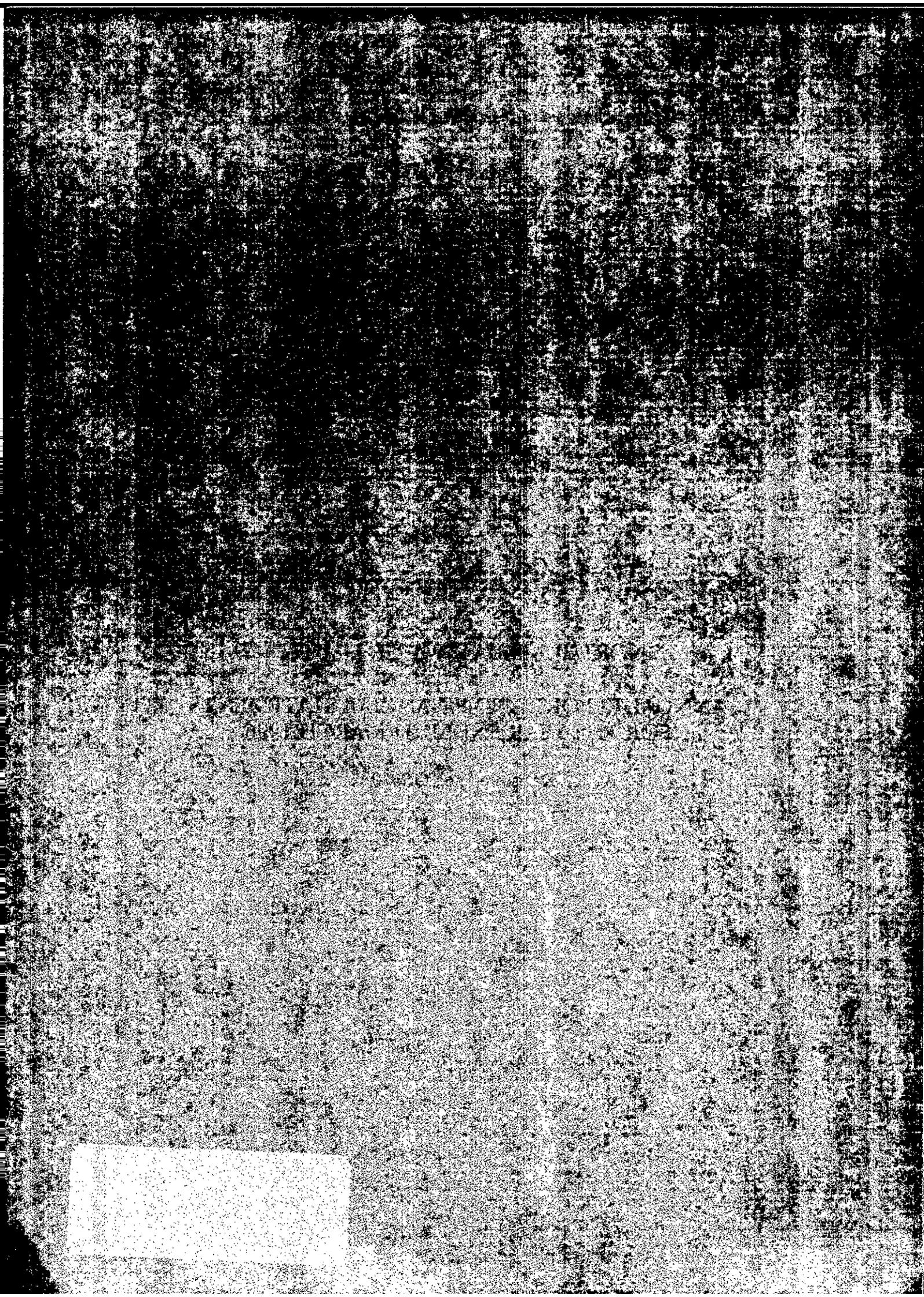


NORTHUMBRIAN WATER LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996

Registered no: 2366703





ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 1996

CONTENTS	Page
SECTION A - GENERAL	
Directors' report	1
Statement of directors' responsibilities	3
Report of the Auditors to the Members of Northumbrian Water Limited	4
SECTION B - HISTORICAL COST FINANCIAL STATEMENTS	
Group profit and loss account	5
Group balance sheet	6
Company balance sheet	7
Group cash flow statement	8
Notes to the historical cost financial statements	9-30



DIRECTORS' REPORT

For the year ended 31 March 1996

The directors present their report and the audited financial statements for the year ended 31 March 1996.

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 group's profit for the year after taxation amounts to £101.2m. An analysis of turnover and profits for the various activities of the group is shown in note 2 to the financial statements. The directors propose a final dividend of £89.9m for the year ended 31 March 1996.

Principal activities and review of business

On 31 March 1996 the assets and liabilities of North East Water plc were transferred to Northumbrian Water Limited for a consideration of £119.5m. It has been agreed with Ofwat that, with effect from 1 April 1996, Northumbrian Water Limited's Appointment as a water undertaker shall be varied to apply also to North East Water plc's area of Appointment, and that the Appointment of North East Water plc shall be terminated. Included in the liabilities transferred from North East Water plc were £11.7m of debenture stocks which are listed on the London Stock Exchange.

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 and sewerage services to the north-east of England. During the year ended 31 March 1996, an average of 683 megalitres per day of water (a total of 249,259 megalitres) was put into supply.

Profit before taxation has increased by 16.2% from £99.6 m to £115.7m. The operating margin has increased from 46.7% to 48.9%. The need to merge the activities and operations of Northumbrian Water Limited and North East Water plc has given rise to a provision for exceptional reorganisation and restructuring costs in the year as detailed in Note 3(c) to the historical cost financial statements.

Operating costs in the appointed business have reduced by 6.6% from £90.6m to £84.6m. This equates to a saving of 9.1% 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

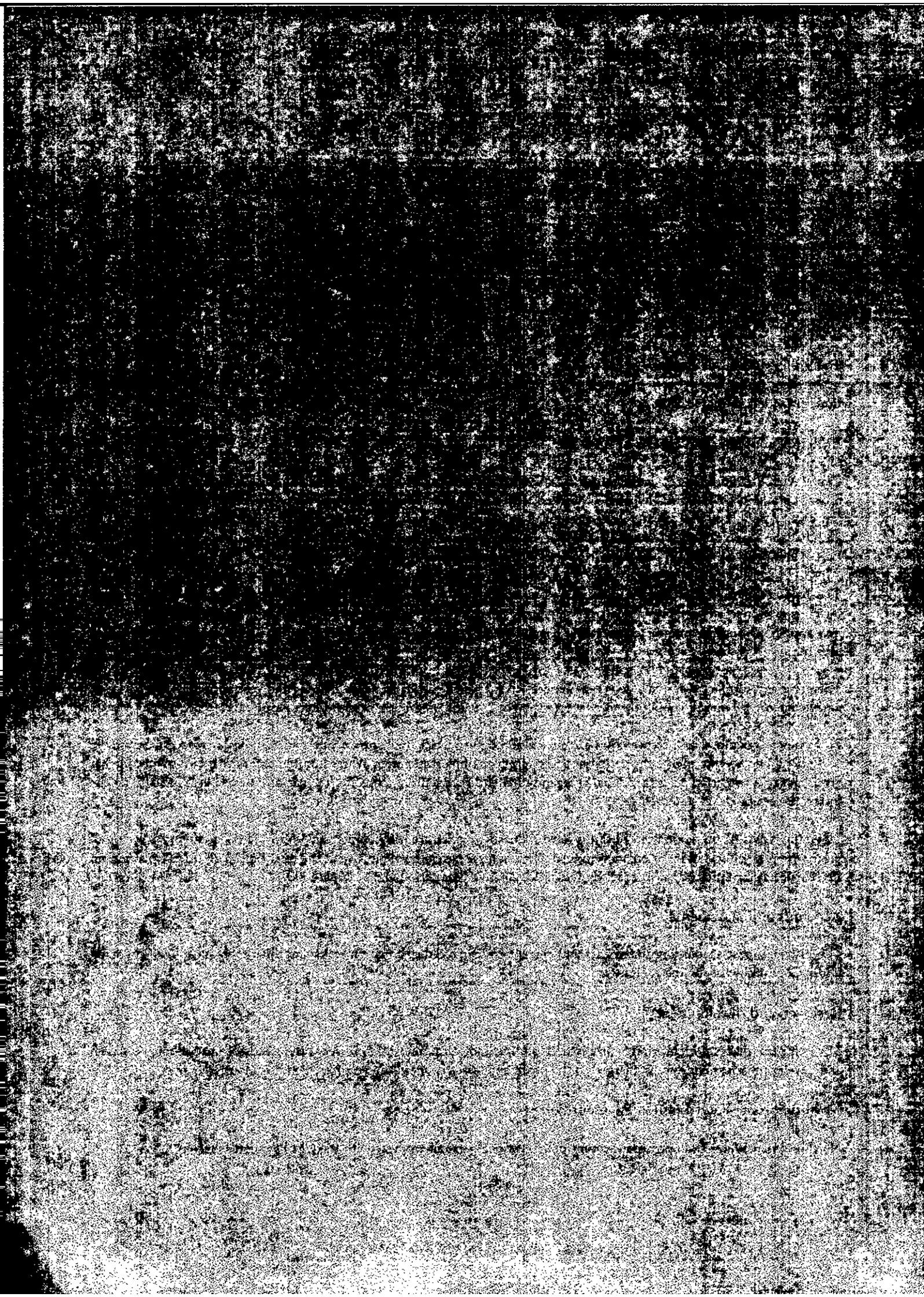
The historical cost accounting statements and current cost financial information following this report have been prepared under Condition F of the Instrument.

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 Payment Policy

Northumbrian Water Ltd operates payment policies which generally comply with the CBI Payment Charter.



SECTION A – GENERAL

Directors

The directors of the company at 31 March 1996 and for the whole or part of the year then ended were:

P Babin	(Appointed 1 January 1996)
A J Harding	(Appointed 1 January 1996)
A F Jones	
Dr A C Price	
H D M Speed	(Appointed Chairman 1 January 1996)
D G Cranston	(Resigned 31 March 1996)
Dr J W Hargreaves	(Resigned 31 March 1996)
I MacMillan	(Resigned 31 March 1996)
J A Foster	(Resigned 31 March 1996)

J A Cuthbert, H A Lacy and G Neave were appointed as directors of the company on 1 April 1996.

D J Watson acted as company secretary during the year.

The interests of the directors in the shares and options of Northumbrian Holdings plc are set out in note 5.

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.

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

Taxation

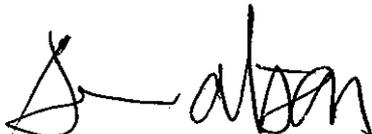
The directors believe that the company is not a close company within the provisions of the Income and Corporation Taxes Act 1988.

Auditors

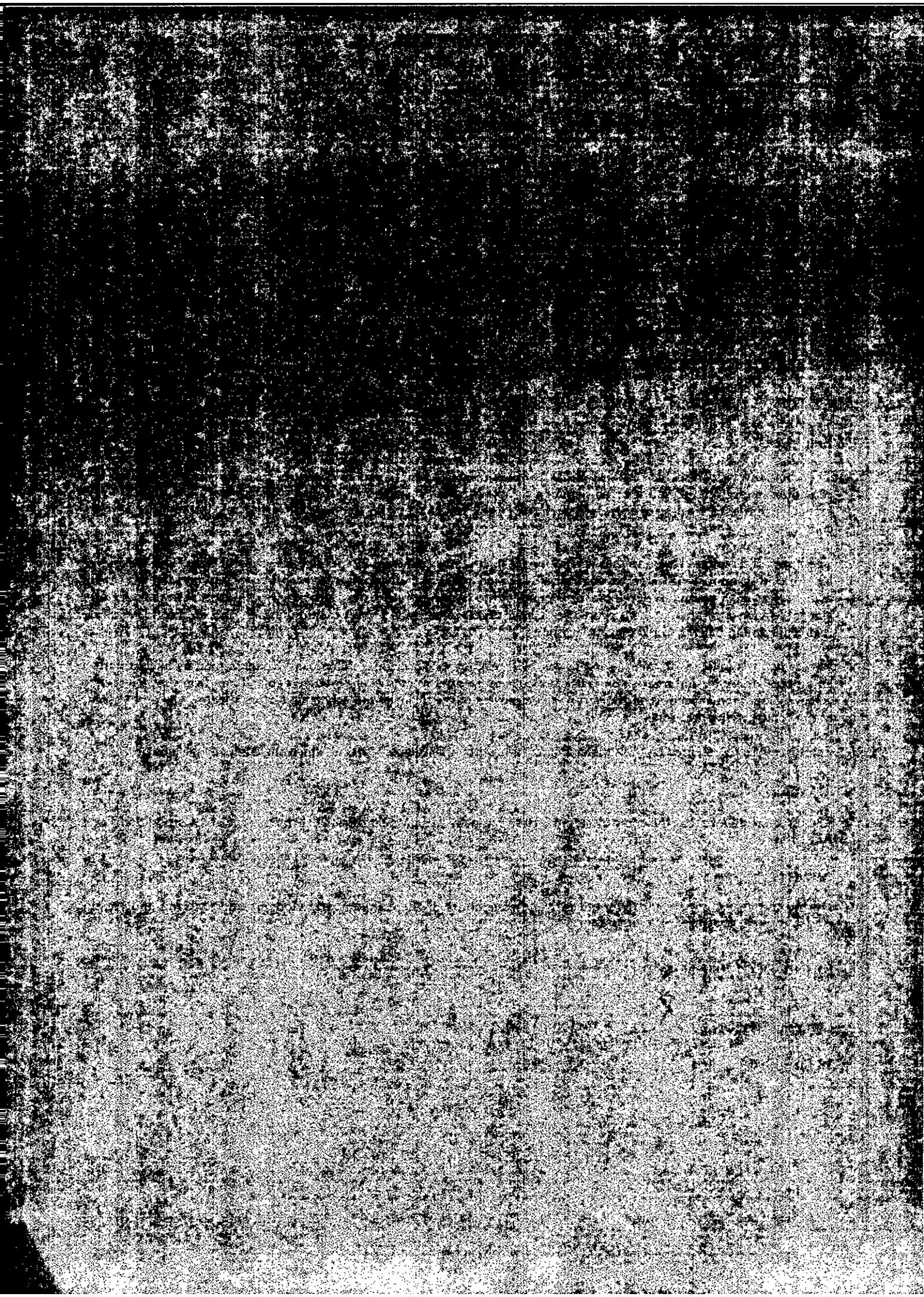
During the year Coopers and Lybrand resigned as auditors of the company and Coopers and Lybrand and Arthur Andersen were appointed as joint auditors.

BY ORDER OF THE BOARD

D J Watson
Company Secretary



18 June 1996



STATEMENT OF DIRECTORS' RESPONSIBILITIES

For the year ended 31 March 1996

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 of 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, prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1996. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

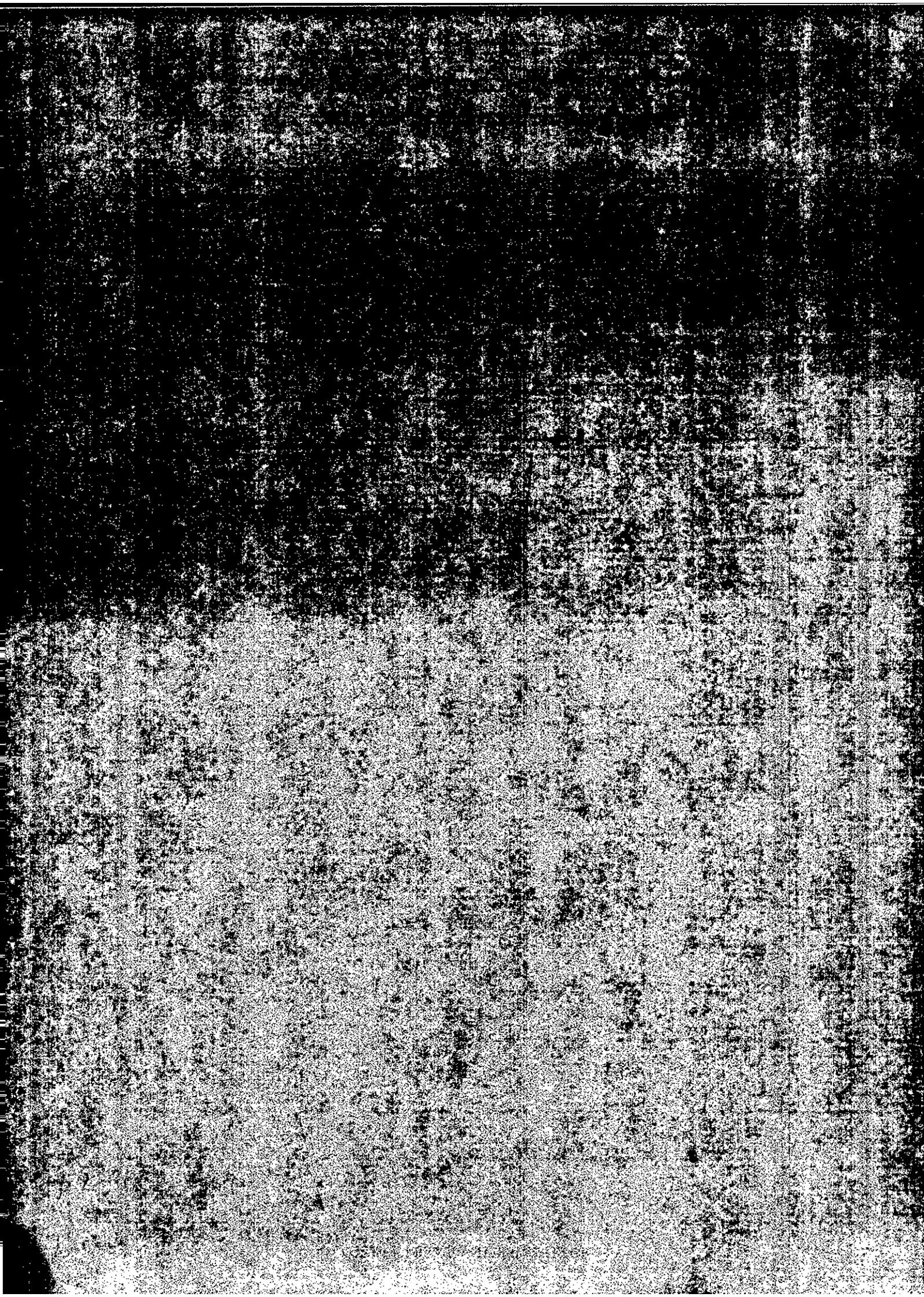
The directors are responsible for keeping proper accounting records as required by United Kingdom company law, for taking reasonable steps to safeguard the assets of the group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

BY ORDER OF THE BOARD

D J Watson
Company Secretary

18 June 1996

A handwritten signature in black ink, appearing to read 'D J Watson', written over a horizontal line.



**REPORT OF THE AUDITORS
TO THE MEMBERS
For the year ended 31 March 1996**

We have audited the financial statements on pages 5 to 30.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

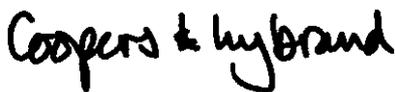
Basis of opinion

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 circumstances of the company and the group, 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 mis-statement, 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.

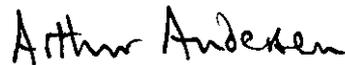
Opinion

In our opinion the financial statements on pages 5 to 30 give a true and fair view of the state of the affairs of the company and the group at 31 March 1996 and of the profit, total recognised gains and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



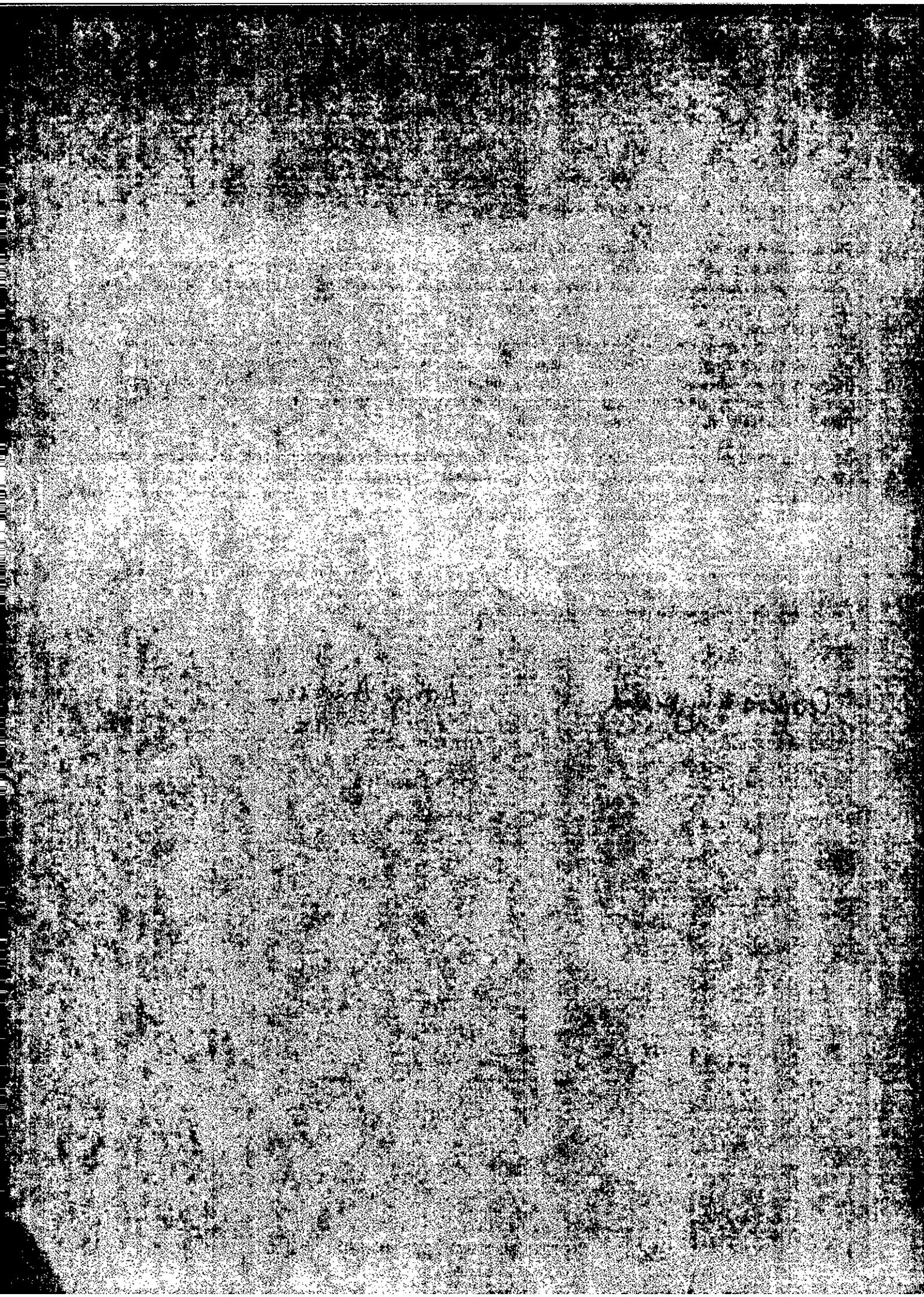
Coopers & Lybrand
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

18 June 1996



Arthur Andersen
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

18 June 1996



GROUP HISTORICAL COST PROFIT AND LOSS ACCOUNT
For the year ended 31 March 1996

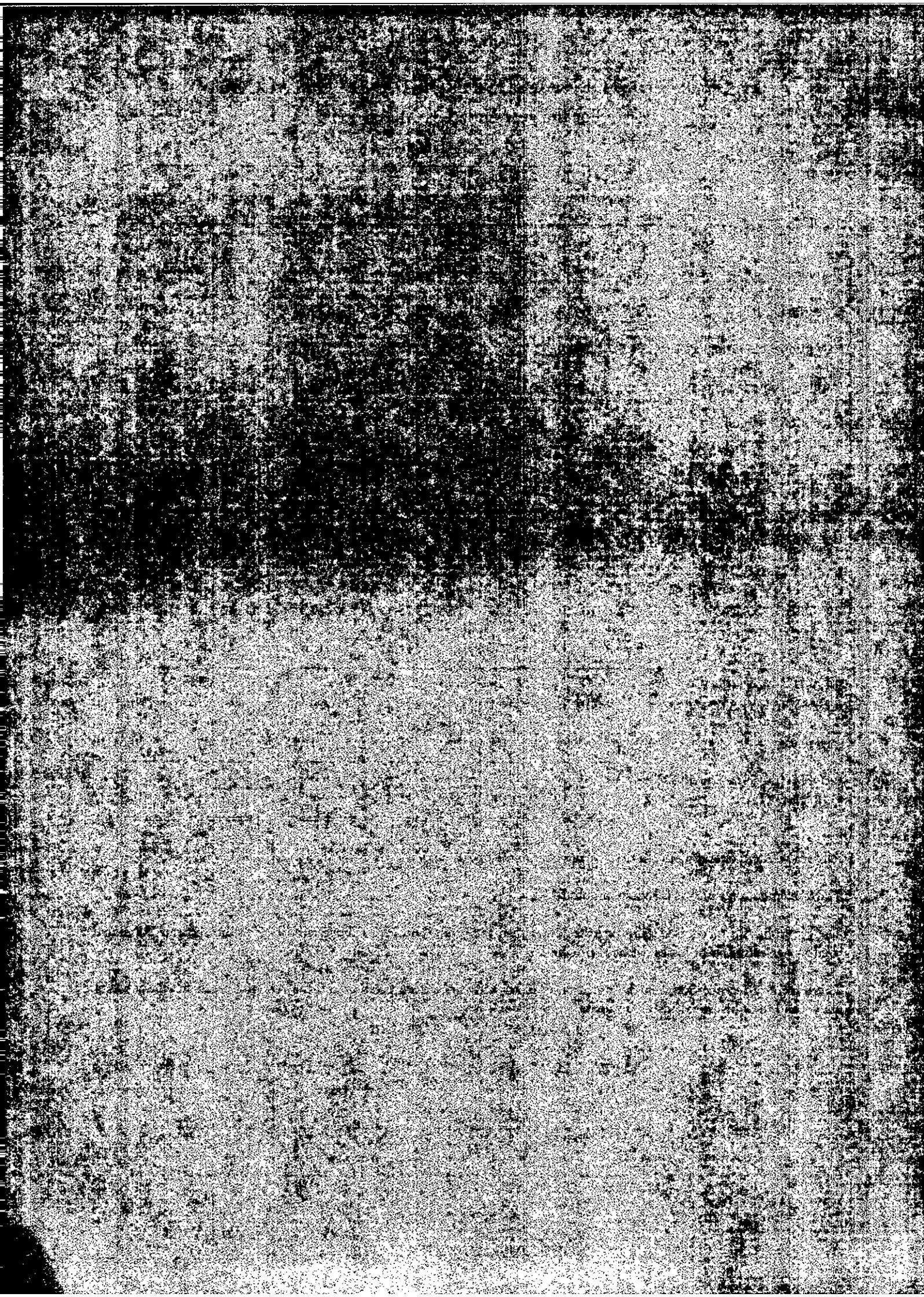
	Note	1996			1995		
		Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
		£'m	£'m	£'m	£'m	£'m	£'m
Turnover	2	228.5	22.9	251.4	220.0	20.1	240.1
Operating costs	3	(84.6)	(10.1)	(94.7)	(90.6)	(7.5)	(98.1)
Exceptional operating costs	3	(6.0)	-	(6.0)	(25.6)	-	(25.6)
Capital maintenance costs	3	(25.7)	(2.0)	(27.7)	(29.4)	(2.0)	(31.4)
Exceptional capital maintenance credit	3	-	-	-	27.1	-	27.1
OPERATING PROFIT	2	<u>112.2</u>	<u>10.8</u>	<u>123.0</u>	<u>101.5</u>	<u>10.6</u>	<u>112.1</u>
Net interest (payable)/receivable	4	(9.6)	2.3	(7.3)	(14.1)	1.6	(12.5)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>102.6</u>	<u>13.1</u>	<u>115.7</u>	<u>87.4</u>	<u>12.2</u>	<u>99.6</u>
Taxation	8	(11.3)	(3.2)	(14.5)	12.4	(1.6)	10.8
PROFIT FOR THE FINANCIAL YEAR		<u>91.3</u>	<u>9.9</u>	<u>101.2</u>	<u>99.8</u>	<u>10.6</u>	<u>110.4</u>
Dividends	9	(39.9)	(50.0)	(89.9)	(1.0)	(5.5)	(6.5)
PROFIT/(LOSS) RETAINED FOR THE YEAR	24	<u><u>51.4</u></u>	<u><u>(40.1)</u></u>	<u><u>11.3</u></u>	<u><u>98.8</u></u>	<u><u>5.1</u></u>	<u><u>103.9</u></u>

All turnover and operating profit derive from continuing operations.

The movement on reserves is shown in note 24.

The group has no recognised gains or losses other than the profits and losses 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

GROUP HISTORICAL COST BALANCE SHEET

At 31 March 1996

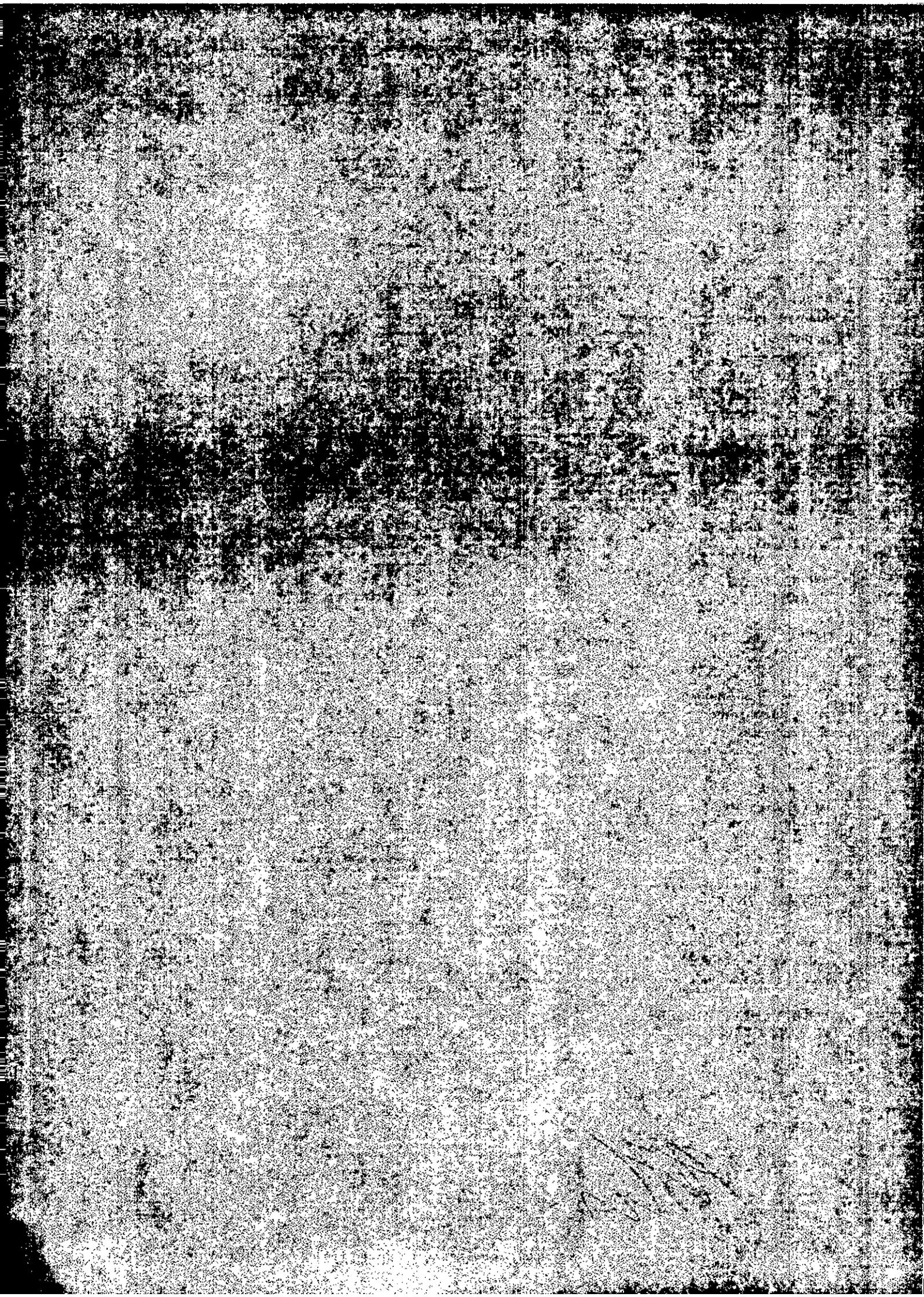
	<u>Note</u>	<u>1996</u> £'m	<u>1995</u> £'m
FIXED ASSETS			
Tangible assets	10	1,093.0	870.3
		<u>1,093.0</u>	<u>870.3</u>
CURRENT ASSETS			
Stocks and work in progress	12	2.8	2.0
Debtors: amounts falling due after one year	13	-	10.8
Debtors: amounts falling due within one year	13	62.7	43.6
Investments	14	100.2	49.0
Cash at bank and in hand		4.0	-
		<u>169.7</u>	<u>105.4</u>
CREDITORS:			
Amounts falling due within one year	15	(188.8)	(64.7)
NET CURRENT (LIABILITIES)/ASSETS		<u>(19.1)</u>	<u>40.7</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,073.9</u>	<u>911.0</u>
CREDITORS: Amounts falling due after more than one year	16	(282.7)	(135.7)
PROVISIONS FOR LIABILITIES AND CHARGES	21	(29.1)	(25.2)
ACCRUALS AND DEFERRED INCOME	22	(26.8)	(26.1)
		<u>(338.6)</u>	<u>(187.0)</u>
NET ASSETS		<u>735.3</u>	<u>724.0</u>
CAPITAL AND RESERVES			
Called up share capital	23	122.7	122.7
Profit and loss account	24	612.6	601.3
EQUITY SHAREHOLDERS' FUNDS	25	<u>735.3</u>	<u>724.0</u>

Approved by the board on 18 June 1996.

A J Harding

A F Jones





SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

COMPANY HISTORICAL COST BALANCE SHEET

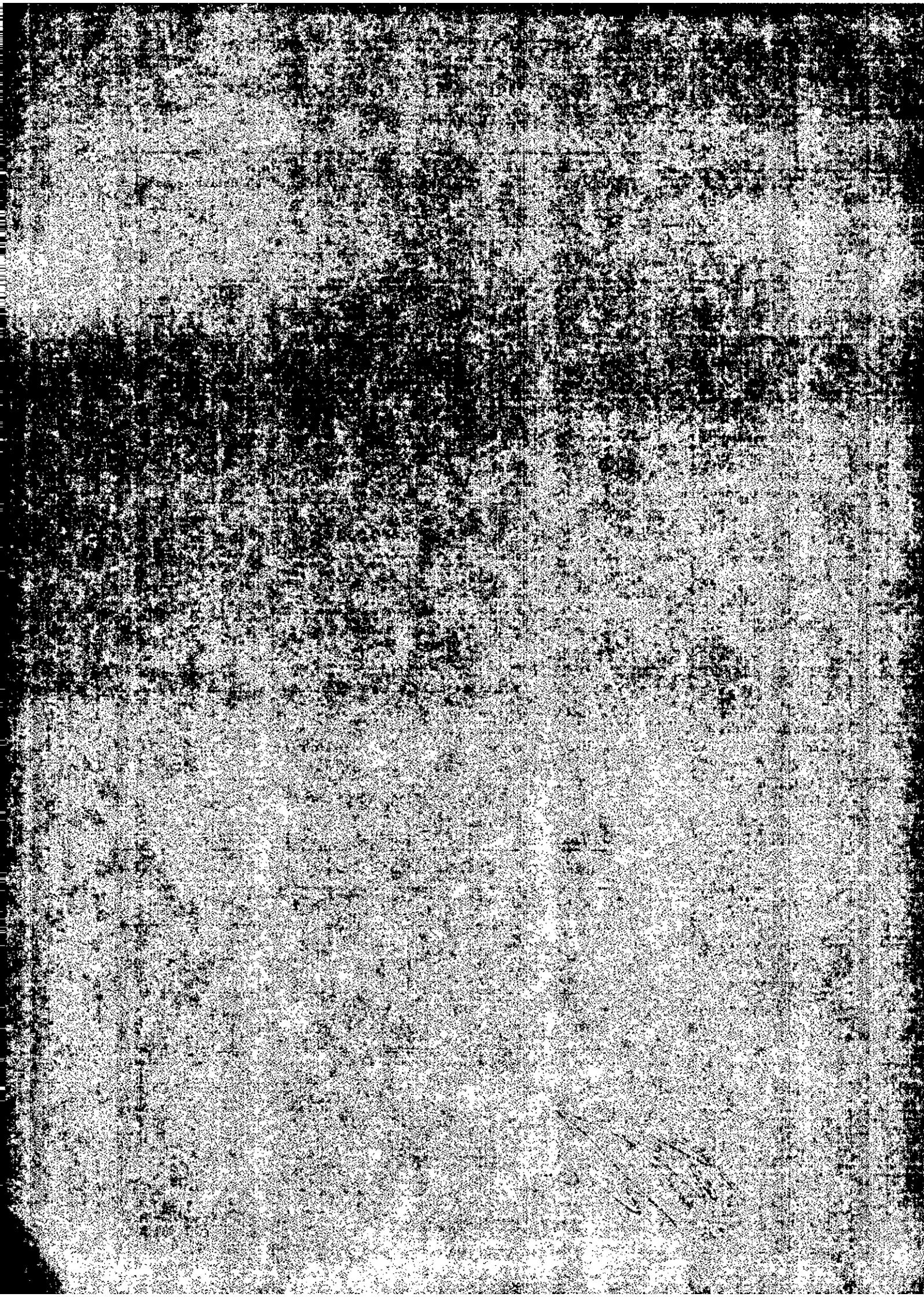
At 31 March 1996

	Note	1996			1995		
		Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m
FIXED ASSETS							
Tangible assets	10	977.9	115.1	1,093.0	754.6	115.7	870.3
Investments	11	47.2	-	47.2	-	-	-
		<u>1,025.1</u>	<u>115.1</u>	<u>1,140.2</u>	<u>754.6</u>	<u>115.7</u>	<u>870.3</u>
CURRENT ASSETS							
Stocks and work in progress	12	2.7	0.1	2.8	1.9	0.1	2.0
Debtors: amounts falling due after one year	13	-	-	-	10.2	0.6	10.8
Debtors: amounts falling due within one year	13	61.5	1.2	62.7	42.1	1.5	43.6
Investments	14	58.7	41.5	100.2	17.9	31.1	49.0
Cash at bank and in hand		4.0	-	4.0	-	-	-
		<u>126.9</u>	<u>42.8</u>	<u>169.7</u>	<u>72.1</u>	<u>33.3</u>	<u>105.4</u>
CREDITORS:							
Amounts falling due within one year	15	(134.1)	(54.7)	(188.8)	(58.8)	(5.9)	(64.7)
NET CURRENT (LIABILITIES)/ASSETS		<u>(7.2)</u>	<u>(11.9)</u>	<u>(19.1)</u>	<u>13.3</u>	<u>27.4</u>	<u>40.7</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,017.9</u>	<u>103.2</u>	<u>1,121.1</u>	<u>767.9</u>	<u>143.1</u>	<u>911.0</u>
CREDITORS: Amounts falling due after more than one year							
PROVISIONS FOR LIABILITIES AND CHARGES	21	(28.7)	(0.4)	(29.1)	(25.0)	(0.2)	(25.2)
ACCRUALS AND DEFERRED INCOME	22	(26.2)	(0.6)	(26.8)	(25.5)	(0.6)	(26.1)
		<u>(384.8)</u>	<u>(1.0)</u>	<u>(385.8)</u>	<u>(186.2)</u>	<u>(0.8)</u>	<u>(187.0)</u>
NET ASSETS		<u>633.1</u>	<u>102.2</u>	<u>735.3</u>	<u>581.7</u>	<u>142.3</u>	<u>724.0</u>
CAPITAL AND RESERVES							
Called up share capital	23	92.1	30.6	122.7	92.1	30.6	122.7
Profit and loss account	24	541.0	71.6	612.6	489.6	111.7	601.3
EQUITY SHAREHOLDERS' FUNDS	25	<u>633.1</u>	<u>102.2</u>	<u>735.3</u>	<u>581.7</u>	<u>142.3</u>	<u>724.0</u>

Approved by the board on 18 June 1996.

A J Harding

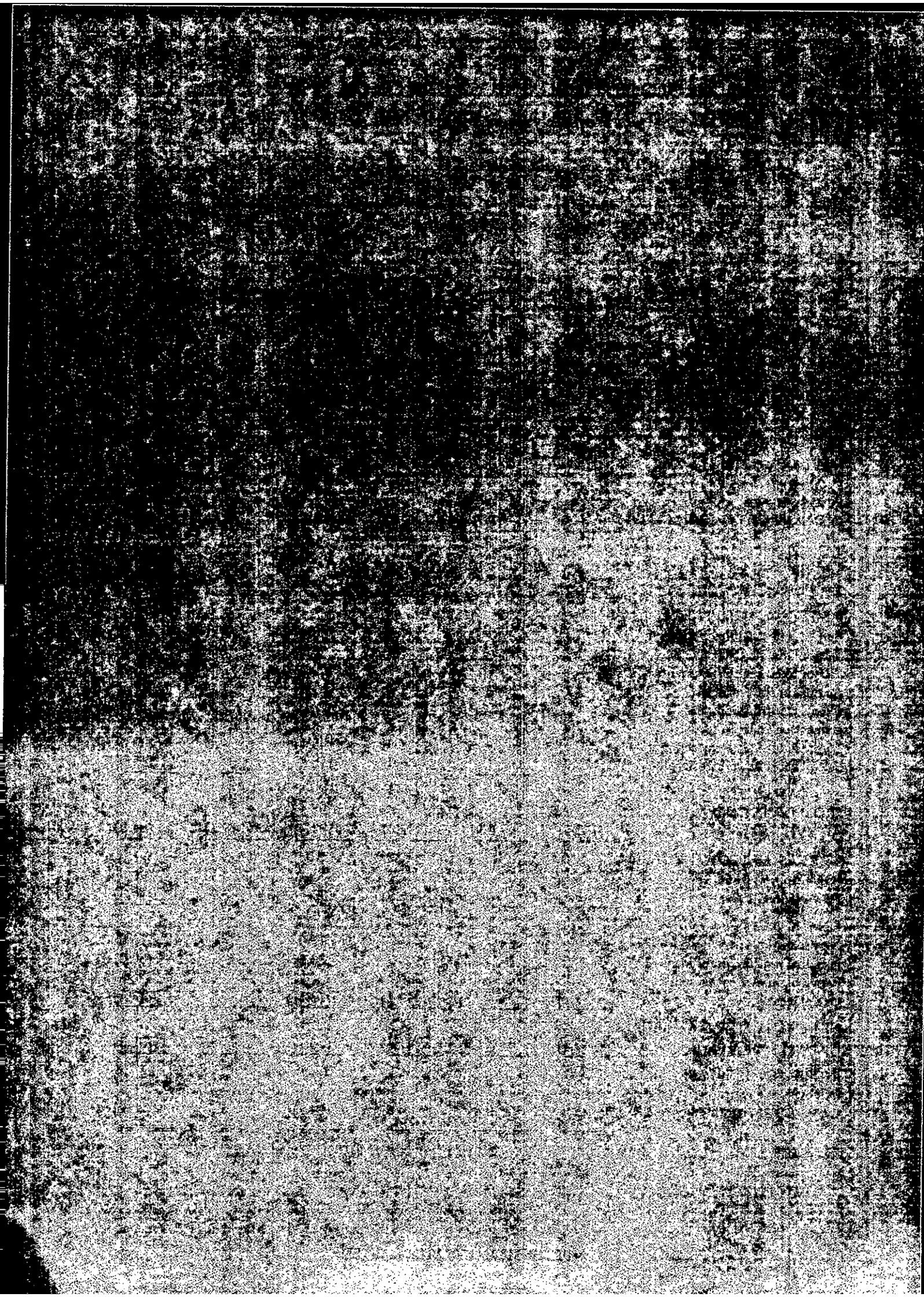
A F Jones



GROUP HISTORICAL COST CASH FLOW STATEMENT

For the year ended 31 March 1996

	Note	1996			1995		
		Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m	Appointed business £'m	Non- appointed business £'m	Aggregated basis £'m
NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES	26	<u>117.6</u>	<u>14.5</u>	<u>132.1</u>	<u>112.6</u>	<u>6.3</u>	<u>118.9</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE							
Interest received		3.3	2.3	5.6	1.8	1.5	3.3
Interest paid - loans		(11.9)	-	(11.9)	(14.0)	-	(14.0)
- finance leases		-	-	-	(2.3)	-	(2.3)
Dividends paid		<u>(1.0)</u>	<u>(5.5)</u>	<u>(6.5)</u>	<u>-</u>	<u>(4.1)</u>	<u>(4.1)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(9.6)</u>	<u>(3.2)</u>	<u>(12.8)</u>	<u>(14.5)</u>	<u>(2.6)</u>	<u>(17.1)</u>
TAXATION							
Tax relief received		8.9	-	8.9	-	-	-
Tax payable		<u>(8.9)</u>	<u>-</u>	<u>(8.9)</u>	<u>-</u>	<u>-</u>	<u>-</u>
INVESTING ACTIVITIES							
Purchase of tangible fixed assets		(70.5)	(0.9)	(71.4)	(68.8)	(0.2)	(69.0)
Sale of tangible fixed assets		1.4	-	1.4	0.7	-	0.7
Sale of fixed asset investments		-	-	-	0.1	-	0.1
Acquisition of business	33(c)	2.2	-	2.2	-	-	-
Grants, contributions and connection charges		7.4	-	7.4	8.3	-	8.3
Purchase of short term deposits		(228.0)	-	(228.0)	(140.0)	-	(140.0)
Sale of short term deposits		<u>176.0</u>	<u>-</u>	<u>176.0</u>	<u>115.0</u>	<u>-</u>	<u>115.0</u>
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(111.5)</u>	<u>(0.9)</u>	<u>(112.4)</u>	<u>(84.7)</u>	<u>(0.2)</u>	<u>(84.9)</u>
NET CASH INFLOW/ (OUTFLOW) BEFORE FINANCING		<u>(3.5)</u>	<u>10.4</u>	<u>6.9</u>	<u>13.4</u>	<u>3.5</u>	<u>16.9</u>
FINANCING							
New loans	27	-	-	-	15.0	-	15.0
Principal repayment of loans	27	-	-	-	(50.0)	-	(50.0)
Principal repayment under capital lease	27	<u>(2.1)</u>	<u>-</u>	<u>(2.1)</u>	<u>(3.1)</u>	<u>-</u>	<u>(3.1)</u>
NET CASH OUTFLOW FROM FINANCING		<u>(2.1)</u>	<u>-</u>	<u>(2.1)</u>	<u>(38.1)</u>	<u>-</u>	<u>(38.1)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	28	<u>(5.6)</u>	<u>10.4</u>	<u>4.8</u>	<u>(24.7)</u>	<u>3.5</u>	<u>(21.2)</u>



NOTES TO THE HISTORICAL COST FINANCIAL STATEMENTS

For the year ended 31 March 1996

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 ((e) 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) Basis of consolidation

The consolidated financial statements include the company and its subsidiary undertakings. The results of subsidiaries acquired during the year are included from the date of their acquisition. Intra-group sales and profits are eliminated fully on consolidation.

(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 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.

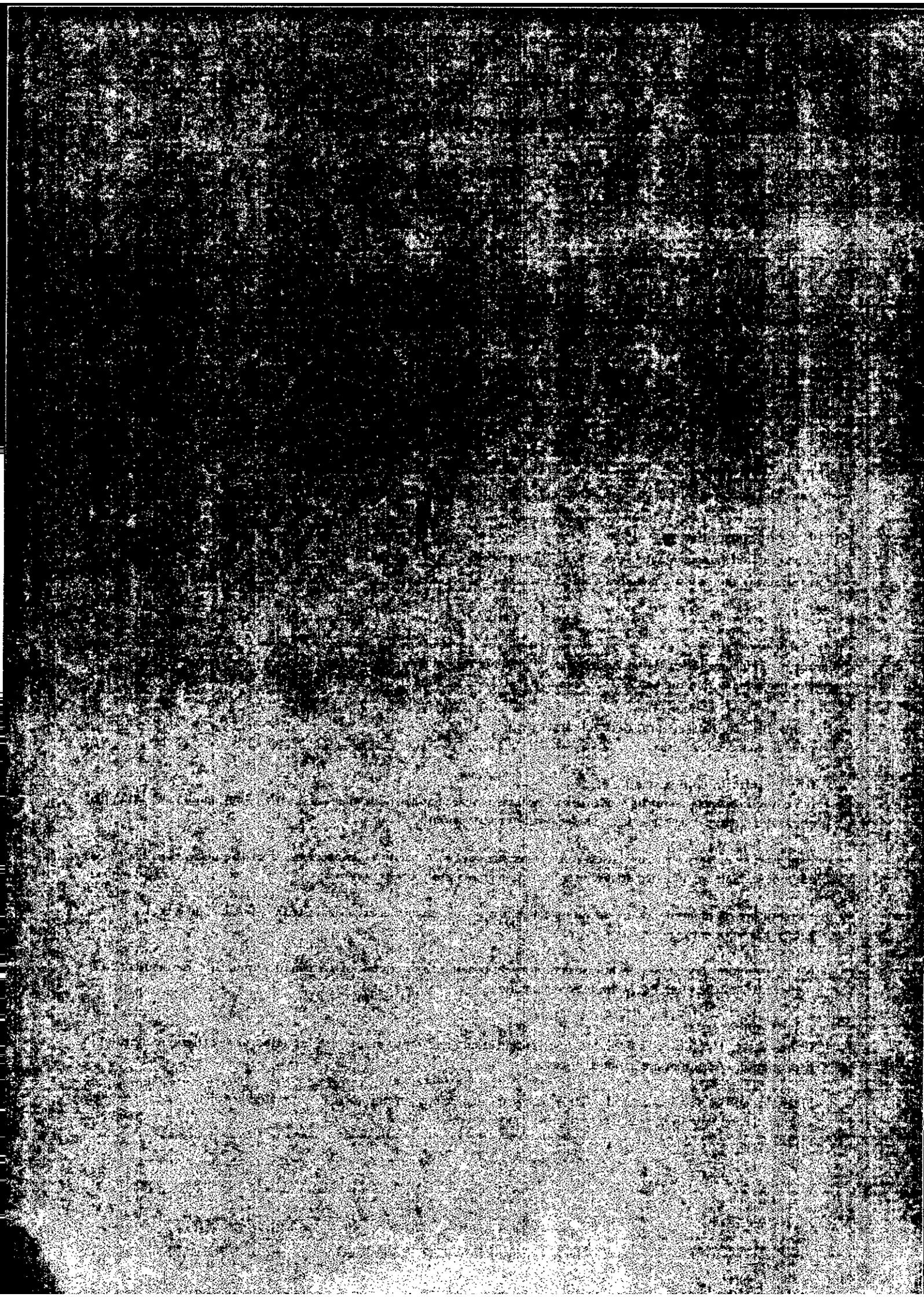
Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost.

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:



SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

I. ACCOUNTING POLICIES (continued)

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.

(e) 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.

(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.

(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

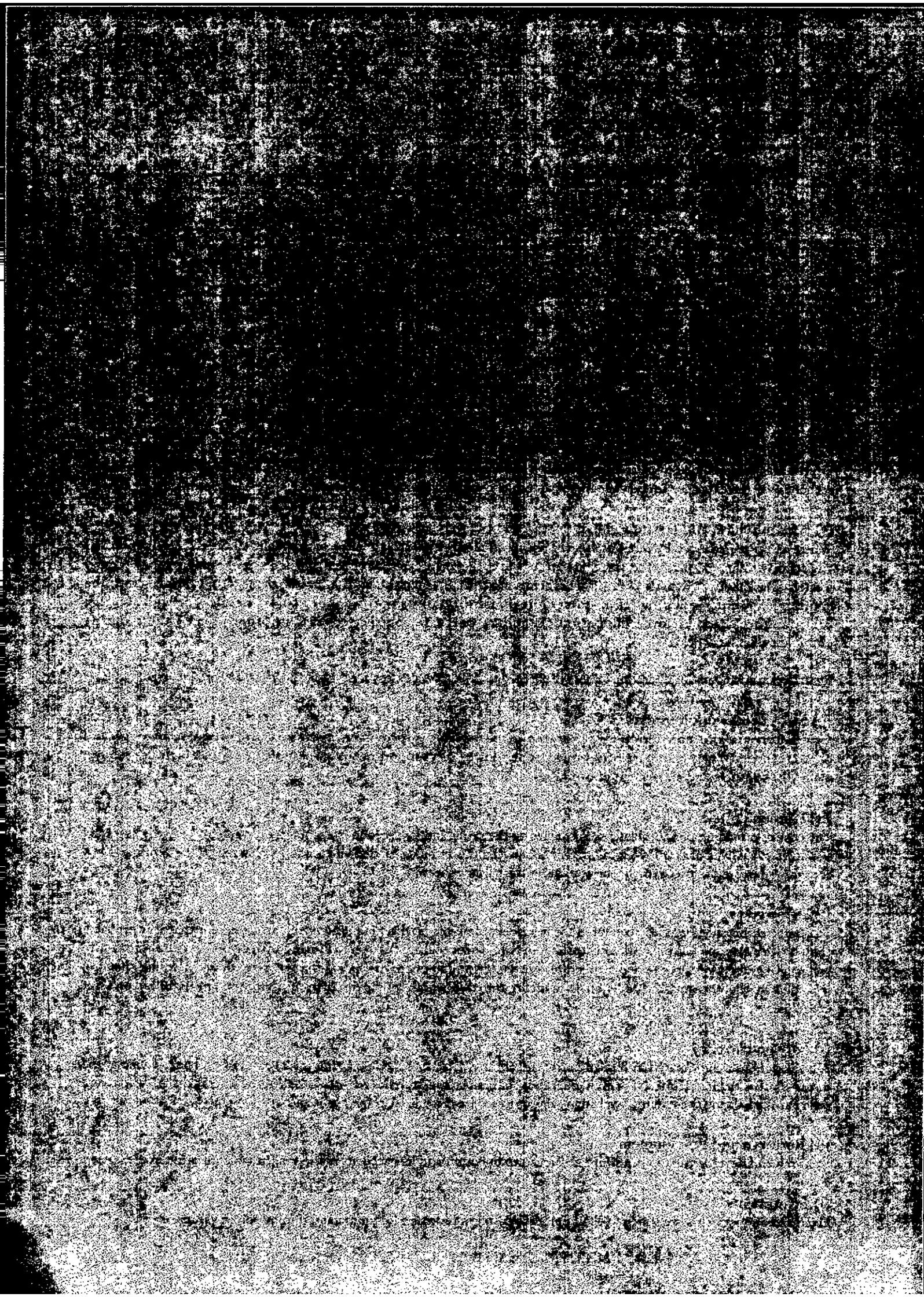
All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date. Exchange gains or losses are recognised 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, less provision for permanent diminution in value.

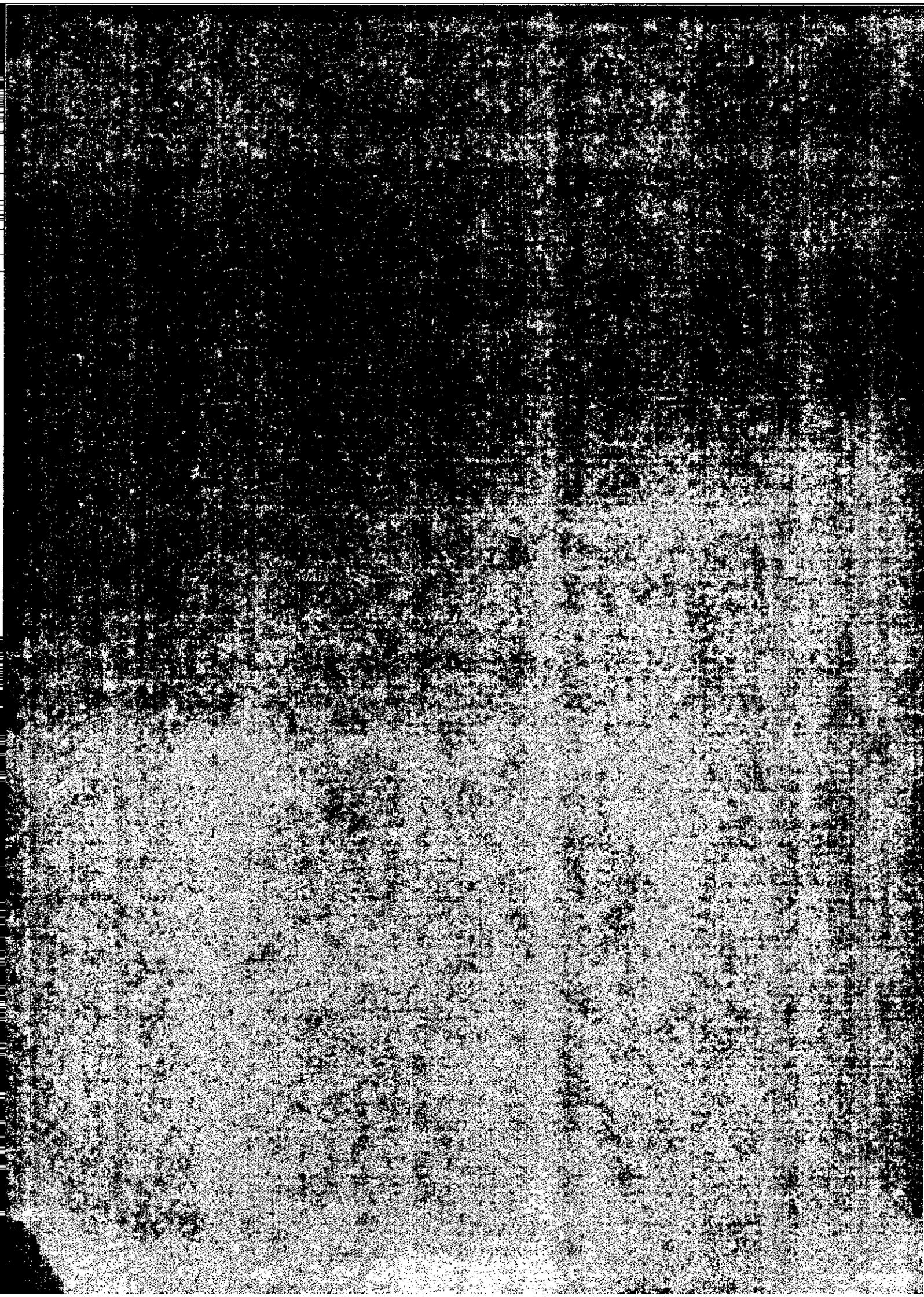


SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

2. TURNOVER AND OPERATING PROFIT

Turnover and operating profit are analysed as follows:

	1996				1995			
	Appointed business		Non-	Aggregated	Appointed business		Non-	Aggregated
	Water services	Sewerage services	appointed business		Water services	Sewerage services	appointed business	
£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	
Measured	26.2	32.8	-	59.0	20.0	31.3	-	51.3
Unmeasured	45.5	113.3	-	158.8	43.2	108.7	-	151.9
Reception, treatment and disposal of trade effluent	-	5.9	-	5.9	-	4.7	-	4.7
Other sources:								
Non tariff basket charges	0.1	-	-	0.1	6.3	-	-	6.3
Rechargeable works	2.6	-	-	2.6	2.4	0.1	-	2.5
Other income	1.6	0.5	22.9	25.0	0.9	2.4	20.1	23.4
TURNOVER	76.0	152.5	22.9	251.4	72.8	147.2	20.1	240.1
Operating costs	(37.6)	(47.0)	(10.1)	(94.7)	(36.8)	(53.8)	(7.5)	(98.1)
Capital maintenance costs	(9.1)	(16.6)	(2.0)	(27.7)	(12.3)	(17.1)	(2.0)	(31.4)
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS	29.3	88.9	10.8	129.0	23.7	76.3	10.6	110.6
Exceptional items:								
Operating costs (note 3(c))				(6.0)				(25.6)
Capital maintenance credit (note 3(d))				-				27.1
OPERATING PROFIT				123.0				112.1



SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

3. OPERATING COSTS AND CAPITAL MAINTENANCE COSTS

(a) Operating costs comprise:

	1996			1995		
	Appointed	Non-	Aggregated	Appointed	Non-	Aggregated
	business	appointed	basis	business	appointed	basis
	£'m	£'m	£'m	£'m	£'m	£'m
Materials and consumables	7.5	0.6	8.1	7.8	0.4	8.2
Other external charges	9.3	0.6	9.9	10.4	0.3	10.7
Manpower costs (note 7)	24.2	0.8	25.0	25.0	0.5	25.5
Other operating charges	43.8	8.1	51.9	47.6	6.3	53.9
Other operating income	(0.2)	-	(0.2)	(0.2)	-	(0.2)
	<u>84.6</u>	<u>10.1</u>	<u>94.7</u>	<u>90.6</u>	<u>7.5</u>	<u>98.1</u>

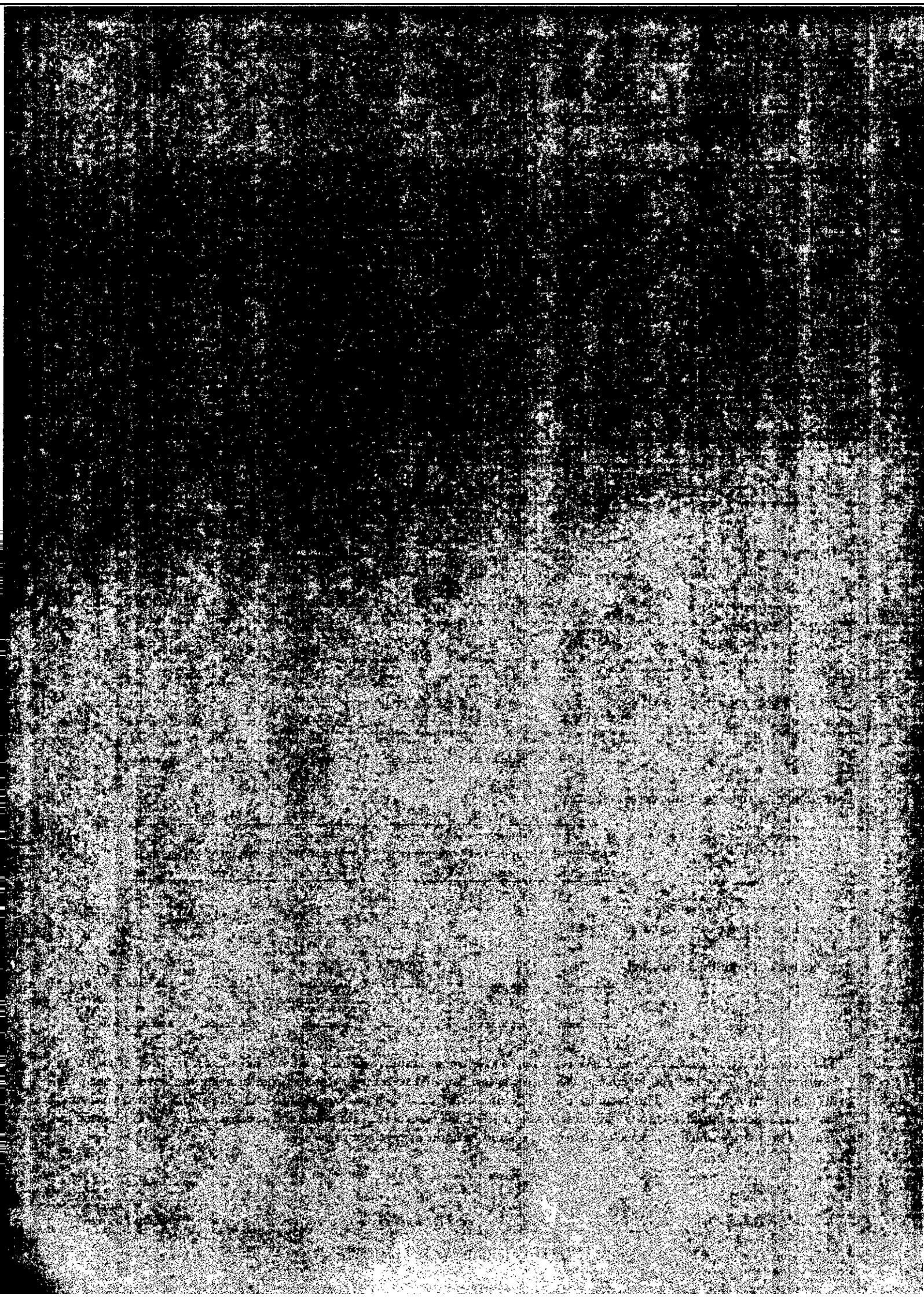
(b) Capital maintenance costs comprise:

	1996			1995		
	Appointed	Non-	Aggregated	Appointed	Non-	Aggregated
	business	appointed	basis	business	appointed	basis
	£'m	£'m	£'m	£'m	£'m	£'m
Depreciation:						
Owned tangible fixed assets	10.3	1.8	12.1	12.7	1.9	14.6
Tangible fixed assets held under finance lease	3.7	-	3.7	4.2	-	4.2
Infrastructure renewals:						
Infrastructure renewals expenditure	10.3	-	10.3	12.5	-	12.5
Infrastructure renewals accrued	2.5	0.2	2.7	-	0.1	0.1
Profit on disposal of fixed assets	(1.1)	-	(1.1)	-	-	-
	<u>25.7</u>	<u>2.0</u>	<u>27.7</u>	<u>29.4</u>	<u>2.0</u>	<u>31.4</u>

(c) Exceptional operating costs comprise:

	1996			1995		
	Appointed	Non-	Aggregated	Appointed	Non-	Aggregated
	business	appointed	basis	business	appointed	basis
	£'m	£'m	£'m	£'m	£'m	£'m
Reorganisation/restructuring costs	22.2	-	22.2	25.0	-	25.0
MMC costs	-	-	-	0.6	-	0.6
Write back of unutilised provision	(16.2)	-	(16.2)	-	-	-
	<u>6.0</u>	<u>-</u>	<u>6.0</u>	<u>25.6</u>	<u>-</u>	<u>25.6</u>

The reorganisation/restructuring costs represent exceptional amounts arising out of the merger of the activities of Northumbrian Water Ltd and North East Water plc and anticipated severance payments from bringing the sewerage agencies in-house from April 1997. This includes costs of future severances which are expected to arise out of the revised voluntary severance scheme introduced to the business in March 1996, the costs of relocating staff and a recognition of the diminution in value of properties which are expected to become redundant in the merged company.



3. OPERATING COSTS AND CAPITAL MAINTENANCE COSTS (continued)

An additional result of the merger has been the cessation of the programme of appraising the business systems and processes and identifying and implementing new ways of working, for which costs were provided in the 1994/95 accounts. The unutilised element of this provision has been written back to the profit and loss account in this year. The balance of £1.4m of the restructuring provision relates to remaining costs of staff already committed to the terms of the previous voluntary severance scheme set up in January 1995.

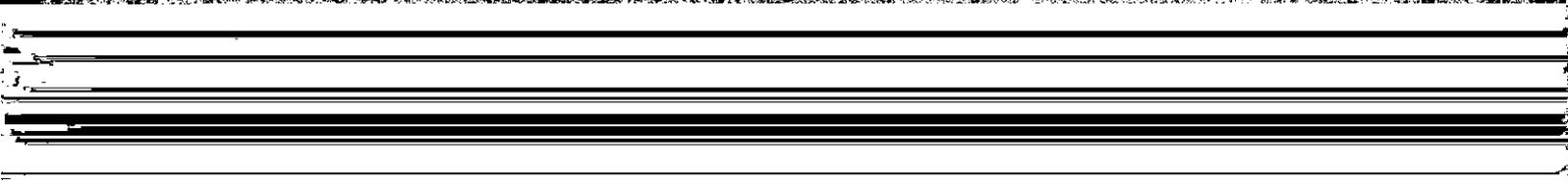
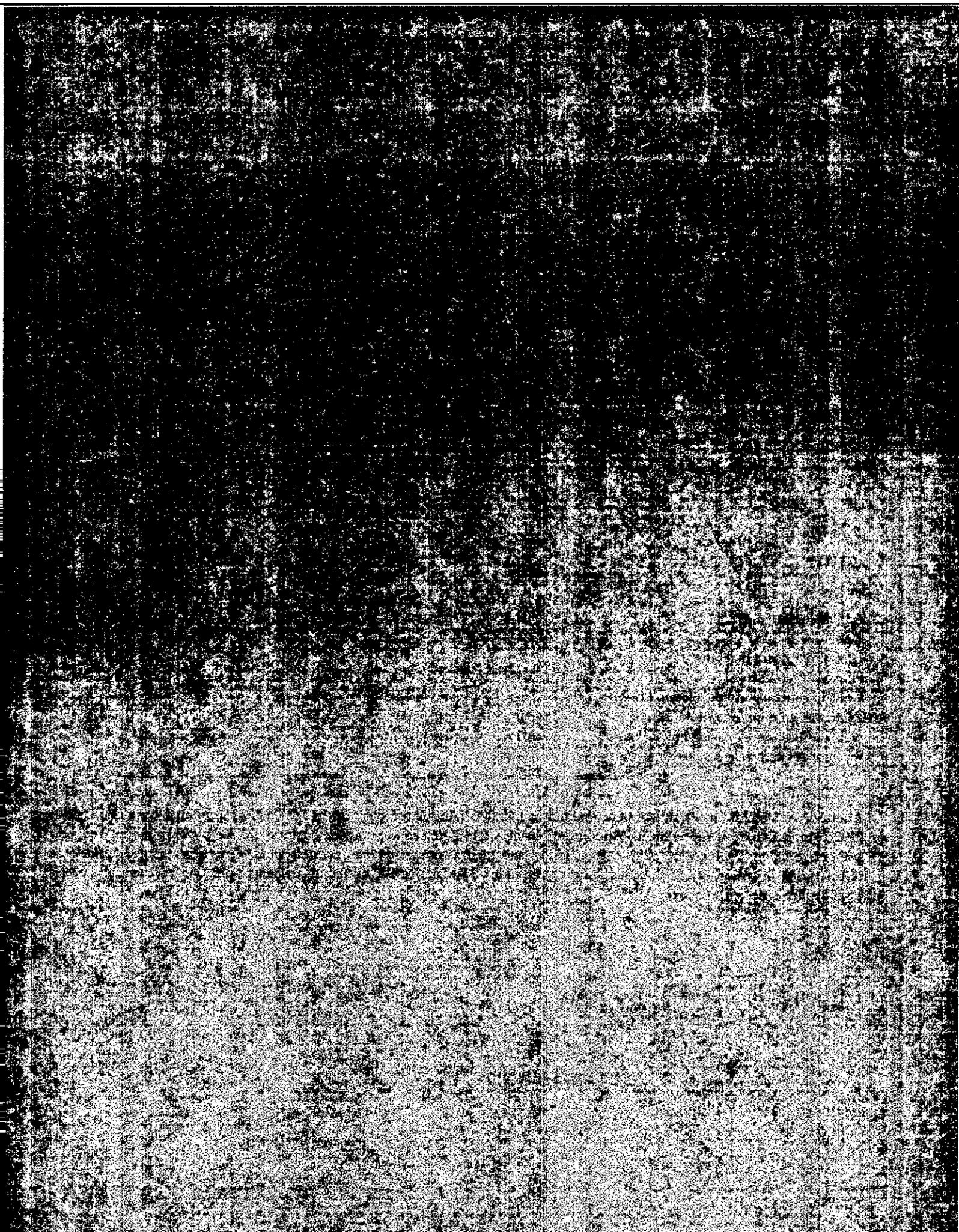
(d) Exceptional capital maintenance credit

As stated last year, 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. The opinion of the directors was that this provision was no longer required on the grounds that the current level of funding, consistent with the results of the K determination, is sufficient to maintain the serviceability of the infrastructure assets.

(e) Operating costs

	1996			1995		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Operating costs are stated after crediting:						
Amortisation of capital grants (note 22)	1.1	-	1.1	1.0	-	1.0
And after charging:						
Operating leases:						
Hire of plant and machinery	1.1	-	1.1	1.4	-	1.4
Hire of other assets	0.1	-	0.1	0.3	-	0.3
Costs of research and development	1.9	-	1.9	2.0	-	2.0
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

Auditors' remuneration for the audit amounted to £42,000 (Appointed business £40,000; Non-appointed business £2,000) (1995: total £46,000, representing Appointed business £44,000; Non-appointed business £2,000). Throughout the year amounts totalling £3.4m were paid to the auditors and their associates for non-audit services. This was charged against the restructuring provision of £25.0m made in the year ended 31 March 1995, rather than against operating costs and as such is excluded from note 3(e) above.



SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

4. NET INTEREST

	1996			1995		
	Appointed	Non-	Aggregated	Appointed	Non-	Aggregated
	business	appointed	basis	business	appointed	basis
	£'m	£'m	£'m	£'m	£'m	£'m
Net interest payable comprises:						
Interest payable:						
Bank loans, overdrafts and other loans:						
Repayable within five years						
otherwise than by instalments	2.8	-	2.8	6.7	-	6.7
Not wholly repayable within five years	6.4	-	6.4	6.6	-	6.6
Repayable in more than five years	1.2	-	1.2	1.1	-	1.1
	10.4	-	10.4	14.4	-	14.4
Financing charges payable under finance leases	2.7	-	2.7	2.2	-	2.2
Total interest payable	13.1	-	13.1	16.6	-	16.6
Interest receivable	(3.5)	(2.3)	(5.8)	(2.5)	(1.6)	(4.1)
Net interest payable/(receivable)	9.6	(2.3)	7.3	14.1	(1.6)	12.5

The total interest payable on bank loans, overdrafts and other loans includes £Nil (1995: £1.9m) in respect of interest payable on amounts owed to the parent company. The financing charges payable under finance leases include £0.4m (1995: £0.5m) owed to a fellow subsidiary.

5. DIRECTORS' EMOLUMENTS AND INTERESTS

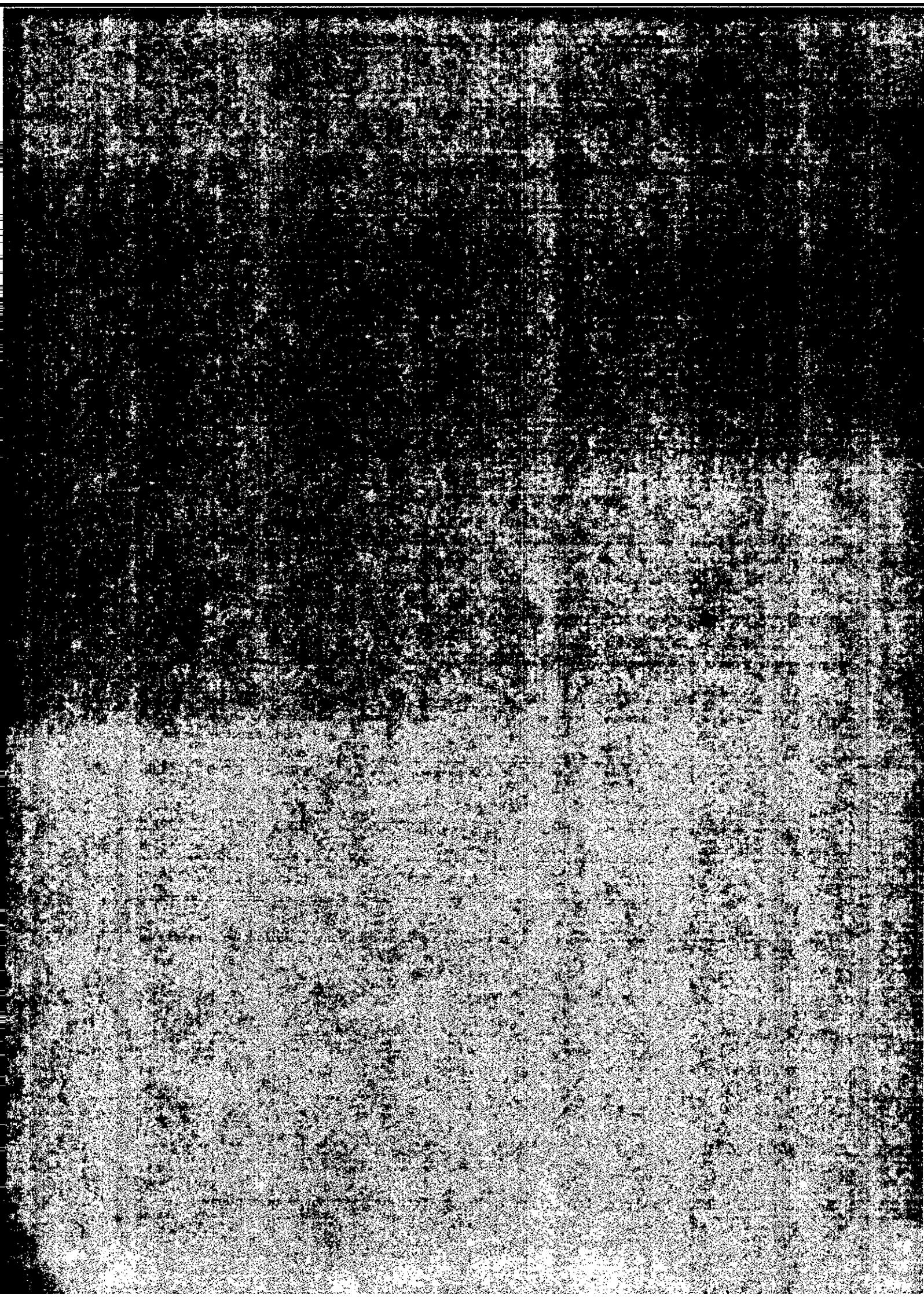
Emoluments of directors of the company, which relate to the aggregated business, include amounts paid to:

	1996				1995			
	Chairman	Highest	Other	Total	Chairman	Highest	Other	Total
		paid	directors			paid	directors	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Salary payments (including benefits in kind)	-	104.0	225.8	329.8	-	107.9	217.3	325.2
Pension contributions	-	13.4	26.6	40.0	-	12.1	23.7	35.8
	-	117.4	252.4	369.8	-	120.0	241.0	361.0

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

	1996	1995
	Number	Number
£0 - £5,000	5	2
£60,001 - £65,000	-	1
£65,001 - £70,000	1	-
£70,001 - £75,000	-	1
£75,001 - £80,000	1	-
£80,001 - £85,000	1	1
£100,001 - £105,000	1	-
£105,001 - £110,000	-	1

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



SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

5. DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

None of the directors held any beneficial interest in the shares of the company as at 31 March 1996. Following the acquisition of the immediate parent company by Lyonnaise Europe plc on 27 December 1995, all executive share options and SAYE options in Northumbrian Holdings plc (formerly Northumbrian Water Group plc) were either exercised, cancelled or lapsed as follows:

Executive Share Options

	1 April 1995	Exercised	Cancelled	Weighted average exercise price	Market price at exercise date	Weighted average compensation price for cancellation
	No.	No.	No.	£	£	£
A C Price	9531	8331	1200	4.72	11.65	6.93
A F Jones	21685	-	21685	4.63	11.65	7.02
J A Foster	30001	4200	25801	4.71	11.65	6.94
I MacMillan	16907	-	16907	5.02	11.65	6.63

SAYE Options

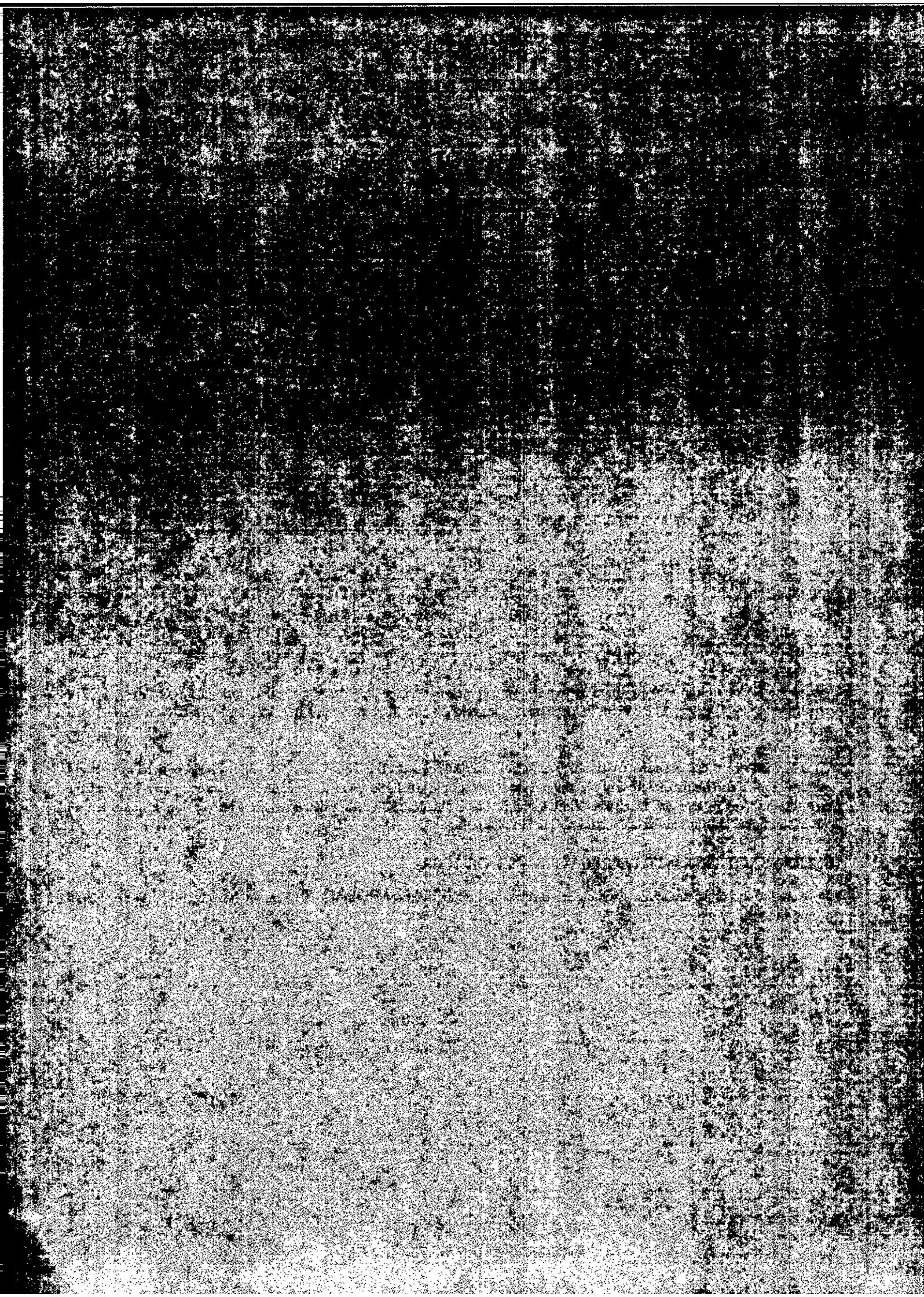
	1 April 1995	Exercised	Lapsed or cancelled	Bonus shares received	Weighted average exercise price	Market price at exercise date
	No.	No.	No.	No.	£	£
A C Price	1022	772	250	197	2.64	11.65
A F Jones	3402	866	2536	1237	5.17	11.65
J A Foster	3402	866	2536	1237	5.17	11.65
I MacMillan	10561	7598	2963	1873	2.86	11.65

Under the SAYE option scheme the directors received compensation for lapsed and cancelled options amounting to £3,314 in respect of A C Price, £17,388 in respect of A F Jones, £23,606 in respect of J A Foster and £25,627 in respect of I MacMillan.

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 Holdings 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 financial statements of Northumbrian Holdings plc.

6. TRANSACTIONS WITH DIRECTORS AND OFFICERS

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



SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

7. EMPLOYEE INFORMATION

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

	1996			1995		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Costs charged to the profit and loss account:						
Wages and salaries	20.0	0.8	20.8	20.7	0.5	21.2
Social security costs	1.7	-	1.7	1.9	-	1.9
Other pension costs	2.5	-	2.5	2.4	-	2.4
	<u>24.2</u>	<u>0.8</u>	<u>25.0</u>	<u>25.0</u>	<u>0.5</u>	<u>25.5</u>
Costs charged to capital schemes and infrastructure renewals:						
Wages and salaries	3.2	-	3.2	2.3	-	2.3
Social security costs	0.2	-	0.2	0.1	-	0.1
Other pension costs	0.2	-	0.2	0.2	-	0.2
	<u>3.6</u>	<u>-</u>	<u>3.6</u>	<u>2.6</u>	<u>-</u>	<u>2.6</u>

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

	1996			1995		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	No.	No.	No.	No.	No.	No.
Average during the financial year	1299	37	1336	1347	33	1380
Total at 31 March	<u>1272</u>	<u>40</u>	<u>1312</u>	<u>1328</u>	<u>37</u>	<u>1365</u>

Of the aggregated total at the balance sheet date, 286 were employed on fixed-term contracts (1995: 355). Of the Appointed business total at the balance sheet date, 538 worked in Water Services and 734 in Sewerage Services (1995: 575 and 753).



SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

8. TAXATION

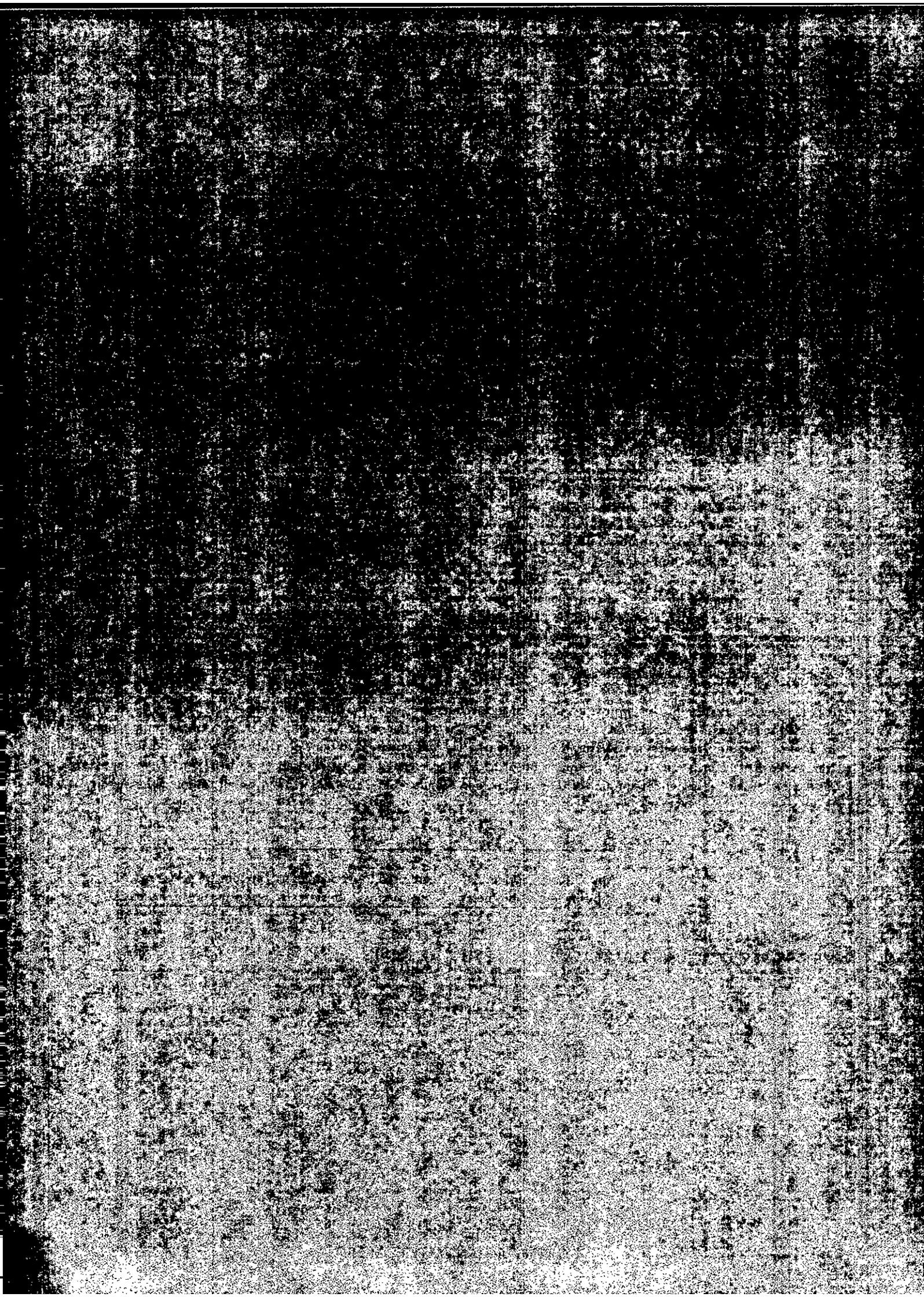
	1996			1995		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Tax on profit on ordinary activities						
United Kingdom corporation tax at 33%. (1995:33%):						
- current year	3.6	1.3	4.9	3.0	1.4	4.4
- prior years	0.4	-	0.4	-	-	-
Payable/(receivable) in respect of group relief:						
- current year	1.7	-	1.7	1.0	0.5	1.5
- prior years	0.1	-	0.1	(18.5)	(1.1)	(19.6)
Payable in respect of advance corporation tax surrendered	5.5	1.9	7.4	2.1	0.8	2.9
Tax charge/(credit)	11.3	3.2	14.5	(12.4)	1.6	(10.8)

(a) The appointed business has provisionally claimed tax losses from fellow subsidiaries in the current year of £5.3m (1995: £3.0m) for which payment will be made at the rate of 33%. £9.8m (1995: £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 £5.5m (1995: £2.1m) from Northumbrian Holdings 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 £Nil (1995: £1.4m) for which payment will be made at the rate of 33%. £Nil (1995: £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 £1.9m (1995: £0.8m) from Northumbrian Holdings 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 1996 are not expected to reverse in the foreseeable future (1995: £ Nil). The effect of not providing for deferred tax has been a reduction in the tax charge for the year of £24.1m (1995: £24.5m). The full potential amount of deferred taxation includes £24.6m transferred from North East Water plc, made up of £26.1m accelerated capital allowances and (£1.5m) of other timing differences. The full potential amount of deferred taxation calculated at 33% (1995: 33%) on all timing differences is as follows:

	1996			1995		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Accelerated capital allowances	203.2	17.3	220.5	155.1	16.1	171.2
Other timing differences	(13.9)	(0.1)	(14.0)	(11.3)	(0.1)	(11.4)
	189.3	17.2	206.5	143.8	16.0	159.8



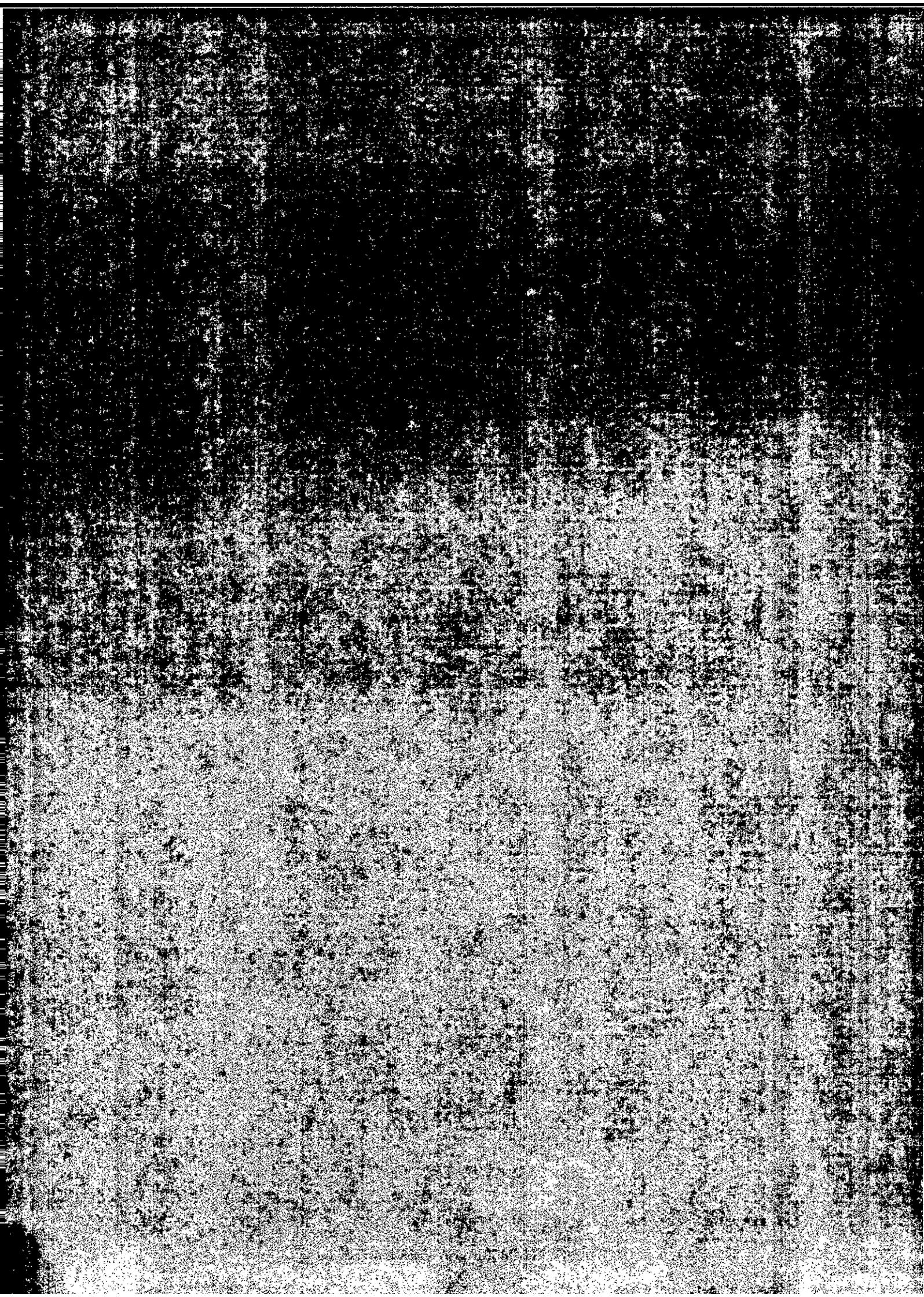
SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

9. DIVIDENDS

	1996			1995		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Ordinary:						
Final proposed of 73.298p (1995: 5.300p) per share	39.9	50.0	89.9	1.0	5.5	6.5

The calculation of pence per share for the proposed dividend for the year ended 31 March 1996 is based on the total share capital of the company.

Dividends have and will continue to be set at a level to ensure that the Appointed business retains sufficient financial resources to carry out its future investment programme up to and beyond the next likely price review which will take effect from 1 April 2000. In accordance with the principles of incentive based price cap regulation, rewards to shareholders will reflect company performance against Ofwat targets, in particular operating and investment targets.



SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

10. TANGIBLE FIXED ASSETS - GROUP AND COMPANY

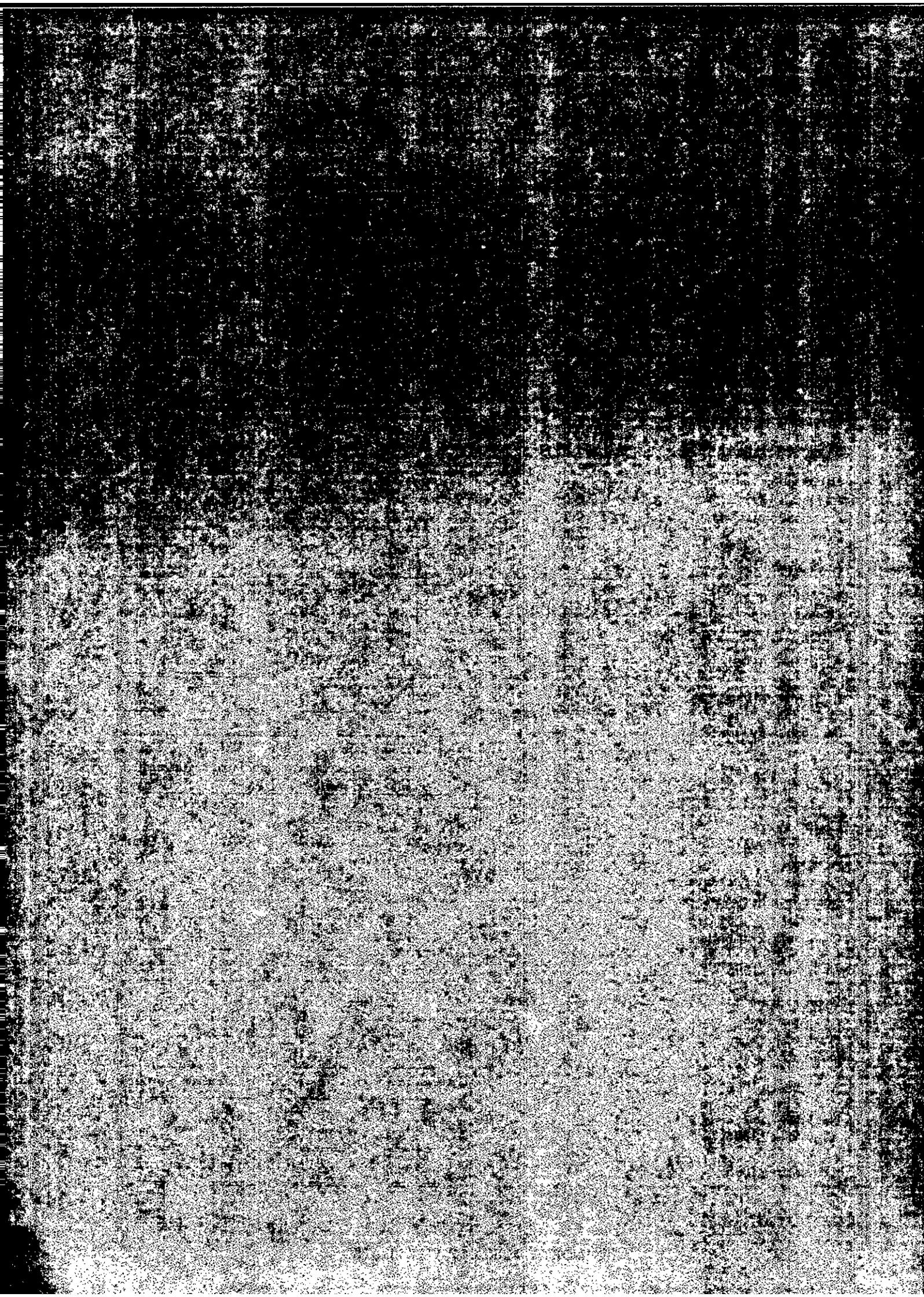
(a) Analysis by asset type.

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 £44.4m (1995: £42.5m) in order to give a true and fair view.

	Freehold land and building £'m	Infra- structure assets £'m	Operational structures, plant and machinery £'m	Fixtures, fittings, tools and equipment £'m	Assets in the course of construction £'m	Aggregated Basis £'m
Cost:						
At 1 April 1995	29.5	466.4	361.2	28.8	109.3	995.2
Additions	-	-	-	-	75.5	75.5
Schemes commissioned	1.2	37.5	27.1	1.9	(67.7)	-
Fair value of assets transferred from North East Water plc	2.6	84.1	76.5	2.0	-	165.2
Disposals	-	-	(0.7)	-	-	(0.7)
Grants and contributions	-	(1.6)	-	-	(0.3)	(1.9)
Balance at 31 March 1996	<u>33.3</u>	<u>586.4</u>	<u>464.1</u>	<u>32.7</u>	<u>116.8</u>	<u>1,233.3</u>
Depreciation:						
At 1 April 1995	8.0	-	94.1	22.8	-	124.9
Provision for year	1.1	-	12.7	2.0	-	15.8
Disposals	-	-	(0.4)	-	-	(0.4)
At 31 March 1996	<u>9.1</u>	<u>-</u>	<u>106.4</u>	<u>24.8</u>	<u>-</u>	<u>140.3</u>
Net book value:						
Owned tangible fixed assets	24.2	586.4	322.7	6.6	115.1	1,055.0
Assets held under finance lease	-	-	35.0	1.3	1.7	38.0
A 31 March 1996	<u>24.2</u>	<u>586.4</u>	<u>357.7</u>	<u>7.9</u>	<u>116.8</u>	<u>1,093.0</u>
At 31 March 1995	<u>21.5</u>	<u>466.4</u>	<u>267.1</u>	<u>6.0</u>	<u>109.3</u>	<u>870.3</u>

(b) Analysis by service:

	Appointed business Water supply £'m	Sewerage services £'m	Non- appointed business £'m	Aggregated basis £'m
Cost:				
At 1 April 1995	227.7	634.7	132.8	995.2
Additions	19.9	54.4	1.2	75.5
Fair value of assets transferred from North East Water plc	165.2	-	-	165.2
Disposals	(0.6)	(0.1)	-	(0.7)
Grants and contributions	(0.3)	(1.6)	-	(1.9)
At 31 March 1996	<u>411.9</u>	<u>687.4</u>	<u>134.0</u>	<u>1,233.3</u>
Depreciation:				
At 1 April 1995	32.9	74.9	17.1	124.9
Provision for year	4.4	9.6	1.8	15.8
Disposals	(0.3)	(0.1)	-	(0.4)
At 31 March 1996	<u>37.0</u>	<u>84.4</u>	<u>18.9</u>	<u>140.3</u>
Net Book Value:				
At 31 March 1996	<u>374.9</u>	<u>603.0</u>	<u>115.1</u>	<u>1,093.0</u>
At 31 March 1995	<u>194.8</u>	<u>559.8</u>	<u>115.7</u>	<u>870.3</u>



SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

11. FIXED ASSET INVESTMENTS - COMPANY

As a result of the acquisition of all of the property and assets of North East Water plc, the company now has a wholly-owned subsidiary undertaking in Newcastle and Gateshead Water plc, whose principal activity is the holding of a loan note due from its immediate parent company. This investment is valued at £47.2m which equates to the net assets of that company. The results of this subsidiary have been consolidated in these financial statements.

The non-appointed business holds an investment of £2 in the ordinary shares of a wholly-owned subsidiary, Northumbrian Water Services Limited. This subsidiary is engaged in carrying out various commercial contracts. The results and balance sheet of this subsidiary have not been included in the consolidated financial statements as they are considered not to be material. The financial statements of Northumbrian Water Services Limited for the year ending 31 March 1996 show net liabilities amounting to £3.2m (1995: £1.1m) and losses after tax of £2.0m (1995: £1.0m). The effect of consolidating Northumbrian Water Services Limited on these financial statements would have been a decrease in cash and cash equivalents of £3.3m (1995: £1.1m).

12. STOCKS AND WORK IN PROGRESS - GROUP AND COMPANY

	1996			1995		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Raw materials and consumables	2.6	0.1	2.7	1.7	0.1	1.8
Work in progress	0.1	-	0.1	0.2	-	0.2
	<u>2.7</u>	<u>0.1</u>	<u>2.8</u>	<u>1.9</u>	<u>0.1</u>	<u>2.0</u>

13. DEBTORS - GROUP AND COMPANY

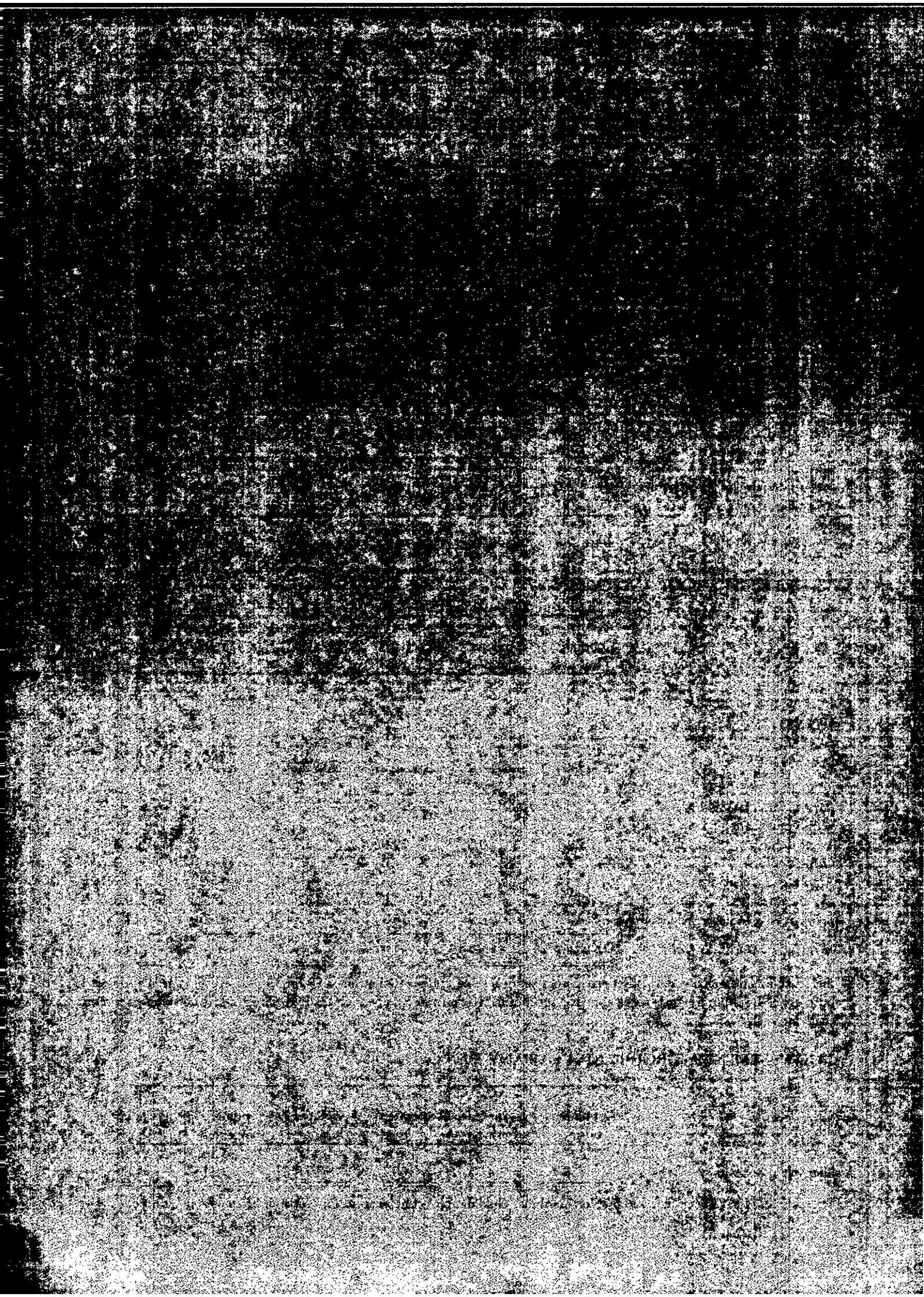
	1996			1995		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
(a) Amounts falling due after one year:						
Amounts owed by other group companies	-	-	-	10.2	0.6	10.8
(b) Amounts falling due within one year:						
Trade debtors	29.1	0.5	29.6	12.7	0.7	13.4
Other debtors	4.0	-	4.0	6.2	-	6.2
Amounts owed by other group companies	10.8	-	10.8	8.7	0.6	9.3
Prepayments and accrued income	17.6	0.7	18.3	14.5	0.2	14.7
	<u>61.5</u>	<u>1.2</u>	<u>62.7</u>	<u>42.1</u>	<u>1.5</u>	<u>43.6</u>

Included in amounts owed by other group companies is £9.8m (appointed business £9.8m (1995: £18.5m), non appointed business £Nil (1995: £1.1m)) receivable in respect of tax losses (note 8), of which £Nil (1995: £10.8m) falls due after more than one year.

14. INVESTMENTS - GROUP AND COMPANY

	1996			1995		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Short term deposits	<u>58.7</u>	<u>41.5</u>	<u>100.2</u>	<u>17.9</u>	<u>31.1</u>	<u>49.0</u>

These deposits have been invested by Northumbrian Holdings plc acting as agent for Northumbrian Water Limited.



SECTION B - HISTORICAL COST FINANCIAL STATEMENTS

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR - GROUP AND COMPANY

	1996				1995	
	Group	Company			Group	Company
		Appointed business	Non- appointed business	Aggregated basis	Aggregated basis	
	£'m	£'m	£'m	£'m	£'m	
Bank overdraft	0.9	0.9	-	0.9	2.5	2.5
Loans (note 17)	3.2	3.2	-	3.2	-	-
Debenture stocks (note 18)	3.0	3.0	-	3.0	-	-
Obligations under finance leases (note 19)	3.1	3.1	-	3.1	2.0	2.0
Trade creditors	8.3	8.2	0.1	8.3	3.7	3.7
Amounts owed to other group companies (note 20)	17.4	17.1	1.9	19.0	6.4	6.4
Other creditors	48.6	44.4	2.6	47.0	38.2	38.2
Taxation and social security	0.8	0.8	-	0.8	0.6	0.6
Dividend payable	94.3	44.3	50.0	94.3	6.5	6.5
Accruals and deferred income	9.2	9.2	-	9.2	4.8	4.8
	188.8	134.2	54.6	188.8	64.7	64.7
Inter business balance	-	(0.1)	0.1	-	-	-
	188.8	134.1	54.7	188.8	64.7	64.7

Other creditors includes creditors related to capital projects of £20.3m (appointed business £20.0m, non-appointed business £0.3m) (1995: total £16.2m, representing appointed business £16.2m, non-appointed business £Nil).

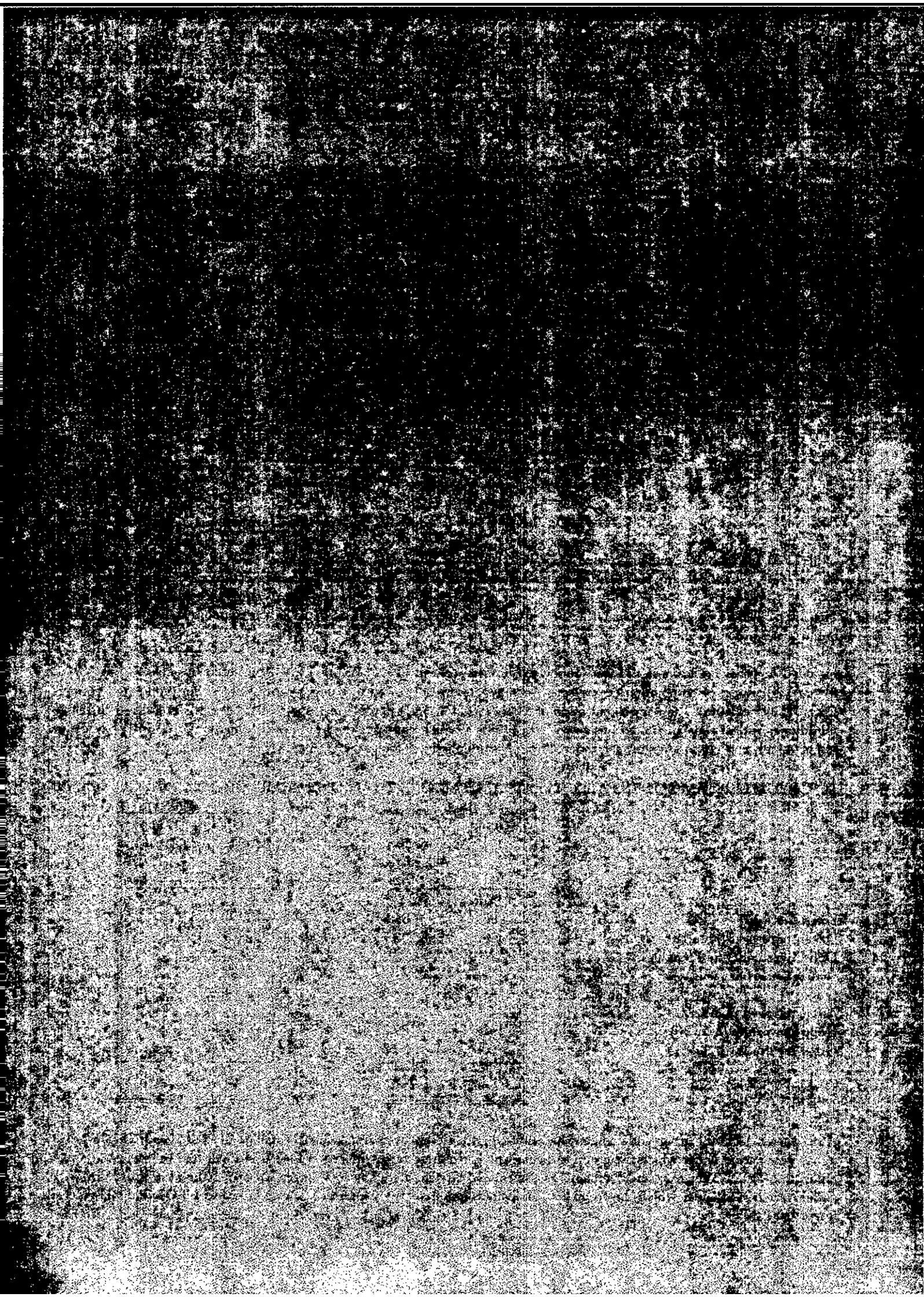
The inter-business balance represents the net unsettled balance of transactions between the appointed and non-appointed business at 31 March 1996.

Included in other creditors is £11.2m (appointed business £9.9m (1995: £3.0m), non-appointed business £1.3m (1995: £1.4m)) in respect of corporation tax payable. Included in amounts owed to group companies is £1.8m (appointed business £1.8m (1995: £1.0m), non-appointed business £Nil (1995: £0.5m)) payable in respect of tax losses surrendered to fellow subsidiaries and £7.0m (appointed business £5.1m (1995: £2.1m), non-appointed business £1.9m (1995: £0.8m)) payable in respect of advance corporation tax surrendered from Northumbrian Holdings plc.

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR - GROUP AND COMPANY

	1996		1995	
	Group	Company	Group	Company
		Appointed and Aggregated basis		Appointed and Aggregated basis
	£'m	£'m	£'m	£'m
Loans (note 17)	88.8	88.8	92.0	92.0
Debenture stocks (note 18)	8.7	8.7	-	-
Obligations under hire purchase contracts and finance leases (note 19)	43.0	43.0	43.2	43.2
Amounts owed to other group companies (note 20)	142.0	189.2	-	-
Other creditors	0.2	0.2	0.5	0.5
	282.7	329.9	135.7	135.7

At 31 March 1996 the group and company had entered into interest swap arrangements totalling £17.0m (1995: £67.0m) over a four year period under which the group and company is required to pay interest at 9.43% and will receive interest at a rate linked to LIBOR. The group and company has also entered into an interest swap arrangement of £15.0m (1995: £15.0m) over a nine year period under which the group and 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 - GROUP AND COMPANY

	<u>1996</u> Appointed and Aggregated basis <u>£'m</u>	<u>1995</u> Appointed and Aggregated basis <u>£'m</u>
Loans are repayable as follows:		
Within one year	3.2	-
Between one and two years	5.3	3.2
Between two and five years	33.9	33.4
In five years or more	49.6	55.4
	<u>92.0</u>	<u>92.0</u>

Loans repayable by instalments amount to £60.0m (1995: £60.0m) and bear interest rates in the range of 10.4 to 11.5 per cent of which £25.4m (1995: £19.6m) falls due in less than 5 years and £34.6m (1995: £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 (1995: £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 (1995: £15.0m) and bear interest at 7.95%.

18. DEBENTURE STOCKS - GROUP AND COMPANY

	<u>1996</u> Appointed and Aggregated basis <u>£'m</u>	<u>1995</u> Appointed and Aggregated basis <u>£'m</u>
Debenture stocks are repayable as follows:		
Within one year:		
£1, 10.3% Redeemable 1996	3.0	-
In five years or more:		
£1, 12.0% Redeemable 2004	5.0	-
£1, 12.0% Redeemable 2005	2.0	-
£1, 3.75% Redeemable 2012	0.3	-
£1, 4.25% Redeemable 2012	0.7	-
£1, 5.25% Redeemable 2012	0.7	-
	<u>8.7</u>	<u>-</u>
	<u>11.7</u>	<u>-</u>

All debenture stocks are redeemable, at par, on maturity. The debenture stocks are secured by a floating charge on the company's business undertaking and on its assets.



19. OBLIGATIONS UNDER FINANCE LEASES - GROUP AND COMPANY

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

	<u>1996</u>	<u>1995</u>
	Appointed and Aggregated basis £'m	Appointed and Aggregated basis £'m
Amounts due:		
Within one year	3.1	2.0
Between one and two years	2.8	2.9
Between two and five years	2.2	5.3
In five years or more	96.3	100.6
	<u>104.4</u>	<u>110.8</u>
Less:		
Finance charge allocated to future periods	(58.3)	(65.6)
	<u>46.1</u>	<u>45.2</u>
Disclosed as due:		
Within one year (note 15)	3.1	2.0
After more than one year (note 16)	43.0	43.2
	<u>46.1</u>	<u>45.2</u>

Included within obligations under finance leases is an amount due to St Mary's Court Limited, a fellow subsidiary, of £4.9m (1995: £7.1m): of this, £2.6m is due within one year (1995: £2.6m), £2.6m is due between one and two years (1995: £2.6m), £Nil is due between two and five years (1995: £2.6m) and finance charges allocated to future periods amount to £0.3m (1995: £0.7m).

20. LOANS: AMOUNTS DUE TO OTHER GROUP COMPANIES

	<u>1996</u>		<u>1995</u>	
	Group	Company Appointed and Aggregated basis £'m	Group	Company Appointed and Aggregated basis £'m
Loans are repayable as follows:				
Within one year	0.5	0.5	-	-
Between one and two years	1.2	1.2	-	-
Between two and five years	5.4	5.4	-	-
In five years or more	135.4	182.6	-	-
	<u>142.5</u>	<u>189.7</u>	<u>-</u>	<u>-</u>

£23m has been received from Lyonnaise Europe plc, all of which is repayable by instalments of which £7.1m falls due in less than five years and £15.9m falls due after more than five years. £17m of these loans bear interest rates in the range of 7.6% to 8.55%. £6m of these loans bear interest linked to LIBOR.



20. LOANS: AMOUNTS DUE TO OTHER GROUP COMPANIES (continued)

£47.2m is owed to a subsidiary undertaking in the form of an unsecured loan note repayable, at par, otherwise than by instalments after more than five years and is subject to interest at a commercial rate. The company may exercise an option to repay the loan note at any time, also at par, subject to three months notice in writing. At present there is no intention to repay, therefore it has been classified as being due in five years or more.

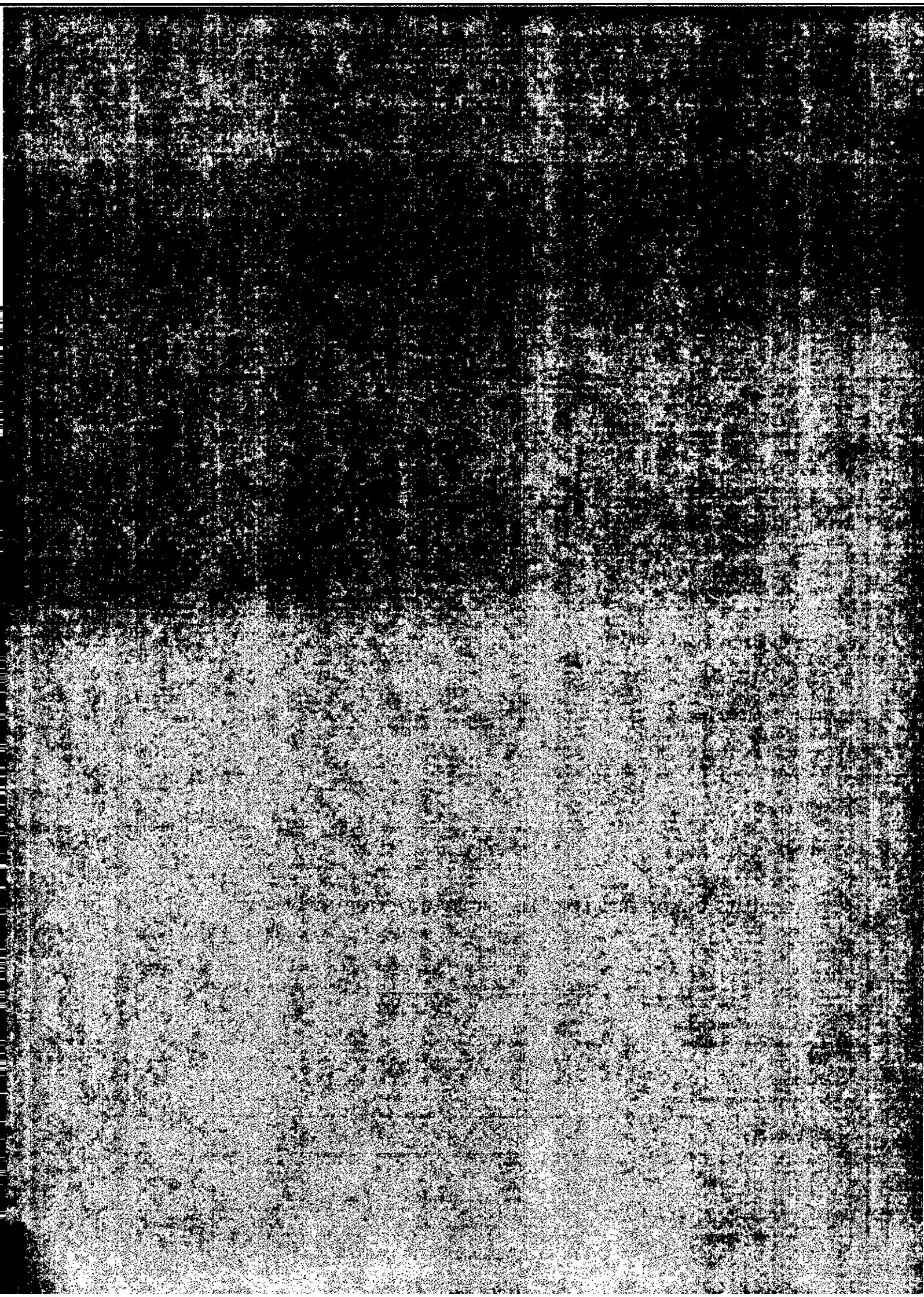
£119.5m is owed to a fellow subsidiary in the form of an unsecured loan note repayable, at par, otherwise than by instalments after more than 5 years and is subject to an interest rate linked to LIBOR. The company may exercise an option to repay the loan note at any time, also at par, subject to three months notice in writing. At present there is no intention to repay, therefore it has been classified as being due in five years or more.

21. PROVISIONS FOR LIABILITIES AND CHARGES - GROUP AND COMPANY

	1996			1995		
	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	-	0.2	0.2	27.1	0.1	27.2
Release of provision (note 3(d))	-	-	-	(27.1)	-	(27.1)
Transferred from profit and loss account	12.8	0.2	13.0	12.5	0.1	12.6
Utilised during the year	(10.3)	-	(10.3)	(12.5)	-	(12.5)
Transferred from North East Water plc	2.1	-	2.1	-	-	-
At 31 March	4.6	0.4	5.0	-	0.2	0.2
Reorganisation/restructuring provision:						
At 1 April	25.0	-	25.0	-	-	-
Transferred from profit and loss account	0.3	-	0.3	-	-	-
Utilised during the year	(7.7)	-	(7.7)	-	-	-
Release of provision (note 3(c))	(16.2)	-	(16.2)	-	-	-
Provided in the year (note 3(c))	22.2	-	22.2	25.0	-	25.0
Transferred from North East Water plc	0.5	-	0.5	-	-	-
At 31 March	24.1	-	24.1	25.0	-	25.0
Closing balance	28.7	0.4	29.1	25.0	0.2	25.2

22. ACCRUALS AND DEFERRED INCOME - GROUP AND COMPANY

	1996			1995		
	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	25.5	0.6	26.1	23.0	0.6	23.6
Additions	1.8	-	1.8	3.5	-	3.5
Amortised during the year	(1.1)	-	(1.1)	(1.0)	-	(1.0)
At 31 March	26.2	0.6	26.8	25.5	0.6	26.1



23. CALLED UP SHARE CAPITAL - GROUP AND COMPANY

	1996			1995		
	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 (1995: 122,650,000)	92.1	30.6	122.7	92.1	30.6	122.7

	1996			1995		
	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 (1995: 122,650,000)	92.1	30.6	122.7	92.1	30.6	122.7

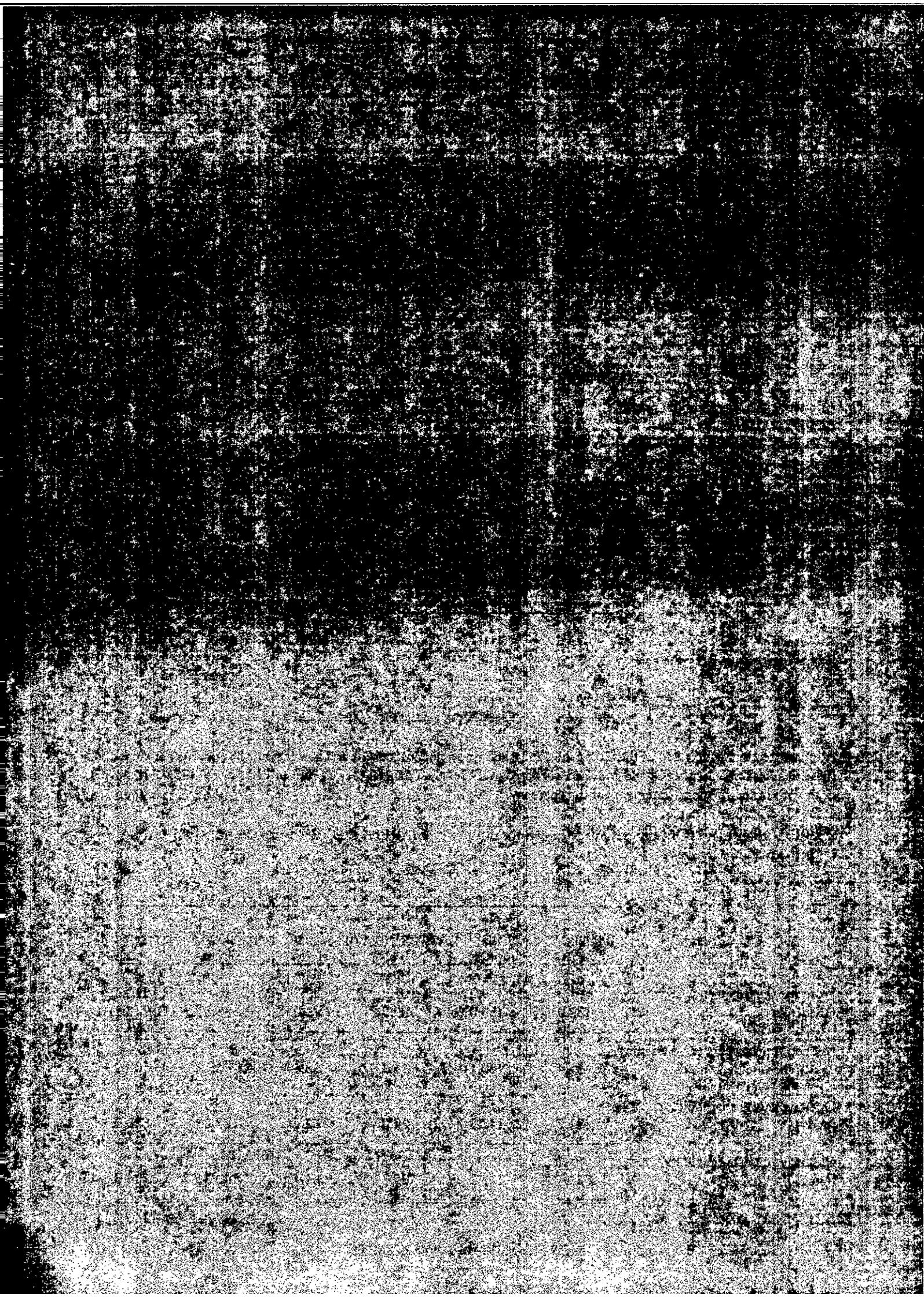
24. PROFIT AND LOSS ACCOUNT - GROUP AND COMPANY

	1996			1995		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
At 1 April	489.6	111.7	601.3	390.8	106.6	497.4
Profit/(loss) retained for the year	51.4	(40.1)	11.3	98.8	5.1	103.9
At 31 March	541.0	71.6	612.6	489.6	111.7	601.3

As permitted by Section 230 of the Companies Act 1985, the company's profit and loss account has not been included in these financial statements. Of the group consolidated profit for the financial year a profit of £101.2m (1995: £110.4m) is dealt with in the financial statements of the company.

25. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS - GROUP AND COMPANY

	1996			1995		
	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	91.3	9.9	101.2	99.8	10.6	110.4
Dividends	(39.9)	(50.0)	(89.9)	(1.0)	(5.5)	(6.5)
Net additions to/(deductions from) equity shareholders' funds	51.4	(40.1)	11.3	98.8	5.1	103.9
Opening equity shareholders' funds	581.7	142.3	724.0	482.9	137.2	620.1
Closing equity shareholders' funds	633.1	102.2	735.3	581.7	142.3	724.0



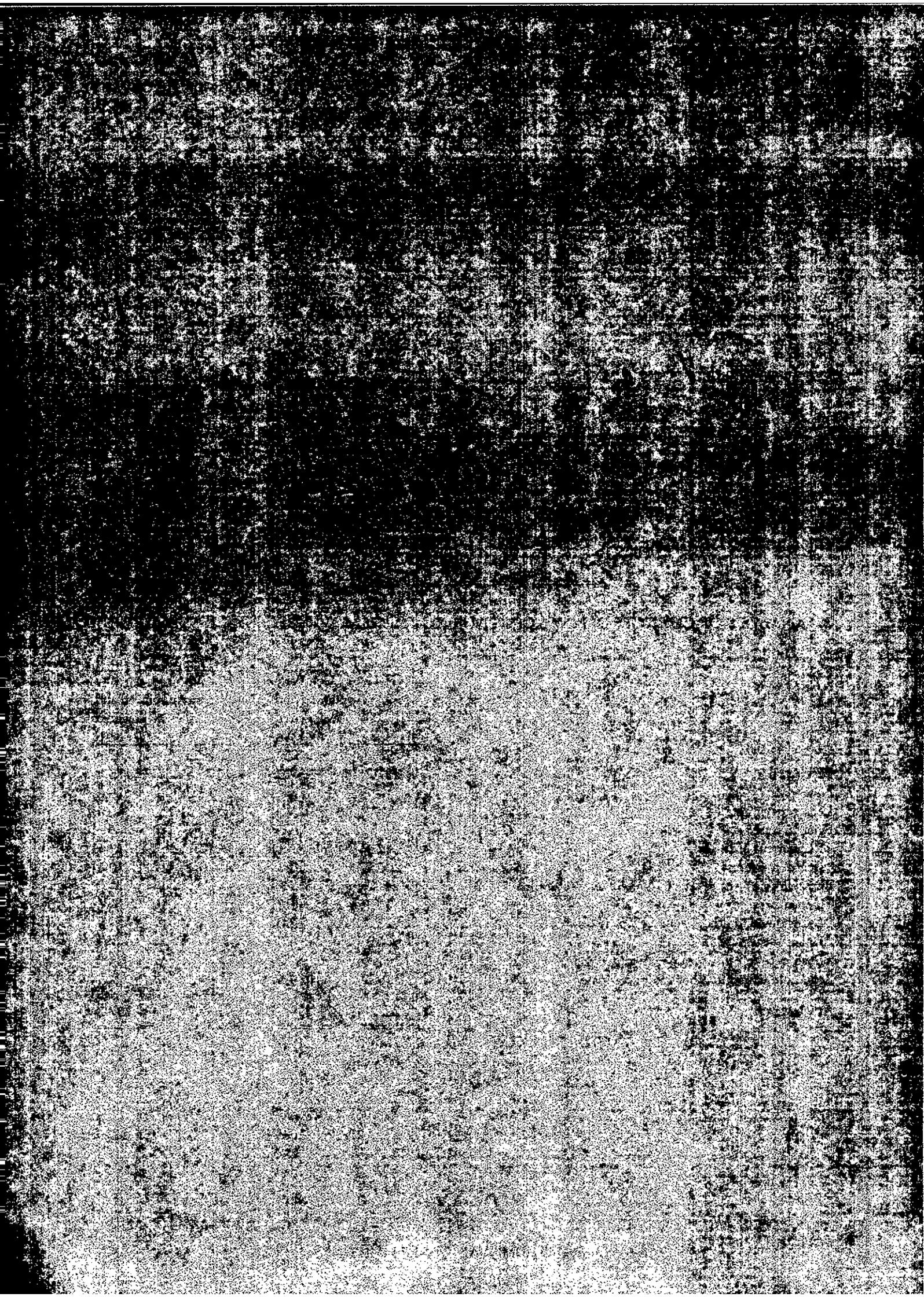
SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

26. NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES - GROUP AND COMPANY

	1996			1995		
	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	14.0	1.8	15.8	16.9	1.9	18.8
Infrastructure renewals expenditure	(10.3)	-	(10.3)	(12.5)	-	(12.5)
Provision for infrastructure renewals	12.8	0.2	13.0	12.5	0.1	12.6
Amortisation of grants	(1.1)	-	(1.1)	(1.0)	-	(1.0)
(Profit)/loss on sale of fixed assets	(1.1)	-	(1.1)	-	-	-
Increase/(decrease) in restructuring provision	(1.4)	-	(1.4)	25.0	-	25.0
Infrastructure provision release	-	-	-	(27.1)	-	(27.1)
(Increase)/decrease in stock	0.5	-	0.5	0.2	-	0.2
(Increase)/decrease in debtors	(8.9)	(0.2)	(9.1)	(4.4)	0.4	(4.0)
Increase/(decrease) in creditors	3.1	(0.3)	2.8	(5.8)	0.6	(5.2)
Increase/(decrease) in inter-business debtor/creditor	(2.2)	2.2	-	7.3	(7.3)	-
Historical cost adjusting items	5.4	3.7	9.1	11.1	(4.3)	6.8
Operating profit (P & L)	112.2	10.8	123.0	101.5	10.6	112.1
Net cash inflow from continuing operating	117.6	14.5	132.1	112.6	6.3	118.9

27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	1996		1995	
	Group	Company	Group	Company
	Appointed and aggregated basis		Appointed and aggregated basis	
	£'m	£'m	£'m	£'m
At 1 April	137.2	137.2	175.4	175.4
New loans	-	-	15.0	15.0
Loan repayments	-	-	(50.0)	(50.0)
Finance lease:				
Repayment of leases	(2.1)	(2.1)	(3.1)	(3.1)
Accrued interest	2.7	2.7	(0.1)	(0.1)
Borrowings transferred from North East Water plc:				
Debentures	11.7	11.7	-	-
Loans owed to other group company	23.0	23.0	-	-
Finance leases	0.3	0.3	-	-
Loan note to other group company	-	47.2	-	-
Loan note issued to other group company	119.5	119.5	-	-
At 31 March	292.3	339.5	137.2	137.2



28. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS

(a) During the year:

	1996			1995		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
At 1 April	(20.6)	31.1	10.5	4.1	27.6	31.7
Net cash (outflow)/inflow	(5.6)	10.4	4.8	(24.7)	3.5	(21.2)
At 31 March	(26.2)	41.5	15.3	(20.6)	31.1	10.5

(b) As shown in the Balance Sheet:

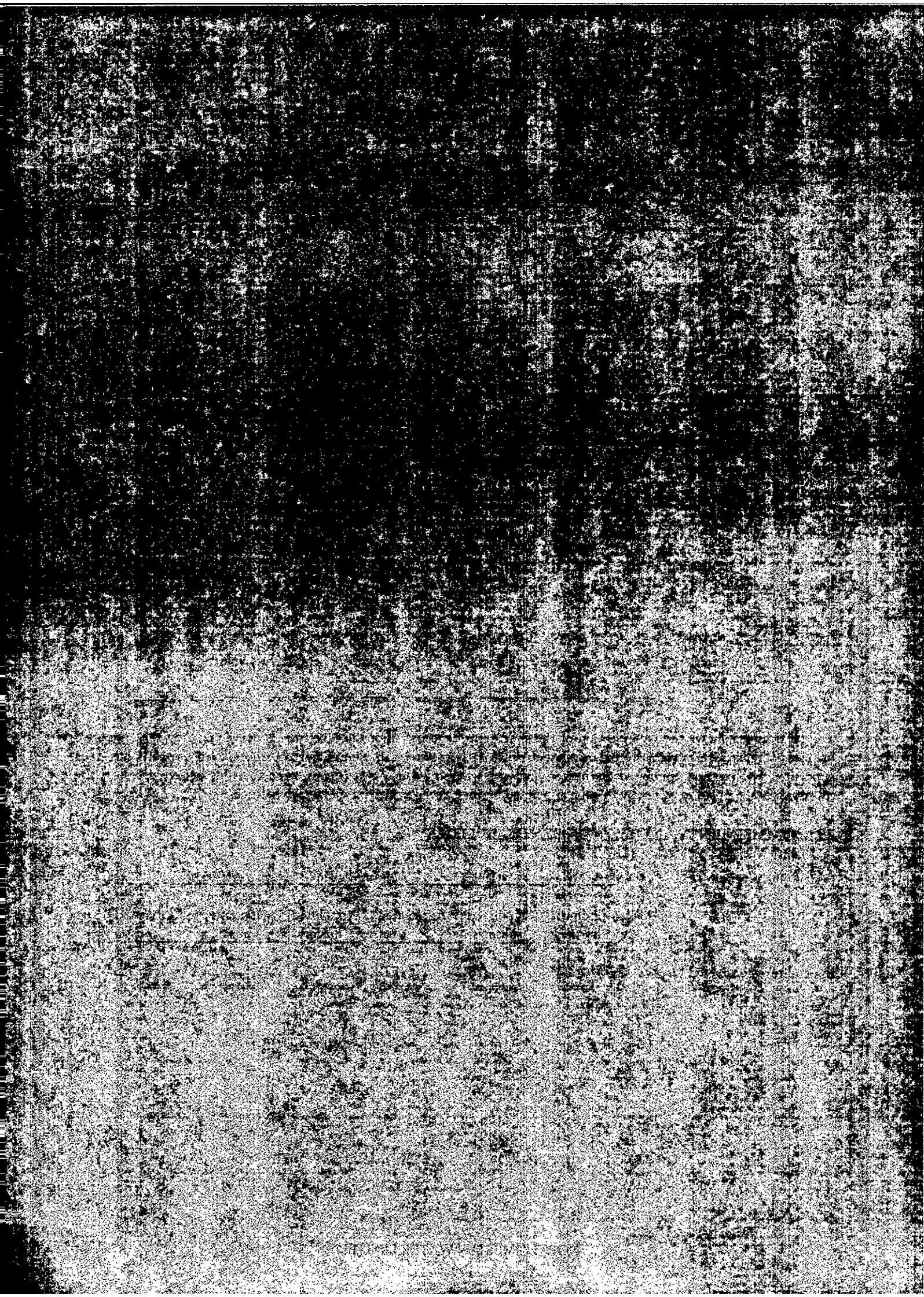
	1996			1995			Change in year		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Cash at bank	(37.5)	41.5	4.0	(31.1)	31.1	-	(6.4)	10.4	4.0
Short term deposits	100.2	-	100.2	49.0	-	49.0	51.2	-	51.2
Bank overdrafts	(0.9)	-	(0.9)	(2.5)	-	(2.5)	1.6	-	1.6
	61.8	41.5	103.3	15.4	31.1	46.5	46.4	10.4	56.8
Less: short term deposits with maturity more than 3 months	(88.0)	-	(88.0)	(36.0)	-	(36.0)	(52.0)	-	(52.0)
	(26.2)	41.5	15.3	(20.6)	31.1	10.5	(5.6)	10.4	4.8

The table above shows the true position of the short-term deposits, all of the investments being made by the appointed business. This differs from the balance sheet presentation, where an element of the short term deposits has been apportioned to the non appointed business in line with its cash balance as it is considered that this better represents the substance of the position, whereby the non appointed business receives interest on its cash balance.

29. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Capital expenditure:

	1996			1995		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Expenditure contracted for	14.4	0.6	15.0	22.3	-	22.3



29. COMMITMENTS AND CONTINGENT LIABILITIES (continued)

(b) Lease commitments:

The company and group has entered into non-cancellable operating leases in respect of land and buildings, plant, machinery and motor vehicles. The total amount payable under these leases in the next year, all of which is within the appointed business, is as follows:-

	1996			1995		
	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	-	-	-
	<u>0.1</u>	<u>-</u>	<u>0.1</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other:						
Leases which expire:						
Within one year	0.2	-	0.2	0.4	-	0.4
Between two and five years	0.9	-	0.9	0.8	-	0.8
	<u>1.1</u>	<u>-</u>	<u>1.1</u>	<u>1.2</u>	<u>-</u>	<u>1.2</u>

(c) Cross guarantee arrangements:

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 1996 amounted to £3.3m (1995: £1.2m).

(d) Litigation:

A legal claim has been made against Northumbrian Water Limited. Having regard to legal advice received, the directors are of the opinion that this claim will not give rise to liabilities which will have a material effect on their financial statements.

30. PENSIONS

As a subsidiary of Northumbrian Holdings 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 Holdings plc.

The staff transferring to Northumbrian Water Ltd from North East Water plc on 1 April 1996 participate in the Lyonnaise UK pension scheme. Details of this are included in the financial statements of North East Water plc for the year ended 31 March 1996.

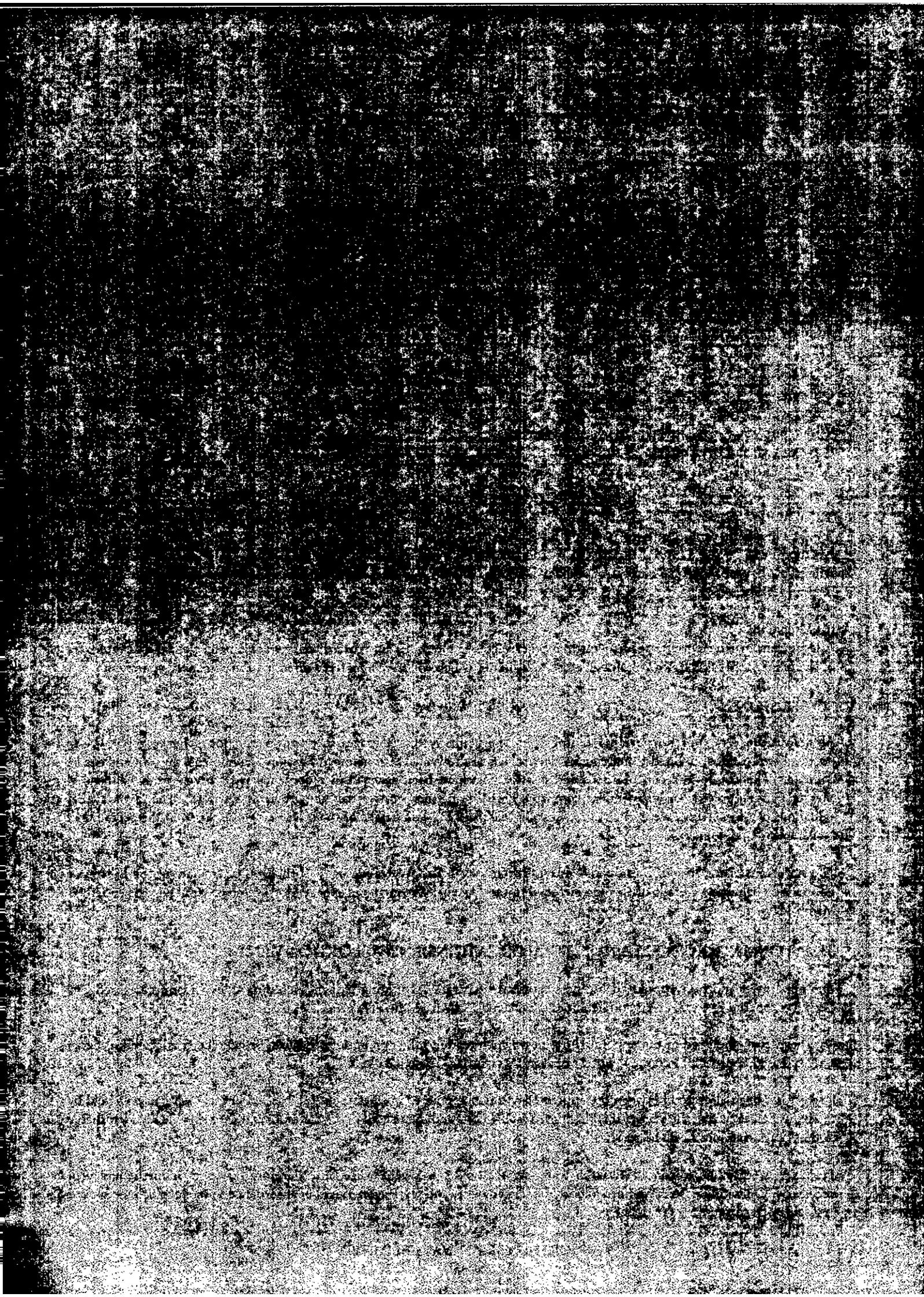
31. INFORMATION IN RELATION TO ALLOCATIONS AND APPORTIONMENTS

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.

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.



SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

32. ULTIMATE PARENT COMPANY

The ultimate parent company of the company is Lyonnaise des Eaux S.A., incorporated in France. The largest group which consolidates the results of the company is Lyonnaise des Eaux S.A. and copies of the consolidated accounts are available to the public from Lyonnaise des Eaux S.A., 72 Avenue de la Liberte, 92753 Nanterre Cedex, France.

The smallest group which consolidates the results of the company is that of which Northumbrian Holdings plc (formerly Northumbrian Water Group plc) is the parent. Copies of the consolidated accounts may be obtained from Northumbrian Holdings plc, Northumbria House, Regent Centre, Gosforth, Newcastle upon Tyne NE3 3PX. Northumbrian Holdings plc is registered in England and Wales.

33. ACQUISITION

On 31 March 1996 the company acquired the trade and assets of North East Water plc for a total consideration of £119.5m. The consideration was satisfied by the issue of a loan note for the full amount.

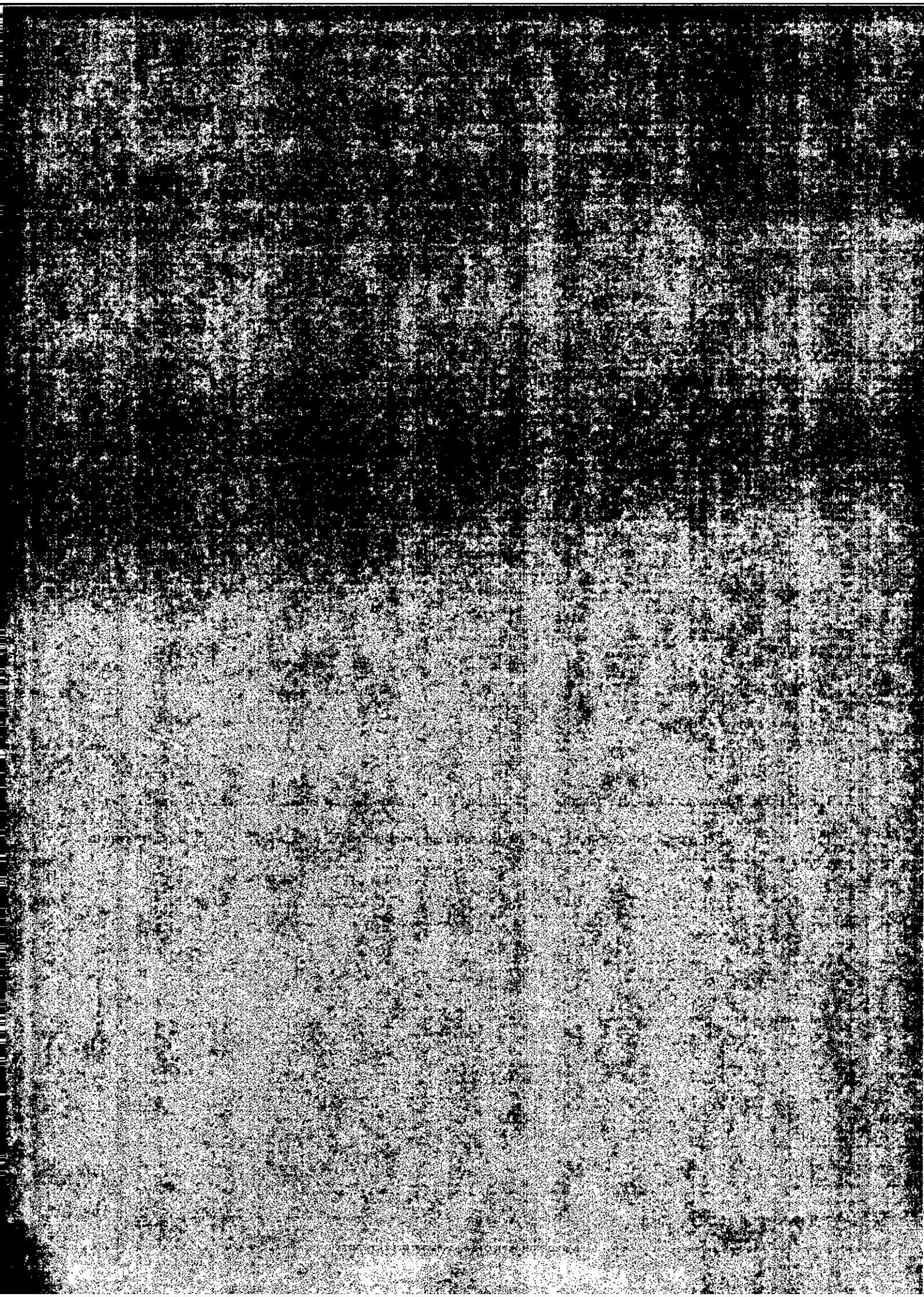
(a) Profit and Loss Account

The summarised profit and loss account for North East Water plc for the period from 1 April 1995, the beginning of the company's financial year, to the date of acquisition, is as follows:-

	<u>Year ended</u> <u>31 March 1996</u> £'m
Turnover	72.3
Operating Profit	24.8
Profit on Ordinary Activities before taxation	21.8
Tax on Ordinary Activities	(6.3)
Profit on Ordinary Activities after taxation	15.5

The profit on ordinary activities after taxation for North East Water plc for the year ended 31 March 1995 was £14.3m.

There were no other recognised gains and losses for the financial years ended 31 March 1995 and 1996 other than the profit for the year.



SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

(b) Assets and Liabilities

The assets and liabilities of North East Water plc acquired are set out below:-

	<u>Book value</u> £'m	<u>Revaluation</u> £'m	<u>Fair value</u> £'m
Fixed Assets	110.8	54.4	165.2
Investments	47.2	-	47.2
	<u>158.0</u>	<u>54.4</u>	<u>212.4</u>
Current Assets			
Stock	1.3	-	1.3
Debtors	14.3	-	14.3
Cash at bank and in hand	3.1	-	3.1
	<u>18.7</u>	<u>-</u>	<u>18.7</u>
Creditors: amounts falling due within one year	<u>(30.5)</u>	<u>-</u>	<u>(30.5)</u>
Net Current Assets	<u>(11.8)</u>	<u>-</u>	<u>(11.8)</u>
Total Assets less current liabilities	<u>146.2</u>	<u>54.4</u>	<u>200.6</u>
Creditors: amounts falling due in more than one year	(78.5)	-	(78.5)
Provisions for liabilities and charges	<u>(2.6)</u>	<u>-</u>	<u>(2.6)</u>
	<u>(81.1)</u>	<u>-</u>	<u>(81.1)</u>
Net Assets	<u>65.1</u>	<u>54.4</u>	119.5
Goodwill			<u>-</u>
			<u>119.5</u>
Satisfied by: Loan note			<u>119.5</u>

Fixed Assets were revalued as at 31 March 1996 to their net recoverable value.

(c) Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the trade and assets of North East Water plc.

	£'m
Cash consideration	-
Cash at bank and in hand	3.1
Bank overdrafts acquired	<u>(0.9)</u>
Net inflow of cash and cash equivalents	<u>2.2</u>

