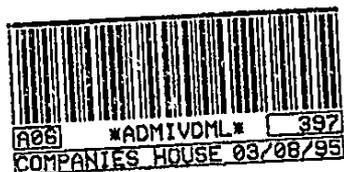


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NORTHUMBRIAN WATER LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 1995

Registered no: 2366703



ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 1995

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SECTION A - GENERAL

**DIRECTORS' REPORT**  
For the year ended 31 March 1995

The directors present their report and the audited financial statements for the year ended 31 March 1995.

**Appointment**

Northumbrian Water Limited ("the Appointee") is the company appointed under the Instrument of Appointment ("the Instrument") by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Industry Act 1991.

**Results and dividends**

The company's profit for the year after taxation amounts to £110.4m. 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 £6.5m for the year ended 31 March 1995. The retained profit of £103.9m is transferred to reserves.

**Principal activities and review of business**

The Appointee carries out both appointed and non-appointed businesses as defined in the Instrument. The appointed business comprises supply of potable water and collection, treatment and disposal of sewage throughout the region. The non-appointed business comprises operating Kielder reservoir, supplying non-potable water to industry and recreational activities.

The company supplies water to 45% of the region's population, the remainder being supplied by water-only companies. During the year ended 31 March 1995, an average of 661 megalitres per day of water (a total of 241,265 megalitres) was put into supply.

Profit before taxation has increased by 50% from £66.2m to £99.6m. The operating margin has increased from 35.8% to 46.7%. A step change in operational efficiency during the year saw operating costs (excluding capital maintenance costs) reduce by 12% from £111.0m to £98.1m.

Operating costs in the appointed business have reduced by 9.9% from £100.6m to £90.6m. This equates to a saving of 12.7% when the effects of inflation are removed. This compares very favourably with the target of 13.2% (2.8% per annum for five years) for efficiency savings set by OFWAT for the five year period to 31 March 2000.

**Accounts and statements**

The historical cost accounting statements and current cost financial information following this report have been prepared under Condition F of the Instrument.

**Future developments**

The K Determination for the appointed business for the 10 year period commencing April 1995 was announced by OFWAT in July 1994. The company was set a K of 2.5% for the first 5 years and 2% for the next 5 years. The company expects to further improve operational efficiency over the next decade in order to meet the efficiency targets set by OFWAT.

**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.

SECTION A - GENERAL

Directors

The directors of the company at 31 March 1995 and for the whole of the year then ended were:

- D G Cranston (Appointed chairman 1 April 1994)
- Dr J W Hargreaves
- J A Foster
- A F Jones
- I MacMillan
- Dr A C Price

D J Watson acted as company secretary during the year.

The interests of the directors are set out in note 5.

Fixed assets

Changes in fixed assets are set out in notes 10 and 11.

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 realise 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.

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 & 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



15 June 1995

## SECTION A - GENERAL

### STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 March 1995

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 as at the end of the financial year and of the profit or loss of the company 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 1995. 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 as required by United Kingdom company law, for taking reasonable steps to safeguard the assets of the company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BY ORDER OF THE BOARD

D J Watson  
Company Secretary



15 June 1995

## SECTION A - GENERAL

### REPORT OF THE AUDITORS TO THE MEMBERS For the year ended 31 March 1995

We have audited the financial statements on pages 5 to 27.

#### Respective responsibilities of directors and auditors

As described on page 3 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 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 on pages 5 to 27 give a true and fair view of the state of the affairs of the company at 31 March 1995 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

15 June 1995

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

## HISTORICAL COST PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1995

	Note	1995			1994		
		Appointed business £'m	Non-appointed business £'m	Aggregated basis £'m	Appointed business £'m	Non-appointed business £'m	Aggregated basis £'m
Turnover	2	220.0	20.1	240.1	204.9	20.7	225.6
Operating costs	3	(90.6)	(7.5)	(98.1)	(100.6)	(10.4)	(111.0)
Exceptional operating costs	3	(25.6)	-	(25.6)	-	-	-
Capital maintenance costs	3	(29.4)	(2.0)	(31.4)	(31.9)	(1.9)	(33.8)
Exceptional capital maintenance credit	3	27.1	-	27.1	-	-	-
<b>OPERATING PROFIT</b>	2	<u>101.5</u>	<u>10.6</u>	<u>112.1</u>	<u>72.4</u>	<u>8.4</u>	<u>80.8</u>
Net interest (payable)/receivable	4	(14.1)	1.6	(12.5)	(15.4)	0.8	(14.6)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<u>87.4</u>	<u>12.2</u>	<u>99.6</u>	<u>57.0</u>	<u>9.2</u>	<u>66.2</u>
Taxation	8	12.4	(1.6)	10.8	-	-	-
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u>99.8</u>	<u>10.6</u>	<u>110.4</u>	<u>57.0</u>	<u>9.2</u>	<u>66.2</u>
Dividends	9	(1.0)	(5.5)	(6.5)	-	(4.1)	(4.1)
<b>PROFIT RETAINED FOR THE YEAR</b>	22	<u><u>98.8</u></u>	<u><u>5.1</u></u>	<u><u>103.9</u></u>	<u><u>57.0</u></u>	<u><u>5.1</u></u>	<u><u>62.1</u></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 or 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.

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### HISTORICAL COST BALANCE SHEET

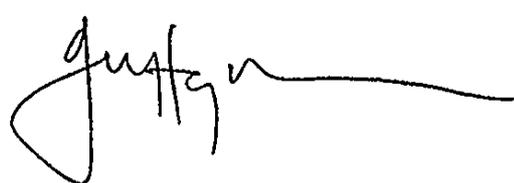
At 31 March 1995

	Note	1995			1994		
		Appointed business £'m	Non- appointed business - £'m	Aggregated basis £'m	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m
<b>FIXED ASSETS</b>							
Tangible assets	10	754.6	115.7	870.3	707.6	118.5	826.1
Investments	11	-	-	-	0.1	-	0.1
		754.6	115.7	870.3	707.7	118.5	826.2
<b>CURRENT ASSETS</b>							
Stocks and work in progress	12	1.9	0.1	2.0	2.1	0.1	2.2
Debtors: amounts falling due after one year	13	10.2	0.6	10.8	-	-	-
Debtors: amounts falling due within one year	13	42.1	1.5	43.6	30.1	1.3	31.4
Investments	14	17.9	31.1	49.0	18.4	27.6	46.0
		72.1	33.3	105.4	50.6	29.0	79.6
<b>CREDITORS:</b>							
Amounts falling due within one year	15	(58.8)	(5.9)	(64.7)	(54.6)	(9.6)	(64.2)
<b>NET CURRENT ASSETS/(LIABILITIES)</b>							
		13.3	27.4	40.7	(4.0)	19.4	15.4
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>							
		767.9	143.1	911.0	703.7	137.9	841.6
<b>CREDITORS: Amounts falling due after more than one year</b>							
	16	(135.7)	-	(135.7)	(170.7)	-	(170.7)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>							
	19	(25.0)	(0.2)	(25.2)	(27.1)	(0.1)	(27.2)
<b>ACCRUALS AND DEFERRED INCOME</b>							
	20	(25.5)	(0.6)	(26.1)	(23.0)	(0.6)	(23.6)
		(186.2)	(0.8)	(187.0)	(220.8)	(0.7)	(221.5)
<b>NET ASSETS</b>							
		581.7	142.3	724.0	482.9	137.2	620.1
<b>CAPITAL AND RESERVES</b>							
Called up share capital	21	92.1	30.6	122.7	92.1	30.6	122.7
Profit and loss account	22	489.6	111.7	601.3	390.8	106.6	497.4
<b>EQUITY SHAREHOLDERS' FUNDS</b>							
	23	581.7	142.3	724.0	482.9	137.2	620.1

Approved by the board on 15 June 1995.

J W Hargreaves

A F Jones




NORTHUMBRIAN WATER LIMITED

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### HISTORICAL COST CASH FLOW STATEMENT

For the year ended 31 March 1995

	Note	1995			1994 (note 26)		
		Appointed business	Non-appointed business	Aggregated basis	Appointed business as restated	Non-appointed business as restated	Aggregated basis as restated
		£'m	£'m	£'m	£'m	£'m	£'m
NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES	24	112.6	6.3	118.9	89.9	17.4	107.3
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE							
Interest received		1.8	1.5	3.3	0.7	0.7	1.4
Interest paid - loans		(14.0)	-	(14.0)	(13.9)	-	(13.9)
- finance leases		(2.3)	-	(2.3)	(1.8)	-	(1.8)
Dividends paid		-	(4.1)	(4.1)	(21.8)	(2.5)	(24.3)
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(14.5)	(2.6)	(17.1)	(36.8)	(1.8)	(38.6)
TAXATION							
Tax relief received		-	-	-	0.8	-	0.8
INVESTING ACTIVITIES							
Purchase of tangible fixed assets		(68.8)	(0.2)	(69.0)	(58.2)	(1.0)	(59.2)
Sale of tangible fixed assets		0.7	-	0.7	0.6	-	0.6
Sale of fixed asset investments		0.1	-	0.1	-	-	-
Grants, contributions and connection charges		8.3	-	8.3	5.2	-	5.2
Purchase of short term deposits		(140.0)	-	(140.0)	(11.0)	-	(11.0)
Sale of short term deposits		115.0	-	115.0	-	-	-
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(84.7)	(0.2)	(84.9)	(63.4)	(1.0)	(64.4)
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		13.4	3.5	16.9	(9.5)	14.6	5.1
FINANCING							
New loans		15.0	-	15.0	-	-	-
Principal repayment of loans		(50.0)	-	(50.0)	-	-	-
Principal repayment under capital lease		(3.1)	-	(3.1)	(2.8)	-	(2.8)
NET CASH (OUTFLOW) FROM FINANCING		(38.1)	-	(38.1)	(2.8)	-	(2.8)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	26	(24.7)	3.5	(21.2)	(12.3)	14.6	2.3

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### NOTES TO THE HISTORICAL COST FINANCIAL STATEMENTS

For the year ended 31 March 1995

#### 1. ACCOUNTING POLICIES

In accordance with Condition F of "the Instrument", these financial statements have been prepared to show separately in respect of each of:-

- (i) the appointed business;
- (ii) the non-appointed business; and
- (iii) on an aggregated basis, the appointed and non-appointed businesses

a profit and loss account, a statement of assets and liabilities and a cash flow statement, together with notes thereto.

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom with the exception of capital grants and contributions to infrastructure assets which is not in accordance with the Companies Act 1985 ((d) below). A summary of the more important 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) Turnover

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

##### (c) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

###### (i) Infrastructure assets

Infrastructure assets comprise a network of systems which include 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.

###### (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 to their estimated residual values over their estimated economic lives, which are principally as follows:

Freehold buildings	30 - 60 years
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.

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

## 1. ACCOUNTING POLICIES (continued)

**(d) Government grants and contributions**

Revenue grants are credited to the profit and loss account when received.

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 accordingly accounted for as deferred income. This departure from the requirements of the Act is, in the opinion of the directors, necessary for the accounts to give a true and fair view: infrastructure assets are not depreciated, and it is therefore not appropriate to recognise related 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.

**(e) 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.

**(f) 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.

**(g) 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.

**(h) 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.

**(i) 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.

**(j) Research and development**

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

**(k) Investments**

Fixed asset investments are stated at their purchase cost.

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 2. TURNOVER AND OPERATING PROFIT

Turnover and operating profit are analysed as follows:

	1995				1994			
	Appointed business		Non-appointed business	Aggregated basis	Appointed business		Non-appointed business	Aggregated basis
	Water services	Sewerage services			Water services	Sewerage services		
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	
Measured	20.0	31.3	-	51.3	18.8	29.0	-	47.8
Unmeasured	43.2	108.7	-	151.9	38.7	99.2	-	137.9
Reception, treatment and disposal of trade effluent	-	4.7	-	4.7	-	5.2	-	5.2
Other sources:								
Non tariff basket charges	6.3	-	-	6.3	7.2	-	-	7.2
Rechargeable works	2.4	0.1	-	2.5	1.3	1.3	-	2.6
Annual deficits	-	-	-	-	0.5	0.3	-	0.8
Other income	0.9	2.4	20.1	23.4	1.9	1.5	20.7	24.1
<b>TURNOVER</b>	<b>72.8</b>	<b>147.2</b>	<b>20.1</b>	<b>240.1</b>	<b>68.4</b>	<b>136.5</b>	<b>20.7</b>	<b>225.6</b>
Operating costs	(36.8)	(53.8)	(7.5)	(98.1)	(42.0)	(58.6)	(10.4)	(111.0)
Capital maintenance costs	(12.3)	(17.1)	(2.0)	(31.4)	(10.2)	(21.7)	(1.9)	(33.8)
<b>OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS</b>	<b>23.7</b>	<b>76.3</b>	<b>10.6</b>	<b>110.6</b>	<b>16.2</b>	<b>56.2</b>	<b>8.4</b>	<b>80.8</b>
Exceptional items:								
Operating costs (note 3(c))				(25.6)				-
Capital maintenance credit (note 3(d))				27.1				-
<b>OPERATING PROFIT</b>				<b>112.1</b>				<b>80.8</b>

SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

3. OPERATING COSTS AND CAPITAL MAINTENANCE COSTS

(a) Operating costs comprise:

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Materials and consumables	7.8	0.4	8.2	9.0	0.8	9.8
Other external charges	10.4	0.3	10.7	12.2	0.6	12.8
Manpower costs (note 7)	25.0	0.5	25.5	22.9	0.8	23.7
Other operating charges	47.6	6.3	53.9	56.7	8.2	64.9
Other operating income	(0.2)	-	(0.2)	(0.2)	-	(0.2)
	<u>90.6</u>	<u>7.5</u>	<u>98.1</u>	<u>100.6</u>	<u>10.4</u>	<u>111.0</u>

(b) Capital maintenance costs comprise:

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Depreciation:						
Owned tangible fixed assets	12.7	1.9	14.6	10.6	1.8	12.4
Tangible fixed assets held under finance lease	4.2	-	4.2	2.4	-	2.4
Infrastructure renewals:						
Infrastructure renewals expenditure	12.5	-	12.5	11.6	-	11.6
Infrastructure renewals accrued	-	0.1	0.1	7.3	0.1	7.4
	<u>29.4</u>	<u>2.0</u>	<u>31.4</u>	<u>31.9</u>	<u>1.9</u>	<u>33.8</u>

(c) Exceptional operating costs comprise:

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Restructuring costs	25.0	-	25.0	-	-	-
MMC costs	0.6	-	0.6	-	-	-
	<u>25.6</u>	<u>-</u>	<u>25.6</u>	<u>-</u>	<u>-</u>	<u>-</u>

The restructuring costs include provision for the cost of appraising the current business processes and systems, 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.

The MMC costs represent provision for professional fees anticipated as a result of the decision by the President of the Board of Trade, Mr Michael Heseltine, to refer the proposed bid from Lyonnaise des Eaux for Northumbrian Water Group PLC to the Monopolies and Mergers Commission. The fees relate to regulatory issues.

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 3. OPERATING COSTS AND CAPITAL MAINTENANCE COSTS (continued)

#### (d) Exceptional capital maintenance credit

This represents the release of the provision for infrastructure renewals expenditure in the appointed business brought forward at 1 April 1994 which amounted to £27.1m. A review of infrastructure assets has indicated that the current level of funding is sufficient to maintain the serviceability of the infrastructure assets and that the additional expenditure provided for in the period from 1989 to 1994 will not now be needed. The current funding level is consistent with the results of the K determination. In the directors' opinion the brought forward provision is no longer required and has been released.

#### (e) Operating costs

	1995			1994		
	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m
Operating costs are stated after crediting:						
Amortisation of capital grants (note 20)	1.0	-	1.0	0.7	-	0.7
And after charging:						
Operating leases:						
Hire of plant and machinery	1.4	-	1.4	0.6	-	0.6
Hire of other assets	0.3	-	0.3	0.1	-	0.1
Costs of research and development	2.0	-	2.0	3.0	-	3.0
Directors' emoluments (note 5)	0.4	-	0.4	0.4	-	0.4
Non-audit services provided by the auditors and their associates	0.8	-	0.8	0.4	-	0.4

Auditors' remuneration for the audit amounted to £46,000 (Appointed business £44,000; Non-appointed business £2,000) (1994: total £48,000, representing Appointed business £46,000; Non-appointed business £2,000).

### 4. NET INTEREST

	1995			1994		
	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m
Net interest payable comprises:						
Interest payable:						
Bank loans, overdrafts and other loans:						
Repayable within five years						
otherwise than by instalments	6.7	-	6.7	5.7	-	5.7
Not wholly repayable within five years	6.6	-	6.6	6.6	-	6.6
Repayable in more than five years	1.1	-	1.1	1.6	-	1.6
	14.4	-	14.4	13.9	-	13.9
Financing charges repayable under finance leases	2.2	-	2.2	2.3	-	2.3
Total interest payable	16.6	-	16.6	16.2	-	16.2
Interest receivable	(2.5)	(1.6)	(4.1)	(0.8)	(0.8)	(1.6)
Net interest payable/(receivable)	14.1	(1.6)	12.5	15.4	(0.8)	14.6

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 4. NET INTEREST (continued)

The total interest payable on bank loans, overdrafts and other loans includes £1.9m (1994: £3.0m) in respect of interest payable on amounts owed to the parent company. The financing charges repayable under finance leases include £0.5m owed to a fellow subsidiary.

### 5. DIRECTORS' EMOLUMENTS AND INTERESTS

Emoluments, which relate to the aggregated business, include amounts paid to:

	1995			1994				
	Chairman £'000	Highest paid director £'000	Other directors £'000	Total £'000	Chairman £'000	Highest paid director £'000	Other directors £'000	Total £'000
Salary payments (including benefits in kind)	-	107.9	217.3	325.2	12.3	73.6	208.2	294.1
Pension contributions	-	12.1	23.7	35.8	-	7.0	21.4	28.4
	-	120.0	241.0	361.0	12.3	80.6	229.6	322.5
Compensation for loss of office	-	-	-	-	-	84.2	20.0	104.2
	-	120.0	241.0	361.0	12.3	164.8	249.6	426.7

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

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

	1995 Number	1994 Number
£0 - £5,000	2	3
£10,001 - £15,000	-	1
£20,001 - £25,000	-	1
£60,001 - £65,000	1	-
£65,001 - £70,000	-	2
£70,001 - £75,000	1	1
£80,001 - £85,000	1	-
£105,001 - £110,000	1	-
£155,001 - £160,000	-	1

Benefits in kind include the provision of cars, health care, transport costs and professional subscriptions.



## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 7. EMPLOYEE INFORMATION

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

	1995			1994		
	Appointed business £'m	Non-appointed business £'m	Aggregated basis £'m	Appointed business £'m	Non-appointed business £'m	Aggregated basis £'m
Costs charged to the profit and loss account:						
Wages and salaries	20.7	0.5	21.2	19.1	0.6	19.7
Social security costs	1.9	-	1.9	1.6	0.1	1.7
Other pension costs	2.4	-	2.4	2.2	0.1	2.3
	<u>25.0</u>	<u>0.5</u>	<u>25.5</u>	<u>22.9</u>	<u>0.8</u>	<u>23.7</u>
Costs charged to capital schemes and infrastructure renewals:						
Wages and salaries	2.3	-	2.3	2.1	-	2.1
Social security costs	0.1	-	0.1	0.1	-	0.1
Other pension costs	0.2	-	0.2	0.1	-	0.1
	<u>2.6</u>	<u>-</u>	<u>2.6</u>	<u>2.3</u>	<u>-</u>	<u>2.3</u>

(b) The average number of employees on the payroll during the financial year and at the balance sheet date was as follows:

	1995			1994		
	Appointed business No.	Non-appointed business No.	Aggregated basis No.	Appointed business as restated No.	Non-appointed business as restated No.	Aggregated basis as restated No.
Average during the financial year	1347	33	1380	1294	38	1332
Total at 31 March	<u>1328</u>	<u>37</u>	<u>1365</u>	<u>1310</u>	<u>32</u>	<u>1342</u>

Of the aggregated total at the balance sheet date, 355 were employed on fixed-term contracts (1994: 430). Of the Appointed business total at the balance sheet date, 575 worked in Water Services and 753 in Sewerage Services (1994: 557 and 805).

The method of calculating the average number of employees on the payroll has been revised during the year to provide a more meaningful headcount figure which includes permanent, fixed term and temporary staff but excludes casual call-in labour. The comparative figures have been restated to show the headcount information based on the new method. If the comparative figures for 1994 had not been restated, the average number of employees would have been 1322 for the appointed business and 38 for the non appointed business and the total at 31 March 1994 would have been 1362 for the appointed business and 31 for the non-appointed business.

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 8. TAXATION

	1995			1994		
	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m
Tax on profit on ordinary activities						
United Kingdom corporation tax at 33% (1994:33%):						
Current	3.0	1.4	4.4	-	-	-
Payable/(receivable) in respect of group relief:						
- current year	1.0	0.5	1.5	-	-	-
- prior years	(18.5)	(1.1)	(19.6)	-	-	-
Payable in respect of advance corporation tax surrendered	2.1	0.8	2.9	-	-	-
	(12.4)	1.6	(10.8)	-	-	-

(a) The appointed business has provisionally claimed tax losses from fellow subsidiaries in the current year of £3.0m (1994: £ Nil) for which payment will be made at the rate of 33%. £18.5m is receivable from fellow subsidiaries in respect of tax losses surrendered in prior years, payment for which was then postponed. The appointed business has provisionally claimed advance corporation tax of £2.1m (1994:£ Nil) from Northumbrian Water Group PLC for which payment shall be made at full value.

(b) The non-appointed business has provisionally claimed tax losses from fellow subsidiaries in the current year of £1.4m (1994: £ Nil) for which payment will be made at the rate of 33%. £1.1m is receivable from fellow subsidiaries in respect of tax losses surrendered in prior years, payment for which was then postponed. The non-appointed business has provisionally claimed advance corporation tax of £0.8m (1994: £ Nil) from Northumbrian Water Group PLC for which payment shall be made at full value.

(c) No deferred taxation has been provided in the financial statements since the timing differences at 31 March 1995 are not expected to reverse in the foreseeable future (1994: £ Nil). The full potential amount of deferred taxation calculated at 33 per cent (1994: 33 per cent) on all timing differences is as follows:

	1995			1994		
	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m
Accelerated capital allowances	155.1	16.1	171.2	133.2	14.7	147.9
Other timing differences	(11.3)	(0.1)	(11.4)	(12.6)	-	(12.6)
	143.8	16.0	159.8	120.6	14.7	135.3

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 9. DIVIDEND

	1995			1994		
	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m
Ordinary:						
Final proposed of 5.300p (1994: 3.343p) per share	1.0	5.5	6.5	-	4.1	4.1

The calculation of pence per share for the proposed dividend for the year ended 31 March 1995 is based on the total share capital of the company.

The £1m dividend paid from the appointed business represents the company's contribution to the regional fund which has been set up by Northumbrian Water Group PLC called "Kick Start". This fund has been introduced to encourage development in the North East of England. Full details of this fund are included in the financial statements of Northumbrian Water Group PLC.

No additional dividend has been paid from the appointed business (1994: £ Nil). This has facilitated the completion of the restructuring of reserves in line with the adjustments agreed with the Office of Water Services in previous years.

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 10. TANGIBLE FIXED ASSETS

(a) Analysis by asset type. 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 £42.5m (1994: £39.3m) in order to give a true and fair view.

	Freehold land and building	Infra- structure assets	Operational structures, plant and machinery	Fixtures, fittings, tools and equipment	Assets in the course of construction	Aggregated Basis
	£'m	£'m	£'m	£'m	£'m	£'m
<b>Cost:</b>						
At 1 April 1994	25.6	448.6	343.1	28.1	87.1	932.5
Additions	-	-	-	-	66.9	66.9
Schemes commissioned	4.0	19.3	18.5	1.2	(43.0)	-
Disposals	(0.1)	-	(0.4)	(0.5)	-	(1.0)
Grants and contributions	-	(1.5)	-	-	(1.7)	(3.2)
<b>Balance at 31 March 1995</b>	<b>29.5</b>	<b>466.4</b>	<b>361.2</b>	<b>28.8</b>	<b>109.3</b>	<b>995.2</b>
<b>Depreciation:</b>						
At 1 April 1994	5.9	-	79.8	20.7	-	106.4
Provision for year	2.1	-	14.5	2.2	-	18.8
Disposals	-	-	(0.2)	(0.1)	-	(0.3)
<b>At 31 March 1995</b>	<b>8.0</b>	<b>-</b>	<b>94.1</b>	<b>22.8</b>	<b>-</b>	<b>124.9</b>
<b>Net book value:</b>						
Owned tangible fixed assets	21.5	466.4	231.1	3.9	107.6	830.5
Assets held under finance lease	-	-	36.0	2.1	1.7	39.8
<b>At 31 March 1995</b>	<b>21.5</b>	<b>466.4</b>	<b>267.1</b>	<b>6.0</b>	<b>109.3</b>	<b>870.3</b>
<b>Net book value:</b>						
Owned tangible fixed assets	19.7	448.6	224.7	4.0	84.9	781.9
Assets held under finance lease	-	-	38.6	3.4	2.2	44.2
<b>At 31 March 1994</b>	<b>19.7</b>	<b>448.6</b>	<b>263.3</b>	<b>7.4</b>	<b>87.1</b>	<b>826.1</b>

(b) Analysis by service:

	Appointed business Water supply	Sewerage services	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m
<b>Cost:</b>				
At 1 April 1994	213.5	584.5	134.5	932.5
Additions	12.8	54.0	0.1	66.9
Disposals	(0.1)	(0.9)	-	(1.0)
Grants and contributions	(0.3)	(2.9)	-	(3.2)
Asset transfers	1.8	-	(1.8)	-
<b>At 31 March 1995</b>	<b>227.7</b>	<b>634.7</b>	<b>132.8</b>	<b>995.2</b>
<b>Depreciation:</b>				
At 1 April 1994	27.5	62.9	16.0	106.4
Provision for year	4.7	12.2	1.9	18.8
Disposals	(0.1)	(0.2)	-	(0.3)
Asset transfers	0.8	-	(0.8)	-
<b>At 31 March 1995</b>	<b>32.9</b>	<b>74.9</b>	<b>17.1</b>	<b>124.9</b>
<b>Net Book Value:</b>				
At 31 March 1995	194.8	559.8	115.7	870.3
At 31 March 1994	186.0	521.6	118.5	826.1

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 11. FIXED ASSET INVESTMENTS

The appointed business disposed of its unlisted investments during the year (1994: £0.1m). The non-appointed business holds an investment of £2 in the ordinary shares of a wholly-owned subsidiary, Northumbrian Water Services Limited, a company registered in England and Wales. This subsidiary is engaged in carrying out various commercial contracts. Consolidated accounts, which would include the results of this subsidiary, have not been prepared because of the exemption available under Section 228 of the Companies Act 1985 which permits a wholly-owned subsidiary of an European Community parent not to prepare consolidated accounts. The financial statements of Northumbrian Water Services Limited for the year ending 31 March 1995 show capital and reserves amounting to (£1.1m) (1994: (£0.1m)) and losses after tax of £1.0m (1994: £0.1m). The effect of deconsolidating Northumbrian Water Services Limited on these financial statements was an increase in cash and cash equivalents of £1.1m (1994: £0.1m).

### 12. STOCKS AND WORK IN PROGRESS

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Raw materials and consumables	1.7	0.1	1.8	1.9	0.1	2.0
Work in progress	0.2	-	0.2	0.2	-	0.2
	<u>1.9</u>	<u>0.1</u>	<u>2.0</u>	<u>2.1</u>	<u>0.1</u>	<u>2.2</u>

### 13. DEBTORS

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
(a) Amounts falling due after one year:						
Amounts owed by parent company and fellow subsidiaries	<u>10.2</u>	<u>0.6</u>	<u>10.8</u>	<u>-</u>	<u>-</u>	<u>-</u>
(b) Amounts falling due within one year:						
Trade debtors	12.7	0.7	13.4	11.4	0.9	12.3
Amounts owed by parent company and fellow subsidiaries	8.6	0.5	9.1	0.4	-	0.4
Other debtors	6.2	-	6.2	6.6	-	6.6
Prepayments and accrued income	14.5	0.2	14.7	11.7	0.4	12.1
Amounts owed by subsidiary undertaking	0.1	0.1	0.2	-	-	-
	<u>42.1</u>	<u>1.5</u>	<u>43.6</u>	<u>30.1</u>	<u>1.3</u>	<u>31.4</u>

Included in amounts owed by parent company and fellow subsidiaries is £19.6m (1994: £ Nil) receivable in respect of tax losses (note 8), of which £10.8m falls due after more than one year.

### 14. INVESTMENTS

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Short term deposits	<u>17.9</u>	<u>31.1</u>	<u>49.0</u>	<u>18.4</u>	<u>27.6</u>	<u>46.0</u>

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

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Bank overdraft	2.5	-	2.5	3.3	-	3.3
Obligations under finance leases (note 18)	2.0	-	2.0	5.1	-	5.1
Trade creditors	3.6	0.1	3.7	3.2	0.2	3.4
Amounts owed to parent company and fellow subsidiaries	4.9	1.5	6.4	6.9	-	6.9
Other creditors	35.7	2.5	38.2	34.5	0.7	35.2
Taxation and social security	0.6	-	0.6	0.6	-	0.6
Dividend payable	1.0	5.5	6.5	-	4.1	4.1
Accruals and deferred income	4.8	-	4.8	5.6	-	5.6
	55.1	9.6	64.7	59.2	5.0	64.2
Inter business balance	3.7	(3.7)	-	(4.6)	4.6	-
	58.8	5.9	64.7	54.6	9.6	64.2

The bank overdraft represents £2.5m of unrepresented items which the company has taken the opportunity to place on overnight deposit (1994: £3.3m). This amount is included within short term deposits (note 14).

Other creditors includes creditors related to capital projects of £16.2m (appointed business £16.2m, non-appointed business £ Nil) (1994: total £18.3m, representing appointed business £18.2m, non-appointed business £0.1m).

The inter-business balance represents the net unsettled balance of transactions between the appointed and non-appointed business at 31 March 1995.

Included in other creditors is £4.4m (appointed business £3.0m (1994: £ Nil), non-appointed business £1.4m (1994: £ Nil)) in respect of corporation tax payable. Included in amounts owed to group companies is £1.5m (appointed business £1.0m (1994: £ Nil), non-appointed business £0.5m (1994: £ Nil)) payable in respect of tax losses surrendered to fellow subsidiaries and £2.9m (appointed business £2.1m (1994: £ Nil), non-appointed business £0.8m (1994: £ Nil)) payable in respect of advance corporation tax surrendered from Northumbrian Water Group PLC.

### 16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Loans (note 17)	92.0	-	92.0	77.0	-	77.0
Obligations under hire purchase contracts and finance leases (note 18)	43.2	-	43.2	43.3	-	43.3
Amounts owed to parent company	-	-	-	50.0	-	50.0
Other creditors	0.5	-	0.5	0.4	-	0.4
	135.7	-	135.7	170.7	-	170.7

At 31 March 1995 the company had entered into interest swap arrangements totalling £67.0m (1994: £67.0m) over periods of maturity of between two and six years with various counterparties. Under these arrangements the company is required to pay interest on these amounts 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 company has also entered into an interest swap arrangement of £15.0m (1994: £ Nil) over a ten year period under which the company is required to pay interest at a rate linked to LIBOR and will receive interest at 9.00%.

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 17. LOANS

	1995			1994		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Loans are repayable as follows:						
Between one and two years	3.2	-	3.2	-	-	-
Between two and five years	33.4	-	33.4	13.9	-	13.9
In five years or more	55.4	-	55.4	63.1	-	63.1
	92.0	-	92.0	77.0	-	77.0
	92.0	-	92.0	77.0	-	77.0

Loans repayable by instalments amount to £60.0m and bear interest rates in the range of 10.4 to 11.5 per cent of which £19.6m falls due in less than 5 years and £40.4m falls due after more than 5 years..

Loans repayable otherwise than by instalments which fall due in less than 5 years amount to £17.0m and bear interest at 0.2% below LIBOR.

Loans repayable otherwise than by instalments which fall due after more than 5 years amount to £15.0m and bear interest at 7.95%.

### 18. OBLIGATIONS UNDER FINANCE LEASES

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

	1995			1994		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Amounts due:						
Within one year	2.0	-	2.0	5.1	-	5.1
Between one and two years	2.9	-	2.9	2.2	-	2.2
Between two and five years	5.3	-	5.3	9.1	-	9.1
In five years or more	100.6	-	100.6	108.6	-	108.6
	110.8	-	110.8	125.0	-	125.0
Less:						
Finance charge allocated to future periods	(65.6)	-	(65.6)	(76.6)	-	(76.6)
	45.2	-	45.2	48.4	-	48.4
	45.2	-	45.2	48.4	-	48.4
Disclosed as due:						
Within one year (note 15)	2.0	-	2.0	5.1	-	5.1
After more than one year (note 16)	43.2	-	43.2	43.3	-	43.3
	45.2	-	45.2	48.4	-	48.4
	45.2	-	45.2	48.4	-	48.4

Included within obligations under finance leases is an amount due to St Mary's Court Limited, a fellow subsidiary, of £7.1m (1994: £9.2m): of this, £2.6m is due within one year (1994: £2.6m), £2.6m is due between one and two years (1994: £2.6m), £2.6m is due between two and five years (1994: £5.2m) and finance charges allocated to future periods amount to £0.7m (1994: £1.2m).

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 19. PROVISIONS FOR LIABILITIES AND CHARGES

	1995			1994		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Infrastructure renewals:						
At 1 April	27.1	0.1	27.2	19.8	-	19.8
Release of provision (note 3(d))	(27.1)	-	(27.1)	-	-	-
Transferred from profit and loss account	12.5	0.1	12.6	18.9	0.1	19.0
Utilised during the year	(12.5)	-	(12.5)	(11.6)	-	(11.6)
	-	0.2	0.2	27.1	0.1	27.2
Restructuring provision:						
Provided in the year	25.0	-	25.0	-	-	-
At 31 March	25.0	0.2	25.2	27.1	0.1	27.2

### 20. ACCRUALS AND DEFERRED INCOME

	1995			1994		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Non infrastructure capital grants and contributions:						
At 1 April	23.0	0.6	23.6	21.4	0.6	22.0
Additions	3.5	-	3.5	2.3	-	2.3
Amortised during the year	(1.0)	-	(1.0)	(0.7)	-	(0.7)
At 31 March	25.5	0.6	26.1	23.0	0.6	23.6

### 21. CALLED UP SHARE CAPITAL

	1995			1994		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Authorised:						
122,650,000 Ordinary Shares of £1 each (1994: 122,650,000)	92.1	30.6	122.7	92.1	30.6	122.7

	1995			1994		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Allotted, called up and fully paid:						
122,650,000 Ordinary Shares of £1 each (1994: 122,650,000)	92.1	30.6	122.7	92.1	30.6	122.7

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 22. PROFIT AND LOSS ACCOUNT

	1995			1994		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£m	£m	£m	£m	£m	£m
At 1 April	390.8	106.6	497.4	333.8	101.5	435.3
Profit retained for the year	98.8	5.1	103.9	57.0	5.1	62.1
At 31 March	489.6	111.7	601.3	390.8	106.6	497.4

### 23. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	1995			1994		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£m	£m	£m	£m	£m	£m
Profit for the financial year	99.8	10.6	110.4	57.0	9.2	66.2
Dividends	(1.0)	(5.5)	(6.5)	-	(4.1)	(4.1)
Net additions to equity shareholders' funds	98.8	5.1	103.9	57.0	5.1	62.1
Opening equity shareholders' funds	429	137.2	620.1	425.9	132.1	558.0
Closing equity shareholders' funds	581.7	142.3	724.0	482.9	137.2	620.1

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 24. NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£m	£m	£m	£m	£m	£m
Depreciation on tangible fixed assets	16.9	1.9	18.8	13.0	1.8	14.8
Infrastructure renewals expenditure	(12.5)	-	(12.5)	(11.6)	-	(11.6)
Provision for infrastructure renewals	12.5	0.1	12.6	18.9	0.1	19.0
Amortisation of grants	(1.0)	-	(1.0)	(0.7)	-	(0.7)
Profit on sale of fixed assets	-	-	-	(0.4)	-	(0.4)
Decrease in stock	0.2	-	0.2	0.1	0.1	0.2
(Decrease)/increase in trade debtors	(1.3)	0.2	(1.1)	1.1	0.3	1.4
Increase in other debtors	(1.2)	-	(1.2)	(1.1)	-	(1.1)
Decrease in amounts owed by parent company and fellow subsidiaries	0.1	-	0.1	3.8	0.3	4.1
Increase in prepayments and accrued income	(1.9)	0.3	(1.6)	(2.1)	0.9	(1.2)
Increase in amounts owed by subsidiary	(0.1)	(0.1)	(0.2)	-	-	-
Increase/(decrease) in trade creditors	0.4	(0.1)	0.3	0.2	(0.5)	(0.3)
(Decrease)/increase in amounts owed to parent company and fellow subsidiaries	(4.3)	0.2	(4.1)	1.4	(0.4)	1.0
Increase/(decrease) in taxation and social security costs	-	-	-	0.1	(0.1)	-
(Decrease)/increase in other creditors	(1.2)	0.5	(0.7)	1.7	(1.7)	-
(Decrease)/increase in accruals	(0.8)	-	(0.8)	1.6	(0.1)	1.5
Increase/(decrease) in other long term liabilities	0.1	-	0.1	0.8	(1.0)	(0.2)
Increase/(decrease) in inter-business creditors	7.3	(7.3)	-	(9.3)	9.3	-
Infrastructure provision release	(27.1)	-	(27.1)	-	-	-
Restructuring provision	25.0	-	25.0	-	-	-
Historical cost adjusting items	11.1	(4.3)	6.8	17.5	9.0	26.5
Operating profit	101.5	10.6	112.1	72.4	8.4	80.8
Net cash inflow from continuing operating activities	112.6	6.3	118.9	89.9	17.4	107.3

### 25. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£m	£m	£m	£m	£m	£m
At 1 April	175.4	-	175.4	156.9	1.0	157.9
New loans	15.0	-	15.0	-	-	-
Loan repayments	(50.0)	-	(50.0)	-	-	-
Inception of finance lease contracts:						
New finance leases	-	-	-	19.8	-	19.8
Capital repayment	(3.1)	-	(3.1)	(2.8)	-	(2.8)
Change in accrued interest	(0.1)	-	(0.1)	0.5	-	0.5
Re-apportionment of loan	-	-	-	1.0	(1.0)	-
At 31 March	137.2	-	137.2	175.4	-	175.4

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

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 26. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

a) During the year:

	1995			1994		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business as restated	Non-appointed business as restated	Aggregated basis as restated
	£'m	£'m	£'m	£'m	£'m	£'m
At 1 April	4.1	27.6	31.7	16.4	13.0	29.4
Net cash (outflow)/inflow	(24.7)	3.5	(21.2)	(12.3)	14.6	2.3
At 31 March	(20.6)	31.1	10.5	4.1	27.6	31.7

The 1994 analysis of cash and cash equivalents has been restated to remove £11.0m of short term deposits with maturity dates greater than 3 months.

b) As shown in the Balance Sheet:

	1995			1994			Change in year		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business as restated	Non-appointed business as restated	Aggregated basis as restated	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cash at bank	(31.1)	31.1	-	(27.6)	27.6	-	(3.5)	3.5	-
Short term deposits	49.0	-	49.0	46.0	-	46.0	3.0	-	3.0
Bank overdrafts	(2.5)	-	(2.5)	(3.3)	-	(3.3)	0.8	-	0.8
	15.4	31.1	46.5	15.1	27.6	42.7	0.3	3.5	3.8
less: short term deposits with maturity more than 3 months	(36.0)	-	(36.0)	(11.0)	-	(11.0)	(25.0)	-	(25.0)
	(20.6)	31.1	10.5	4.1	27.6	31.7	(24.7)	3.5	(21.2)

The 1994 analysis of cash and cash equivalents has been restated to remove £11m of short term deposits with maturity dates greater than 3 months.

### 27. MAJOR NON CASH TRANSACTIONS

During the period the appointed business received £ Nil (1994: £7.8m) relating to the Royal Bank of Scotland finance leasing facility, £ Nil relating to a sale and lease-back arrangement with St Mary's Court Limited, a fellow subsidiary (1994: £11.4m), and £ Nil relating to assets taken over from a group company (1994: £0.6m).

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 28. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital expenditure:

	1995			1994		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Expenditure contracted for	22.3	-	22.3	24.3	-	24.3
Expenditure authorised by directors but not contracted for	47.7	-	47.7	59.9	0.8	60.7
	70.0	-	70.0	84.2	0.8	85.0

In addition to these commitments the company has longer term capital expenditure plans to meet quality obligations.

(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, all of which is within the appointed business, is as follows:-

	1995			1994		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Land and buildings:						
Leases which expire:						
In five years or more	-	-	-	0.1	-	0.1
	-	-	-	0.1	-	0.1
Other:						
Leases which expire:						
Within one year	0.4	-	0.4	0.2	-	0.2
Between two and five years	0.8	-	0.8	0.8	-	0.8
	1.2	-	1.2	1.0	-	1.0

### 29. 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 company, based on pension costs across the group as a whole. The last actuarial valuations of the schemes were carried out as at 31 March 1993. Full details of the schemes are disclosed in the accounts of Northumbrian Water Group PLC.

### 30. INFORMATION IN RELATION TO ALLOCATIONS AND APPORTIONMENTS

The appointed and non appointed businesses operate separate accounting ledgers including sales and purchase ledgers. Turnover, operating costs, assets and liabilities are taken directly from these ledgers.

Overhead costs incurred in the appointed business which relate to the non appointed business have been allocated using an activity-based approach to comply with Regulatory Accounting Guideline No. 5.

Interest has been allocated between the appointed and non appointed businesses on the basis of actual cash balances held by these businesses during the year at market rates. Capital costs and the related depreciation charges are specifically identifiable to the appropriate business and service.

## SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

### 30. INFORMATION IN RELATION TO ALLOCATIONS AND APPORTIONMENTS (continued)

Turnover is separately recorded between water services and sewerage services and therefore no apportionment has been necessary. Operating costs have been allocated between water and sewerage services in accordance with the guidance set out in Regulatory Accounting Guideline No. 4.

### 31. CONTINGENT LIABILITIES

Northumbrian Water Limited is party to a cross guarantee arrangement with Northumbrian Water Services Limited, its wholly-owned subsidiary, in respect of its bank account. The potential liability outstanding at 31 March 1995 amounted to £1.2m.

### 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 1995. Copies of the parent's consolidated financial statements may be obtained from Northumbrian Water Group PLC, Northumbrian House, Regent Centre, Gosforth, Newcastle upon Tyne NE3 3PX.