

**FINANCIAL STATEMENTS**  
**NORTHUMBRIAN WATER LIMITED**  
**FOR THE YEAR ENDED 31 DECEMBER 1998**

Registered no: 2366703

Registered Office:  
Northumbria House  
Regent Centre  
Gosforth  
Newcastle upon Tyne  
NE3 3PX



**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 1998**

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## **DIRECTORS' REPORT**

### **For the year ended 31 December 1998**

The directors present their report and the audited financial statements for the year ended 31 December 1998.

The company changed the end date of their financial reporting period from 31 March to 31 December in 1997 to bring it in line with the financial reporting period of the ultimate parent company, Suez Lyonnaise des Eaux S.A.

#### **Results and dividends**

The group's profit for the year ended 31 December 1998 after taxation amounts to £118.6m. An analysis of turnover and profits for the operating segments of the group is shown in note 2 to the financial statements. The directors propose a final dividend on the ordinary shares of £1 each in the capital of the company of £30.7m (1997: £14.8m) payable on 28 April 1999 to shareholders whose names appear on the register at the close of business on 27 April 1999 which, together with the interim dividend of £30.7m (1997: £29.5m), makes a total for the year of £61.4m (1997: £44.3m) for the year.

#### **Principal activities and review of business**

The principal activities of the business comprise of the supply of potable water, and the collection, treatment and disposal of sewage throughout the region.

The company has confirmed to build on the successes which were achieved following the merger of its activities with those of North East Water plc in April 1996. Compliance levels remain high, the investment programme remains on target to deliver the required obligations by March 2000 and operating efficiencies as a result of the merger and further restructuring are ahead of schedule allowing for a cumulative increase in the 'merger discount' to an overall 10% reduction in customers' water bills from April 1999.

The future focus of the company remains on improving efficiency levels and driving down operating costs while maintaining the high standards our customers demand, and developing the skills and effectiveness of its employees.

#### **Going concern**

After a budgetary review, analysis of projected cash flow balances and an overview of expected financial and operational performance, the directors conclude that the company and the group will generate adequate resources for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

#### **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, as disclosed in note 3(d) to the financial statements.

#### **Northumbrian Water Limited payment policy**

The company's policy is to agree payment terms with suppliers before purchases are initiated, thereby ensuring that suppliers are made aware of the terms of payment and abide by the terms of payment. The period end trade creditors expressed as a number of days of purchases made during the period is 33 days (December 1997: 37 days). This has been calculated by dividing the period end trade creditors balance, including invoices logged but not matched, of £3.1m by the aggregate of the average daily amounts invoiced by suppliers during the period.

#### **Fixed Assets**

Freehold land and buildings are carried in the accounts at historical cost with a net book value of £39.5m (December 1997: £32.8m). In the opinion of the directors, at 31 December 1998, there is no significant difference between the net book value and market value of property capable of disposal within the foreseeable future.

## **DIRECTORS' REPORT (continued)**

### **Millennium**

As part of a Group wide initiative, Northumbrian Water Limited has developed a programme of projects which has begun to identify the risks associated with the Year 2000 and address these risks by a series of asset specific action plans. The programme objective is to manage the risk of failure due to date dependency of each of the company's assets to an acceptable level at minimum cost. A risk analysis matrix has been developed which combines the business criticality of failure with the probability of failure to enable an appropriate action plan to be developed for different categories of assets.

The programme consists of eighteen separate projects which include all above ground operational assets such as treatment works and pumping stations, distribution assets such as meters and data loggers, information systems and telemetry monitoring equipment and all non operational buildings. Each project is sponsored by the senior manager who is responsible for the business process which depends upon the assets. The project managers have been selected on the basis of relevant operational experience. As far as possible, resource for the projects is being drawn from the business, utilising the experience and knowledge of the staff who have operated the assets in question. Additional external resources will be utilised where internal resources do not possess the necessary technical skills or where the scale of work requires extra resources.

The programme comprises three phases. Firstly, a comprehensive asset survey to identify all assets which would require modification or replacement, followed by a second phase of compliance matching and/or testing of these assets to determine whether they will fail in the Year 2000. The asset inventory and compliance matching phases were completed to the required timescale and have identified that only a small percentage of the operational assets will require modification or replacement.

The third phase will then either upgrade, replace or modify those assets which have been assessed by their operators as needing remediation to ensure business risks are reduced to an acceptable level. This phase is planned to be complete by 31 July 1999. The programme is also addressing the area of supplier compliance and the information requirements of the business. The work required to modify and upgrade the information systems is well advanced and should be complete before 31 July 1999. Notwithstanding this, the programme will continue to monitor and assess risks as circumstances change in early 2000. Throughout the programme health and safety concerns are a high priority and will continue to be addressed by the project managers.

The other major element of the programme is the event management plan which covers the critical period from early December 1999 to mid January 2000. This will involve the planning of staff and other resources over this period which will enable the company to respond to a variety of scenarios which may occur due to failures of equipment and services, including the impact of failures which may be experienced by other businesses which supply services for Northumbrian Water. Liaison with the emergency services and other utilities is a key element of the event management plan.

The total cost incurred on the programme up to 31 December 1998 was £1.0m.

The total estimated cost for completing the programme is currently in the region of £11m. This includes both external and internal costs. Expenditure incurred on upgrades or replacement of assets will be capitalised where there is an enhancement to the operating performance of the asset as a result. Where no enhancements are achieved, expenditure will be written off to the profit and loss account.

### **Post Balance Sheet Event**

All vehicles and some large items of plant which were owned by the company on 1 January 1999 and are expected to be required on an ongoing basis were sold to a vehicle leasing company, Vehicle Lease and Service Limited on 1 January 1999. The consideration for this sale was £6.1m. These vehicles and plant items are to be leased back to the company by Vehicle Lease and Service Limited, which will also maintain these assets. Vehicle Lease and Service Limited is a joint venture owned by Northumbrian Water Group plc and Northern Electric and Gas Limited, each of which holds a 50% equity interest.

## Directors

The directors who served during the year were as follows:

H D M Speed	(Chairman)
P Babin	
L M Caple	(Appointed 27 January 1998)
J A Cuthbert	
J Graham	
A J Harding	(Managing Director)
A F Jones	(Resigned 1 January 1999)
G Neave	
Dr A C Price	
Dr D A Trebilco	(Appointed 27 January 1998)

S M Straw was appointed on 1 January 1999

Non executive directors were as follows:

P Babin  
HEC MBA

Managing Director, Northumbrian Water Group plc, February 1996; Corporate Director (Finance), Lyonnaise des Eaux S.A., 1993; Finance Director, Essex & Suffolk Water plc and Lyonnaise Europe plc, 1990 – 1992. Patrick Babin joined Lyonnaise des Eaux S.A. in 1987, following several years in the oil industry.

L M Caple

Non Executive Director, January 1998  
Chief Executive of the Northumbria Ambulance Service NHS Trust.

J A Cuthbert  
BSc ACA MBA

Non Executive Director, 1996; Managing Director, Essex & Suffolk Water plc, 1996; Board Member, Managing Director, North East Water plc, 1993 – 1996; Finance Director and Deputy Managing Director, 1991 – 1993; Financial Controller, North Eastern Co-operative Society, 1986 – 1990.

H Speed  
BSc MEng FICE FIWEM CBIM

Chairman, Northumbrian Water Limited and Non Executive Director, Northumbrian Water Group plc, 1996; Vice President, Lyonnaise International Water Division, 1993; Board Director, Essex & Suffolk Water plc; formerly Board Director and Managing Director of North East Water plc; Managing Director, Newcastle & Gateshead Water plc, 1986.

D A Trebilco

Non Executive Director, January 1998  
Director of the Aromatics, Imagedata and Propofilm business of ICI

D J Watson acted as company secretary during the year.

Directors' interests are disclosed in note 5 to the financial statements.

## **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.

The company's ultimate parent company, Suez Lyonnaise des Eaux SA has extended its employee investment scheme, which it has operated in France for some years, to UK employees of the Suez Lyonnaise group. The plan involves investing in a fund which holds Suez Lyonnaise des Eaux shares which are purchased at a discount to market value. To encourage participation, the company has made a discretionary contribution of up to £50 per employee. The company's UK holding company, Northumbrian Water Group plc has matched the contribution in respect of each participating employee. 39% of the company's employees have invested in this scheme.

## **Charitable and Political Contributions**

During the period the company made charitable donations of £25,611 (December 1997: £45,752). The company made no donations to any political party during the year (December 1997: £Nil).

## **Auditors**

The company has appointed Arthur Andersen 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.

## **Directors' Responsibilities**

The directors are required by United Kingdom company law to prepare financial statements for each financial period 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 period 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 December 1998. 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  
5 March 1999



## **REPORT OF THE AUDITORS**

### **To the shareholders of Northumbrian Water Limited:**

We have audited the financial statements on pages 6 to 32, which have been prepared under the historical cost convention and the accounting policies set out on pages 10 to 12.

### **Respective responsibilities of directors and auditors**

As described on page 4 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

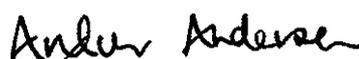
### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 give a true and fair view of the state of the affairs of the company and of the group at 31 December 1998 and of the group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen  
Chartered Accountants and Registered Auditors  
Pearl Assurance House  
7 New Bridge Street  
Newcastle Upon Tyne  
NE1 8BQ

5 March 1999

**GROUP PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 December 1998**

	Note	Year ended December 1998 £'m	9 months ended December 1997 £'m
Turnover	2	361.5	260.6
Operating costs	3	(126.4)	(93.2)
Capital maintenance costs	3	(49.8)	(32.6)
Exceptional operating costs	3	(2.4)	(2.5)
<b>OPERATING PROFIT</b>	2	182.9	132.3
Net interest payable	4	(33.7)	(18.5)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		149.2	113.8
Taxation	8	(30.6)	(15.4)
<b>PROFIT FOR THE FINANCIAL PERIOD</b>		118.6	98.4
Dividends	9	(61.4)	(44.3)
<b>PROFIT RETAINED FOR THE PERIOD</b>	24	57.2	54.1

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 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 period stated above, and their historical cost equivalents.

The accompanying notes are an integral part of this consolidated profit and loss account.

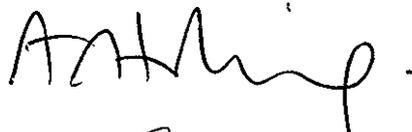
**GROUP BALANCE SHEET**  
**At 31 December 1998**

	Note	December 1998	December 1997
		£'m	£'m
<b>FIXED ASSETS</b>			
Tangible assets	10	1,508.3	1,374.3
<b>CURRENT ASSETS</b>			
Stocks	12	2.8	3.9
Debtors: amounts falling due within one year	13	68.6	61.4
Debtors: amounts falling due after more than one year	13	14.2	16.6
Investments	14	103.2	5.2
Cash at bank and in hand		-	4.5
		188.8	91.6
<b>CREDITORS</b>			
Amounts falling due within one year	15	(207.2)	(201.3)
<b>NET CURRENT LIABILITIES</b>			
		(18.4)	(109.7)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		1,489.9	1,264.6
<b>CREDITORS: Amounts falling due after more than one year</b>			
	16	(541.7)	(373.1)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
	21	(13.6)	(15.3)
<b>ACCRUALS AND DEFERRED INCOME</b>			
	22	(30.0)	(28.8)
		(585.3)	(417.2)
<b>NET ASSETS</b>			
		904.6	847.4
<b>CAPITAL AND RESERVES</b>			
Called up share capital	23	122.7	122.7
Profit and loss account	24	781.9	724.7
<b>EQUITY SHAREHOLDERS' FUNDS</b>			
	25	904.6	847.4

The accompanying notes are an integral part of this consolidated balance sheet.

Approved on behalf of the board on 5 March 1999

A J Harding



G Neave



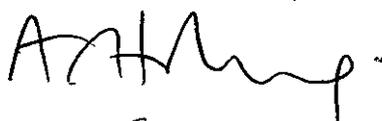
**COMPANY BALANCE SHEET**  
**At 31 December 1998**

	Note	December 1998	December 1997
			£'m
<b>FIXED ASSETS</b>			
Tangible assets	10	1,508.3	1,374.3
Investments	11	47.2	47.2
		1,555.5	1,421.5
<b>CURRENT ASSETS</b>			
Stocks	12	2.8	3.9
Debtors: amounts falling due within one year	13	68.6	61.4
Debtors: amounts falling due after more than one year	13	14.2	16.6
Investments	14	103.2	5.2
Cash at bank and in hand		-	4.5
		188.8	91.6
<b>CREDITORS</b>			
Amounts falling due within one year	15	(207.2)	(201.3)
<b>NET CURRENT LIABILITIES</b>			
		(18.4)	(109.7)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		1,537.1	1,311.8
CREDITORS: Amounts falling due after more than one year	16	(588.9)	(420.3)
PROVISIONS FOR LIABILITIES AND CHARGES	21	(13.6)	(15.3)
ACCRUALS AND DEFERRED INCOME	22	(30.0)	(28.8)
		(632.5)	(464.4)
<b>NET ASSETS</b>			
		904.6	847.4
<b>CAPITAL AND RESERVES</b>			
Called up share capital	23	122.7	122.7
Profit and loss account	24	781.9	724.7
<b>EQUITY SHAREHOLDERS' FUNDS</b>			
	25	904.6	847.4

The accompanying notes are an integral part of this balance sheet.

Approved on behalf of the board on 5 March 1999

A J Harding



G Neave



**GROUP CASH FLOW STATEMENT**  
**For the year ended 31 December 1998**

	Note	Year ended December 1998	9 months ended December 1997
		£'m	£'m
NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES	26	195.5	167.7
Returns on investments and servicing of finance	27	(19.8)	(16.9)
Taxation (paid)/repaid	27	(36.4)	0.6
Capital expenditure and financial investment	27	(165.8)	(179.2)
Equity dividend paid		(45.5)	(58.0)
CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(72.0)	(85.8)
Management of liquid resources	27	(98.0)	33.0
Financing	27	162.2	66.1
(DECREASE)/INCREASE IN CASH IN THE PERIOD	28	(7.8)	13.3

The accompanying notes are an integral part of this consolidated cash flow statement.

**NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 31 December 1998**

**1 STATEMENT OF ACCOUNTING POLICIES**

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 throughout the year and with the preceding period, is set out below.

**(a) Basis of accounting**

The financial statements have been prepared under the historic cost convention on a going concern basis.

**(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:

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

## 1 STATEMENT OF ACCOUNTING POLICIES (continued)

### (d) **Tangible fixed assets and depreciation (continued)**

#### (iii) **Assets in the course of construction**

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

### (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 as 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 period in which they are incurred.

### (g) **Stocks**

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.

## 1 STATEMENT OF ACCOUNTING POLICIES (continued)

(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 in the period incurred.

(k) **Research and development**

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

(l) **Investments**

Fixed asset investments are stated at their purchase cost, less provision for permanent diminution in value.

## 2 TURNOVER AND OPERATING PROFIT

Turnover and operating profit are analysed as follows:

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Measured	87.6	62.7
Unmeasured	235.6	172.1
Reception, treatment and disposal of trade effluent	7.7	5.2
Other sources:		
Rechargeable works	1.5	1.5
Other income	29.1	19.1
	<hr/>	<hr/>
TURNOVER	361.5	260.6
Operating costs (note 3(a))	(126.4)	(93.2)
Capital maintenance costs (note 3(b))	(49.8)	(32.6)
	<hr/>	<hr/>
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS	185.3	134.8
Exceptional items:		
Operating costs (note 3(c))	(2.4)	(2.5)
	<hr/>	<hr/>
OPERATING PROFIT	<u>182.9</u>	<u>132.3</u>

### 3 OPERATING COSTS, CAPITAL MAINTENANCE AND EXCEPTIONAL COSTS

(a) Operating costs comprise:

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Materials and consumables	10.1	7.9
Other external charges	15.5	11.5
Manpower costs (note 7)	34.2	24.5
Other operating charges	66.6	49.3
	126.4	93.2
	126.4	93.2

(b) Capital maintenance costs comprise:

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Depreciation:		
Owned tangible fixed assets	27.4	17.6
Tangible fixed assets held under finance leases	2.8	1.9
Infrastructure renewals:		
Infrastructure renewals expenditure	15.9	16.6
Infrastructure renewals provided/(prepaid)	4.3	(1.9)
Profit on disposal of fixed assets	(0.6)	(1.6)
	49.8	32.6
	49.8	32.6

(c) Exceptional operating costs comprise:

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Reorganisation/restructuring costs	2.4	2.5
	2.4	2.5
	2.4	2.5

The reorganisation/restructuring costs represent exceptional amounts arising out of the merger of the activities of Northumbrian Water Limited and North East Water plc, the costs of bringing the sewerage agencies in-house in April 1997 and a subsequent reorganisation within the merged business. The charge in the year consists of £1.4m written-back to P&L from the provision brought forward at the start of the year plus an additional provision of £3.8m for further severances approved in the year.

### 3 OPERATING COSTS, CAPITAL MAINTENANCE AND EXCEPTIONAL COSTS (continued)

(d) Profit on ordinary activities before taxation

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Profit on ordinary activities before taxation is stated after crediting:		
Amortisation of capital grants (note 22)	1.6	1.0
And after charging:		
Operating leases: Plant and machinery	1.0	0.6
Other assets	0.2	0.1
Costs of research and development	4.5	3.8
Directors' emoluments (note 5)	0.5	0.4
Non-audit services provided by the auditors and their associates	-	0.1

Auditors' remuneration for the audit amounted to £45,000 (1997: £45,000).

### 4 NET INTEREST

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Net interest payable comprises:		
Interest payable:		
Bank loans and overdrafts	39.6	19.2
Debenture stock interest	0.9	0.7
Financing charges payable under finance leases	2.7	1.9
Total interest payable	43.2	21.8
Interest receivable	(9.5)	(3.3)
Net interest payable	33.7	18.5

## 5 DIRECTORS' EMOLUMENTS AND INTERESTS

### Directors' remuneration

The remuneration of the directors of the company was as follows:

	Year ended December 1998	9 months ended December 1997
	£'000	£'000
Emoluments (including benefits in kind)	<u>522.5</u>	<u>361.4</u>

### Pensions

The number of directors who were members of group pension schemes was as follows:

	Year ended December 1998	9 months ended December 1997
	No.	No.
Defined benefit schemes	<u>5</u>	<u>5</u>

### Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	Year ended December 1998	9 months ended December 1997
	£'000	£'000
Emoluments (including benefits in kind)	<u>161.5</u>	<u>118.6</u>

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 December 1998 was £43,470 (31 December 1997: £39,000). In addition to the pension, there is a tax free lump sum at normal pension date of which the accrued entitlement at 31 December 1998 is £119,925 (31 December 1997: £117,000).

The directors who held office at 31 December 1998 had no interest in the shares of the company.

The directors who held office at 31 December 1998 had the following beneficial interests in the ordinary shares, other than share options, and debentures of the Company's ultimate parent company, Suez Lyonnaise des Eaux S.A.:

Name of Director	Description of Shares or debentures	31 December 1998	1 January 1998 or subsequent date of appointment
H D M Speed	Ordinary Shares of 60FF	251	251
P Babin	Ordinary Shares of 60FF	336	205
J A Cuthbert	Ordinary Shares of 60FF	63	39
J Graham	Ordinary Shares of 60FF	63	39
A J Harding	Ordinary Shares of 60FF	11	11
A F Jones	Ordinary Shares of 60FF	41	39
A C Price	Ordinary Shares of 60FF	63	39

## 5 DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

The directors who held office on 31 December 1998 held the following options over ordinary shares of 60FF each in Suez Lyonnaise des Eaux S.A.:

Name of Director	1 January 1998 or subsequent date of appointment	Granted/ (exercised) during period	31 December 1998	Exercise Price (FF)
H D M Speed	800	(800)	-	485
	1200	(1200)	-	493
	1200	(1200)	-	456
	1400	-	1400	573
P Babin	1000	(1000)	-	430
	1500	(1500)	-	485
	2000	(2000)	-	493
	2500	(2500)	-	456
	3500	-	3500	573
	-	4000	4000	978
J A Cuthbert	500	(500)	-	485
	1200	(1200)	-	493
	1200	-	1200	456
	2200	-	2200	573
	-	2300	2300	978
J Graham	300	-	300	573
	-	400	400	978
A J Harding	500	(500)	-	485
	1500	(1500)	-	493
	1600	(1600)	-	456
	2500	-	2500	573
	-	2600	2600	978
A F Jones	200	(200)	-	456
	500	-	500	573
G Neave	200	(200)	-	456
	500	-	500	573
	-	800	800	978
Dr A C Price	200	(200)	-	456
	500	-	500	573
	-	500	500	978

No options have been lapsed during the year.

All options with an exercise price of 485FF were granted on 15 July 1994 and are exercisable between 15 July 1996 and 15 July 2002.

All options with an exercise price of 493FF were granted on 14 June 1995 and are exercisable between 14 June 1997 and 14 June 2003.

All options with an exercise price of 456FF were granted on 24 July 1996 and are exercisable between 24 July 1998 and 24 July 2004.

All options with an exercise price of 573FF were granted on 17 November 1997 and are exercisable between 17 November 2002 and 17 November 2005.

All options with an exercise price of 978 FF were granted on 16 November 1998 and are exercisable between 16 November 2003 and 16 November 2006.

The highest and lowest prices of the Suez Lyonnaise des Eaux S.A. shares during the period were 1150 FF and 662 FF respectively.

No other Director holds any interest required to be disclosed in accordance with Schedule 7 of the Companies Act 1985.

## 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.

## 7 EMPLOYEE INFORMATION

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

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Costs charged to the profit and loss account:		
Wages and salaries	28.5	21.3
Social security costs	2.5	1.7
Other pension costs	3.2	1.5
	<u>34.2</u>	<u>24.5</u>
Costs charged to capital schemes and infrastructure renewals:		
Wages and salaries	7.1	4.9
Social security costs	0.6	0.4
Other pension costs	0.8	0.6
	<u>8.5</u>	<u>5.9</u>

(b) The average monthly number of employees on the payroll during the financial period was as follows:

	Year ended December 1998	9 months ended December 1997
	No.	No.
Average during the period	<u>1,768</u>	<u>1,848</u>
Total at 31 December	<u>1,699</u>	<u>1,825</u>

On 1 April 1997, 219 Sewerage Agency staff were transferred to the company from the local councils.

On 1 January 1999, 30 staff were transferred to a Joint Venture Company, Vehicle Lease and Service Limited.

## 8 TAXATION

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Tax on profit on ordinary activities		
United Kingdom corporation tax at 31% (December 1997:31%)		
- current year	16.2	3.5
- prior years	1.8	-
Payable in respect of group relief		
- current year	10.6	7.9
- prior years	0.9	-
Payable in respect of advance corporation tax surrendered	1.1	4.0
Tax charge	<u>30.6</u>	<u>15.4</u>

- (a) The company has provisionally claimed tax losses from fellow subsidiaries in the current year of £34.1m (December 1997: £25.6m) for which payment will be made at the rate of 31%. The company has provisionally claimed advance corporation tax of £1.1m (December 1997: £4.0m) from Northumbrian Water Group plc for which payment shall be made at full value.
- (b) No deferred taxation has been provided in the financial statements since timing differences at 31 December 1998 are not expected to reverse in the foreseeable future (December 1997: £Nil). The effect of not providing for deferred taxation has been a reduction in the tax charge for the year of £20.6m (December 1997: £21.7m). The full potential amount of deferred taxation calculated at 30% (December 1997: 31%) on all timing differences is as follows:

	December 1998	December 1997
	£'m	£'m
Accelerated capital allowances	260.3	251.5
Other timing differences	(15.4)	(16.7)
	<u>244.9</u>	<u>234.8</u>

As infrastructure assets are not depreciated, deferred taxation will crystallise only in the event of a disposal of such assets at amounts in excess of their tax written down value. In the opinion of the directors, the likelihood of a liability crystallising in the foreseeable future is remote. The tax effect due to accelerated capital allowances on infrastructure assets which has been included in the amounts set out above is £164.1m assuming a tax rate of 30% (December 1997: £158.7m assuming a tax rate of 31%).

## 9 DIVIDENDS

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Equity:		
Interim paid of 25.031p (December 1997: 24.052p) per share on an aggregated basis	30.7	29.5
Final proposed of 25.031p (December 1997: 12.067p) per share on an aggregated basis	30.7	14.8
	<u>61.4</u>	<u>44.3</u>

The Directors have a policy which, unless circumstances dictate otherwise, aims to grow dividends on a slow but regular basis and which takes into account the principle of incentive based price cap regulation, including operating and investment performance.

In accordance with the principle of incentive based price cap regulation, rewards to shareholders will reflect company performance against Ofwat targets, in particular operating and investment targets.

Accordingly, the level of dividend has been declared by reference to:-

- the company's ability to finance its functions;
- the company's cumulative financial performance; and
- Directors' judgement as to a fair reward for shareholders in the context of market conditions.

## 10 TANGIBLE FIXED ASSETS – GROUP AND COMPANY

	Freehold land and buildings	Infra- structure assets	Operational structures, plant and machinery	Fixtures, fittings, tools and equipment	Assets in the course of construction	Total
	£'m	£'m	£'m	£'m	£'m	£'m
<b>Cost:</b>						
At 1 January 1998	44.5	710.4	535.8	47.6	216.9	1,555.2
Additions	-	-	-	-	171.1	171.1
Schemes commissioned	10.6	32.2	90.4	7.8	(141.0)	-
Disposals	(2.2)	-	(0.2)	(0.2)	-	(2.6)
Grants and contributions	-	(1.4)	-	-	(3.1)	(4.5)
Balance at December 1998	<u>52.9</u>	<u>741.2</u>	<u>626.0</u>	<u>55.2</u>	<u>243.9</u>	<u>1,719.2</u>
<b>Depreciation:</b>						
At 1 January 1998	11.7	-	136.4	32.8	-	180.9
Provision for year	1.8	-	22.1	6.3	-	30.2
Disposals	(0.1)	-	-	(0.1)	-	(0.2)
At December 1998	<u>13.4</u>	<u>-</u>	<u>158.5</u>	<u>39.0</u>	<u>-</u>	<u>210.9</u>
<b>Net book value:</b>						
At December 1998	<u>39.5</u>	<u>741.2</u>	<u>467.5</u>	<u>16.2</u>	<u>243.9</u>	<u>1,508.3</u>
At December 1997	<u>32.8</u>	<u>710.4</u>	<u>399.4</u>	<u>14.8</u>	<u>216.9</u>	<u>1,374.3</u>
<b>Leased assets included above:</b>						
<b>Net book value</b>						
At December 1998	<u>-</u>	<u>-</u>	<u>28.3</u>	<u>0.2</u>	<u>-</u>	<u>28.5</u>
At December 1997	<u>-</u>	<u>-</u>	<u>30.7</u>	<u>0.6</u>	<u>-</u>	<u>31.3</u>

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 £55.5m (December 1997: £51.0m) in order to give a true and fair view (note 1).

## 11 FIXED ASSET INVESTMENTS – COMPANY

The company has a wholly-owned subsidiary undertaking, Newcastle and Gateshead Water plc, whose principal activity is the holding of a loan note due from the company. This investment equates to an investment in the ordinary share capital of Newcastle and Gateshead Water plc of £40.7m, the value of the net assets of this company, and a long term loan investment of £6.5m. Included in the net assets of Newcastle and Gateshead Water plc is a loan note due from Northumbrian Water Limited of £47.2m. It has been agreed by both companies that interest on the loan note will be 0%. The results of this subsidiary have been consolidated in these financial statements.

On 1 January 1998 the company transferred the investment in Northumbrian Water Services Limited to another group company for consideration equal to its capital value.

## 12 STOCKS – GROUP AND COMPANY

	December 1998	December 1997
	£'m	£'m
Raw materials and consumables	2.8	3.9
	<u>2.8</u>	<u>3.9</u>

There is no material difference between the balance sheet value of stocks and their replacement costs.

## 13 DEBTORS – GROUP AND COMPANY

	December 1998	December 1997
	£'m	£'m
<b>(a) Amounts falling due within one year:</b>		
Trade debtors	40.8	22.6
Amounts owed by other group companies	3.9	2.6
Other debtors	3.6	5.4
Prepayments and accrued income	20.3	27.3
Infrastructure renewals prepayment (note 21)	-	3.5
	<u>68.6</u>	<u>61.4</u>
<b>(b) Amounts falling due after more than one year:</b>		
Amounts owed by other group companies	14.2	16.6

Included in amounts owed by other group companies are loans of £16.6m repayable by instalments of which £11.6m (December 1997: £12m) falls due in less than five years and £5.0m (December 1997: £6.5m) falls due after more than five years.

## 14 INVESTMENTS – GROUP AND COMPANY

	<u>December 1998</u>	<u>December 1997</u>
	£'m	£'m
Short term deposits	103.2	5.2

## 15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR – GROUP AND COMPANY

	<u>December 1998</u>	<u>December 1997</u>
	£'m	£'m
Obligations under finance leases (note 19)	1.0	0.5
Bank overdraft	3.3	-
Loans (note 17)	26.7	34.0
Trade creditors	1.8	4.4
Amounts owed to other group companies	32.8	44.0
Taxation and social security	0.9	1.6
Other creditors	74.6	73.2
Accruals and deferred income	35.4	28.8
Dividend payable	30.7	14.8
	<u>207.2</u>	<u>201.3</u>

Other creditors includes creditors related to capital projects of £29.5m (December 1997: £36.9m). Amounts owed to other group companies includes amounts related to capital projects of £5.0m (December 1997: £1.5m).

Included in other creditors is £18.5m (December 1997: £6.8m) in respect of corporation tax payable.

Included in amounts owed to other group companies is £10.7m, which includes £0.1m relating to prior years, (December 1997: £18.2m) payable in respect of tax losses surrendered by fellow subsidiaries; £1.2m, which includes £0.1m relating to prior years (December 1997: £5.0m) payable in respect of advance corporation tax surrendered from Northumbrian Water Group plc; and £Nil (December 1997: £6.2m) payable in respect of advance corporation tax surrendered by Lyonnaise Europe plc, the parent company of Northumbrian Water Group plc.

**16 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR – GROUP AND COMPANY**

	December 1998		December 1997	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Obligations under hire purchase contracts and finance leases (note 19)	46.1	46.1	44.0	44.0
Loans (note 17)	162.6	162.6	189.3	189.3
Debenture stocks (note 18)	8.7	8.7	8.7	8.7
Amounts owed to other group companies (note 20)	323.9	371.1	129.5	176.7
Other creditors	0.4	0.4	1.6	1.6
	<u>541.7</u>	<u>588.9</u>	<u>373.1</u>	<u>420.3</u>

At 31 December 1998 the group and company had entered into the following interest swap arrangements: £17.0m (December 1997: £17.0m) over a seven year period commencing on 28 August 1992 under which the group and company is required to pay interest at 9.43% and will receive interest at a rate linked to LIBOR; £15.0m (December 1997: £15.0m) over a ten year period commencing on 10 May 1994 under which the group and company is required to pay interest at a rate linked to LIBOR and will receive interest at 9.00%, and £10.0m (December 1997: £10.0m) over a seven year period commencing on 16 December 1996 under which the group and company is required to pay interest at a rate linked to LIBOR and will receive interest at 7.45%.

**17 LOANS – GROUP AND COMPANY**

	December 1998	December 1997
	£'m	£'m
Loans are repayable as follows:		
Within one year	26.7	34.0
Between one and two years	10.1	26.7
Between two and five years	45.6	38.9
After five years	106.9	123.7
	<u>189.3</u>	<u>223.3</u>

Loans repayable by instalments wholly repayable within 5 years amount to £13.7m (December 1997: £7.5m). Loans repayable by instalments not wholly repayable within 5 years amount to £143.6m (December 1997: £183.8m) and bear interest rates in the range of 7.2% to 11.1% of which £51.7m (December 1997: £75.1m) falls due in less than 5 years and £91.9m (December 1997: £108.7m) 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 (December 1997: £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 (December 1997: £15.0m) and bear interest at 7.95%.

## 18 DEBENTURE STOCKS – GROUP AND COMPANY

	<u>December 1998</u>	<u>December 1997</u>
	£'m	£'m
Debtenture stocks are repayable as follows:		
In five years or more:		
£1, 12.0% Redeemable 2004	5.0	5.0
£1, 12.0% Redeemable 2005	2.0	2.0
£1, 3.75% Redeemable 2012	0.3	0.3
£1, 4.25% Redeemable 2012	0.7	0.7
£1, 5.25% Redeemable 2012	0.7	0.7
	<u>8.7</u>	<u>8.7</u>

All debtenture stocks are redeemable at par on maturity. The debtenture 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>December 1998</u>	<u>December 1997</u>
	£'m	£'m
Amounts due:		
Within one year	1.0	0.5
Between one and two years	1.5	0.8
Between two and five years	4.6	4.5
After five years	82.6	91.3
	<u>89.7</u>	<u>97.1</u>
Less:		
Finance charge allocated to future periods	(42.6)	(52.6)
	<u>47.1</u>	<u>44.5</u>
Disclosed as due:		
Within one year (note 15)	1.0	0.5
After more than one year (note 16)	46.1	44.0
	<u>47.1</u>	<u>44.5</u>

## 20 AMOUNTS DUE TO OTHER GROUP COMPANIES

Amounts due to other group companies relate to loans repayable as follows:

	December 1998		December 1997	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Between one and two years	0.3	0.3	-	-
Between two and five years	1.9	1.9	1.8	1.8
After five years	321.7	368.9	127.7	174.9
	<u>323.9</u>	<u>371.1</u>	<u>129.5</u>	<u>176.7</u>

£47.2m is owed to a subsidiary undertaking of the Group 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 an agreed rate of 0%. 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.

By way of a novation agreement dated 5 August 1996, Northumbrian Water Limited (NWL) took over the obligations of Lyonnaise Europe plc (LEP) in respect of a £33m loan agreement from the European Investment Bank (EIB) to LEP, dated July 1990 and known as Lyonnaise Water UK I Project (UK I). LEP had subsequently on-lent the £33m to its subsidiaries, North East Water plc, £13m, and Essex & Suffolk Water plc (E&S), £20m, with the agreement of EIB. By way of an on-lending agreement dated 30 August 1996, E&S agreed to indemnify NWL for the principal and interest due on the £20m borrowed by E&S in respect of UK I agreement.

By way of a novation agreement dated 5 August 1996, E&S took over the obligations of LEP in respect of, a £65m loan agreement from the EIB to LEP dated 7 July 1995 and known as Lyonnaise Water UK II Project (UK II). LEP had subsequently on-lent £25m of the loan facility to its subsidiaries, North East Water plc, £10m and E&S, £15m, with the agreement of EIB. By way of an on-lending agreement dated 30 August 1996, NWL agreed to indemnify E&S for the principal and interest due on the £10m borrowed by NWL in respect of the UK II agreement. On 3 October and 18 November 1996, E&S drew down from the EIB the outstanding £40m available under the UK II facility.

The £10m borrowed by NWL in respect of the UK II agreement is repayable by instalments, £2.2m falls due in less than five years and £7.8m falls due after more than 5 years. The loan bears interest at 8.55%.

During the year, Northumbrian Water Group plc issued £200m Guaranteed Eurobonds maturing 6 February 2023, with an annual coupon of 6.875%. The issue was guaranteed by the company who received issue proceeds by way of an inter-company loan of £194.2m. Finance costs allocated during the year amounted to £0.2m.

## 21 PROVISIONS FOR LIABILITIES AND CHARGES – GROUP AND COMPANY

	<u>December 1998</u>	<u>December 1997</u>
	£'m	£'m
Infrastructure renewals:		
At 1 January	(2.9)	(1.0)
Transferred from profit and loss account	20.2	14.7
Utilised during the period	(15.9)	(16.6)
	<u>1.4</u>	<u>(2.9)</u>
Reorganisation/restructuring provision:		
At 1 January	14.7	21.9
Utilised during the period	(4.9)	(9.7)
Write back to Profit & Loss Account (note 3(c))	(1.4)	-
Provided in the period (note 3(c))	3.8	2.5
	<u>12.2</u>	<u>14.7</u>
At December	<u>13.6</u>	<u>11.8</u>
Disclosed as:		
Infrastructure renewals prepayment (note 13)	-	(3.5)
Provisions for liabilities and charges	13.6	15.3
	<u>13.6</u>	<u>11.8</u>

The provision for liabilities and charges includes a £0.8m provision in respect of Infrastructure renewals in the Non-Appointed business (December 1997: £0.6m).

A full review of the brought forward reorganisation/restructuring provision was carried out at the year end and, as a result, £1.4m has been released back to the P&L. In addition, a further provision of £3.8m was made representing additional severance costs, resulting from a subsequent reorganisation.

The provision remaining at the end of the year incorporates outstanding pension contributions for staff who left the business on early retirement terms as part of the March 1996 voluntary severance scheme, outstanding payments relating to the transfers of the sewerage agencies in-house in April 1997, a provision for the diminution in value of a property which has become redundant in the merged business and outstanding severance payments relating to the additional provision made in the year.

## 22 ACCRUALS AND DEFERRED INCOME – GROUP AND COMPANY

	<u>December 1998</u>	<u>December 1997</u>
	£'m	£'m
Non infrastructure capital grants and contributions:		
At 1 January	28.8	28.2
Additions	2.8	1.6
Amortised during the period	(1.6)	(1.0)
At December	<u>30.0</u>	<u>28.8</u>

## 23 CALLED UP SHARE CAPITAL – GROUP AND COMPANY

	<u>December 1998</u>	<u>December 1997</u>
	£'m	£'m
Authorised: 122,650,000 Ordinary Shares at £1 each (December 1997: 122,650,000)	<u>122.7</u>	<u>122.7</u>

	<u>December 1998</u>	<u>December 1997</u>
	£'m	£'m
Allotted, called-up and fully paid: 122,650,000 Ordinary Shares of £1 each (December 1997: 122,650,000)	<u>122.7</u>	<u>122.7</u>

## 24 PROFIT AND LOSS ACCOUNT – GROUP AND COMPANY

	<u>Year ended December 1998</u>	<u>9 months ended December 1997</u>
	£'m	£'m
At 1 January/1 April	724.7	670.6
Profit retained for the period	<u>57.2</u>	<u>54.1</u>
At December	<u>781.9</u>	<u>724.7</u>

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. A profit after tax and before dividends of £118.6m (December 1997: £98.4m) relates to the operations of the company.

**25 RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS – GROUP AND COMPANY**

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Profit for the financial period	118.6	98.4
Dividends	(61.4)	(44.3)
Net additions to equity shareholders' funds	57.2	54.1
Opening equity shareholders' funds	847.4	793.3
Closing equity shareholders' funds	904.6	847.4

**26 RECONCILIATION OF OPERATING PROFIT TO CASH FLOWS**

	Year ended December 1998	9 months ended December 1997
		£'m
Operating profit	182.9	132.3
Depreciation of tangible fixed assets	30.2	19.5
Infrastructure renewals expenditure	(15.9)	(16.6)
Provision for infrastructure renewals	20.2	14.7
Amortisation of grants	(1.6)	(1.0)
Profit on sale of fixed assets	(0.6)	(1.6)
Decrease/(Increase) in stock	1.1	(0.7)
Increase in debtors	(8.7)	(2.0)
(Decrease)/Increase in creditors	(11.0)	30.3
Restructuring provision	(1.1)	(7.2)
Net cash inflow from operating activities	195.5	167.7

The operating cash flows are all from continuing operations.

During the year the Company sold assets with a net book value of £2.4m of which £1.4m had already been provided for in respect of the diminution of value of specific properties within the restructuring provision. Cash proceeds from the sale of assets during the year was £1.6m (December 1997: £1.6m).

## 27 ANALYSIS OF CASH FLOWS

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
<b>Return on investments and servicing of finance</b>		
Interest received	8.8	3.4
Interest paid	(28.1)	(20.0)
Interest element of finance lease rentals	(0.5)	(0.3)
Net cash outflow	<u>(19.8)</u>	<u>(16.9)</u>
<b>Taxation</b>		
UK corporation tax (paid)/repaid	<u>(36.4)</u>	<u>0.6</u>
Net cash (outflow)/inflow	<u>(36.4)</u>	<u>0.6</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(175.0)	(185.4)
Sale of tangible fixed assets	1.6	1.6
Grants, contributions and connection charges	7.6	4.6
Net cash outflow	<u>(165.8)</u>	<u>(179.2)</u>
<b>Management of liquid resources</b>		
Purchase of short term deposits	(541.4)	(139.9)
Sale of short term deposits	443.4	172.9
Net cash (outflow)/inflow	<u>(98.0)</u>	<u>33.0</u>
<b>Financing</b>		
New loans	194.2	75.0
Loan repayment receipts from other Group company	2.0	1.2
Loan repayments	(34.0)	(7.7)
Capital element of finance lease rental payments	-	(2.4)
Net cash inflow	<u>162.2</u>	<u>66.1</u>

28 ANALYSIS AND RECONCILIATION OF NET DEBT

	1 January 1998	Cash Flow	Other non-cash changes	31 December 1998
	£'m	£'m	£'m	£'m
Cash in hand and at bank	4.5	(4.5)	-	-
Overdrafts	-	(3.3)	-	(3.3)
	4.5	(7.8)	-	(3.3)
Debt due after 1 year	(327.5)	(194.2)	26.5	(495.2)
Debt due within 1 year	(34.0)	32.0	(24.7)	(26.7)
Finance leases	(44.5)	-	(2.6)	(47.1)
	(406.0)	(162.2)	(0.8)	(569.0)
Current asset investments	5.2	98.0	-	103.2
Net debt	(396.3)	(72.0)	(0.8)	(469.1)

Reconciliation of cash flow movement to net debt:

	Year ended December 1998
	£'m
Decrease in cash in the year	(7.8)
Cash inflow from increase in debt and lease financing	(162.2)
Cash outflow from increase in liquid resources	98.0
Change in net debt resulting from cash flows	(72.0)
Finance costs incurred during the year	(0.2)
Finance lease interest capitalised	(2.6)
Movement in loan acquired from debt reorganisation (note 20)	2.0
Movement in net debt in year	(72.8)
Net debt at 1 January 1998	(396.3)
Net debt at 31 December 1998	(469.1)

## 29 COMMITMENTS AND CONTINGENT LIABILITIES – GROUP AND COMPANY

(a) Capital expenditure

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Expenditure contracted for	54.1	72.2

(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 is as follows:-

	Year ended December 1998	9 months ended December 1997
	£'m	£'m
Land and buildings:		
Leases which expire:		
Between two and five years	-	-
In five years or more	0.2	0.1
	0.2	0.1
Other:		
Leases which expire:		
Within one year	0.4	0.3
Between two and five years	0.8	0.6
	1.2	0.9

## 30 PENSIONS

As a subsidiary of Northumbrian Water Group plc, the company participates in group pension schemes. Until 31 March 1998 the group operated three defined benefit final salary schemes: the Water Pension Scheme (WPS), the Water Mirror Image Pension Scheme (MIS), and the Lyonnaise UK Pension Scheme (LUKPS).

With effect from 1 April 1998 the Group withdrew from WPS, the assets and liabilities of which were transferred to a new section within the LUKPS. With effect from 1 April 1998 LUKPS was renamed the Northumbrian Lyonnaise Pension Scheme (NLPS).

The employer's contribution to the WPS, MIS, LUKPS and NLPS have been assessed and paid in accordance with the advice of independent actuaries. The last actuarial valuation of WPS and MIS was carried out at 31 March 1996 and for LUKPS as at 1 November 1996.

Full details of the Schemes are disclosed in the accounts of Northumbrian Water Group plc.

## 31 RELATED PARTY DISCLOSURES

The company is a wholly owned subsidiary of Northumbrian Water Group plc which produces publicly available financial statements which includes the company. Consequently the company is exempt under the terms of Financial Reporting Standard No 8 "Related Party Disclosures" from disclosing transactions with other members of the group headed by Northumbrian Water Group plc.

Transactions during the year and balances outstanding at the year end with other members of the group headed by Suez Lyonnaise des Eaux S.A. were as follows:

	<u>Year ended December 1998</u>	<u>9 months ended December 1997</u>
	£'m	£'m
Suez Lyonnaise des Eaux S.A.		
Management charge in respect of the company's directors and staff paid by Suez Lyonnaise	(0.5)	(0.2)
Management charge in respect of Suez Lyonnaise staff paid by the company	0.1	0.2
Group research and development costs	5.4	3.4
Maintenance fee in respect of a software agreement	0.2	0.1
Creditor outstanding at 31 December	0.9	1.3
Debtor outstanding at 31 December	0.2	0.1
Degremont UK		
Services provided in respect of capital contracts	1.0	2.0
Creditor outstanding at 31 December	-	-

Through a Research Sharing and Technical Assistance Agreement, the Company has full access to, and has full use of, the intensive programme carried out by Suez Lyonnaise des Eaux S.A.

## 32 ULTIMATE PARENT COMPANY

The ultimate parent company and controlling party of the company is Suez Lyonnaise des Eaux S.A., incorporated in France. The largest group which consolidates the results of the company is Suez Lyonnaise des Eaux S.A. and copies of the consolidated accounts are available to the public from Suez Lyonnaise des Eaux S.A., 1 Rue d'Astorg, 75008, Paris, France.

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