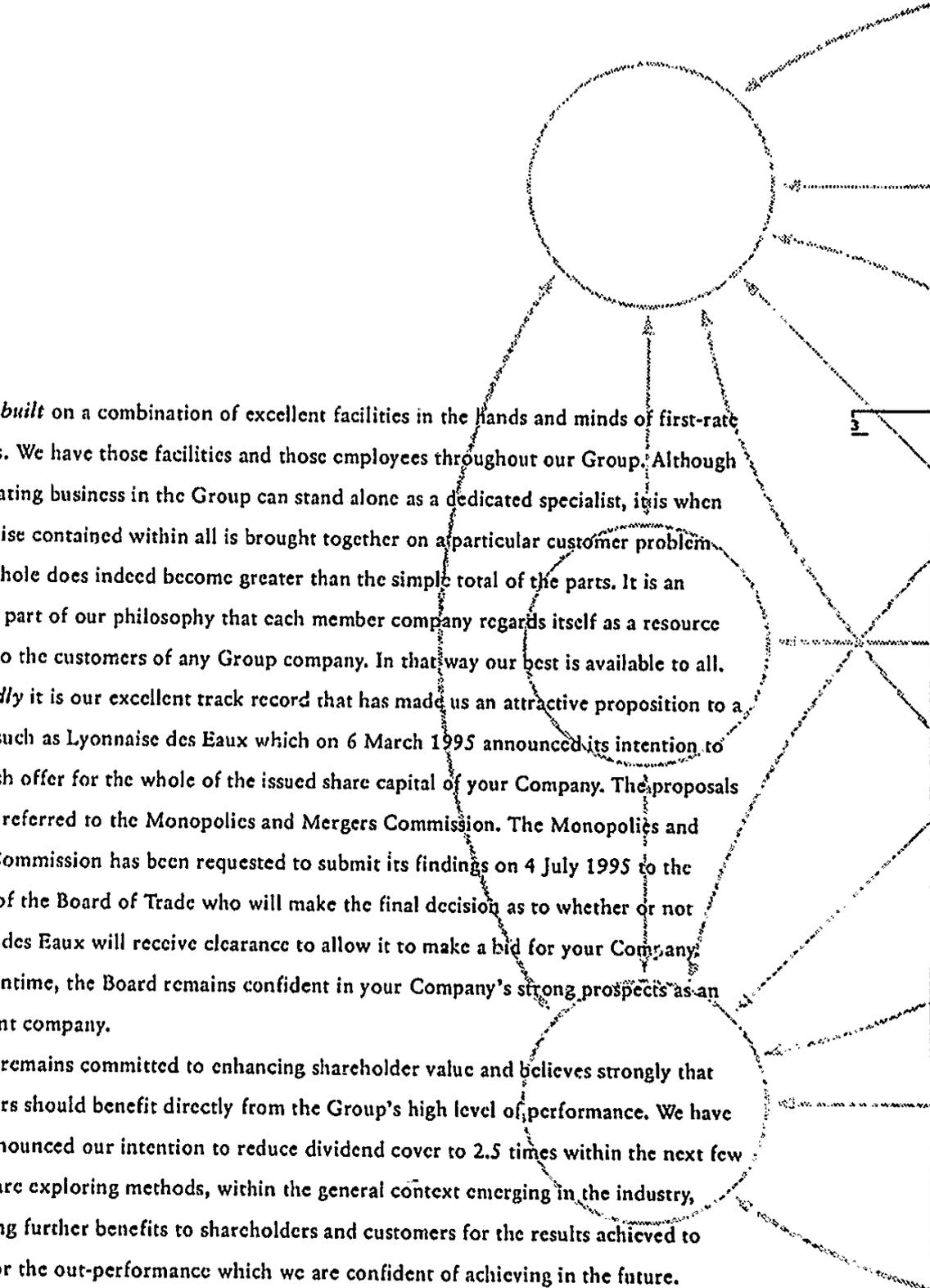
Professor Sir Frederick Holliday Chairman

*We have had an eventful year.* The Group has registered a strong performance and has made excellent profits, with all of the key operating businesses making significant progress towards our overall objective of being a leading integrated environmental company.

---

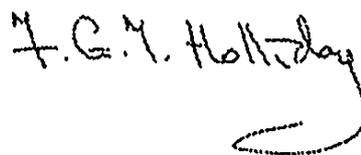
*Our emphasis* on the interactions between waste and the environment, and the challenges that arise therefrom, is proving to be both profitable and intellectually challenging. It is not easy to convey the message that the supply of clean, clear water is only a part, albeit an important part, of our business. Water which enters a house, hospital or factory must come out in some shape or form and re-enter the water cycle. Effluent needs skilled 24 hour attention and that we are proud to provide. In our business quality comes first, second and third; we cannot afford to have it otherwise. We pride ourselves on our record for protecting human and environmental health.

08 - 08 - 95



*Success is built* on a combination of excellent facilities in the hands and minds of first-rate employees. We have those facilities and those employees throughout our Group. Although each operating business in the Group can stand alone as a dedicated specialist, it is when the expertise contained within all is brought together on a particular customer problem that the whole does indeed become greater than the simple total of the parts. It is an important part of our philosophy that each member company regards itself as a resource available to the customers of any Group company. In that way our best is available to all. *Undoubtedly* it is our excellent track record that has made us an attractive proposition to a company such as Lyonnaise des Eaux which on 6 March 1995 announced its intention to make a cash offer for the whole of the issued share capital of your Company. The proposals have been referred to the Monopolies and Mergers Commission. The Monopolies and Mergers Commission has been requested to submit its findings on 4 July 1995 to the President of the Board of Trade who will make the final decision as to whether or not Lyonnaise des Eaux will receive clearance to allow it to make a bid for your Company. In the meantime, the Board remains confident in your Company's strong prospects as an independent company.

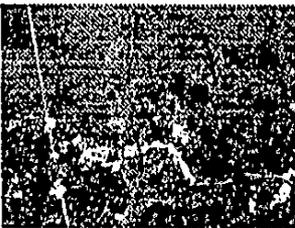
*The Board* remains committed to enhancing shareholder value and believes strongly that shareholders should benefit directly from the Group's high level of performance. We have already announced our intention to reduce dividend cover to 2.5 times within the next few years. We are exploring methods, within the general context emerging in the industry, of delivering further benefits to shareholders and customers for the results achieved to date and for the out-performance which we are confident of achieving in the future.



08-08-95

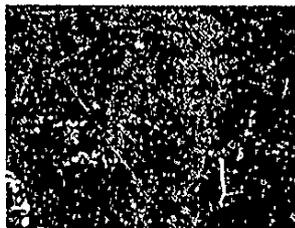
NORTHUMBRIAN WATER GROUP PLC

## THE BOARD OF DIRECTORS



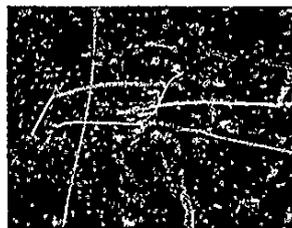
**JON HARGREAVES**  
BSc PhD C Biol MBiol (45)

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. Chairman of the UK Water Industry Research Company.



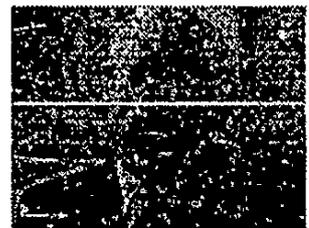
**PROFESSOR SIR FREDERICK HOLLIDAY**  
CBE DSc FRSE (59)

Chairman, Northumbrian Water Group PLC since July 1993; Board Member, Union Railways from 1993; Board Member, Shell UK Limited; Chairman, Investor's 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; Council Member for WaterAid.



**J MICHAEL TAYLOR**  
FCMA (49)

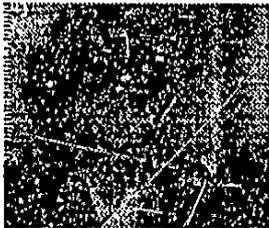
Group Finance Director from March 1992; Group Finance Director, Hickson International PLC, 1986-1991.



**DAVID G CRANSTON**  
IPFA FBIM (57)

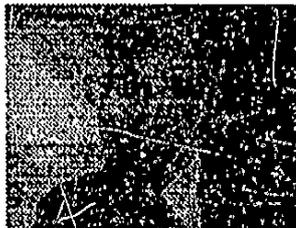
Chief Executive, Northumbrian Water Group PLC; Chairman, Northumbrian Water Limited since 1994; Chief Executive and Group Finance Director 1991-1992; Group Finance Director 1989-1990; Finance Director, Northumbrian Water Authority, 1980-1989; Financial Representative of the Water Authorities' Negotiating 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; Trustee of the University of Newcastle upon Tyne Development Trust since 1992; Director of Water Training International since 1994.

08 - 08 - 95



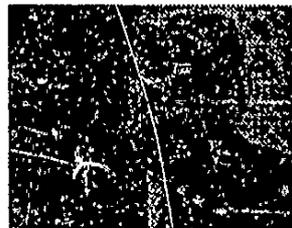
**NEIL MINTO**  
DIP FRSA (42)

Deputy Director General,  
Engineering Employers'  
Association since 1994;  
Business Services Manager,  
Oil UK Exploration &  
Production, 1992-1993;  
Chairman, National  
Engineering GNVQ (General  
National Vocational  
Qualification) Advisory  
Committee; Member of the  
Employment Policy  
Committee, the Central  
Innovation Service and the  
National Council for  
Tertiary Organisations.



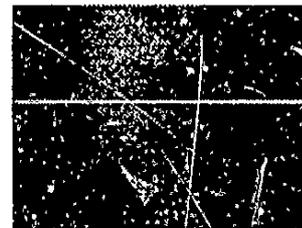
**PROFESSOR  
M B "WARREN" PESCOD**  
OBE (62)

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.



**JOHN WARD**  
OBE ICIB (61)

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;  
a Deputy Chairman, Northern  
Rock Building Society; Deputy  
Chairman, Tyne and Wear  
Development Corporation;  
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; Non executive  
Director, Cowie Group PLC;  
Non executive Director,  
Talent Holdings PLC;  
Director, Northern Investors  
PLC, Non executive Director,  
Grainger Trust PLC.



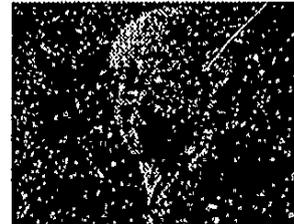
**SIR JOHN RIDDELL**  
CVO CA DL (61)

Executive Director, MC  
Securities; a Deputy  
Chairman, Northern Rock  
Building Society since May  
1992 (Director, 1981-1985,  
1990-1992); retired as  
Deputy Chairman, CS First  
Boston Limited in December  
1994 (Director, 1978-1985);  
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.

08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

## CHIEF EXECUTIVE'S REVIEW



David G. Cransten Chief Executive

In 1989, we started as a new water and sewerage Group. Now, six years on, our business has grown substantially and Northumbrian Water has set its sights on becoming an integrated environmental business. Last year was a significant turning point in this development.

It was significant for two reasons: we learned the outcome of the Periodic Review - the Office of Water Services' price capping measures for the water and sewerage business for the next ten years - and our Environmental Services businesses began to bear fruit.

The results of the Periodic Review were announced in July, allowing us to charge an average annual price increase of 2.5% above RPI (2.0% after the year 2000). Tough but achievable was our response, but it will demand high levels of efficiency. Efficiency had already been targeted in our business strategy and significant efficiency gains were achieved during the year, some of which have already been shared with our customers, shareholders, employees and the region. Ofwat has merely sharpened our intent.

Capital investment over the next five years will be higher than in the last five. This is primarily to comply with European legislation regarding sewage treatment and sludge disposal. Our sludge strategy programme, for example, discussed later in my review, will turn what is currently disposed of at sea into a useable product.

Northumbrian Water Limited (NWL) turned in an outstanding performance, with reduced operating costs in the appointed business. Our water and sewerage prices continue to be below

the average in England and Wales, yet our levels of service and compliance with regulatory bodies remain among the highest in the country. While our continued excellence is now almost expected, we cannot take it for granted.

And what of our Environmental Services businesses? When we made our interim statement to the City last November, they had a combined operating loss of £1.5 million. We anticipated then that they would be profitable in the second half of the year, and they were.

Northumbrian Environmental Management (NEM), our waste management business - which, by the very nature of the products it deals with, has long term operational costs - has now gathered sufficient substantial and secure operating contracts to cover these costs and generate profits.

Montec International, which designs and markets environmental monitoring equipment, successfully completed and integrated its major German acquisition. While this meant that much of the first half of the year was spent in reorganisation, Montec now has the size and strength to compete as a major player in the way we envisaged, and was able to generate a profit in the second half of the year.

Entec, our environmental consultancy, has had the hardest struggle. It has taken a group of

08 - 08 - 95

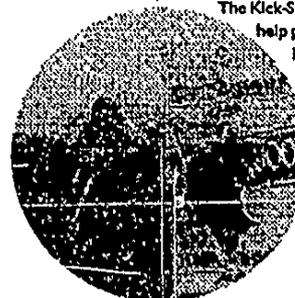
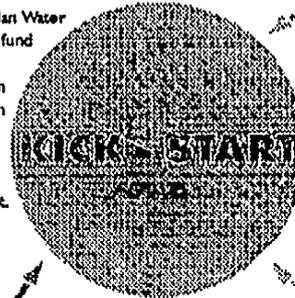
individual consultancies and is forging them into a corporate whole with a breadth of skills and capabilities.

None of these Environmental Services businesses is yet producing appropriate returns, but the progress made in establishing and developing them is clear. Environmental issues are a fact of business life and the volume of environmental legislation is growing. We are serious about offering an integrated environmental business service - which collectively our businesses can provide - and are building a base of skills and resources that can take us into the 21st century. Already, the potential of this integrated service has been demonstrated. Agreement in principle has been reached on an infrastructure project that will allow industries on Teesside to meet the challenge of higher environmental standards in a cost effective manner. The Tees Estuary Environmental Scheme is a massive project for the combined treatment of industrial and municipal waste water in Teesside, calling upon a wide range of the Group's skills.

On 25 May 1995, the Group launched its 'Kick-Start' Fund devoted to the economic and environmental regeneration of the region with an initial contribution of £1 million.

Northumbrian Water is vital to the health, environment and economy of the North East region and is involved in shaping the region's future prosperity. The fund is for investment in infrastructure projects which have significant job creating potential and improve the region's environment and attractiveness. Funding for two projects has already been approved and many more proposals are being received and considered.

Northumbrian Water has set up a fund to help the regeneration of the North East's economy and environment.



The Kick-Start Fund will help pump-prime infrastructure projects and attract other funding.

The first two successful bids to the Fund were projects in Sunderland and Middlesbrough which are designed to create jobs and improve the environment.

08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

Fundamental to the success of any project - any business - within the Group is the understanding of what our customers want. If each individual employee has a greater understanding of our customers' needs, it can only add to the development of the Group.

I want to thank everyone for their continued hard work, commitment and their willingness to adapt to change. At the time of writing, we are the subject of a referral to the Monopolies and Mergers Commission and our future as an independent company is uncertain. However our customers still expect - and we will deliver - business as usual.

#### **WATER AND SEWERAGE SERVICES**

NWL, the appointed water and sewerage business, had another excellent year.

Demand from measured water and sewerage customers has been maintained and turnover has increased 7.4% to £220 million. Significant efficiency gains have been achieved. Operating costs, excluding depreciation, infrastructure and exceptional items, were reduced by 7.2% to £90.6 million; an outstanding performance. Together these have led to an increased operating profit margin of 47% (1993/94: 37%).

Following the Periodic Review, we have re-assessed the appropriate level of infrastructure renewals expenditure needed to allow us to maintain our operating capability. As a result, we have reduced our infrastructure renewals charge for the year to £12.5 million (1993/94: £18.9 million) and have released the accumulated infrastructure renewals provision of £27.1 million. Set against this, the Director

General of Water Services has made it clear that we can expect efficiency targets to be tightened at each future price limit determination.

This means that, beyond the next Periodic Review, we need to be in a position to achieve sustainable efficiencies. We have decided this calls for a further step change in the way the business is run. With this in mind, we have embarked on an initiative which will improve our systems and processes - the ISP programme - particularly those which interface with customers. The programme is being carried out by a group of people taken from within the business, teamed with external consultants. Together they will review critically all of our existing business processes to examine their contribution to NWL's strategy. We anticipate that the ISP programme will propose that significant changes should be made to our processes - particularly those which have evolved over the years.

We expect that implementation will take about three years, with benefits being achieved in time for the next Periodic Review. A restructuring provision of £25 million for the whole review and implementation process has been set up.

Demonstrating our commitment to the environment, during the year we became one of the first companies - and the first water company - to win the environmental standard BS7750 for the quality of our environmental care in Northumberland. We also won the Department of the Environment's prestigious National Energy Award for achieving results in energy conservation, efficiency and non-fossil energy generation.

08 - 08 - 95

**CUSTOMER SERVICES**

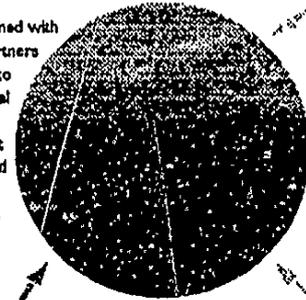
We believe, as a monopoly supplier, that our customers should receive the best possible service from the company. Our customers are absolutely central to everything we do. This has not always been recognised in the past, and we are still some way from meeting the standards we have set ourselves. However, there has been a deliberate shift in company strategy and thinking to bring the customer centre stage. Our customers will increasingly see real improvements in the way we relate to them.

*Performance:* Ofwat's latest Levels of Service report shows that NWL had the lowest number of written complaints of all the water and sewerage companies and the lowest proportion of complaints sent directly to Ofwat. Despite increases in charges, domestic disconnections were reduced by 50%. Customers can now take advantage of our Budget Payment Scheme, introduced at the beginning of 1994, which allows them to pay by monthly direct debit or by cash at Post Offices. The latter allows customers to pay when they like and how much they like (subject to a minimum amount) by using a plastic payment card. This initiative is just one example of the ways in which we are improving our service to our customers.

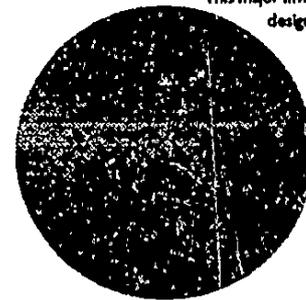
*Training:* Employees throughout the company are attending a programme of Customer Awareness Workshops, given by professors from the Swiss based International Institute for Management Development. We recently completed the first phase; the next two phases will be completed by the end of 1995.

Additionally, we have developed an internal training programme - the Technical and Services

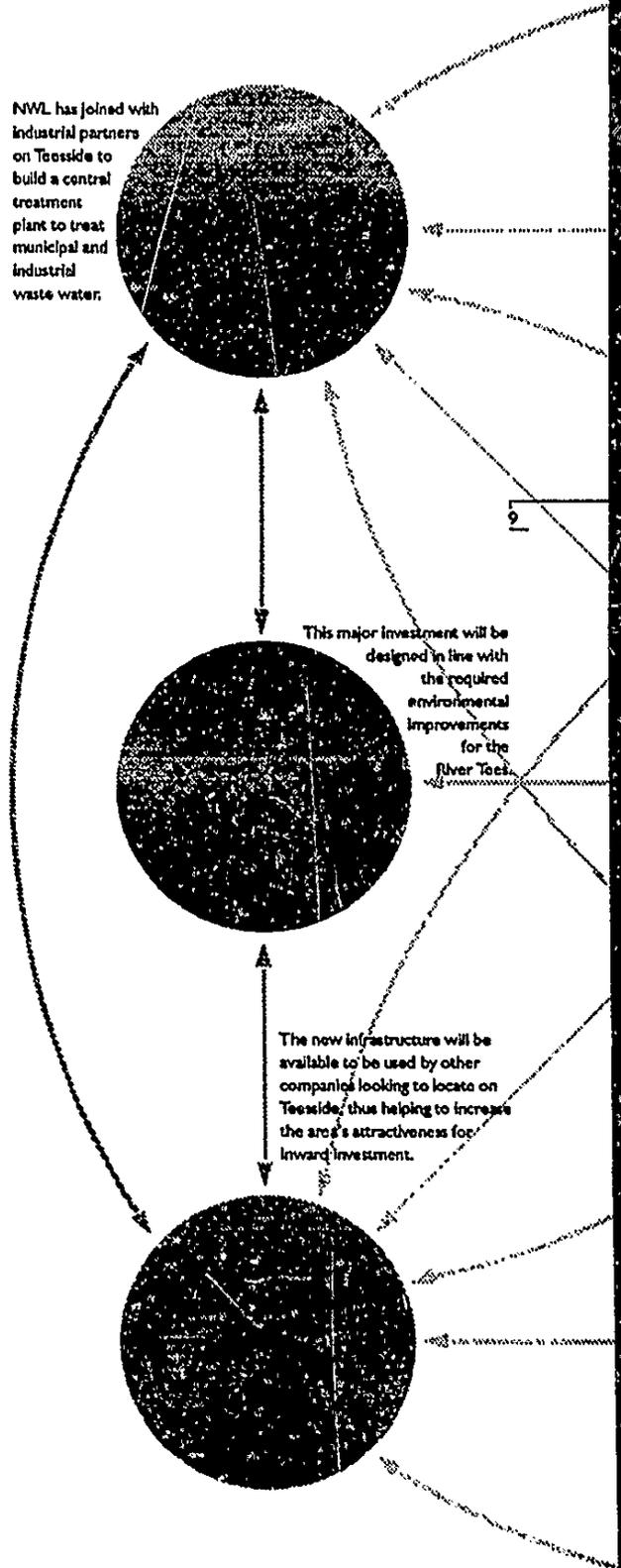
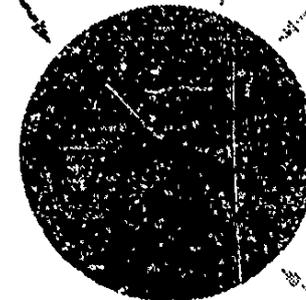
NWL has joined with industrial partners on Teesside to build a central treatment plant to treat municipal and industrial waste water.



This major investment will be designed in line with the required environmental improvements for the River Tees.



The new infrastructure will be available to be used by other companies looking to locate on Teesside, thus helping to increase the area's attractiveness for inward investment.



08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

10

Awareness Programme- for staff who have regular direct contact with customers. This focuses on key issues affecting customer relations and improves technical awareness, so that we deal with customer problems or queries in a more effective and consistent way.

*Innovation:* In February, our Customer Care Plus Scheme was launched. This sets out the practical and financial help NWL gives to customers who experience poor service, loss or inconvenience. It guarantees a level of customer service which is significantly better than the standards required by Ofwat. For exceptional circumstances, such as damage to uninsured property caused by flooding, we have set up an Emergency Fund for customers who have nowhere else to turn.

Last year we established a number of account managers for our major industrial customers. This gives us a better understanding of a customer's particular business needs as well as providing the customer with a single point of contact.

---

#### WATER RESOURCES AND SUPPLY

*Performance:* With a 99.896 pass rate in 1994, our drinking water quality levels improved on the previous record achievements which put us at the 'top of the league' of the ten water and sewerage companies in 1992 and 1993.

The Korean company, Samsung, was attracted to the region with our help. Their new factory development at Wynyard, near Sedgfield, will create around 3,000 new jobs.

*Investments:* Anneka Rice performed the opening ceremony to celebrate the completion of the seven year improvement programme at Broken Scar water treatment works, near Darlington. This will ensure plentiful supplies of water to industry and homes on Teesside into the next century. Improvements were also made to treatment works at Lartington near Barnard Castle, Honey Hill near Consett and Fontburn in Northumberland.

Over 90 kilometres of water mains were replaced or relined as part of our continuing programme of mains rehabilitation. This improves water quality by reducing occurrences of discoloured water. Over half our total mains network is now composed of modern materials or has been relined. In total, £16 million was invested in water supply improvements during the year.

*Future:* Currently, we are bidding for two major water services projects in Argentina. These will be ten to forty year concessions, run as joint ventures with locally based partners. With these projects, we will be responsible for the entire service from water collection to quality control to customer billing.

---

#### NON-APPOINTED WATER SERVICES

The non-appointed activities within NWL continued to perform soundly. Despite turnover remaining static at £20.7 million, operating profit increased by 6.9% to £9.3 million after charging costs relating to overseas development of £0.7 million.

---

## WASTE WATER AND INDUSTRIAL EFFLUENT SERVICES

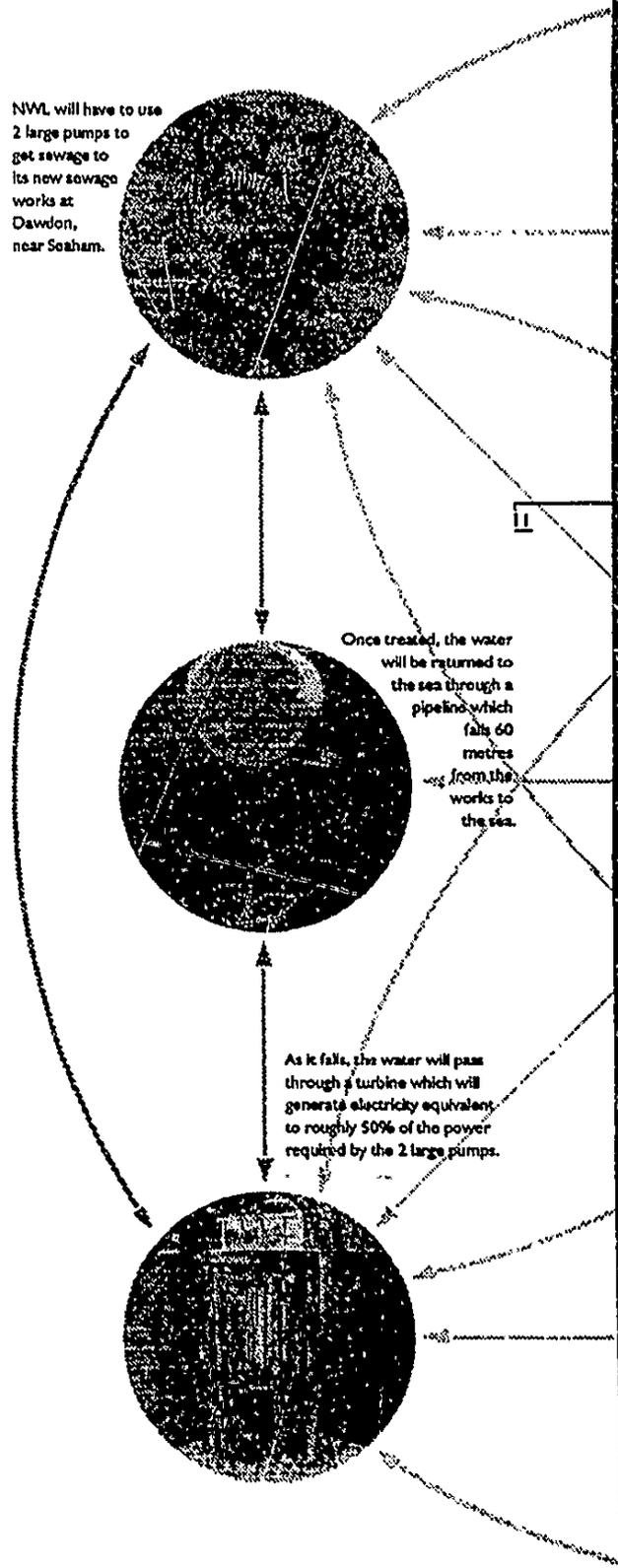
**Performance:** NWL continued to achieve near perfect levels of performance against the regulatory standards. Only one of our sewage treatment works failed to meet the National Rivers Authority required standards at the year end, out of a total of over 380 works. Along the coast, bathing waters showed record improvements, with 85% of the 34 designated bathing water areas passing the basic EU standard, ten passing at the higher level. Before our bathing water improvement programme commenced in 1990 more than half failed to reach even the basic standard.

**Investments:** Much of the year's work was concentrated on improvements needed to meet the EU's Bathing Water Directive.

Serving Seaham and Dawdon, on the County Durham coast, a vast £18 million sewage collection, treatment and disposal scheme was started. At Saltburn, in Cleveland, work began on a scheme to divert sewage, currently discharged at sea, to an existing treatment works. A major extension to the treatment works at Berwick, in the north of the region, was also begun. This will greatly improve the quality of water in the Tweed estuary and in the bathing areas at Spittal.

Further down the coast, work continued on the massive storm water disposal schemes at Whitley Bay and Whitburn. Their primary aim is to protect the nearby bathing waters from sewer surcharge during periods of heavy rainfall. At Whitburn, a 2 kilometre long interceptor sewer, tunnelled 25 metres below the seafront and ending at the new pumping station, was officially opened by Olympic athlete Steve Cram. More than 600 customers accepted our invitation to walk through the tunnel.

NWL will have to use 2 large pumps to get sewage to its new sewage works at Dawdon, near Seaham.



Once treated, the water will be returned to the sea through a pipeline which falls 60 metres from the works to the sea.

As it falls, the water will pass through a turbine which will generate electricity equivalent to roughly 50% of the power required by the 2 large pumps.

## 08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

12

Inland, improvements were made to sewage treatment works in Morpeth and Alnwick, continuing our drive to protect the quality of the North East's rivers.

*Innovation:* The EU directive requires water and sewerage companies to stop disposing of sewage sludge at sea by the end of 1998. Some 60% of NWL's sludge is taken to sea, the rest used as landfill or on agricultural land. In searching for a solution, we evaluated many options, undertook numerous trials and considered the results of trials carried out by others. The outcome of our studies is that we have developed a scheme for processing the sludge into dry pellets. These have a variety of end uses, including agriculture and forestry, land reclamation and process manufacturing. Subject to planning approval, we propose to build a single sludge processing centre in the region. Construction will start in 1996 and the plant will be operational by mid 1998.

*Future:* We plan to start a major project on Teesside later this year - the Tees Estuary Environmental Scheme. From 1997, NWL and a number of industries on the Tees are required to reduce the pollution loads of the effluent they discharge into the river. We are joining forces with other companies to construct a central treatment plant on land provided by ICI.

This solution has major benefits for Teesside. It will provide our industrial partners and ourselves with a better means of achieving the required environmental improvements than the construction of several independent treatment facilities. We will operate the plant, which will be available for use by other companies looking to locate on Teesside.

We are also actively marketing our skills outside the region. Together with Trafalgar House, we are seeking pre-qualification for water and sewage contracts in Scotland and Ireland under build, own, operate (BOO) or build, own, operate, transfer (BOOT) schemes.

#### ENVIRONMENTAL SERVICES

We have made substantial progress in this segment of the Group, with an operating profit of £0.5 million generated in the second half of the year. When this result is compared to the loss of £1.5 million incurred in the first six months of the year, and a loss of £1.8 million in the six months immediately prior to that, the progress made in establishing and developing these businesses is clear.

#### WASTE MANAGEMENT

NEM achieved significant growth during the year in all areas of its activities. Sales, only £1.8 million in 1992/93, reached £8.0 million for the year and, with the contracts secured post the year end, we are set for further substantial growth in the current year.

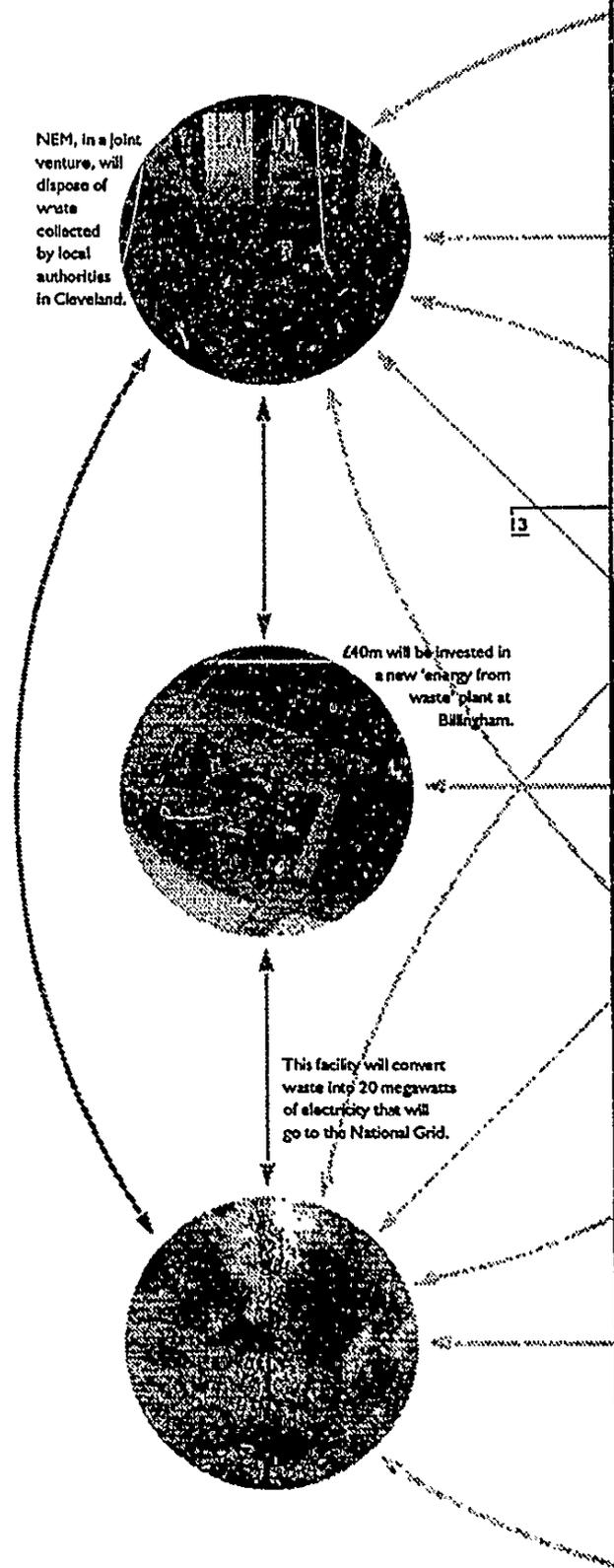
*Specialised Liquid Waste Services:* NEM's two plants, at Howdon on Tyneside and Billingham on Teesside, deal with a substantial proportion of the region's industrial liquid waste. Howdon is a dedicated plant for Sterling Organics, whilst Billingham services a range of customers including some of the region's biggest names in food processing, brewing and chemicals. The year's performance benefited from a substantial contract from SmithKline Beecham's Ayrshire plant. A new £0.25 million oil recovery facility, allowing us to separate and recover waste oil, was installed at Billingham during the year.

**Dry Waste Collection Service:** Envircare Limited, the specialist waste collection company which we acquired in November 1993, has continued to increase its market share within the region. On 1 April 1995, NEM was awarded the contract to collect and dispose of the controlled waste arisings from North Tyneside Council. This involves the transport of an estimated 90,000 tonnes of waste from North Tyneside to our landfill site at Brenkley, Northumberland.

**Landfill Service:** In April 1995 we acquired Northumberland Waste Management Limited which has a long term contract for the disposal of all Northumberland County Council's controlled waste arisings. This acquisition adds a further seven landfill sites and fifteen civic amenity centres throughout Northumberland to our existing North East sites at Brenkley and Burnhills.

Not all of our activities are confined to the North East of England. In September 1994, we opened our landfill site at Binn Farm, Glenfarg, Perthshire, one of the most advanced of its kind in Scotland. A triple-layer lining system ensures a level of environmental safety far above the current required standards. Having secured a 15 year contract for disposal of wastes for Perth and Kinross District Council, this site is well placed to accept wastes from other parts of Eastern Scotland.

**Energy from Waste:** Following the conclusion of a three year negotiation, NEM, in joint venture with Cleveland County Council was awarded a contract to dispose of the controlled waste arisings from that County over a period of 25 years. The joint venture company, Cleveland



14

Waste Management Limited, will begin the construction of a £40 million 'energy from waste' plant at Billingham on Teesside later this year. This new facility, due for completion in 1997, will convert waste into 20 megawatts of electricity.

Cleveland Waste Management Limited was also successful in its tender for a 15 year contract for the supply of electricity under the Third Renewables Order of the Non Fossil Fuel Obligation. Having secured this contract, we feel well placed to pursue similar contracts as they become available throughout the UK.

*Waste Recycling:* It is our intention, in the autumn of this year, to construct a materials recycling facility on Tyneside capable of accepting glass, aluminium, rubber, cardboard and other materials for recycling. The facility will be open to the public as well as local businesses and industry, and it is anticipated that it will create up to 15 much needed jobs in an area of high unemployment.

We have continued our sponsorship of the Tyne & Wear/Darlington Paperbank Scheme. In partnership with the six local authorities and Davidsons Waste Paper, the scheme ensures that, wherever possible, paperbanks are available to the public for the recovery of old newspapers and magazines.

#### ENVIRONMENTAL PROTECTION EQUIPMENT

The acquisition of the German company, Edmund Bühler, established Montec International as the European market leader in waste water samplers. With bases in Germany and Austria, only 20% of our sales are now

within the UK. During 1995/96, the production of the Bühler products, currently contracted for one year to the previous owners in Germany, will be transferred to Montec's production facility in Salford, thereby increasing profitability.

The water and waste water monitoring markets are predicted to grow by between 15% and 20% per annum, largely due to the tightening of legislation. During 1995/96, we aim to consolidate our position in Europe, establishing a new office in France and expanding into the developing markets of Spain, Portugal and Italy.

#### CONSULTANCY

Entec Europe, the Group's environmental consultancy, is ranked just inside the UK's top dozen engineering consultancy firms. Formed from a number of acquisitions over the last three years, 1994/95 was a year for consolidation and for sharpening our strategic focus. Our message is clear: environmental issues are central to the efficient running of a company. We show clients that environmental problems can be solved in ways that add value to their businesses.

Having said that, last year was not easy. Senior management invested a substantial amount of time in forging the individual consultancies into a corporate whole. This was a challenging process and, whilst the year saw significant progress in the convergence of the former businesses and the strategic development of Entec, there is still some way to go.

*Environmental Consultancy:* Our core skills are in water, waste and land management. Typical projects undertaken during the year included a major water management study on the River

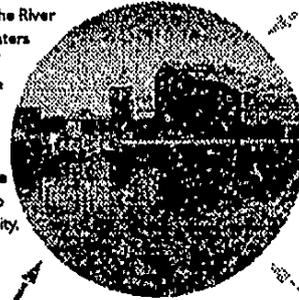
Avre in Normandy, France; investigation of contaminated land sites at former armaments factories in Germany; an environmental impact study of sludge disposal for Eko Hellenic Refineries; and a government sponsored waste minimisation project in the West Midlands, encouraging local companies to reduce waste with anticipated savings of £2 million a year.

Last August, we started a three year project in Egypt to devise and manage environmental control programmes for the Governorates of Dakhaleya and Sohag. The work will include a waste management programme for both domestic and industrial waste, environmental impact assessments for major companies and implementation of low cost waste minimisation schemes for key manufacturing companies. The contract is funded by the Overseas Development Administration.

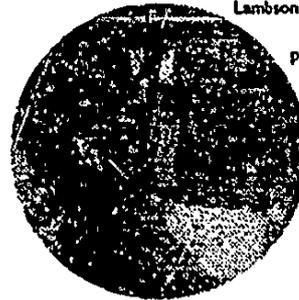
**Rural and Economic Development:** A significant proportion of Entec's work is in overseas aid projects, funded by the major international development agencies. While there is continuing demand for consultancy services in the traditional arenas of Africa and Asia, the major growth is coming from the emerging markets of Eastern Europe and the Commonwealth of Independent States.

The content of the work is changing; agricultural development, land use management, tourism and urban planning continue to be important elements of the business. Increasingly, however, much of the work derives from advising the newly emerging economies on how to operate effectively in western markets. Our current projects include;

Water from the River Avre which enters the factory of Lambson Fine Chemicals is sampled by an automatic sampler, made by Montec, to check its quality.



Lambson uses the water to cool the processes which produce their wide range of speciality chemical products.



The cooling water is then sampled by another Montec automatic sampler, to check that it has not been contaminated, before the water is returned to the river.



post privatisation support to farmers in Russia's Nizhni Novgorod region which involves redeveloping and managing the entire chain from primary production to retail outlets; an environmental management system for the coastal area of the Black Sea; and providing commercial training to Bulgarian bankers. Whatever the primary focus of the development programme, aid agencies almost always require that projects are subject to an environmental impact assessment. Last year, we completed an examination of forestry management in Sri Lanka, studying the economic and environmental implications of different management systems and in Bangladesh, we have been contracted to monitor the environmental and other impacts of an agricultural development programme.

*Laboratory Services:* To provide specialist environmental monitoring and analytical services, Entec has four, high specification laboratories run by our subsidiary company, Analytical and Environmental Services (AES). Its skills range from air monitoring and soil analysis to detection of toxic dioxins in industrial effluent.

AES gained the highly prized NAMAS accreditation in April 1995 for the analysis of dioxins and furans in air, waters and solids. Working in partnership with Entec, AES has created an air quality service able to offer clients a range of services from consultancy to stack emission monitoring.

While NWL remains AES' biggest customer, third party business turnover increased substantially during the year. Clients include, International Paints, Procter & Gamble, National Power and consulting engineers HJT

Solmek. A key new client gained during the year was Newcastle University, who commissioned AES to undertake regular monitoring of its buildings' water systems.

AES is increasingly brought into joint tendering exercises within the Group. A major project during the year was the Anglo Great Lakes development which was investigated by Exploration Associates, another Group company, on behalf of English Partnerships, with the chemical analysis being undertaken by AES.

#### **OTHER SERVICES**

External turnover in this segment fell from £26.8 million to £19.2 million, reflecting the Group's strategy of concentrating on its core environmental businesses. The principal businesses still remaining within this operating segment are leasing activities, ground investigation and IT solutions. Operating profits increased from £1.6 million to £4.6 million, reflecting the withdrawal from the underground asset management business and the benefits arising from the downsizing of the ground investigation business.

#### **ENVIRONMENTAL REVIEW**

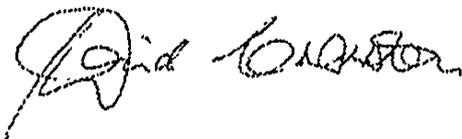
This year the Group will publish its second environmental performance report. The report will include the Group's policy statement on the environment, comment on its performance against the 1994/95 targets and set new targets for 1995/96. The report will be concise and factual, using diagrams, tables and maps to illustrate the Group's environmental policies and performance. Copies of the report will be

08 - 08 - 95

available from Corporate Affairs at the Group's headquarters in Gosforth, Newcastle upon Tyne.

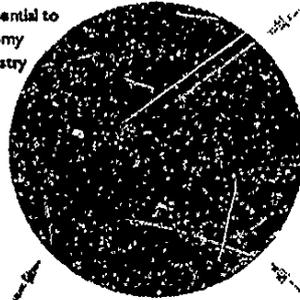
#### ENVIRONMENTAL AUDIT COMMITTEE

The Environmental Audit Committee met on three occasions during 1994/95. It commissioned a compliance audit of Duty of Care responsibilities in NWL. Site audits were also carried out on the Burnhills landfill and Enviricare Technical Services for NEM. The Committee was satisfied with the findings of the audits and the actions being taken to implement their recommendations. During the year membership of the Committee remained unchanged; Professor Sir Frederick Holliday as Chairman, with Professor Warren Pescod, non-executive Director, and Dr Jon Hargreaves, Managing Director of NWL, Tony Foster, Managing Director of Entec Europe and Michael Welbank, Director of Entec Europe, as members.



David G. Cranston, Chief Executive

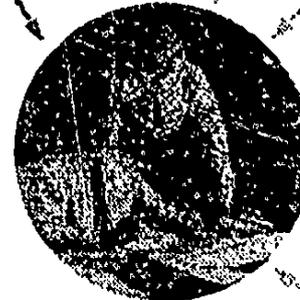
Industry is essential to Egypt's economy but - like Industry everywhere - its processes put pressure on the environment.



Those processes need to be managed efficiently and effectively to minimise their effects both during production and afterwards.



Entec's consultants are working on a major project with the Egyptian government to create a waste management strategy for industrial areas in the country.



08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

## FINANCIAL REVIEW

## Review of operating results

Group turnover in the year was £318.2 million (1993/94: £298.6 million), an increase of 7%, whilst operating profit increased 38% from £77.6 million to £107.3 million. Profit before tax increased by £27.6 million (44%) from £62.8 million to £90.4 million, last year's profit included losses on disposal/closure of discontinued operations of £8.4 million. The operating results of the Group's business segments have been discussed in the Chief Executive's Review on pages 6 to 17.

## Segmental contribution to Group turnover from continuing operations

1993/94	£292.5m
1994/95	£318.2m

## Water and Sewerage Services:

Appointed £218.5m (93/94: £204.1m)  
 Non-appointed £20.7m (93/94: £20.8m)

## Other Business Activities:

Environmental Services £59.8m (93/94: £46.9m)  
 Other Services £19.2m (93/94: £20.7m)

Group turnover from continuing operations increased by 9% to £318.2 million, with turnover derived from outside the Appointed Business rising from £88.4 million to £99.7 million, mainly due to growth in Environmental Services. Sales to overseas markets increased by £8.9 million to £39.8 million which is 12.5% of the Group's total turnover on continuing operations (1993/94: 10.6%).

## Segmental contribution to Group operating profit from continuing operations

1993/94	£81.1m
1994/95	£107.3m

## Water and Sewerage Services:

Appointed £102.6m (93/94: £75.4m)  
 Non-appointed £9.3m (93/94: £8.7m)

## Other Business Activities:

Environmental Services loss £(1.0)m (93/94: loss £(2.7)m)  
 Other Services £4.6m (93/94: £5.1m)  
 Unallocated costs £(8.2)m (93/94: £(5.4)m)

Group operating profit from continuing operations increased by £26.2 million to £107.3 million, a margin of 33.7% (1993/94: 27.7%). The main influence on the results is the excellent performance of the Appointed Business, however both the Non-appointed Business and Environmental Services have achieved improved performances compared with last year. Other Services turnover and operating profit from continuing operations have declined, reflecting the Group's strategy of concentrating on its core environmental businesses. Unallocated costs have increased to £8.2 million from £5.4 million due to costs relating to the potential bid (£1.6 million) and Regional Fund and Equal Shares (£2.2 million) offset by a reduction in the Corporate Centre costs of £1.0 million.

08 - 08 - 95

**Investment Income**

Investment income for the year of £0.5 million compares with £9.8 million earned in 1993/94. Last year included a one off gain on the investment made in Jayhold of £8.6 million.

**Net interest payable**

Net interest payable increased by £1.0 million to £16.7 million, despite a small reduction in net debt of £1.5 million to £62.6 million. The small increase in interest payable arose due to declining variable interest rates in the year which impacted on interest receivable on cash and short term deposits.

**Taxation**

The tax on profit for the year of £11.3 million represents a charge of 12.5%. The charge comprises a provision for UK corporation tax for the current year offset by an over provision in respect of prior years and ACT written off in respect of dividends.

**Cash flow, investing activities and financing**

Cash inflow from operating activities during the year was £117.7 million compared with £146.7 million in 1993/94. The cash inflow has reduced compared to 1993/94, despite the increase in operating profit, due to the high level of cash released on the realisation of investments in finance leases in 1993/94 of £46.3 million compared to a net outflow of £3.6 million in 1994/95.

Capital investments and acquisitions totalled £97.2 million (1993/94: £97.0 million). Most of the investment was made within the Appointed Business as part of the ongoing long term capital programme. Acquisitions in the year totalled £6.6 million, most of which relates to the purchase of Edmund Bühler by Montec. After net cash outflows for interest and dividends (£39.8 million) and taxation (£2.1 million), the Group has reduced net borrowings at 31 March 1995 to £62.6 million from £64.1 million at 31 March 1994 and gearing to 7.5% (1994: 8.3%). At 31 March 1995 the Group had cash and short term deposits of £232.6 million, undrawn committed facilities of £35 million and a £150 million commercial paper programme fully available.

**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.

08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

## DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 1995

20

**ACTIVITIES** The principal activity of the Company and its subsidiaries ("the Group") is the provision of water, waste and environmental services. A review of the business of the Group is contained in the Chairman's Statement (page 2) and the Chief Executive's Review (page 6).

**FINANCIAL RESULTS AND DIVIDENDS** The Group's financial results are discussed on pages 18 to 19. A final dividend of 18.8p net per ordinary share (1994: 16.2p) will be recommended by the directors at the Annual General Meeting which, when added to the interim dividend of 9.4p net per ordinary share (1994: 8.1p), gives a total dividend for the financial year ended 31 March 1995 of 28.2p (1994: 24.3p).

The final dividend will be payable on 2 October 1995 to shareholders on the Company's Register of Members on 6 July 1995.

A Share Dividend Offer alternative was attached to the interim dividend and will be made in respect of the final dividend.

The retained profit for the year amounted to £59.7 million after providing £11.3 million for taxation and £19.4 million for the payment of dividends.

**POST BALANCE SHEET EVENTS** Information about the post balance sheet events is contained in note 33 of the Financial Statements.

**SHARE CAPITAL** Changes to the issued share capital of the Company are set out in note 25 to the Financial Statements.

The £1 Special Rights Redeemable Preference

Share held by the Secretary of State for the Environment was redeemed by the Company on 31 December 1994.

**SUBSTANTIAL SHAREHOLDINGS** As at 1 June 1995 the Company's register of substantial shareholdings showed the following interests in 3% or more of the Company's ordinary shares:

- Prudential Portfolio Managers Ltd - 12.66%.
- Norwich Union Investment Management Ltd - 4.84%.
- FMR Corporation - 3.73%.
- Clerical Medical & General Life Assurance Society - 3.69%.

**FIXED ASSETS** Changes in fixed assets during the year are shown in notes 12, 13 and 14 to the Financial Statements.

**ANNUAL GENERAL MEETING** Full details of the Annual General Meeting of the Company to be held on 27 July 1995 appear in the Notice which accompanies this Report. The resolutions to be considered are set out in the Notice and those resolutions which constitute Special Business are explained in the notes appended to it.

**DIRECTORS** The names and biographical details of the present members of the Board of Directors of the Company are set out on pages 4 and 5. Sir Michael Straker retired as a director of the Company on 21 July 1994.

Anne Minto was appointed on 1 January 1995 and, in accordance with the Articles of Association of the Company, will retire at this year's Annual General Meeting and, being

08 - 08 - 95

eligible, offer herself for re-election.

In accordance with the Articles of Association of the Company, John S Ward and Sir John Riddell will retire by rotation at this year's Annual General Meeting and, being eligible, will offer themselves for re-election.

Anne Minto, John Ward and Sir John Riddell do not have service contracts with the Company. Information on directors' remuneration and shareholdings is contained in notes 6 and 26 to the financial statements.

The Company maintains directors' and officers' liability insurance.

---

**DONATIONS** The Group made charitable donations totalling £95,691 during the year (1994: £96,000). No political donations were made.

---

**RESEARCH AND DEVELOPMENT** Northumbrian Water continues to support research and development through collaborative national research programmes and also through its own internal research.

Dr Jon Hargreaves is the Chairman of UK Water Industry Research Ltd.

All research supports business objectives to deliver improved environmental standards to all our customers in the most efficient way.

---

**EMPLOYEES AND EMPLOYMENT POLICIES** The total number of people employed by the Group, as at 31 March 1995, was 3,057.

An Inland Revenue registered Profit Related Pay scheme was accepted by employees for implementation on 1 April 1995. The shared benefits to both employees and Group are

significant and the scheme meets the objectives agreed by the directors of the Company.

Training and development of our employees is important to us. One of the ways this was demonstrated was by our achieving the National Standard "Investors in People" within the Company. Our Development Interview process is another way in which we ensure the continued development of our people. This system entitles all employees to at least one interview a year to review individual performance and training needs.

The Group's commitment to fair and equal treatment of all employees is set out in our Equal Opportunities policy. Training in this area began with the senior executives and is ongoing throughout the company. In addition, links have been strengthened with employment service agencies with particular regard to the recruitment and retention of disabled people.

Communication between employees at all levels within the Group continues to be achieved through several well established channels such as Team Briefing, notice boards and the Group's corporate newspaper, "Ebb and Flow". A number of formal consultative mechanisms also exist. Group wide communication has been reinforced by a number of special training events which have focused on this issue.

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

Health and welfare services to employees and their families are provided by our Occupational Health Nurse, Welfare Adviser and Medical Adviser who continue to take a proactive approach to this important area.

08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

**DIRECTORS' REPORT**  
FOR THE YEAR ENDED 31 MARCH 1995

22

An Inland Revenue approved profit sharing scheme and savings-related share option scheme are operated by the Company and are open to participation by employees at all levels.

Whenever practicable, part-time employees of the Group are eligible to participate in the schemes and are eligible to receive the same benefits as full-time employee participants.

During the year, the Company has amended the rules of these schemes to permit all employee participants to exercise their rights under the rules of the schemes on reaching the age of 60. The rules of the schemes previously permitted women to exercise rights at 60 and men to exercise the same rights at 65.

**PENSIONS** The Group offers a choice of pension arrangements. 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 close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company.

**AUDITORS** Coopers & Lybrand have expressed their willingness to be re-appointed as auditors of the Company.

**CORPORATE GOVERNANCE** The directors can report that the Company complies with the recommendations of the Committee on Financial

Aspects of Corporate Governance contained within that Committee's Code of Best Practice. On 31 March 1995 the Board of Directors of the Company comprised eight directors, five of whom were non-executive directors.

A number of standing committees, operating within defined terms of reference, report to the Company's Board of Directors. The four principal standing committees are:

*Audit Committee* - this is comprised of non-executive directors and is chaired by John Ward. The role of this Committee is to provide an independent perspective on all financial reporting matters and to maintain an objective and professional relationship between the Company and its external auditors.

*Remuneration Committee* - this is comprised of non executive directors and is chaired by John Ward. The role of this Committee is to determine the remuneration and other terms and conditions of service of the executive directors and a small number of senior executives. Independent advice is received from Hay Management Consultants and New Bridge Street Consultants.

*Nomination Committee* - this is comprised of all directors of the Company and is chaired by Professor Sir Frederick Holliday. The Committee proposes candidates for any new executive or non-executive appointments as directors of the Company.

*Executive Committee* - this committee is made up exclusively of executive directors of the Company. It meets twice per month and deals with day to day business matters.

08 - 08 - 95

**INTERNAL FINANCIAL CONTROL** The Board of Directors has overall responsibility for the Group's system of internal financial controls. An effective system of financial control is able to provide reasonable assurance against material misstatement or loss. The Group's system of internal financial control is based on a framework of reporting regular management information within a defined organisational structure which groups the Company's subsidiaries into operating businesses. Underlying the Group's financial control system are detailed internal financial controls. These detailed controls are supported by a financial control manual held by each of those businesses. The operating businesses have local boards of directors responsible for the operational and financial control of those businesses. The local boards report to the Executive Committee and the Company's Board of Directors.

The Company's Board of Directors meets regularly and considers all matters brought to it by the boards of the operating businesses. These include major strategic, financial, organisational, compliance and regulation issues. Detailed five year business planning and annual budget exercises are undertaken each year which include an assessment of the key risks and success factors facing each business unit. These are reviewed by the Executive Committee before being submitted for Board approval. The operational and financial performance of each business is compared with plan and budget on a monthly basis by the Chief Executive and Group Finance Director. Revised targets are set where necessary to measure performance and regular reforecasts are made. The Board receives summary financial reports

monthly and detailed quarterly reports for each business and on Treasury investments and funding activities.

A framework exists which requires the approval of the Board of Directors of the Company for all major investments, including those in new and foreign market places, and large capital expenditure programmes. The Treasury strategy, which is approved by the Board, requires that investments are limited to certain money market and treasury instruments and that the Group's exposure to any single bank, building society or market is controlled, with maximum deposits allowed with any single counter-party. The Group's investment strategy aims to fix interest rates for part of the Group's borrowings and investments for periods determined by the forecast cash flow of the individual businesses, thus effectively managing the exposure to risk of changes in short term interest rates. Foreign currency exposure is also managed as part of the Treasury strategy approved by the Board of Directors of the Company.

The Group has an internal audit department which reports to the Audit Committee on a regular basis and has access to the Group Finance Director, Chief Executive and Chairman at all times. The Audit Committee Chairman also meets regularly with the Group Audit Manager to discuss issues arising from the internal audit work. The audit department completes an annual internal audit plan which is focused on the areas of greatest risk within the Group and includes a review of the key financial controls. The Audit Committee also receives reports from the external auditors regarding their findings. Where necessary, local boards attend Audit

NORTHUMBRIAN WATER GROUP PLC

**DIRECTORS' REPORT**  
FOR THE YEAR ENDED 31 MARCH 1995

24

Committee meetings to discuss and resolve any issues arising from internal or external audit work.

The directors have reviewed the Company's system of internal financial control and believe that it provides reasonable assurance of:

- (a) the safeguarding of assets against unauthorised use or disposition and;
- (b) the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.
- (c) material errors and irregularities being either prevented or being detected within a short period of time.

**DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE PREPARATION OF THE FINANCIAL STATEMENTS.**

The directors are required by company law to prepare financial statements which give a true and fair view of the state of affairs of the Company and its subsidiaries at the end of the financial year and of the profit or loss for that period.

The financial statements must be prepared in accordance with appropriate accounting policies which have to be used and applied consistently. Applicable accounting standards must also be followed and any judgements and estimates made must be reasonable and prudent. Any material departures from standards must be disclosed in the notes to the financial statements and the financial statements must be prepared on the going concern basis unless it is inappropriate to do so.

The auditors are responsible for forming an independent opinion on the financial statements presented by the directors, based on their audit, and reporting their opinion to shareholders. Company law 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 financial statements are in agreement with the accounting records;
- (c) that directors' emoluments and other transactions with the directors are properly disclosed in the financial statements; 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.

**ACCOUNT PREPARATION AND GOING CONCERN**

The directors consider that it is appropriate to prepare the financial statements for the current financial year on a going concern basis. The directors have arrived at their decision based on consideration of the Group's detailed budget for 1995/96 and the five year business plans to 1999/2000. This included a review of the capital expenditure and investment plans, the anticipated funding requirements and facilities available and the reasonableness of the underlying assumptions of both the budget and business plans.

By Order of the Board

David Watson Secretary

23 June 1995

## REPORTS OF THE AUDITORS

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

25

In addition to our audit of the financial statements, we have reviewed the directors' statements on pages 22 to 24 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not disclosed.

**Basis of opinion**

We carried out our review in accordance with Bulletin 1995/1 "Disclosures relating to corporate governance" issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Group to continue in operational existence.

**Opinion**

With respect to the directors' statements on internal financial control on pages 23 and 24 and going concern on page 24, in our opinion the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for directors) and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 22 appropriately reflects the Company's compliance with the other paragraphs of the Code specified for our review.

Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
Newcastle upon Tyne  
23 June 1995

*Coopers & Lybrand*

**REPORT OF THE AUDITORS**

To the members of Northumbrian Water Group PLC

We have audited the financial statements set out on pages 26 to 47.

**Respective responsibilities of directors and auditors**

As described on page 24 the Company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements 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 financial statements 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 financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 1995 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.

Coopers & Lybrand  
Chartered Accountants and Registered Auditors  
Newcastle upon Tyne  
23 June 1995

*Coopers & Lybrand*



**BALANCE SHEETS**  
AT 31 MARCH 1995

	Notes	Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
<b>Fixed assets</b>					
Tangible assets	12	910.5	865.8	-	-
Investments	13	2.8	2.2	208.9	178.6
		913.3	868.0	208.9	178.6
<b>Current assets</b>					
Stocks	15	4.6	3.4	-	-
Debtors: receivable after more than one year	16	36.5	29.7	39.4	63.5
Debtors: receivable within one year	16	103.5	95.5	57.1	89.8
Investments	17	-	1.9	-	-
Cash at bank and short term deposits	18	232.6	185.2	211.4	171.8
		377.2	315.7	307.9	325.1
<b>Creditors: amounts falling due within one year</b>	19	(173.9)	(143.6)	(106.4)	(76.4)
<b>Net current assets</b>		203.3	172.1	201.5	248.7
<b>Total assets less current liabilities</b>		1,116.6	1,040.1	410.4	427.3
<b>Creditors: amounts falling due after more than one year</b>	20	(235.2)	(216.9)	(111.1)	(100.2)
<b>Provisions for liabilities and charges</b>	23	(25.2)	(27.2)	-	-
<b>Accruals and deferred income</b>	24	(26.1)	(23.6)	-	-
		(286.5)	(267.7)	(111.1)	(100.2)
<b>Net assets</b>		830.1	772.4	299.3	327.1
<b>Capital and reserves</b>					
Called up share capital	25	69.3	67.8	69.3	67.8
Share premium account	28	61.0	60.5	61.0	60.5
Profit and loss account	28	699.8	644.1	169.0	198.8
<b>Equity shareholders' funds</b>		830.1	772.4	299.3	327.1

Approved by the Board of Directors on 23 June 1995.

Sir Frederick Holliday *Chairman*

J Michael Taylor *Group Finance Director*

The notes on pages 30 to 47 form part of these financial statements.

# 08-08-95

NORTHUMBRIAN WATER GROUP PLC

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 1995

28

	Notes	1995 £m	1994 £m
<b>Net cash inflow from operating activities</b>	a	117.7	146.7
<b>Returns on investments and servicing of finance</b>			
Interest received		5.3	7.9
Interest paid		(23.2)	(23.3)
Interest paid on hire purchase contracts and finance leases		(2.7)	(2.8)
Dividends received from fixed asset investments		0.2	-
Dividends received from current asset investments		-	7.9
Dividends paid		(19.4)	(8.7)
<b>Net cash (outflow) from returns on investments and servicing of finance</b>		(39.8)	(19.0)
<b>Taxation</b>			
Taxation paid		(2.1)	(3.6)
<b>Investing activities</b>			
Purchase of tangible fixed assets	12	(74.8)	(73.6)
Disposal of tangible fixed assets		2.4	2.0
Capital grants received		8.0	4.8
Purchase of subsidiary undertakings (net of cash/overdrafts acquired)	b	(6.6)	(8.2)
Disposal of subsidiary undertakings (net of cash transferred)		-	(0.1)
Investments in associated undertakings		(1.5)	(1.4)
Purchase of other fixed asset investments		-	(0.3)
Disposal of other fixed asset investments		0.1	1.4
Purchase of short term deposits		(223.0)	(227.0)
Disposal of short term deposits		259.0	237.0
Purchase of current asset investments		-	(1.9)
<b>Net cash (outflow) from investing activities</b>		(136.4)	(67.3)
<b>Net cash (outflow)/inflow before financing</b>		(60.6)	56.8
<b>Financing</b>			
Loans received		15.0	-
Payment of principal under hire purchase contracts and finance leases	c	(4.8)	(5.0)
Issue of ordinary shares		2.0	0.4
<b>Net cash inflow/(outflow) from financing</b>		12.2	(4.6)
<b>(Decrease)/increase in cash and cash equivalents</b>	d	(48.4)	52.2
<b>Movement in net borrowings</b>			
(Decrease)/increase in cash and cash equivalents		(48.4)	52.2
Net (increase) in loans		(15.0)	-
Increase/(decrease) in short term deposits		64.0	(10.0)
Decrease/(increase) in obligations under hire purchase contracts and finance leases		0.9	(3.5)
		1.5	38.7
<b>Net borrowings at 31 March</b>		(62.6)	(64.1)

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 1995

**a Net Cash Inflow from Operating Activities**

	1995	1994
	£m	£m
Operating profit	107.3	77.6
Depreciation of tangible fixed assets	26.3	22.9
Amortisation of capital grants	(1.0)	(0.7)
Infrastructure renewals provision	12.6	19.0
Infrastructure renewals spend	(12.5)	(11.6)
Exceptional items: release of infrastructure renewals provision	(27.1)	-
: restructuring provision	25.0	-
Net expenditure on fair value provisions	-	(2.1)
Loss on disposal of tangible fixed assets	-	1.3
(Increase)/decrease in stocks	(1.2)	3.7
Decrease in investment in finance leases	35.9	146.8
(Decrease) in creditors of finance lease businesses	(39.1)	(99.4)
(Increase) in debtors	(8.0)	(0.1)
(Decrease) in creditors	(0.5)	(11.2)
Issue of shares under the Northumbrian Water Profit Sharing Scheme	-	0.5
<b>Net cash inflow from operating activities</b>	<b>117.7</b>	<b>146.7</b>

29

Included in the above net cash inflow from operating activities is £nil (1994: £0.6m) in respect of discontinued operations.

**b Purchase of Subsidiary Undertakings**

Acquisitions were made during the year for a cash consideration of £6.6m. Acquisitions contributed £32.2m to the Group's net operating cash flows and paid £0.8m in respect of net returns on investments and servicing of finance.

**c Analysis of Changes in Financing during the Year**

	Obligations under hire purchase contracts and finance leases	
	1995	1994
	£m	£m
At 1 April	44.8	41.3
Net cash (outflow) from financing	(4.8)	(5.0)
Finance lease obligations of subsidiary undertakings disposed	-	(0.3)
Inception of finance lease contracts	3.9	9.0
<b>At 31 March</b>	<b>43.9</b>	<b>44.8</b>

**d Analysis of the Balances of Cash and Cash Equivalents**

	1995	1995	1994	1994	1993
	£m	Change in year £m	£m	Change in year £m	£m
Cash at bank and short term deposits	232.4	47.4	185.2	32.0	153.2
Less short term deposits with maturity dates greater than 3 months	(139.0)	(64.0)	(75.0)	10.0	(85.0)
	93.6	(16.6)	110.2	42.0	68.2
Bank overdrafts	(59.3)	(31.8)	(27.5)	10.2	(37.7)
	<b>34.3</b>	<b>(48.4)</b>	<b>82.7</b>	<b>52.2</b>	<b>30.5</b>

08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS

## 1 Accounting Policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom, with the exception of the treatment of capital grants and contributions relating to infrastructure assets, which is not in accordance with the Companies Act 1985 (see 1 (g) below). The profit and loss account for the year ended 31 March 1994 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 financial statements have been prepared under the historical cost convention.

(b) **Basis of consolidation** The consolidated financial statements 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 financial statements. Where, for commercial reasons, the accounting reference date of a subsidiary is a date other than 31 March, interim financial statements 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 goods and services provided.

(f) **Tangible fixed assets and depreciation** Tangible fixed assets, including assets in the course of construction, comprises 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, 4-60 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 financial statements 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 financial statements. 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 included within the movement 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.

08 - 08 - 95

## 2 Segmental Analysis

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

	Water and Sewerage Services				Other Business Activities				Total	
	Appointed		Non-appointed		Environmental Services		Other Services		1995	1994
	1995	1994	1995	1994	1995	1994	1995	1994		
	as restated		as restated		as restated		as restated		as restated	
£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
<b>Turnovers:</b>										
UK	220.0	204.9	20.7	20.8	43.3	38.3	33.8	55.7	317.8	319.7
Rest of Europe, Middle East and Far East	-	-	-	-	28.8	21.6	-	-	28.8	21.6
<b>Total turnover</b>	<b>220.0</b>	<b>204.9</b>	<b>20.7</b>	<b>20.8</b>	<b>72.1</b>	<b>59.9</b>	<b>33.8</b>	<b>55.7</b>	<b>346.6</b>	<b>341.3</b>
Inter segment	(1.5)	(0.8)	-	-	(12.3)	(13.0)	(14.6)	(28.9)	(28.4)	(42.7)
<b>External turnover</b>	<b>218.5</b>	<b>204.1</b>	<b>20.7</b>	<b>20.8</b>	<b>59.8</b>	<b>46.9</b>	<b>19.2</b>	<b>26.8</b>	<b>318.2</b>	<b>298.6</b>
<b>Operating profit:</b>										
UK	102.6	75.4	9.3	8.7	(1.9)	(2.8)	4.6	1.6	114.6	82.9
Rest of Europe, Middle East and Far East	-	-	-	-	0.9	0.1	-	-	0.9	0.1
	<b>102.6</b>	<b>75.4</b>	<b>9.3</b>	<b>8.7</b>	<b>(1.0)</b>	<b>(2.7)</b>	<b>4.6</b>	<b>1.6</b>	<b>115.5</b>	<b>83.0</b>
Corporate centre									(4.4)	(5.4)
Costs relating to potential bid									(1.6)	-
Regional fund									(1.0)	-
Equal shares									(1.2)	-
<b>Operating profit</b>									<b>107.3</b>	<b>77.6</b>
Losses on disposal/closure of discontinued operations (see below)									-	(8.4)
Net common costs									(16.9)	(6.4)
<b>Profit on ordinary activities before taxation</b>									<b>90.4</b>	<b>62.8</b>

31

Losses on disposal/closure of discontinued operations relate entirely to Other Services within Other Business Activities.

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

As part of the on-going development of the transfer pricing principles within the Group, the directors consider it to be more appropriate to identify separately costs relating to PLC and holding company functions. In the current year these corporate centre costs have not been recharged to subsidiary companies. The comparative figures have been restated accordingly.

A regional economic and environmental regeneration fund "Klick Start" has been established with a variable annual contribution from the Group in relation to overall business performance.

Equal shares relate to a bonus issue of the Company's shares made to employees of the Group under the Northumbrian Water Profit Sharing Scheme. The issue is dependent on the overall performance of the Group, no issue was made during the year ended 31 March 1994 as the Group's results were below the required performance.

Included within turnover of Other Services are rentals receivable under finance lease agreements of £6.0m (1994: £6.7m) and under operating lease agreements of £2.1m (1994: £1.7m). Rentals receivable under finance lease agreements which relate to a repayment of capital amount to £75.1m (1994: £166.6m).

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.

08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS

## 2 Segmental Analysis continued

Net Assets	Water and Sewerage Services				Other Business Activities				Total	
	Appointed		Non-appointed		Environmental Services		Other Services		1993	1994
	1995	1994	1993	1994	1995	1994	1995	1994		
	as restated		as restated		as restated		as restated		as restated	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Group undertakings	688.4	646.6	111.2	109.6	35.3	26.5	15.5	17.3	850.4	800.0
Share of associated undertakings' net assets									2.2	1.5
Net operating assets									852.6	801.5
Unallocated net (liabilities)									(22.5)	(29.1)
<b>Net assets</b>									<b>830.1</b>	<b>772.4</b>

Following the rationalisation of the funding of subsidiary companies (see note 13 (d)) all cash and borrowings have been included in unallocated net liabilities. The comparative figures have been restated accordingly.

Net operating assets include tangible fixed assets, stocks, debtors and creditors which relate to segmental operating activities. Unallocated net 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 above analysis includes, within Other Business Activities, the results from acquisitions and discontinued operations as follows:

	Environmental Services		Acquisitions		Total	Discontinued Operations		
			Other Services			Other Services		
	1995	1994	1995	1994	1995	1994	1995	1994
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Turnovers:</b>								
UK	-	-	1.9	-	1.9	-	-	9.4
Rest of Europe, Middle East and Far East	4.7	4.7	-	-	4.7	-	-	-
	4.7	4.7	1.9	-	6.6	-	-	9.4
Inter segment	-	-	-	-	-	-	-	(3.3)
<b>External turnover</b>	<b>4.7</b>	<b>4.7</b>	<b>1.9</b>	<b>-</b>	<b>6.6</b>	<b>-</b>	<b>-</b>	<b>6.1</b>
<b>Operating profit/(loss):</b>								
UK	-	-	1.9	-	1.9	-	-	(3.5)
Rest of Europe, Middle East and Far East	0.5	0.5	-	-	0.5	-	-	-
<b>Operating profit/(loss)</b>	<b>0.5</b>	<b>0.5</b>	<b>1.9</b>	<b>-</b>	<b>2.4</b>	<b>-</b>	<b>-</b>	<b>(3.5)</b>

## (b) Analysis of External Turnover by Geographical Destination

	1995	1994
	£m	£m
UK	278.4	267.7
Rest of Europe, Middle East and Far East	34.8	25.3
Rest of World	5.0	5.6
<b>External turnover</b>	<b>318.2</b>	<b>298.6</b>

08 - 08 - 95

## 3 Operating Costs

	Continuing operations		Total	As restated		Total
	1995	Acquisitions		Continuing operations	Discontinued operations	
	£m	£m	£m	£m	£m	£m
Materials and consumables	12.3	2.1	14.4	15.4	1.1	16.5
Manpower costs (note 8)	60.9	1.5	62.4	58.9	3.4	62.3
Depreciation on tangible fixed assets:						
owned	20.0	0.1	20.1	17.7	0.7	18.4
under hire purchase contracts and finance leases	6.2	-	6.2	3.9	0.6	4.5
Infrastructure renewals	12.6	-	12.6	19.0	-	19.0
Other operating charges	88.8	0.5	89.3	91.0	3.4	94.4
Operating leases:						
plant and machinery	0.8	-	0.8	0.9	0.2	1.1
other	1.3	-	1.3	0.8	0.2	1.0
Costs of research and development	2.2	-	2.2	3.1	-	3.1
Auditors' remuneration:						
audit (Company £5,000; 1994: £5,000)	0.2	-	0.2	0.2	-	0.2
non-audit services	0.9	-	0.9	0.5	-	0.5
Regional fund	1.0	-	1.0	-	-	-
	207.2	4.2	211.4	211.4	9.6	221.0
Exceptional capital maintenance credit (see (a) below)	(27.1)	-	(27.1)	-	-	-
Exceptional operating costs (see (b) below)	25.0	-	25.0	-	-	-
Costs relating to potential bid	1.6	-	1.6	-	-	-
	206.7	4.2	210.9	211.4	9.6	221.0

33

(a) The exceptional capital maintenance credit represents the release of the provision for infrastructure renewals expenditure in the Appointed Business which amounted to £27.1m. A review of the infrastructure assets has indicated that the current level of funding is sufficient to maintain the serviceability of the infrastructure assets and the additional expenditure provided for in the last five years will not now be needed. The current funding level is consistent with the results of the K determination. In the directors' opinion the provision is no longer required and has been released.

(b) The exceptional operating costs include provision for the cost of appraising the current business systems and processes in the water and sewerage business, identifying new or improved ways to operate the business more efficiently and implementing these changes. They also include provision for the costs of future severances which are expected to arise from the voluntary severance scheme which was introduced by the business in January 1995.

## 4 Investment Income

	1995	1994
	£m	£m
Dividends receivable from fixed asset investments	0.2	0.6
Dividends receivable from current asset investments (note 17)	0.3	8.6
Profit on disposal of fixed asset investments	-	0.6
	0.5	9.8

## 5 Net Interest Payable

	1995	1994
	£m	£m
Interest payable:		
On bank loans, overdrafts and Eurobonds:		
Repayable within five years otherwise than by instalments	(10.1)	(8.8)
Not wholly repayable within five years	(17.0)	(17.5)
	(27.1)	(26.3)
On hire purchase contracts and finance leases	(2.1)	(2.7)
Total interest payable	(29.2)	(29.0)
Interest receivable	12.5	13.3
Net interest payable	(16.7)	(15.7)

08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS

## 6 Directors' Remuneration

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

	1993 £000	1994 £000
Fixed remuneration - non executive directors	136	150
Fixed remuneration - executive directors	301	312
Performance related bonus	73	-
Compensation for loss of office	-	184
Pension contributions	44	33
Benefits in kind	46	43
Total remuneration	600	722

Details of the Chairman and highest paid director were as follows:

	Chairman		Highest Paid Director	
	1993 £000	1994 £000	1993 £000	1994 £000
Fixed remuneration	60	70	129	123
Performance related bonus	-	-	31	-
Pension contributions	-	-	19	15
Benefits in kind	19	13	10	12
Total remuneration	79	83	189	150

The total remuneration of the Chairman for the year ended 31 March 1994 comprises amounts paid to Sir Michael Straker of £28,881 for the period of office as executive chairman 1 April 1993 to 23 July 1993 and to Sir Frederick Holliday of £53,914 for the period of office as non executive chairman 23 July 1993 to 31 March 1994.

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

	1993		1994	
	Number	Number	Number	Number
£0-£5,000	1	2	£75,001-£80,000	1
£5,001-£10,000	1	1	£90,001-£95,000	-
£10,001-£15,000	2	3	£105,001-£110,000	-
£25,001-£30,000	-	1	£120,001-£125,000	-
£30,001-£35,000	1	-	£130,001-£135,000	1
£50,001-£55,000	-	1	£165,001-£170,000	-
£70,001-£75,000	-	2		

6 **Directors' Remuneration** *continued*

Emoluments disclosed above for directors who held office during the year were as follows:

	Fixed remuneration	Performance	Pension contributions	Benefits in kind	Total
		related bonus			
	1995	1995	1995	1995	1995
	1994	1994	1994	1994	1994
	£000	£000	£000	£000	£000
Sir Frederick Holliday (Chairman - non executive director)	60 59	- -	- -	19 13	79 72
David Cranston (Chief executive)	129 123	31 -	19 15	10 12	169 150
Michael Taylor (Group finance director)	90 80	22 -	13 9	10 12	135 101
Jon Hargreaves (Executive director)	82 69	20 -	12 8	7 4	121 81
John Ward (Deputy chairman - non executive director)	34 27	- -	- -	- -	34 27
Sir John Riddell (Non executive director)	14 14	- -	- -	- -	14 14
Professor "Warren" Pescod (Non executive director)	14 14	- -	- -	- -	14 14
Anne Minto (Non executive director - appointed 1 January 1995)	4 -	- -	- -	- -	4 -
Sir Michael Straker (Non executive director - retired 21 July 1994)	10 51	- -	- -	- -	10 51

35

The Company's remuneration policy for directors complies with the guidance "The Remuneration of Directors - A Framework for Remuneration Committees" issued by the Institute of Directors.

**Executive directors**

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, cross checked to surveys of Bacon and Woodrow, Torrill Perrin and Monks Partnership Limited. In addition to this market information, account will be taken of changes in job size, the individual's assessed experience, competency and performance and also have regard to budgetary constraints and public perceptions. The remuneration policy in respect of executive directors is to move the total package (base salary, bonuses and benefits value) toward the median level findings when compared to companies in the industrial and services sector. The salaries operative from 1 January 1995 of the executive directors range between 90% and 92% of the sector median. The Remuneration Committee is comprised solely of non executive directors.

The annual bonus, is determined by reference to increases in pre tax profits and is worth up to 30% of base salary. All bonus payments from 1994/95 onwards are fully pensionable. An unfunded pension fund arrangement is in the process of being established for Michael Taylor in relation to benefits in excess of the earnings cap. Benefits in kind include the provision of cars and health care.

**Non executive directors**

The emoluments of the non executive directors are also determined by reference to Hay Management Consultants. The non executive directors are expected to be available to the Company for an average of two days each month, which includes membership of certain of the Board Committees (Audit, Remuneration, Environment). The Chairman and Deputy Chairman are contracted for an average of two days each week and the level of salary is commensurate with this and the duties and responsibilities they perform. All notice periods comply with the recommendations of the Cadbury Report on Corporate Governance, each non executive director is appointed for a three year period with the option for a renewal of a further three years.

Other than the Chairman the non executive directors do not receive benefits from the Company, but expenses are reimbursed for attending meetings. The Chairman is provided with work related accommodation and transport, both of which are available to the Company when not used by the Chairman.

The non executive directors, including the Chairman, do not participate in any of the share schemes, bonus arrangements or pension schemes.

**Service contracts**

The service contracts for all executive directors have been set at two years, on a rolling basis. The contracts do not include actions which would be taken in the event of an executive or non executive being removed from office. In such circumstances the Board aims to seek an amicable settlement within the terms of the individual's contract of employment.

None of the executive directors has paid appointments or directorships outside of the Northumbrian Water Group of companies. The Company has a policy that no fees would be retained for any external appointments which the executive directors could hold.

The appointments and directorships of the non executive directors are shown on pages 4 and 5.

NORTHUMBRIAN WATER GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS

## 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:

	1995 £m	1994 £m
Wages and salaries	57.7	57.7
Social security costs	6.4	6.4
Other pension costs	4.6	4.4
Total employment costs	68.7	68.5

(b) Total employment costs were charged as follows:

Capital schemes and infrastructure renewals	6.3	6.2
Manpower costs	62.4	62.3
	68.7	68.5

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

	1995 Number	1994 Number
Water and Sewerage Services:		
Appointed	1,347	1,315
Non-appointed	33	45
	1,380	1,360
Other Business Activities:		
Environmental Services	1,272	1,383
Other Services	413	571
	3,065	3,314

## 9 Tax on Profit on Ordinary Activities

	1995 £m	1994 £m
Current UK corporation tax at 33% (see (a) below)	19.4	3.7
Net advance corporation tax recoverable	(6.2)	(1.5)
Tax on franked investment income	-	2.9
(Over)/under-provision in respect of prior years' current tax	(1.9)	1.3
	11.3	6.4

(a) The tax charge for the year has been reduced by £10.4m, primarily as a result of the availability of capital allowances for which no deferred tax has been provided.

## 10 Dividends

	1995 £m	1994 £m
Interim paid of 9.4p (1994: 8.1p) per share	6.4	5.5
Final proposed of 18.8p (1994: 16.2p) per share	13.0	11.0
	19.4	16.5

## 11 Earnings per Ordinary Share

(a) Earnings per share for the year to 31 March 1995 of 116.0p (1994: 83.5p) on a net basis have been calculated on a profit for the financial year of £79.1m (1994: £56.4m) and by reference to 68.2 million (1994: 67.5 million) Ordinary Shares, being the weighted average number of Ordinary Shares in issue and ranking for dividend during the year.

(b) On the basis of a nil distribution of profit the earnings per share would be 116.0p (1994: 88.7p).

12 Tangible Fixed Assets  
Group:

	Freehold land and buildings £m	Short leasehold land and buildings £m	Infra- structure assets £m	Operational structures plant and machinery £m	Fixtures fittings tools and equipment £m	Assets in the course of construction £m	Total £m
<b>Cost:</b>							
At 1 April 1994	46.6	3.0	448.6	364.9	46.4	85.3	994.8
Additions	0.2	0.1	-	6.8	1.9	67.6	76.6
Schemes commissioned	2.2	-	19.3	15.8	1.2	(38.5)	-
Disposals	-	-	-	(5.3)	(1.8)	-	(7.1)
Grants - Infrastructure assets	-	-	(1.5)	-	-	(1.7)	(3.2)
<b>At 31 March 1995</b>	<b>49.0</b>	<b>3.1</b>	<b>466.4</b>	<b>382.2</b>	<b>47.7</b>	<b>112.7</b>	<b>1,061.1</b>
<b>Depreciation:</b>							
At 1 April 1994	7.7	0.6	-	89.6	31.1	-	129.0
Provision for year	1.2	0.1	-	20.4	4.6	-	26.3
Disposals	-	-	-	(3.6)	(1.1)	-	(4.7)
<b>At 31 March 1995</b>	<b>8.9</b>	<b>0.7</b>	<b>-</b>	<b>106.4</b>	<b>34.6</b>	<b>-</b>	<b>150.6</b>
<b>Net book value: 31 March 1995</b>	<b>40.1</b>	<b>2.4</b>	<b>466.4</b>	<b>275.8</b>	<b>13.1</b>	<b>112.7</b>	<b>910.5</b>
<b>Net book value: 31 March 1994</b>	<b>38.9</b>	<b>2.4</b>	<b>448.6</b>	<b>275.3</b>	<b>15.3</b>	<b>85.3</b>	<b>865.8</b>

37

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 £42.5m (1994: £39.3m) 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 1995 was as follows:

	1995 £m	1994 £m
Operational structures, plant and machinery	38.0	36.6
Fixtures, fittings, tools and equipment	0.6	0.4
Assets in the course of construction	1.7	2.2
	<b>40.3</b>	<b>39.2</b>

Additions to tangible fixed assets for the year ended 31 March 1995 have been funded as follows:

	£m
Cash	74.8
Decrease in accrual	(2.1)
Hire purchase contracts and finance leases	3.9
	<b>76.6</b>

NORTHUMBRIAN WATER GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS

**13 Fixed Asset Investments**  
(a) Group:

	Associated undertakings £m	Other investments £m	Total £m
At 1 April 1994	1.5	0.7	2.2
Additions	1.5	-	1.5
Share of results for the year	(0.7)	-	(0.7)
Goodwill written off	(0.1)	-	(0.1)
Disposals	-	(0.1)	(0.1)
At 31 March 1995	2.2	0.6	2.8

38

All fixed asset investments are unlisted.

(b) Company:

	Associated undertakings £m	Interests in subsidiaries £m	Other investments £m	Total £m
At 1 April 1994	4.9	173.1	0.6	178.6
Additions	1.5	30.0	-	31.5
Write down following intra-group transfers of trade and assets	-	(1.2)	-	(1.2)
At 31 March 1995	6.4	201.9	0.6	208.9

All fixed asset investments are unlisted. The additions to the Company's interests in subsidiaries relate to additional investment in ordinary share capital of subsidiary undertakings.

(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 %	Business activity
Renovexx Technology Limited	England and Wales	'B' Ordinary Shares of £1 (Carrying 30% of voting rights)	99	Development of effluent treatment processes
Ondagua S.A. (formerly Obratcon-Northumbrian S.A.)	Spain	Shares of 1,000 pesetas	40	Operational and engineering services
Subterra Holdings Limited	England and Wales	Ordinary Shares of £1	40	Pipe lining services
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 Group and Company %	Business activity
Northumbrian Water Limited	England and Wales	Ordinary Shares of £1	100	Water and sewerage services
Entec Europe Limited (and subsidiary companies)	England and Wales	Ordinary Shares of £1	100	Environmental and engineering consultancy and laboratory services
Northumbrian Environmental Management Limited (and subsidiary companies)	England and Wales	Ordinary Shares of £1	100	Waste management
Montec Holdings Limited (and subsidiary companies)	England and Wales	Ordinary Shares of £1	100	Manufacture and distribution of flow measurement and sampling equipment
Exploration Associates Limited	England and Wales	Ordinary Shares of £1	100	Geotechnical surveys
NWG Leasing (Holdings) Limited (and subsidiary companies)	England and Wales	Ordinary Shares of £1	100	Lessee

During the year the Company has rationalised the structure of its holdings in subsidiary companies. As part of the rationalisation all preference share capital of the subsidiaries at 31 March 1995 held by the Company has been converted to ordinary share capital. During the year Hydrogeologie GmbH was transferred to Entec Europe Limited a wholly owned subsidiary of the Company. 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.

**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	
Current assets	46.8	(7.3)	39.5	-	-	-	39.5
Creditors: amounts falling due within one year	(46.4)	7.3	(39.1)	-	(0.6)	(0.6)	(39.7)
	0.4	-	0.4	-	(0.6)	(0.6)	(0.2)
Fair value of consideration (cash)			0.4			6.2	6.6
Goodwill arising			-			6.8	6.8

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

The companies acquired during the year are NWG Leasing (9/93) Limited (formerly JHSW Leasing (9/93) Limited), NWG Leasing (September) Limited (formerly JHSW Leasing (September) Limited) and Edmund Bühler GmbH and subsidiary companies.

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

	£m	£m
At 1 April 1994		24.6
Written off to reserves in year arising on:		
Subsidiary undertakings acquired during the year (note 14(a))	6.8	
Associated undertakings (note 13(a))	0.1	
		6.9
At 31 March 1995		31.5

**15 Stocks**

	Group	
	1995 £m	1994 £m
Stores	3.1	2.9
Work in progress	0.3	0.3
Finished goods	1.2	0.2
	4.6	3.4

NORTHUMBRIAN WATER GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS

### 16 Debtors

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
(a) Debtors: receivable after more than one year:				
Net investment in finance leases	33.2	29.7	-	-
ACT recoverable	3.3	-	3.3	-
Amounts owed by subsidiary undertakings	-	-	36.1	63.5
	36.5	29.7	39.4	63.5
(b) Debtors: receivable within one year:				
Trade debtors	44.7	36.4	-	-
Net investment in finance leases	20.8	20.7	-	-
Amounts owed by subsidiary undertakings	-	-	45.1	77.9
Amounts owed by associated undertakings	-	4.8	-	4.8
Corporation tax and ACT recoverable	-	3.7	-	1.9
Other debtors	11.4	10.6	3.5	1.2
Prepayments and accrued income	26.6	19.3	8.5	4.0
	103.5	95.5	57.1	89.8

During the year assets with a gross cost of £78.7m (1994: £120.3m) were acquired for letting under finance leases of which £39.5m were held by the leasing businesses on acquisition.

### 17 Current Asset Investments

On 31 March 1995, Mastfoot Limited, a current asset investment of the Group, declared a gross dividend of £2.2m after which the operations of Mastfoot ceased and the Group's cost of investment of £1.9m was written off.

### 18 Cash at Bank and Short Term Deposits

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Short term cash deposits	105.3	98.6	105.3	98.6
Certificates of deposit	33.0	8.0	33.0	8.0
Managed funds	60.0	40.0	60.0	40.0
Cash at bank	34.3	38.6	13.1	25.2
	232.6	185.2	211.4	171.8

All cash and short term deposits are realisable on demand.

### 19 Creditors: Amounts falling due within one year

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Bank loans and overdrafts	59.3	27.5	24.8	-
Obligations under hire purchase contracts and finance leases (note 22)	2.2	5.9	-	-
Trade creditors	15.1	11.4	0.1	0.1
Amounts owed to subsidiary undertakings	-	-	56.5	46.6
Other creditors	46.4	50.9	3.6	3.2
Taxation and social security (see (a) and (b) below)	18.6	9.6	5.2	6.3
Dividends payable	13.0	15.8	13.0	15.8
Accruals and deferred income	19.3	22.5	3.2	4.4
	173.9	143.6	106.4	76.4

(a) The creditor for taxation and social security in the Group includes advance corporation tax payable amounting to £4.7m (1994: £3.5m) and corporation tax amounting to £11.7m (1994: £4.1m).

(b) The creditor for taxation and social security in the Company includes advance corporation tax payable amounting to £4.7m (1994: £3.5m) and corporation tax amounting to £0.3m (1994: £2.7m).

## 20 Creditors: Amounts falling due after more than one year

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Loans (note 21)	92.0	77.0	-	-
Eurobond (see (a) below)	100.0	100.0	100.0	100.0
Obligations under hire purchase contracts and finance leases (note 22)	41.7	38.9	-	-
Amounts owed to subsidiary undertakings (see (b) below)	-	-	10.8	-
Other creditors	1.5	1.0	0.3	0.2
	235.2	216.9	111.1	100.2

41

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

(b) Amounts owed to subsidiary undertakings in the Company represent amounts payable to subsidiary companies in respect of the surrender of group tax losses of £10.8m (1994: £nil).

(c) 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 5.21% 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 nine years, cover £146.6m (1994: £159.3m) of the Group's borrowings. The related costs or income arising during the year are included in net interest payable.

## 21 Loans

	Group	
	1995 £m	1994 £m
Loans are repayable as follows:		
Between one and two years	3.2	-
Between two and five years	33.4	13.9
In five years or more	55.4	63.1
	92.0	77.0

Loans repayable in five years or more are repayable by instalments at rates of interest in the range of 7.95% to 11.5% (1994: 9.23% to 11.5%).

The aggregate amount of loans any part of which falls due for repayment in five years or more is £92m (1994: £77m).

## 22 Obligations under Hire Purchase Contracts and Finance Leases

	Group	
	1995 £m	1994 £m
Amounts due:		
In less than one year	2.6	6.4
Between one and two years	2.3	1.4
Between two and five years	3.9	4.5
In five years or more	100.7	103.7
Gross obligations	109.5	121.0
Less: finance charges allocated to future periods	(65.6)	(76.2)
	43.9	44.8
Disclosed as due:		
Within one year	2.2	5.9
After more than one year	41.7	38.9
	43.9	44.8

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 £103m (1994: £114m).

NORTHUMBRIAN WATER GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS

## 23 Provisions for Liabilities and Charges

	Group		
	Restructuring provision	Infrastructure renewals expenditure	Total
	£m	£m	£m
At 1 April 1994	-	27.2	27.2
Transferred from the profit and loss account	-	12.6	12.6
Exceptional items transferred from/(to) the profit and loss account	25.0	(27.1)	(2.1)
Utilised during the year	-	(12.5)	(12.5)
At 31 March 1995	25.0	0.2	25.2

## 24 Accruals and Deferred Income

	Group £m
Capital grants:	
At 1 April 1994	23.6
Additions	3.5
Amortisation in the year	(1.0)
At 31 March 1995	26.1

## 25 Called up Share Capital

The share capital of the Company is shown below:

	1995 £m	1994 £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:		
69.3 (1994: 67.8) million Ordinary Shares of £1 each	69.3	67.8
Special Rights Redeemable Preference Share of £1; 1995 nil (1994: 1) (see (b) below)	-	-
	69.3	67.8

(a) At 1 April 1994 the number of allotted, called up and fully paid Ordinary Shares stood at 67,836,366. During the year a further 1,534,996 Ordinary Shares were allotted as follows:

	Number allotted	Issue price £	Premium £m
For cash under the Savings-Related Share Option Scheme	885,392	1.76-4.47	0.8
For cash under the Executive Share Option Scheme	86,276	3.10-5.55	0.3
Script dividends (note 28)	563,328	1.00	-
	1,534,996	-	1.1

(b) On 31 December 1994 the Company redeemed the Special Rights Redeemable Preference Share at par. This share, which was held by the Secretary of State for the Environment, did not carry any rights to vote at general meetings but entitled 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 prevents a person from having an interest of 15% or more of the Ordinary Shares in Northumbrian Water Group PLC), required the prior written consent of the holder of the Special Share.

08-08-95

## 26 Directors' Interests

(a) The beneficial interests of directors at 31 March 1995 and their families in numbers of Ordinary Shares of the Company are set out below:

	31 March 1995			31 March 1994		
	Fully paid shares	Executive Options scheme	SAVE scheme	Fully paid shares	Executive Options scheme	SAVE scheme
Sir Frederick Holliday	444	-	-	421	-	-
David Cranston	18,129	85,077	3,402	11,993	62,277	7,757
Michael Taylor	1,032	70,693	-	1,032	64,693	-
Jon Hargreaves	5,697	46,286	3,402	3,335	29,986	5,711
John Ward	225	-	-	213	-	-
Sir John Riddell	1,000	-	-	1,000	-	-
Professor "Warren" Pescod	248	-	-	235	-	-
Anne Minto	-	-	-	-	-	-

For directors appointed during the year comparative figures are shown as at the date of their appointment. The above interests are shown by the register kept in accordance with the Companies Act 1985. None of the directors had any beneficial interest in the shares of other companies in the Group.

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

(b) During the year ended 31 March 1995 the changes in the interests of directors in the executive share option scheme, and the aggregate values of their unexercised vested options at 31 March 1995, were as follows:

	1 April 1994 Number	Granted Number	31 March 1995 Number	Exercise price £	Notional value £000	Date when exercisable
David Cranston	35,809	-	35,809	3.78	168.7	From July 1994 for 7 years
	14,528	-	14,528	4.40	59.4	From June 1995 for 7 years
	11,940	-	11,940	5.55	35.1	From June 1996 for 7 years
	-	22,800	22,800	6.97	34.7	From Nov 1997 for 7 years
Totals	62,277	22,800	85,077	-	297.9	
Michael Taylor	60,462	-	60,462	4.40	247.3	From June 1995 for 7 years
	4,231	-	4,231	5.55	12.4	From June 1996 for 7 years
	-	6,000	6,000	6.97	9.1	From Nov 1997 for 7 years
Totals	64,693	6,000	70,693	-	268.8	
Jon Hargreaves	2,030	-	2,030	3.78	9.6	From July 1994 for 7 years
	12,453	-	12,453	4.40	50.9	From June 1995 for 7 years
	15,503	-	15,503	5.55	45.6	From June 1996 for 7 years
	-	16,300	16,300	6.97	24.8	From Nov 1997 for 7 years
Totals	29,986	16,300	46,286	-	130.9	

No executive share options were exercised during the year, nor did any lapse. The total number of options granted is, in all cases, below the maximum permitted by the scheme. The notional value of unexercised options is the difference between the closing price of Northumbrian Water Group PLC Ordinary Shares on 31 March 1995 (£8.49) and the exercise price of the options. The range in market prices of the Ordinary Shares fluctuated between a high of £8.70 and a low of £5.10 during the year.

Share options are now only granted after taking account of business and individual performance. In respect of all share options granted during 1994/95, performance criteria have also been attached which apply before the options can be fully exercised. The principal criterion is that the increase in Northumbrian Water Group total shareholder return must be within the top three of a comparator group of the ten water and sewerage companies over the period from the date that the options were granted.

08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS

## 26 Directors' Interests continued

(c) During the year ended 31 March 1995 the changes in interests of directors in the SAYE option scheme, which is available to all employees of the Group at identical option exercise prices, were as follows:

	1 April 1994 Number	Granted Number	Exercised Number	31 March 1995 Number	Exercise price £
David Cranston	6,136	-	(6,136)	-	1.76
	1,621	-	-	1,621	4.47
	-	1,781	-	1,781	5.81
Totals	7,757	1,781	(6,136)	3,402	-
Jon Hargreaves	4,090	-	(4,090)	-	1.76
	1,621	-	-	1,621	4.47
	-	1,781	-	1,781	5.81
Totals	5,711	1,781	(4,090)	3,402	-

(d) From the end of the financial year to 24 May 1995 there was no change in the above mentioned beneficial interests of the directors.

## 27 Share Option Schemes

(a) Under the Inland Revenue approved 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
122,569	378p	From July 1994 for 7 years
288,860	440p	From June 1995 for 7 years
26,103	550p	From December 1995 for 7 years
64,237	555p	From June 1996 for 7 years
115,000	697p	From November 1997 for 7 years

(b) Under the Inland Revenue approved 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
11,044	176p	From March 1995 for 6 months
280,337	176p	From March 1997 for 6 months
181,278	264p	From March 1996 for 6 months
111,801	264p	From March 1998 for 6 months
166,767	278p	From March 1997 for 6 months
158,318	278p	From March 1999 for 6 months
361,159	447p	From March 1998 for 6 months
144,487	447p	From March 2000 for 6 months
406,409	581p	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).

08 - 08 - 95

## 28 Reserves

	Share premium account £m	Profit and loss account £m
<b>Group:</b>		
At 1 April 1994	60.5	644.1
Adjustment in respect of scrip dividends (note 25 (a))	(0.6)	2.9
Shares issued (note 25 (a))	1.1	-
Profit retained for the year	-	59.7
Goodwill written off (note 14 (b))	-	(6.9)
<b>At 31 March 1995</b>	<b>61.0</b>	<b>699.8</b>
<b>Company:</b>		
At 1 April 1994	60.5	198.8
Adjustment in respect of scrip dividends (note 25 (a))	(0.6)	2.9
Shares issued (note 25 (a))	1.1	-
Loss for the year	-	(32.7)
<b>At 31 March 1995</b>	<b>61.0</b>	<b>169.0</b>

45

As permitted by Section 230 of the Companies Act 1985, the Company's profit and loss account has not been included in these financial statements. Of the Group consolidated profit for the financial year a loss of £13.3m (1994: £9m profit) is dealt with in the financial statements of the Company.

## 29 Reconciliation of Movement in Equity Shareholders' Funds

	Group	
	1995 £m	1994 £m
Profit for the financial year	79.1	56.4
Dividends	(19.4)	(16.5)
Profit retained for the year	59.7	39.9
Shares allotted - nominal value	1.5	0.5
- premium	1.1	0.7
Goodwill written off	(6.9)	(4.4)
Goodwill written back	-	6.2
<b>Increase in equity shareholders' funds</b>	<b>55.4</b>	<b>42.9</b>
Opening equity shareholders' funds	772.4	727.8
Net adjustment in respect of scrip dividends	2.3	1.7
<b>Closing equity shareholders' funds</b>	<b>830.1</b>	<b>772.4</b>

08-08-95

NORTHUMBRIAN WATER GROUP PLC

## NOTES TO THE FINANCIAL STATEMENTS

46

## 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 £4.6m (1994: £4.4m).

## 31 Financial Commitments

## (a) Capital expenditure:

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Expenditure contracted for	22.5	24.5	-	-
Expenditure authorised by directors but not yet contracted for (see note 33)	107.6	68.2	-	0.4
	130.1	92.7	-	0.4

In addition to these commitments the Group has longer term 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:

	Group			
	1995		1994	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Leases which expire:				
Within one year	0.3	0.2	0.4	0.2
Within two to five years	0.2	0.7	0.3	0.4
After five years	0.7	-	0.7	-
	1.2	0.9	1.4	0.6

08-08-95

**32 Contingent Liabilities**

47

**(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	
	1995 £m	1994 £m	1995 £m	1994 £m
Accelerated capital allowances	188.1	169.1	(0.1)	-
Other timing differences	(12.5)	(14.5)	(0.3)	(0.5)
	175.6	154.6	(0.4)	(0.5)
Advance corporation tax	-	(6.5)	-	-
	175.6	148.1	(0.4)	(0.5)

(b) The Company is party to a cross guarantee arrangement with certain group companies in respect of their bank overdrafts. The potential liability outstanding at 31 March 1995 amounted to £20.2m (1994: £24.9m).

(c) The Company has provided guarantees in respect of amounts owing to banks by certain of the Company's associated undertakings. The contingent and maximum liability of the Company at 31 March 1995 was £8.5m (1994: £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 1995 under this guarantee was £4m (1994: £4m).

(e) The Company has guaranteed loan and bank facilities of subsidiary undertakings which in aggregate amount to £146.1m at 31 March 1995 (1994: £130.3m) 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.

**33 Post Balance Sheet Events**

(a) On 7 April 1995 Northumbrian Environmental Management Limited, a wholly owned subsidiary of the Company, acquired 100% of the Ordinary Share Capital of Northumberland Waste Management Limited for a cash consideration of £9.5m. The principal trading activity of Northumberland Waste Management Limited is the management, treatment and disposal of waste. The company is registered in England and Wales. A financial commitment of £9.5m authorised but not yet contracted for has been included in note 31.

(b) In April 1995 a joint venture company, Cleveland Waste Management Limited, between Northumbrian Environmental Management Limited and Cleveland County Council, was awarded a 25 year waste disposal contract by Cleveland County Council following a formal tender and evaluation process. Subject to the Department of the Environment approving the County's proposed Transfer Scheme under the Environmental Protection Act 1990, the Group is committed to subscribing for shares in Cleveland Waste Management Limited for £4m and for capital expenditure of £40m for the construction of a modern energy from waste incineration plant on Teesside. A total financial commitment of £44m authorised but not yet contracted for has been included in note 31.

## 08 - 08 - 95

NORTHUMBRIAN WATER GROUP PLC

## FIVE YEAR RECORD

Results	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Turnover	318.2	298.6	252.1	203.5	167.0
Operating profit	107.3	77.6	69.7	54.9	34.1
Profit on ordinary activities before taxation	90.4	62.8	69.4	61.1	46.9
Profit for the financial year	79.1	56.4	67.4	56.6	42.8
Dividends	(19.4)	(16.5)	(15.1)	(13.6)	(12.2)
Retained profit	59.7	39.9	52.3	43.0	30.6
<b>Net assets employed</b>					
Fixed assets	913.3	868.0	815.7	721.0	635.5
Net current assets	203.3	172.1	170.0	130.0	149.5
Total assets less current liabilities	1,116.6	1,040.1	985.7	851.0	785.0
Non current liabilities	(235.2)	(216.9)	(214.7)	(122.5)	(94.7)
Provisions for liabilities and charges	(25.2)	(27.2)	(21.2)	(21.6)	(18.9)
Accruals and deferred income	(26.1)	(23.6)	(22.0)	(21.4)	(20.0)
Net assets employed	830.1	772.4	727.8	685.5	651.4
<b>Ratios</b>					
Operating margin	33.7%	26.0%	27.6%	27.0%	20.4%
Earnings per ordinary share	116.0p	83.5p	100.7p	85.5p	65.3p
Dividend per ordinary share	28.2p	24.3p	22.5p	20.5p	18.6p

08 - 08 - 95

## SHAREHOLDER INFORMATION

Shareholder Profile: Analysis of Ordinary Fully Paid Share Register  
as at 30 April 1995

Type of shareholder	Number of holders	%	Number of shares	%
Insurance company	31	0.05	13,933,678	20.08
Nominee company	2,093	3.25	34,088,164	49.14
Bank	2	0.00	1,565	0.00
Pension fund	16	0.02	685,614	0.99
Public limited companies	9	0.01	527	0.00
Other limited companies	338	0.53	7,259,117	10.46
Other corporate body	118	0.18	2,696,454	3.89
Male	36,760	57.16	6,033,587	8.70
Female	21,724	33.78	3,815,677	5.50
Joint account	3,231	5.02	861,492	1.24
Totals	64,322	100.00	69,375,875	100.00

49

Balance Analysis Summary: Ordinary Shares  
as at 30 April 1995

Range	Number of holdings	%	Balances as at 30 April 1995	%
1 - 499	60,914	94.70	8,614,278	12.42
500 - 999	1,517	2.36	1,032,396	1.49
1,000 - 4,999	1,402	2.18	2,441,822	3.52
5,000 - 9,999	146	0.23	972,152	1.40
10,000 - 49,999	183	0.28	4,474,231	6.45
50,000 - 999,999	152	0.24	33,016,461	47.59
1,000,000+	8	0.01	18,824,535	27.13
Totals	64,322	100.00	69,375,875	100.00

## Share Dividend Mandate Scheme

Shareholders who join the Share Dividend Mandate Scheme automatically receive shares in place of their dividend whenever a Share Dividend offer is made. Any cash balance of dividend is retained and added to any subsequent balances on the account. If the balance of cash on an account is sufficient at the time of a Share Dividend offer, further shares will be allotted.

Shareholders who have a Share Dividend Mandate on their account must cancel their mandate if they wish to receive their dividend in cash. The mandate can be cancelled by writing to I.Loyds Bank Registrars, 54 Pershore Road South, Kings Norton, Birmingham B30 3ER.

## FINANCIAL CALENDAR 1995/96

Interim Results	November
Interim Report Distributed	December
Interim Dividend Payment	March

Announcement of Final Results	June
Annual Report Distributed	June
Annual General Meeting	July
Final Dividend Payment	October