

NORTHUMBRIAN WATER LIMITED

**ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 1994**

Registered no: 2366703



NORTHUMBRIAN WATER LIMITED

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 March 1994

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NORTHUMBRIAN WATER LIMITED

DIRECTORS' REPORT

For the year ended 31 March 1994

The directors submit their report and accounts for the year ended 31 March 1994.

Results and dividends

The company's profit for the year after taxation amounted to £66.2m. An analysis of turnover and profits for the various activities of the company is shown in note 2 to the accounts.

The directors propose a final dividend of £4.1m for the year to 31 March 1994. The retained profit of £62.1m is transferred to reserves.

Principal activities and review of business

The company has sufficient storage to support water supply requirements for the foreseeable future; supplies to customers were not affected by drought conditions.

The company supplies water to 45 per cent of the region's population, the remainder being supplied by water only companies. During the year ended 31 March 1994 an average 669 megalitres per day of water (a total for the year of 244,185 megalitres) was put into supply.

The company is responsible for the collection of sewage throughout the region via the sewerage system and for its subsequent treatment and disposal.

Profit before taxation has increased by 23% from £53.9m in 1992/93 to £66.2m. Improvements in operational efficiency during the year saw operating costs (excluding capital maintenance costs) reduce from £112.0m in 1992/93 to £111.0m.

Changes in presentation of the financial statements

Following the introduction of Financial Reporting Standard No 3, "Reporting Financial Performance" and Financial Reporting Standard No 4, "Capital Instruments", the following changes in the presentation of the financial statements have been made to conform with the new requirements.

- a) A statement that all turnover and operating profit derive from continuing operations has been included in the profit and loss account.
- b) A statement that the company has no recognised gains or losses other than those reported in the profit and loss account.
- c) A statement that there is no difference between the profit on ordinary activities before taxation and profit calculated on a pure historical cost basis.
- d) Equity shareholders' funds have been disclosed on the face of the balance sheet.

Future developments

The company expects to further improve operational efficiency over the next decade.

Research and development

The company places a high priority on research and technological innovation to serve the needs of customers. Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

NORTHUMBRIAN WATER LIMITED

DIRECTORS REPORT (Continued)

Fixed assets

Changes in fixed assets are set out in note 10 to the accounts.

Directors

The directors of the company during the year ended 31 March 1994 were:-

Sir Michael Straker	(Appointed chairman 1 August 1993. Resigned 31 March 1994)
D G Cranston	
R H Smith	(Resigned 1 April 1993)
J W Hargreaves	
J A Foster	
A F Jones	
A Girven	(Resigned 31 March 1994)
I MacMillan	
A C Price	(Appointed 31 March 1994)

R H Smith retired as managing director of Northumbrian Water Limited on 1 April 1993. The directors would like to express their gratitude for his valuable contribution to both the company and the water industry over the past 30 years.

D G Cranston was appointed as chairman of Northumbrian Water Limited on 1 April 1994.

D J Watson acted as company secretary during the year.

The interests of directors are set out in note 22 to the accounts.

Donations

During the year donations to charities amounted to £60,000 (1993: £80,000).

Employees

The company recognises its responsibilities towards disabled people and to their training, career development and promotion and gives full and fair consideration to applications for employment where suitable work is available. Every effort is made to find appropriate alternative jobs for those who become disabled while working for the company.

The board of directors recognises that it is important to continue to recruit and develop a successful team. This is achieved by promoting opportunities for decentralised decision making, individual accountability, teamwork and successful communication. Continuous development is promoted to enable employees to reach their full potential. It is the board's aim to develop a company where people are committed to achieving the best for the business and are confident to use their skills and initiatives to add maximum value.

The company's policy is to consult and discuss with employees, through the Company Council, matters likely to affect employees' interests.

Information on matters of concern to employees is given through regular Team Briefs, which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the performance of the company and the group.

NORTHUMBRIAN WATER LIMITED

DIRECTORS REPORT (Continued)

Employees (Continued)

There is a savings related share option scheme operated by the parent company for employees of the group at all levels.

Employees are represented on the Trustee Boards of the group pension schemes in which the company participates.

Insurance of directors

The company maintains insurance for its directors in respect of their duties as directors.

Taxation

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

Auditors

The company has appointed Coopers and Lybrand as its auditors and has, by Elective Resolution pursuant to Section 386 of the Companies Act 1985, dispensed with the obligation to appoint auditors annually.

BY ORDER OF THE BOARD



D J Watson
Company secretary

16 June 1994

NORTHUMBRIAN WATER LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 March 1994

The directors are required by United Kingdom company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1994. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company, and to prevent and detect fraud and other irregularities.

BY ORDER OF THE BOARD



D J Watson
Company secretary

16 June 1994

**REPORT OF THE AUDITORS TO THE MEMBERS OF
NORTHUMBRIAN WATER LIMITED**
For the year ended 31 March 1994

We have audited the financial statements on pages 7 to 26.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those 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 the 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 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 at 31 March 1994 and of the profit, total recognised gains and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

COOPERS & LYBRAND
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

16 June 1994

NORTHUMBRIAN WATER LIMITED

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1994

	<u>Note</u>	<u>1994</u> £'m	<u>1993</u> £'m
TURNOVER	2	225.6	210.0
Operating costs	3	(111.0)	(112.0)
Capital maintenance costs	3	(33.8)	(31.1)
		<hr/>	<hr/>
OPERATING PROFIT		80.8	66.9
Net interest payable	4	(14.6)	(13.0)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	2	66.2	53.9
Taxation	8	-	0.8
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR		66.2	54.7
Dividends	9	(4.1)	(24.3)
		<hr/>	<hr/>
PROFIT RETAINED FOR THE YEAR	23	<u>62.1</u>	<u>30.4</u>

All turnover and operating profit derive from continuing operations.

The company has no recognised gains or losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

The notes on pages 10 to 26 form part of these accounts.

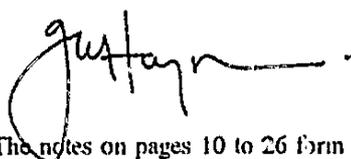
Auditors' report page 6.

NORTHUMBRIAN WATER LIMITED

BALANCE SHEET
At 31 March 1994

	Note	1994		1993	
		£'m	£'m	£'m	£'m
FIXED ASSETS					
Tangible assets	10		826.1		770.2
Investments	11		0.1		0.1
			<u>826.2</u>		<u>770.3</u>
CURRENT ASSETS					
Stocks	12	2.2		2.4	
Debtors	13	31.4		35.6	
Investments	14	46.0		-	
Cash at bank and in hand		-		29.4	
			<u>79.6</u>	<u>67.4</u>	
CREDITORS: Amounts falling due within one year	15	(64.2)		(81.2)	
NET CURRENT ASSETS/(LIABILITIES)			<u>15.4</u>		<u>(13.8)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>841.6</u>		<u>756.5</u>
CREDITORS: Amounts falling due after more than one year	16	(170.7)		(156.7)	
PROVISIONS FOR LIABILITIES AND CHARGES	19	(27.2)		(19.8)	
ACCRUALS AND DEFERRED INCOME	20	(23.6)		(22.0)	
			<u>(221.5)</u>	<u>(198.5)</u>	
NET ASSETS			<u>620.1</u>	<u>558.0</u>	
CAPITAL AND RESERVES					
Called up share capital	21		122.7		122.7
Profit and loss account	23		497.4		435.3
Equity shareholders' funds	24		<u>620.1</u>		<u>558.0</u>

The accounts on pages 7 to 26 were approved by the board on 16 June 1994 and were signed on its behalf by:





The notes on pages 10 to 26 form part of these accounts.

Auditors' report page 6.

NORTHUMBRIAN WATER LIMITED

CASH FLOW STATEMENT
for the year ended 31 March 1994

	Note	1994		1993	
		£'m	£'m	£'m	£'m
NET CASH INFLOW FROM OPERATING ACTIVITIES	25		107.3		74.2
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest received		1.4		2.6	
Interest paid - loans		(13.9)		(11.4)	
Interest paid - finance leases		(1.8)		(1.8)	
Dividends paid		(24.3)		(19.7)	
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			(38.6)		(30.3)
TAXATION					
Tax relief received			0.8		6.4
INVESTING ACTIVITIES					
Purchase of tangible fixed assets		(59.2)		(75.3)	
Sale of tangible fixed assets		0.6		3.4	
Grants received		5.2		4.0	
NET CASH OUTFLOW FROM INVESTING ACTIVITIES			(53.4)		(67.9)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING			16.1		(17.6)
FINANCING					
New loans		-		17.0	
Principal repayment under finance lease		(2.8)		-	
NET CASH (OUTFLOW)/INFLOW FROM FINANCING			(2.8)		17.0
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	27		13.3		(0.6)

The notes on pages 10 to 26 form part of these accounts.

Auditors' report page 6.

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS

For the year ended 31 March 1994

1 ACCOUNTING POLICIES

The accounts have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

(a) Changes in accounting policies

Financial Reporting Standard No 3, "Reporting Financial Performance" requires the adoption of accounting policies which differ from those previously adopted by the company. In 1993/94, the effect of the adoption of these accounting policies has not resulted in any changes other than those explained in the footnotes to the profit and loss account. The provisions of Financial Reporting Standard No 4, "Capital Instruments", where applicable, have also been adopted by the company.

(b) Basis of accounting

The accounts have been prepared under the historical cost convention.

(c) Turnover

Turnover, which excludes Value Added Tax, represents the income receivable in the ordinary course of business for services provided within the United Kingdom.

(d) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

(i) Infrastructure assets

Infrastructure assets comprise a network of systems (being water mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls).

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost, after deducting grants and contributions.

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.

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(ii) Other assets

Other assets (including properties, overground plant and equipment) are included at cost less accumulated depreciation. Additions are included at cost.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Freehold buildings	30 - 60 years
Operational structures, plant and machinery	4 - 80 years
Fixtures, fittings, tools and equipment	4 - 10 years

(iii) Assets in the course of construction

Assets in the course of construction are not depreciated until commissioning.

(e) 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 No 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 is, in the opinion of the directors, necessary for the accounts to give a true and fair view: infrastructure assets are not depreciated, and it is therefore not appropriate to recognise related grants and contributions as deferred income. The effect of the departure on the value of tangible fixed assets is disclosed in note 10.

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.

(f) Hire purchase and leasing

Where assets are financed by hire purchase or leasing arrangements which transfer substantially all the risks and rewards of ownership to the company, 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 charged 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 charged to the profit and loss account in the year they are incurred.

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

1 ACCOUNTING POLICIES (Continued)

(g) Stocks and work in progress

Raw materials and consumables are stated at cost less any provision necessary to recognise damage and obsolescence. Work in progress is valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

(h) 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 accruals in the balance sheet.

(i) Deferred taxation

Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the accounts. Provision is made at the rate which is expected to apply when the liability or asset crystallises.

(j) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains or losses are recognised in the profit and loss account.

(k) Research and development

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

(l) Investments

Fixed asset investments are stated at their purchase cost.

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

2 TURNOVER, PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION AND NET ASSETS

An analysis by class of business of turnover, profit on ordinary activities before taxation and net assets, is as follows:

	<u>Turnover</u>		<u>Profit on ordinary activities before taxation</u>		<u>Net Assets</u>	
	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>
	£'m	£'m	£'m	£'m	£'m	£'m
Appointed business	204.9	189.0	57.0	47.9	482.9	425.9
Non-appointed business	20.7	21.0	9.2	6.0	137.2	132.1
	<u>225.6</u>	<u>210.0</u>	<u>66.2</u>	<u>53.9</u>	<u>620.1</u>	<u>558.0</u>

The appointed business is that part of the company's business covered by appointments made by the Secretary of State for the Environment to be water and sewerage undertaker for specific areas in the North East of England in accordance with the Water Industry Act 1991. The non-appointed business comprises those commercial activities undertaken by the company which fall outside the scope of the Act.

3 OPERATING AND CAPITAL MAINTENANCE COSTS

(a) Operating costs comprise:

	<u>1994</u>	<u>1993</u>
	£'m	£'m
Materials and consumables	9.8	10.0
Other external charges	12.8	10.9
Manpower costs (note 7)	23.7	22.8
Other operating charges	64.9	68.7
Other operating income	(0.2)	(0.4)
	<u>111.0</u>	<u>112.0</u>

(b) Capital maintenance costs comprise:

	<u>1994</u>	<u>1993</u>
	£'m	£'m
Depreciation	14.8	12.6
Infrastructure renewals expenditure	11.6	20.4
Infrastructure renewals accrued/(prepaid)	7.4	(1.9)
	<u>33.8</u>	<u>31.1</u>

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

3 OPERATING AND CAPITAL MAINTENANCE COSTS (Continued)

The basis upon which the value of the infrastructure renewals charge is maintained, in the light of inflation, was revised during the year ended 31 March 1993. As a result, the charge is £3.1m lower than it would have been had this revision not been adopted.

The current year and comparative figures for operating costs have been split into operating costs and capital maintenance costs in the profit and loss account. The directors consider that this provides a more meaningful presentation.

(c) The above costs are stated after crediting:

	<u>1994</u> £'m	<u>1993</u> £'m
Amortisation of capital grants and contributions	0.7	0.6
And after charging:		
Depreciation of owned tangible fixed assets	12.4	11.7
Depreciation of tangible fixed assets held under finance leases	2.4	0.9
Hire of plant and machinery - operating leases	0.6	1.1
Hire of other assets - operating leases	0.1	0.1
Costs of research and development	3.0	1.5
Directors' emoluments (note 5)	0.4	0.3
Auditors' remuneration	0.1	0.1

Provision of non-audit services to the company by its auditors and their associates was £0.4m (1993: £0.3m).

4 NET INTEREST PAYABLE

	<u>1994</u> £'m	<u>1993</u> £'m
Net interest payable comprises:		
Interest payable:		
Bank loans, overdrafts and other loans:		
Repayable within five years otherwise than by instalments	5.7	5.1
Not wholly repayable within five years	6.6	7.7
Repayable in more than five years	1.6	0.9
	<u>13.9</u>	<u>13.7</u>
Financing charges payable under finance leases	2.3	1.8
Total interest payable	<u>16.2</u>	<u>15.5</u>
Interest receivable	(1.6)	(2.5)
Net interest payable	<u><u>14.6</u></u>	<u><u>13.0</u></u>

The total interest payable on bank loans, overdrafts and other loans includes £3.0m (1993: £5.1m) in respect of interest payable on amounts owed to group undertakings.

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

5 DIRECTORS' EMOLUMENTS

	<u>1994</u> £'000	<u>1993</u> £'000
Salary payments (including benefits in kind)	294.1	287.7
Pension contributions	28.4	28.0
	<u>322.5</u>	<u>315.7</u>
Compensation for loss of office	104.2	-
	<u>426.7</u>	<u>315.7</u>

Emoluments include amounts paid to:

	1994 Chairman £'000	1994 Highest paid director £'000	1993 Chairman £'000	1993 Highest paid director £'000
Salary payments (including benefits)	12.3	73.6	-	90.4
Pension contributions	-	7.0	-	8.7
	<u>12.3</u>	<u>80.6</u>	<u>-</u>	<u>99.1</u>
Compensation for loss of office	-	84.2	-	-
	<u>12.3</u>	<u>164.8</u>	<u>-</u>	<u>99.1</u>

Compensation for loss of office includes the monetary value of cars retained by the directors who resigned.

The number of directors who received emoluments (excluding pension contributions) in the following ranges was:

	<u>1994</u> No	<u>1993</u> No
£0 - £5,000	3	3
£10,001 - £15,000	1	-
£20,001 - £25,000	1	2
£35,001 - £40,000	-	1
£55,001 - £60,000	-	2
£65,001 - £70,000	2	-
£70,001 - £75,000	1	-
£90,001 - £95,000	-	1
£155,001 - £160,000	1	-

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

6 TRANSACTIONS WITH DIRECTORS AND OFFICERS

No transactions or arrangements which are disclosable under the provisions of the Companies Act 1985 have occurred.

7 EMPLOYEE INFORMATION

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

	<u>1994</u> £'m	<u>1993</u> £'m
Wages and salaries	21.8	21.3
Social security costs	1.8	1.7
Other pension costs	2.4	2.1
Total employment costs	<u>26.0</u>	<u>25.1</u>

(b) Total employment costs are charged as follows:

	<u>1994</u> £'m	<u>1993</u> £'m
Manpower costs (note 3)	2.1	22.8
Capital schemes and infrastructure renewals	2.3	2.3
	<u>26.0</u>	<u>25.1</u>

(c) The average number of employees on the payroll during the financial year was 1,360 (1993: 1,302).

(d) The number of employees on the payroll as at the balance sheet date was 1393 (1993: 1333). Of these 430 were employed on fixed term contracts (1993: 369).

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	<u>1994</u> £'m	<u>1993</u> £'m
Credit for tax losses surrendered to group companies	-	0.8

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES (Continued)

- (a) The company has provisionally surrendered tax losses to fellow subsidiaries in the current year of £11.6m (1993: £49.2m) payment for which has been postponed (note 30).
- (b) Deferred taxation provided in the financial statements is £Nil (1993: £Nil). The full potential amount of deferred taxation calculated at 33 per cent (1993: 33 per cent) on all timing differences is as follows:

	<u>1994</u> £'m	<u>1993</u> £'m
Accelerated capital allowances	147.9	115.0
Other timing differences	(12.6)	(9.0)
	<u>135.3</u>	<u>106.0</u>

- (c) The company may become entitled to receive a payment of £19.7m (1993: £16.2m) in respect of losses it has provisionally surrendered as group relief for which payment has been postponed (note 30).

9 DIVIDENDS

	<u>1994</u> £'m	<u>1993</u> £'m
Ordinary:		
Final proposed of 3.343p (1993: 19.812p) per share	<u>4.1</u>	<u>24.3</u>

The calculation of pence per share for the proposed dividend for the year ended 31 March 1994 is based on the total share capital of the company. However this proposed dividend has been restricted to profits from the non-appointed business. The calculation of pence per share based only on the non-appointed share capital of £30.6m is 13.399p per share (1993: 8.170p per share). No dividend has been paid from the appointed business (1993: £21.8m). This will facilitate the start of a re-structuring of reserves in line with the balance sheet adjustments agreed with the Office of Water Services for the year ended 31 March 1993.

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

10 TANGIBLE FIXED ASSETS

	Freehold land and buildings £'m	Infra- structure assets £'m	Operational structures, plant and machinery £'m	Fixtures, fittings, tools and equipment £'m	Assets in the course of construction £'m	Total £'m
Cost:						
Balance at 1 April 1993	23.0	415.1	293.9	22.6	107.9	862.5
Additions	-	-	-	-	73.4	73.4
Schemes commissioned	2.9	34.8	49.8	5.5	(93.0)	0.0
Disposals	(0.3)	-	(0.6)	-	-	(0.9)
Grants and contributions	-	(1.3)	-	-	(1.2)	(2.5)
Balance at 31 March 1994	25.6	448.6	343.1	28.1	87.1	932.5
Depreciation:						
Balance at 1 April 1993	5.1	-	68.8	18.4	-	92.3
Provision for year	0.9	-	11.6	2.3	-	14.8
Disposals	(0.1)	-	(0.6)	-	-	(0.7)
Balance at 31 March 1994	5.9	-	79.8	20.7	-	106.4
Net book value:						
At 31 March 1994	19.7	448.6	263.3	7.4	87.1	826.1
At 31 March 1993	17.9	415.1	225.1	4.2	107.9	770.2

The net book value of infrastructure assets including infrastructure assets in the course of construction is stated after the deduction of grants and contributions amounting to £39.3m (1993: £36.8m) in order to give a true and fair view.

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 finance leases at 31 March 1994 was as follows:

	1994 £'m	1993 £'m
Operational structures, plant and machinery	38.6	26.1
Fixtures, fittings, tools and equipment	3.4	-
Assets in the course of construction	2.2	1.5
	<u>44.2</u>	<u>27.6</u>

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

11 INVESTMENTS

The company has unlisted investments of £0.1m (1993: £0.1m). Included within this amount is an investment of £2 in a wholly-owned subsidiary, Northumbrian Water Services Limited, a company registered in England and Wales, which was acquired during the year. This subsidiary is engaged in carrying out various commercial contracts. Consolidated accounts, which include the results of this subsidiary, have not been prepared because of the exemption which permits a wholly-owned subsidiary of an European Economic Community parent not to prepare consolidated accounts. The activities of Northumbrian Water Services Limited were not material in the year ended 31 March 1994.

12 STOCKS AND WORK IN PROGRESS

	<u>1994</u> £'m	<u>1993</u> £'m
Raw materials and consumables	2.0	2.3
Work in progress	0.2	0.1
	<u>2.2</u>	<u>2.4</u>

13 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1994</u> £'m	<u>1993</u> £'m
Trade debtors	12.3	13.7
Amounts owed by parent company and fellow subsidiaries (see (a) below)	0.4	5.4
Other debtors	6.6	5.9
Prepayments and accrued income	12.1	10.6
	<u>31.4</u>	<u>35.6</u>

(a) Included in amounts owed by parent company and fellow subsidiaries is £Nil (1993: £0.8m) in respect of group tax relief.

14 INVESTMENTS

	<u>1994</u> £'m	<u>1993</u> £'m
Short term deposits	46.0	-
	<u>46.0</u>	<u>-</u>

These deposits have been invested by Northumbrian Water Group PLC acting as agent for Northumbrian Water Limited.

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<u>1994</u> £'m	<u>1993</u> £'m
Bank overdraft (see (a) below)	3.3	-
Obligations under finance leases (note 18)	5.1	1.8
Trade creditors	3.4	3.7
Amounts owed to parent company and fellow subsidiaries	6.9	6.2
Other creditors (see (b) below)	35.2	40.5
Taxation and social security	0.6	0.6
Proposed dividend payable to parent company	4.1	24.3
Accruals and deferred income	5.6	4.1
	<u>64.2</u>	<u>81.2</u>

(a) The bank overdraft represents £3.3m of unrepresented items which the company has taken the opportunity to place on overnight deposit (1993: £Nil). This amount is included within short term deposits (note 14).

(b) Other creditors includes creditors related to capital projects of £18.3m (1993: £23.9m).

16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	<u>1994</u> £'m	<u>1993</u> £'m
Loans (note 17)	77.0	77.0
Obligations under finance leases (note 18)	43.3	29.1
Amounts owed to parent company	50.0	50.0
Other creditors	0.4	0.6
	<u>170.7</u>	<u>156.7</u>

At 31 March 1994 the company had entered into interest swap arrangements totalling £67.0m (1993: £67.0m), over periods between two and six years with various counterparties. Under these arrangements the company is required to pay interest on this balance at various fixed rates of 9.43 to 11.45 per cent and will receive interest on these amounts at rates linked to LIBOR.

The amount owed to the parent company of £50.0m is due for repayment in December 1995.

NOTES TO THE ACCOUNTS (Continued)

17 LOANS

	<u>1994</u> £'m	<u>1993</u> £'m
Loans are repayable as follows:		
Between two and five years	13.9	8.5
In five years or more	63.1	68.5
	<u>77.0</u>	<u>77.0</u>

Loans repayable otherwise than by instalments which fall due after more than 5 years amount to £17.0m and bear interest at 0.2 per cent below LIBOR.

Loans repayable by instalments amount to £60.0m and bear interest rates in the range 10.4 to 11.5 per cent.

18 OBLIGATIONS UNDER FINANCE LEASES

Obligations under finance leases are as follows:

	<u>1994</u> £'m	<u>1993</u> £'m
Amounts due:		
Within one year	5.1	1.8
Between one and two years	2.2	0.7
Between two and five years	9.1	2.6
In five years or more	108.6	93.7
	<u>125.0</u>	<u>98.8</u>
Less: finance charge allocated to future periods	(76.6)	(67.9)
	<u>48.4</u>	<u>30.9</u>
Disclosed as due:		
Within one year (note 15)	5.1	1.8
After more than one year (note 16)	43.3	29.1
	<u>48.4</u>	<u>30.9</u>

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

18 OBLIGATIONS UNDER FINANCE LEASES (Continued)

Included within obligations under finance leases is an amount due to St Mary's Court Limited, a fellow subsidiary, of £9.2m (1993: £Nil). Of this, £2.6m is due within one year, £2.6m is due between one and two years, £5.2m is due between two and five years and finance charges allocated to future periods amount to £1.2m.

19 PROVISIONS FOR LIABILITIES AND CHARGES

	£'m
Infrastructure renewals:	
Balance at 1 April 1993	19.8
Utilised during the year	(11.6)
Transferred from profit and loss account	19.0
	<hr/>
Balance at 31 March 1994	<u>27.2</u>

20 ACCRUALS AND DEFERRED INCOME

	£'m
Non-infrastructure capital grants and contributions:	
Balance at 1 April 1993	22.0
Additions	2.3
Amortisation in year	(0.7)
	<hr/>
Balance at 31 March 1994	<u>23.6</u>

21 CALLED UP SHARE CAPITAL

	<u>1994</u>	<u>1993</u>
	£'m	£'m
Authorised:		
122,650,000 Ordinary Shares of £1 each	122.7	122.7
	<hr/>	<hr/>
Allotted, called up and fully paid:		
122,650,000 Ordinary Shares of £1 each	122.7	122.7
	<hr/>	<hr/>

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

22 DIRECTORS' INTERESTS

The beneficial interests of directors and their families at 31 March 1994 in numbers of ordinary shares of Northumbrian Water Group PLC are set out below:

	Shares		Options			
	1 April 1993	31 March 1994	1 April 1993	Granted	Exercised	31 March 1994
J A Foster	9340	5665	24526	3732	-	28258
A F Jones	1618	1722	32124	3156	(9638)	25642
A Girven	475	507	26729	-	-	26729
I MacMillan	495	541	32901	-	(11714)	21187
A C Price	-	601	10375	-	-	10375

(see (a) below)

(a) A C Price was appointed as a director of the company on 31 March 1994. The comparative figure is at this date.

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

The beneficial interests of other directors also being directors of Northumbrian Water Group PLC are disclosed in the accounts of that company.

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

Further details of the share option schemes are set out in the accounts of Northumbrian Water Group PLC.

23 PROFIT AND LOSS ACCOUNT

	£'m
Balance at 1 April 1993	435.3
Profit retained for the year	62.1
Balance at 31 March 1994	<u>497.4</u>

24 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	1994 £'m	1993 £'m
Balance at 1 April	558.0	527.6
Profit for the financial year	66.2	54.7
Dividends	(4.1)	(24.3)
Balance at 31 March	<u>620.1</u>	<u>558.0</u>

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

25 NET CASH FLOW FROM OPERATING ACTIVITIES

	<u>1994</u> £'m	<u>1993</u> £'m
Operating profit	80.8	66.9
Depreciation on tangible fixed assets	14.8	12.6
Infrastructure renewals expenditure	(11.6)	(20.3)
Provision for infrastructure renewals	19.0	18.5
Amortisation of grants	(0.7)	(0.6)
Profit on sale of fixed assets	(0.4)	(0.3)
Decrease in stock	0.2	0.3
Decrease/(increase) in trade debtors	1.4	(0.9)
(Increase)/decrease in other debtors	(1.1)	0.3
Decrease in amounts owed by group companies	4.1	1.4
(Increase)/decrease in prepayments and accrued income	(1.2)	0.7
Decrease in trade creditors	(0.5)	-
Increase/(decrease) in amounts owed to group companies	1.0	(1.4)
Increase in taxation and social security costs	-	0.1
Decrease in other creditors	-	(3.2)
Increase in accruals	1.5	0.1
Decrease in other long term liabilities	(0.2)	-
	<hr/>	<hr/>
Net cash inflow from operating activities	<u>107.3</u>	<u>74.2</u>

26 ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<u>1994</u>		<u>1993</u>	
	Share capital £'m	Loans and finance lease obligations £'m	Share capital £'m	Loans and finance lease obligations £'m
Balance at 1 April	122.7	157.9	122.7	123.3
New loans	-	-	-	17.0
Inception of finance lease contracts:				
New finance leases	-	19.8	-	15.9
Capital repayment	-	(2.8)	-	-
Accrued interest	-	0.5	-	1.7
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March	<u>122.7</u>	<u>175.4</u>	<u>122.7</u>	<u>157.9</u>

The value of new finance leases has been deducted from the cash paid for fixed asset additions in the cash flow statement (note 28).

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

27 ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	1994			1993		
	Cash at Bank	Short Term Deposits	Total	Cash at Bank	Short Term Deposits	Total
	£'m	£'m	£'m	£'m	£'m	£'m
Balance at 1 April	29.4	-	29.4	30.0	-	30.0
Net cash inflow/(outflow)	(32.7)	46.0	13.3	(0.6)	-	(0.6)
Balance at 31 March	(3.3)	46.0	42.7	29.4	-	29.4

28 MAJOR NON CASH TRANSACTIONS

During the period the company had significant drawdowns of £7.8m (1993: £15.9m) relating to the Royal Bank of Scotland finance leasing facility, £11.4m relating to a sale and lease-back arrangement with St Mary's Court Limited, a fellow subsidiary (1993: £Nil) and £0.6m relating to assets taken over from a group company (1993: £Nil).

29 COMMITMENTS AND CONTINGENT LIABILITIES

	1994 £'m	1993 £'m
(a) Capital expenditure		
Expenditure contracted for	24.3	38.0
Expenditure authorised by directors but not yet contracted for	60.7	52.0
	<u>85.0</u>	<u>90.0</u>

In addition to these commitments the company has longer term capital expenditure plans which include investment to meet shortfalls in asset performance and condition and to provide for new demand and growth.

NORTHUMBRIAN WATER LIMITED

NOTES TO THE ACCOUNTS (Continued)

29 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

(b) Lease commitments

The company 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:

	1994		1993	
	Land and buildings	Other	Land and buildings	Other
	£'m	£'m	£'m	£'m
Leases which expire:				
Within one year	-	0.2	-	0.2
Between two and five years	-	0.9	-	0.8
In five years or more	0.1	-	0.1	-
	0.1	1.1	0.1	1.0
	0.1	1.1	0.1	1.0

30 CONTINGENT GAIN

The company may become entitled to receive a payment of £19.7m (1993: £16.2m) in respect of losses it has provisionally surrendered to fellow subsidiaries as group relief for which payment has been postponed. The receipt will only be due when and to the extent that this company becomes liable to pay mainstream corporation tax.

31 PENSIONS

As a subsidiary of Northumbrian Water Group PLC, the company participates in a group pension scheme. The group operates two funded defined benefit final salary schemes, the Water Mirror Image Pension Scheme and the Water Pension Scheme.

The employer's contributions and pension cost have been assessed in accordance with advice from William M Mercer Fraser Limited, an independent actuary. The last actuarial valuation of the schemes was carried out as at 31 March 1993. Full details of the schemes are disclosed in the accounts of Northumbrian Water Group PLC.

32 ULTIMATE PARENT COMPANY

The company's ultimate parent company is Northumbrian Water Group PLC, a company registered in England and Wales. According to the register kept by the company, Northumbrian Water Group PLC has a 100 per cent interest in the equity capital of Northumbrian Water Limited at 31 March 1994. Copies of the parent's consolidated financial statements may be obtained from Northumbrian Water Group PLC, Northumbria House, Regent Centre, Gosforth, Newcastle upon Tyne.

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