

**NORTHUMBRIAN WATER LIMITED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2005**

Registered no: 2366703

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**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2005**

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## **DIRECTORS' REPORT**

### **For the year ended 31 March 2005**

The directors present their report and the audited financial statements for the year ended 31 March 2005. The company changed its accounting reference date from 31 December to 31 March in 2003, bringing the regulatory and statutory reporting periods into line; hence the comparative figures are for the 15 month period to 31 March 2004.

#### **Results and dividends**

The group's profit after taxation for the year ended 31 March 2005 amounts to £91.5m (15 months ended 31 March 2004: £96.5m). The directors propose a final dividend on the ordinary shares of the company of £25.7m (15 months ended 31 March 2004: £63.3m) which, together with the first interim dividend of £41.9m (15 months ended 31 March 2004: £42.2m) and an exceptional second interim dividend of £nil (2004: £46.0m), makes a total for the year of £67.6m (15 months ended 31 March 2004: £151.5m).

The group comprises the company Northumbrian Water Limited (NWL) and its subsidiaries as detailed in note 11.

On 12 May 2004, the group's financial position was improved by the securitisation of the contract with the Environment Agency for the operation of the Kielder Water transfer scheme. The proceeds were used to repay short term debt of £46.0m and to fund a loan of 159.0m to the immediate holding company, Northumbrian Services Limited (NSL), to enable it to also repay short term debt of £159.0m as part of actions taken by Northumbrian Water Group plc (NWG) to improve the capital structure of the group following its acquisition of NSL in May 2003.

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

The principal activities of the business comprise the supply of potable water in both the Northern and Southern regions, and the collection, treatment and disposal of sewage and sewage sludge throughout the North East of England.

NWL continues to provide its customers with excellent levels of service and is still the only water and sewerage company to have achieved a star rating by Ofwat for all aspects of its service standards. In 2004/05, the company improved on its excellent customer service record against three of the seven Ofwat customer service measures, and maintained its very strong performance on three of the remaining measures. The only measure which deteriorated in 2004/05 is the performance against the interruption to supply measure, which was adversely affected by the incident which occurred in Hexham in January 2005. Torrential rainfall increased the flow in the River Tyne to such an extent that the river washed away water mains serving Hexham, which is unprecedented, and the town was without water for several days.

The regulator has not yet published comparative results for 2004/05, but NWL anticipates that it will improve on the operating performance assessment it achieved in 2003/04.

The prior year profit and loss account reported the trading results for a 15 month period and is therefore not directly comparable with the current period. To facilitate a more meaningful comparison, the comments below have compared the results for the current period with the results of the equivalent 12 month trading period ending 31 March 2004.

Turnover increased from £454.7m in 2003/04 to £508.2 million for the year to 31 March 2005. This increase is mainly due to the application of the price increase of 12.53% in April 2004 to the previous regulatory year's tariff income of £421.4m (£52.8m). The price increase included an uplift for RPI of 2.53%, and a further increase of 10% following an interim determination of price limits by Ofwat. NWL successfully applied for an increase in its price limits to fund unanticipated additional costs caused by increased customer bad debt, water quality monitoring and new obligations requiring capital expenditure. In addition, the interim determination compensated for loss of revenue arising from actual demand for water being lower than that allowed for by Ofwat at its 1999 price review.

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

### **Principal activities and review of the business (continued)**

Total operating costs, compared against the equivalent 12 months in the previous period excluding exceptional items and capital maintenance costs, have increased from £211.4m to £215.0m, an increase of £3.6m, principally reflecting the impact of inflation on manpower costs, power, chemicals, and also including £1.1m of additional costs relating to the loss of supply at Hexham during storms in January. These increases have been partially offset by efficiency savings. Operating costs for the appointed business in 2004/05 are £7.6m lower than those in the 1999 final determination, despite including additional costs of bad debt and the climate change levy not funded in the determination, reflecting the continual drive in the business to identify and deliver efficiencies.

Total capital maintenance costs have increased from £82.3m to £91.5m, mostly reflecting the depreciation charged on newly commissioned assets (£6.0m) and the write off of assets which are no longer in use by the business (£2.9m).

Net interest payable increased by £3.5m from £82.1m in 2003/04 to £85.6m in 2004/05. This mainly reflects £4.3m of additional interest incurred on the increase in the average net debt (including a loan to a group undertaking of £159m) from £1,363m in 2003/04 to £1,453m in 2004/05. There has also been a £1.4m increase in net interest payable relating to the Kielder financing transaction, reflecting both the margin between the interest payable on the loan and interest receivable on the surplus cash, and the fact that the increase in interest payable by the non appointed business did not commence until late May 2003, giving rise to a lower charge in 2003/04. These increases have been partially offset by a number of one off interest credits relating to the settlement of prior year tax claims and interest received on rates rebates relating to prior years.

The future focus of the company continues to be improving efficiency levels and driving down operating costs, while maintaining high standards of customer service and developing the skills and effectiveness of its employees. Continuous improvement will be necessary to ensure the company is successful in meeting the targets set by Ofwat in its final determination of price limits for 2005 to 2010.

### **Financial statements preparation and going concern**

The directors consider that it is appropriate to prepare the financial statements for the financial year on the going concern basis. The directors have arrived at their decision based on consideration of the company's detailed budget for 2005/06, and the forecast for the next four years, following Ofwat's final determination. Their analysis included a review of the capital expenditure and investment plans, the anticipated funding requirements and facilities available, and the reasonableness of the underlying assumptions of both the budget and the forecast.

### **Research and development**

The company places a high priority on research and technological innovation to serve the needs of customers. The company maintains a programme of research and development activities which are linked to UK business operations. The company incurred costs of research and development in the year of £5.0m (15 months to 31 March 2004: £6.4m). During the year to 31 March 2005 Northumbrian Water Technical Centre (NWTC) a fellow subsidiary of NWG the company's ultimate parent company, co-ordinated all research and development activities relating to underground assets. As from 1 April 2005, the activities of NWTC have been transferred to the company.

### **NWL payment policy**

The company's policy is to agree payment terms with suppliers when agreeing the terms of each transaction, also ensuring that suppliers are made aware of and abide by the terms of payment. The year end trade creditors expressed as a number of days of purchases made during the year is 27 days (31 March 2004: 21 days).

### **Fixed assets**

Freehold land and buildings are carried in the financial statements at historical cost with a net book value of £59.4m (31 March 2004: £62.3m). In the opinion of the directors, at 31 March 2005, there is no significant difference between the net book value and market value of property capable of disposal within the foreseeable future. Note 10 gives more details of the fixed asset movements during the year.

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

### **Financial review**

The level of capital expenditure that the company is obliged to incur is such that it cannot be wholly financed by internally generated sources. As a result, the company must rely upon raising additional finance on a regular basis, to be principally used to fund the long-term assets required in its regulated businesses. The strategy of NWL is to finance such investment by raising medium to long term debt, providing a balance sheet match with long term assets, and to fix a major proportion of interest rates. In December 2004, the company issued a further £97.3m to its Eurobond due in 2033. In May 2004 £212.1m was raised by the securitisation of the Environment Agency contract to operate the Kielder Water transfer scheme for the period to 23 January 2034.

### **Directors**

The directors who served during the period were as follows:

Professor Sir F G T Holliday CBE  
Non-Executive Chairman

J A Cuthbert  
Executive Managing Director

C M Green  
Executive Finance Director

G Neave  
Executive Operations Director

A C Jones  
Executive Regulation and Compliance Director

R R Allan  
Independent Non-Executive Director

A G Balls CB  
Independent Non-Executive Director

A M Frew  
Independent Non-Executive Director

B Guirkingier  
Non-Executive Director – resigned 28 April 2005

J F Petry  
Non-Executive Director – resigned 27 May 2004

A Chaigneau  
Non-Executive Director – appointed 27 May 2004 resigned 17 March 2005

C Cros  
Non-Executive Director – appointed 17 March 2005 resigned 28 April 2005

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

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

### **Employees and employment policies**

#### Equal Opportunities

The company operates an equal opportunity policy, incorporated into Our Code of Conduct. The company promotes equality of opportunity in recruitment, employment continuity, training and career development. The policy is designed to ensure that no applicant or employee receives less favourable treatment on the grounds of age, gender, disability, race, religion or sexual orientation.

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

#### Training and Development

Training and development of employees is a priority of the company. The company has developed a management development programme from which all senior managers in the business have benefited. The programme has been extended to team leaders. The company also has an accelerated development programme for employees with management potential. Annual appraisals are conducted and training needs properly assessed.

#### Communication

Communication with staff is achieved through a weekly newsletter 'lowdown', the company's bi-monthly corporate magazine 'Hel'eau', a bi-monthly 'team talk' cascade briefing process, occasional information booklets and widespread use of noticeboards. The intranet is increasingly used for the provision of news and information and also for the storage of corporate documents. Employees are regularly informed about matters concerning their interests and the financial and economic factors affecting the company. The company encourages open feedback and protects employees who wish to voice concerns about behaviour or decisions that they believe to be unethical. The company also invites employee feedback through the use of annual questionnaires.

Employees receive the bi-annual group-wide magazine 'Watermark', produced by NWG, which includes articles on NWG activities and news from subsidiary companies. Urgent information is communicated via a 'news flash' facility ensuring employees are kept abreast of important news.

#### Health and Safety

Health and safety policies are maintained and implemented through the company's health and safety team. Occupational health services are provided by the company's medical adviser, Grosvenor Health. Most employees are members of a company wide corporate health care plan.

#### Employee Investment Schemes

The directors believe that employee investment strengthens the ties between its employees and NWG by enabling employees to participate more closely in NWG's economic performance. In January 2004, NWG launched its Share Incentive Plan (SIP). All UK based employees of NWG are eligible to participate in the SIP. The SIP enables NWG employees to purchase ordinary shares in NWG in a flexible and tax efficient way. In addition, for every three shares purchased, employees receive one free share. Shares must be held in the plan for five years to obtain the full tax benefits.

#### **Directors' remuneration and interests**

Information about directors' remuneration and their interests in the shares of the company is contained in note 5 to the financial statements.

#### **Indemnification of directors**

The Companies (Audit, Investigations and Community Enterprise) Act 2004 permits companies to extend the indemnification it provides to directors against liabilities for legal costs in certain circumstances, and to fund a director's defence costs as they are incurred. The Company will therefore be asking shareholders at the forthcoming AGM for authority to amend the Articles to indemnify directors to the extent now permitted by company law.

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

### Pensions

Information about the pension schemes operated by the NWG is contained in note 26 to the financial statements.

### Charitable and political contributions

During the year the company made charitable donations of £89,369 (15 months ended 31 March 2004: £64,115) and political donations of £1,497 (15 months ended 31 March 2004: £7,961).

It is the company's policy that it does not, directly or through any subsidiary, make what are commonly regarded as donations to any political party. The definition of donations in the Political Parties, Elections and Referendums Act 2000 (PPERA 2000) is wide and covers activities that form part of the normal relationship between the company and political organisations (such as sponsoring receptions and fringe meetings at party conferences and taking tables at dinners) intended to heighten awareness within the political arena of key industry issues and matters affecting the company. Political expenditure and/or donations up to a total of £40,000 for NWG for the period of two years from the date of the approval were approved by the shareholders at the Extraordinary General Meeting of NWG held on 16 December 2003. During the year the company made political donations, applying the wide definitions from the PPERA 2000, as follows:

Name of EU Political Organisation	Donations for the Period
Labour	£570
Liberal Democrats	£426
Conservative	£501
<b>Total</b>	<b>£1,497</b>

### Auditors

The company has appointed Ernst & Young LLP 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.

### Statement of Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent; and

state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding 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

M Parker  
Company Secretary



8 July 2005

## **INDEPENDENT AUDITORS' REPORT**

### **To the members of NWL**

We have audited the financial statements of NWL for the year ended 31 March 2005 which comprise the group profit and loss account, group statement of total recognised gains and losses, group balance sheet, company balance sheet, group cash flow statement, notes to the cash flow statement and the related notes numbered 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the listing rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of opinion**

We conducted our audit in accordance with United Kingdom 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 group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group at 31 March 2005 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Ernst & Young LLP  
Registered Auditor  
Newcastle-upon-Tyne

8 July 2005

**GROUP PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 March 2005**

	Note	Year ended 31 March 2005	15 months ended 31 March 2004
		£'m	£'m
Turnover	2	508.2	565.2
Operating costs - ordinary	3(a)	(215.0)	(258.1)
Operating costs - exceptional	3(d)	-	(5.5)
Capital maintenance costs	3(b)	(91.5)	(102.8)
Total operating costs		(306.5)	(366.4)
<b>OPERATING PROFIT</b>		<b>201.7</b>	<b>198.8</b>
Net interest payable	4	(85.6)	(101.2)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>	3(c)	<b>116.1</b>	<b>97.6</b>
Taxation	8(a)	(24.6)	(1.1)
<b>PROFIT FOR THE FINANCIAL PERIOD</b>		<b>91.5</b>	<b>96.5</b>
Dividends	9	(67.6)	(151.5)
<b>PROFIT/(LOSS) RETAINED FOR THE YEAR</b>	23	<b>23.9</b>	<b>(55.0)</b>

All activities are continuing.

**GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year ended 31 March 2005**

	Year ended 31 March 2005	15 months ended 31 March 2005
	£'m	£'m
Profit for the financial year	91.5	96.5
Prior year adjustment	-	(4.5)
<b>Total recognised gains and losses relating to the year</b>	<b>91.5</b>	<b>92.0</b>

## GROUP BALANCE SHEET

At 31 March 2005

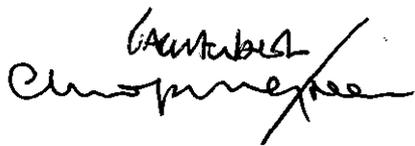
	Note	31 March 2005 £'m	31 March 2004 £'m
<b>FIXED ASSETS</b>			
Tangible assets	10	2,738.7	2,619.5
Investments	11	159.0	-
		<u>2,897.7</u>	<u>2,619.5</u>
<b>CURRENT ASSETS</b>			
Stocks	12	3.0	3.1
Debtors	13	99.4	102.4
Cash at bank and in hand		30.9	0.3
		<u>133.3</u>	<u>105.8</u>
<b>CREDITORS</b>			
Amounts falling due within one year	14	(268.4)	(284.5)
		<u>(135.1)</u>	<u>(178.7)</u>
<b>NET CURRENT LIABILITIES</b>			
		<u>(135.1)</u>	<u>(178.7)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<u>2,762.6</u>	<u>2,440.8</u>
<b>CREDITORS: Amounts falling due after more than one year</b>			
	15	(1,602.2)	(1,336.6)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
	20	(174.7)	(164.2)
<b>ACCRUALS AND DEFERRED INCOME</b>			
	21	(161.1)	(139.3)
		<u>(1,938.0)</u>	<u>(1,640.1)</u>
<b>NET ASSETS</b>			
		<u>824.6</u>	<u>800.7</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	22	122.7	122.7
Profit and loss account	23	701.9	678.0
<b>EQUITY SHAREHOLDERS' FUNDS</b>			
	24	<u>824.6</u>	<u>800.7</u>

Approved on behalf of the board

J A Cuthbert

C M Green

8 July 2005



**COMPANY BALANCE SHEET**  
**At 31 March 2005**

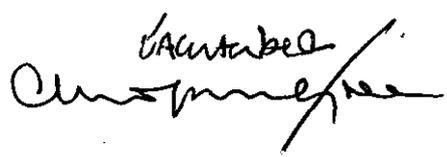
	Note	31 March 2005	31 March 2004
		£'m	£'m
<b>FIXED ASSETS</b>			
Tangible assets	10	2,738.7	2,619.5
Investments	11	160.6	-
		<u>2,899.3</u>	<u>2,619.5</u>
<b>CURRENT ASSETS</b>			
Stocks	12	3.0	3.1
Debtors	13	98.7	102.4
Cash at bank and in hand		2.1	0.3
		<u>103.8</u>	<u>105.8</u>
<b>CREDITORS</b>			
Amounts falling due within one year	14	(265.5)	(284.5)
		<u>(161.7)</u>	<u>(178.7)</u>
<b>NET CURRENT LIABILITIES</b>			
		<u>(161.7)</u>	<u>(178.7)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<u>2,737.6</u>	<u>2,440.8</u>
<b>CREDITORS: Amounts falling due after more than one year</b>			
	15	(1,362.9)	(1,336.6)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
	20	(175.9)	(164.2)
<b>ACCRUALS AND DEFERRED INCOME</b>			
	21	(362.4)	(139.3)
		<u>(1,901.2)</u>	<u>(1,640.1)</u>
<b>NET ASSETS</b>			
		<u>836.4</u>	<u>800.7</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	22	122.7	122.7
Profit and loss account	23	713.7	678.0
<b>EQUITY SHAREHOLDERS' FUNDS</b>			
	24	<u>836.4</u>	<u>800.7</u>

Approved on behalf of the board

J A Cuthbert

C M Green

8 July 2005



**GROUP CASH FLOW STATEMENT**  
**For the year ended 31 March 2005**

	Note	Year ended 31 March 2005	15 months ended 31 March 2004
		£'m	£'m
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	a	279.2	264.5
<b>Return on investments and servicing of finance</b>			
Interest received		15.7	2.3
Interest paid		(89.6)	(98.1)
Issue costs on new borrowings		(11.7)	-
Interest element of finance lease rentals		(0.6)	(2.0)
Net cash outflow from returns on investments and servicing of finance		(86.2)	(97.8)
<b>Taxation</b>			
United Kingdom corporation tax paid		(3.5)	(6.1)
Net cash outflow from taxation		(3.5)	(6.1)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(197.0)	(247.9)
Sale of tangible fixed assets		1.7	1.9
Loan to immediate parent company		(159.0)	-
Grants, contributions and connection charges		21.2	18.9
Net cash outflow from capital expenditure and financial investment		(333.1)	(227.1)
<b>Equity dividends paid</b>		(105.2)	(132.1)
<b>CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING</b>		(248.8)	(198.6)
<b>Management of liquid resources</b>			
Purchase of short term deposits		(21.4)	-
Sale of short term deposits		21.4	120.0
Net cash inflow from management of liquid resources	b	-	120.0
<b>Financing</b>			
New loans		419.5	98.0
New leases		-	0.1
Debenture repayments		(5.0)	-
Loan repayments		(131.1)	(19.6)
Capital element of finance lease rental payments		(4.0)	(3.1)
Net cash inflow from financing	b	279.4	75.4
<b>INCREASE/(DECREASE) IN CASH IN THE YEAR</b>	b	30.6	(3.2)

**NOTES TO THE CASH FLOW STATEMENT**  
For the year ended 31 March 2005

**a RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	Note	Year ended 31 March 2005	15 months ended 31 March 2004
		£'m	£'m
Operating profit		201.7	198.8
Depreciation of tangible fixed assets	3(b)	89.6	103.5
Loss/(Profit) on sale of fixed assets	3(b)	1.9	(0.7)
Amortisation of capital grants	21	(3.7)	(4.2)
Decrease/(increase) in stock		0.1	(0.3)
(Increase)/decrease in debtors		(6.5)	1.6
Decrease in creditors		(2.2)	(26.2)
Infrastructure adjustment		(0.9)	-
Decrease in provisions		(0.8)	(8.0)
Net cash inflow from operating activities		279.2	264.5

The operating cash flows are all from continuing operations.

**b ANALYSIS AND RECONCILIATION OF NET DEBT**

	31 March 2004	Cash flow	Other non-cash changes	31 March 2005
	£'m	£'m	£'m	£'m
Cash at bank and in hand	0.3	30.6	-	30.9
Debt due after 1 year	(1,278.2)	(290.3)	24.3	(1,544.2)
Debt due within 1 year	(90.1)	18.6	(24.6)	(96.1)
Finance leases	(60.9)	4.0	(4.9)	(61.8)
Net debt	(1,428.9)	(237.1)	(5.2)	(1,671.2)

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'m	£'m
<b>Reconciliation of cash flow movement to net debt:</b>		
Increase/(decrease) in cash in the year	30.6	(3.2)
Cash inflow from increase in debt and lease financing	(279.4)	(75.4)
Cash inflow from decrease in liquid resources	-	(120.0)
Issue costs on new borrowings	11.7	-
Change in net debt resulting from cash flows	(237.1)	(198.6)
Inception of new finance lease contracts	(4.9)	(5.2)
Other non-cash items	(0.3)	0.6
Movement in net debt in year	(242.3)	(203.2)
Net debt at 31 March 2004	(1,428.9)	(1,225.7)
Net debt at 31 March 2005	(1,671.2)	(1,428.9)

Part of the increase in net debt during the year arises due to the on loan of proceeds from the issue of new debt to the company's parent undertaking. This loan of £159m, due from NSL, is classified as a capital expenditure and financial investment cashflow in the cash flow statement and is, therefore, excluded from the net debt calculation.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

### 1. STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the principal accounting policies is set out below. These have been applied consistently throughout the current and preceding periods.

(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. The results of subsidiaries disposed of during the period are included to the date of their disposal. Inter-company sales and profits are eliminated fully on consolidation. Where, for commercial reasons, the accounting reference date of a subsidiary is a date other than that of the company, management accounts made up to the company's accounting reference date have been used. In accordance with FRS 5 'Reporting the Substance of Transactions', the accounts of two companies are consolidated as quasi-subidiaries.

(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 and on maintaining the operational capability of the network in accordance with defined standards of service, is treated as additions which are included at cost. Costs include external and internal costs to bring the asset into use.*

The Section 19 quality programme addresses water discolouration problems caused by iron pipes, either through relining these pipes or replacing them where relining is not possible. "Overlap" expenditure represents the extra cost of replacing pipes rather than relining them where their structural condition is insufficient to withstand the relining process. Such expenditure is classified as capital in nature and is included under infrastructure assets in the fixed asset note.

The depreciation charge for infrastructure assets is based on the company's independently certified asset management plan which has estimated the level of expenditure required over the next five years to maintain the operating capability of the network. This is adjusted if the forecast expenditure is expected to differ significantly from the amounts included in the original plan.

## 1. STATEMENT OF ACCOUNTING POLICIES (continued)

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

#### (ii) Non-infrastructure assets

Other assets (including properties, overground plant and equipment) are included at cost less accumulated depreciation and, where required, provision for impairment. 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 – 92 years
Fixtures, fittings, tools and equipment	4 – 10 years

Where the remaining useful economic life of the asset is estimated to be greater than 50 years, an impairment review is performed at the end of each reporting period to ensure that the carrying amount can be supported.

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

Assets in the course of construction are not depreciated until commissioned, which is when the asset is available for use.

### (e) Grants and contributions

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

Capital grants and contributions are treated as deferred income and amortised to the profit and loss account over the expected useful economic lives of the qualifying assets. Specifically in the case of infrastructure assets, the expected useful economic lives have been determined by reference to the physical replacement cycle of these 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. Cost of work in progress includes labour, materials, transport and an element of overheads.

### (h) Pension costs

The company is a member of the Northumbrian Water Pension Scheme (which is a multi employer scheme and the assets cannot be apportioned to individual companies. Accordingly, these financial statements account for pension costs as a defined contribution scheme and charges are made as incurred.

The company also operates a defined contribution scheme. The costs are charged to the profit and loss account in the period they are incurred.

## 1. STATEMENT OF ACCOUNTING POLICIES (continued)

### (i) Taxation

The charge for current UK corporation tax is based on the profit for the year as adjusted for taxation purposes using the rates of tax enacted by the balance sheet date.

Provision is made for deferred tax in respect of all timing differences that have originated but not reversed at the balance sheet date that will result in an obligation to pay more, or a right to pay less tax in future periods. Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

As permitted by FRS19 the company has decided to adopt a policy of discounting deferred tax assets and liabilities to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained at the balance sheet date on UK government bonds with similar maturity dates to those of the deferred tax assets or liabilities.

### (j) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the date of transaction. 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 diminution in value.

### (m) Derivative financial instruments

The group utilises interest rate swaps, forward rate agreements and forward exchange contracts as derivative financial instruments.

*A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the group in line with the group's risk management policies.*

Interest rate swap agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised over the period of the contracts as adjustments to net interest payable in the profit and loss account.

Forward exchange contracts are valued at the period end rates of exchange. Resultant gains and losses are offset against foreign exchange gains or losses on the related borrowings or, where the instrument is used to hedge a committed future transaction, are deferred until the transaction occurs.

When interest rate swaps and underlying debt are terminated together, the net gain or loss is taken to the profit and loss account as interest payable. When interest rate swaps are terminated but the underlying debt is retained then the gain/loss is deferred and is amortised to interest payable over the remaining life of the underlying debt.

### (n) Liquid resources

Liquid resources comprise external deposits.

## 1. STATEMENT OF ACCOUNTING POLICIES (continued)

### (o) Bad debt provisioning

The bad debt provision is calculated by applying a range of percentages to debt of different ages. These percentages also vary between different categories of debt. Higher percentages are applied to those categories of debt which are considered to be of greater risk and also to debt of greater age. The value of the bad debt provision is sensitive to the specific percentages applied.

## 2. TURNOVER, PROFIT BEFORE TAX AND NET ASSETS

The directors consider that the company has one class of business and this is conducted wholly within the United Kingdom.

## 3. OPERATING COSTS, CAPITAL MAINTENANCE COSTS AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

### (a) Operating costs comprise:

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'m	£'m
Materials and consumables	14.8	16.8
Other external charges	54.5	70.4
Manpower costs (note 7a)	73.5	85.0
Other operating charges	93.1	112.4
Own work capitalised	(19.0)	(21.7)
Depreciation	89.6	103.5
	306.5	366.4

### (b) Capital maintenance costs comprise:

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'m	£'m
Depreciation:		
Non-infrastructure assets	56.6	62.3
Non-infrastructure assets held under finance leases	2.9	4.7
Infrastructure assets	30.1	36.5
Loss/(Profit) on disposal of fixed assets	1.9	(0.7)
	91.5	102.8

### (c) Profit on ordinary activities before taxation:

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'m	£'m
Profit on ordinary activities before taxation is stated after crediting:		
Amortisation of capital grants (note 21)	3.7	4.2
And after charging:		
Auditors remuneration: Audit fees	0.2	0.1
Non audit fees	0.3	0.1
Operating leases: Plant and machinery	0.1	0.1
Other assets	0.8	1.1
Costs of research and development	5.0	6.4
Directors' emoluments (note 5)	1.0	1.2

**3. OPERATING COSTS, CAPITAL MAINTENANCE COSTS AND PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION (continued)**

Auditors' remuneration for the regulatory audit amounted to £15,000 (2004: £22,000). Fees of £26,000 and £12,000 (2004: £25,000 and £12,000) were also incurred in the auditing of RAG 5 information and the June Return respectively. Auditor's remuneration in respect of the statutory audit amounted to £91,000 (2004: 63,300).

**(d) Exceptional operating costs**

Exceptional operating costs comprised £3.0m in respect of pensions payable to former directors of water only companies which have since merged with NWL, and £2.5m in respect of severance and pension costs relating to senior managers who are leaving the business.

**4. NET INTEREST PAYABLE**

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'m	£'m
Net interest payable comprises:		
Interest payable:		
Bank loans and overdrafts	70.8	69.6
Group loans	23.8	30.0
Debenture stock interest	1.0	1.5
Financing charges payable under finance leases	3.0	3.0
Total interest payable	98.6	104.1
Group interest receivable	(8.7)	(1.5)
Interest receivable	(4.3)	(1.4)
Net interest payable	85.6	101.2

**5. DIRECTORS' EMOLUMENTS AND INTERESTS**

**(a) Directors' remuneration**

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

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'000	£'000
Emoluments (including benefits in kind)	1,158.5	1,201.9

Four of the directors at 31 March 2005 were members of a defined benefit pension scheme where the company makes contributions towards the cost (March 2004: 4).

The directors who held office at 31 March 2005 had no interest in the shares of the company.

## 5. DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

The directors who held office as at 31 March 2005 had the following interests in the debentures of the Company's immediate parent company, NSL:

Name of Director	Class of Debentures	Amount of debentures held as at 1 April 2004	Amount of debentures held as at 31 March 2005
John Arthur Cuthbert	8.625% bonds 28/6/06	40,000	40,000
Christopher Michael Green (1)	8.625% bonds 28/6/06	25,000	25,000

(1) These debentures are beneficially owned by Mrs Geraldine Green.

The directors who held office as at 31 March 2005 had the following interests in the shares of the Company's ultimate parent company, NWG:

Name of Director	Class of Shares	Number of shares held as at 1 April 2004	Number of shares held as at 31 March 2005
John Arthur Cuthbert	Ordinary 10p	80,000	100,000
Christopher Michael Green (1)	Ordinary 10p	50,000	65,000
Sir Frederick George Thomas Holliday	Ordinary 10p	8,700	8,700
Andrew Ceri Jones (2)	Ordinary 10p	4,433	4,433

(1) These shares are beneficially owned by Mrs Geraldine Green.

(2) These shares are beneficially owned by Mrs Kerry Jones.

The directors who held office as at 31 March 2005 held the following interests in the shares of NWG, purchased and held in accordance with the terms of the Share Incentive Plan:

Name of Director	Class of Shares	Number of shares held as at 1 April 2004	Number of shares held as at 31 March 2005
John Arthur Cuthbert	Ordinary 10p	-	1,716
Christopher Michael Green	Ordinary 10p	-	1,716
Andrew Ceri Jones	Ordinary 10p	-	1,716

The directors who held office as at 31 March 2005 held the following conditional interests in Ordinary 10p shares of NWG, awarded in accordance with the terms of its Long Term Incentive Plan:

Name of Director	Number of awards held as at 1 April 2004 (1)	Number of shares awarded during the year (2)	Number of awards vested during the year	Number of awards held as at 31 March 2005
John Arthur Cuthbert	85,603	67,001	-	152,604
Christopher Michael Green	56,618	44,221	-	100,839
Andrew Ceri Jones	22,463	20,100	-	42,563
Graham Neave	40,000	25,125	-	65,125

Notes:

- 1 Awards were made on 27 January 2004. The market value of the shares on the date of the award was 113.5 pence per share. The three year performance period runs from 1 October 2003 to 30 September 2006.
- 2 Awards were made on 22 December 2004. The market value of the shares on the date of the award was 174.5 pence per share. The three year performance period runs from 1 October 2004 to 30 September 2007.
- 3 Some or all of the shares will vest only if specified performance targets are achieved during the three year performance period. The performance conditions are complex but in essence, shares can vest depending on NWG's total shareholder return ("TSR") in this three year period compared with the TSR of a group of other water companies (in respect of 70% of the shares awarded) and with the FTSE 250 Total Return Index (in respect of 30% of the shares awarded). No awards lapsed or vested during the year.

## 5. DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

There have been no changes in any of the above interests from the end of the year to 7 June 2005. As at 31 March 2005, no directors hold any other interests required to be disclosed, in accordance with Schedule 7 of the Companies Act 1985.

### (b) Highest paid director

The amounts for remuneration shown in note 5a include the following in respect of the highest paid director:

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'000	£'000
Emoluments (including benefits in kind)	<u>358.4</u>	<u>386.8</u>

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 March 2005 was £108,687 (31 March 2004: £91,789).

## 6. TRANSACTIONS WITH DIRECTORS AND OFFICERS

No transactions or arrangements with Directors and Officers 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 as follows:

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'m	£'m
Costs charged to the profit and loss account:		
Wages and salaries	46.5	54.8
Social security costs	4.3	4.7
Other pension costs	4.3	5.0
	<u>55.1</u>	<u>64.5</u>
Costs charged to capital schemes:		
Wages and salaries	15.6	17.4
Social security costs	1.4	1.5
Other pension costs	1.4	1.6
	<u>18.4</u>	<u>20.5</u>
Total employee costs	<u>73.5</u>	<u>85.0</u>

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

	Year ended 31 March 2005	15 months ended 31 March 2004
	Number	Number
Average during the year	<u>2,475</u>	<u>2,320</u>
Total at the year end	<u>2,529</u>	<u>2,420</u>

## 8. TAXATION

### (a) Analysis of tax charge for the financial year:

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'m	£'m
Current tax:		
UK corporation tax on profits for the year at 30%	3.0	2.1
Adjustments in respect of prior periods	3.1	(4.5)
Payable in respect of group relief for the current year at 30%	7.1	3.6
<b>Total current tax charge (note 8b)</b>	<b>13.2</b>	<b>1.2</b>
Deferred tax:		
Origination and reversal of timing differences in the year	25.6	25.5
Adjustments in respect of prior periods	(4.1)	(2.0)
	21.5	23.5
Increase in discount	(10.1)	(23.6)
<b>Total deferred tax (note 20)</b>	<b>11.4</b>	<b>(0.1)</b>
<b>Tax on profit on ordinary activities</b>	<b>24.6</b>	<b>1.1</b>

The company has provisionally claimed tax losses from other NWG companies in the current year of £22.6m (2004: £11.9m) for which payment will be made at the rate of 30%.

### (b) Factors affecting the tax charge for the financial year:

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%) (2004: 30%). The differences are explained below:

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'m	£'m
Profit on ordinary activities before tax	116.1	97.6
Profit on ordinary activities multiplied by standard rate of UK corporation tax (30%) (2004: 30%)	34.8	29.3
Effects of:		
Expenses not deductible for tax purposes	0.3	0.6
Non-taxable income	(0.5)	-
Depreciation in respect of non-qualifying items	1.1	1.3
Capital allowances in excess of depreciation	(26.2)	(27.1)
Other timing differences	(0.1)	1.6
Tax losses carried forward	0.7	-
Adjustments in respect of previous years	3.1	(4.5)
Transfer pricing adjustments	(0.4)	-
Balancing payment receivable	0.4	-
<b>Current tax charge (note 8a)</b>	<b>13.2</b>	<b>1.2</b>

## 8. TAXATION (continued)

### (c) Factors that may affect future tax charges:

The company expects to continue to incur high levels of capital expenditure and accordingly it expects to be able to claim capital allowances in excess of depreciation at a similar level to the current year.

Deferred tax is provided on a discounted basis using post-tax yields on UK government gilts. The charge for deferred tax will therefore be influenced by future fluctuations in gilt rates.

## 9. DIVIDENDS

	Year ended 31 March 2005	15 months ended 31 March 2004
	£'m	£'m
Equity:		
Interim paid of 34.16p (2004: 34.41p) per share on an aggregated basis	41.9	42.2
Exceptional paid of nil (2004: 37.51p) per share on an aggregated basis	-	46.0
Final proposed for year ended 31 March of 20.95p (12 months to December 2003: £34.41p) per share on an aggregated basis	25.7	42.2
Final proposed for 3 months ended 31 March 2004 of 17.21p per share on an aggregated basis	-	21.1
	<u>67.6</u>	<u>151.5</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.

The company has maintained its policy of steady real growth per annum for the appointed business dividend and has also rebased the dividend in line with Ofwat's assumptions for dividends in the final determination. Dividends from the non-appointed business are determined by the directors and are based on performance.

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
- the 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 April 2004	87.7	1,394.9	1,520.6	141.8	88.7	3,233.7
Additions	-	-	-	-	211.5	211.5
Schemes commissioned	0.4	92.4	125.2	7.5	(225.5)	-
Reclassifications	(1.6)	5.9	10.7	(15.0)	-	-
Disposals	(0.1)	(14.6)	(5.0)	(0.2)	-	(19.9)
At 31 March 2005	<u>86.4</u>	<u>1,478.6</u>	<u>1,651.5</u>	<u>134.1</u>	<u>74.7</u>	<u>3,425.3</u>
<b>Depreciation:</b>						
At 1 April 2004	25.4	163.3	344.4	81.1	-	614.2
Charge for year	1.6	30.1	54.8	3.1	-	89.6
Infrastructure adjustment	-	(0.9)	-	-	-	(0.9)
Disposals	-	(14.6)	(1.7)	-	-	(16.3)
At 31 March 2005	<u>27.0</u>	<u>177.9</u>	<u>397.5</u>	<u>84.2</u>	<u>-</u>	<u>686.6</u>
<b>Net book value:</b>						
At 31 March 2005	<u>59.4</u>	<u>1,300.7</u>	<u>1,254.0</u>	<u>49.9</u>	<u>74.7</u>	<u>2,738.7</u>
At 31 March 2004	<u>62.3</u>	<u>1,231.6</u>	<u>1,176.2</u>	<u>60.7</u>	<u>88.7</u>	<u>2,619.5</u>
<b>Leased assets included above:</b>						
<b>Net book value</b>						
At 31 March 2005	<u>-</u>	<u>2.2</u>	<u>25.9</u>	<u>0.3</u>	<u>-</u>	<u>28.4</u>
At 31 March 2004	<u>-</u>	<u>2.2</u>	<u>25.7</u>	<u>0.7</u>	<u>-</u>	<u>28.6</u>

## 11. FIXED ASSET INVESTMENTS

	Group £'m	Company £'m
At 1 April 2004	-	-
Loan to group undertakings	159.0	160.6
Shares in subsidiary undertakings	-	-
At 31 March 2005	<u>159.0</u>	<u>160.6</u>

The company has a wholly owned subsidiary undertaking, Northumbrian Water Finance plc (NWF), whose principal activity is to hold certain finance instruments on behalf of NWL.

The company has a wholly owned subsidiary undertaking, Reiver Holdings Limited, incorporated on 20 August 2003, which in turn has a new wholly owned subsidiary Reiver Finance Limited, whose principal activity is as a sole special purpose financing vehicle.

## 12. STOCKS – GROUP AND COMPANY

	31 March 2005 £'m	31 March 2004 £'m
Raw materials and consumables	<u>3.0</u>	<u>3.1</u>

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

## 13. DEBTORS

	31 March 2005		31 March 2004	
	Group £'m	Company £'m	Group £'m	Company £'m
Trade debtors	52.1	52.1	46.8	46.8
Amounts owed by other group companies	4.7	4.7	6.5	6.5
Corporation tax repayable	-	-	11.1	11.1
Other debtors	6.5	6.5	6.2	6.2
Prepayments and accrued income	36.1	35.4	31.8	31.8
	<u>99.4</u>	<u>98.7</u>	<u>102.4</u>	<u>102.4</u>

Trade debtors are shown net of bills raised in advance.

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

	31 March 2005		31 March 2004	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Obligations under finance leases (note 18)	4.5	4.5	3.6	3.6
Loans (note 16)	18.9	18.9	33.1	33.1
Debenture stock (note 17)	5.7	5.7	5.0	5.0
Trade creditors	10.2	10.2	12.8	12.8
Amounts owed to other group companies	87.9	111.0	71.8	93.4
Taxation and social security	1.1	1.1	1.5	1.5
Corporation tax	1.1	1.1	-	-
Other creditors	12.2	12.2	13.7	13.7
Receipts in advance	17.6	17.6	15.9	15.9
Dividend payable	25.7	25.7	63.3	63.3
Accruals and deferred income	83.5	57.5	63.8	42.2
	<u>268.4</u>	<u>265.5</u>	<u>284.5</u>	<u>284.5</u>

Accruals and deferred income includes accruals related to capital projects of £27.5m (2004: £16.9m). Amounts owed to other group companies include amounts related to capital projects of £3.9m (2004: £2.7m). Included in amounts owed to other group companies is £7.1m (2004: £9.7m) payable in respect of tax losses surrendered from fellow NWG companies. Also included in amounts owed to other group companies is £71.5m (2004: £52.0m) relating to loans repayable within one year (note 19).

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

	31 March 2005		31 March 2004	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Obligations under hire purchase contracts and finance leases (note 18)	57.3	57.3	57.3	57.3
Loans (note 16)	1,189.2	305.2	917.4	370.0
Debenture stocks (note 17)	3.5	3.5	9.2	9.2
Amounts owed to other group companies (note 19)	351.5	996.2	351.6	899.0
Other creditors	0.7	0.7	1.1	1.1
	<u>1,602.2</u>	<u>1,362.9</u>	<u>1,336.6</u>	<u>1,336.6</u>

At 31 March 2005 the group and company had entered into the following interest swap arrangements: £nil (2004: £15.0m).

## 16. LOANS

	31 March 2005		31 March 2004	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Loans are repayable as follows:				
Within one year (note 14)	18.9	18.9	33.1	33.1
Between one and two years	29.2	29.2	64.8	64.8
Between two and five years	133.6	133.6	143.7	143.7
After five years	1,026.4	142.4	708.9	161.5
	<u>1,208.1</u>	<u>324.1</u>	<u>950.5</u>	<u>403.1</u>

Loans wholly repayable by instalments repayable within 5 years amount to £14.9m (2004: £23.0m). Loans repayable by instalments not wholly repayable within 5 years amount to £458.5m (2004: £229.1m) and bear interest rates in the range of 4.88% to 8.55% of which £76.8m (2004: £67.7m) falls due in less than 5 years and £381.7m (2004: £161.4m) falls due after more than 5 years.

Loans repayable otherwise than by instalments which fall due in less than 5 years amount to £90.0m (2004: £151.0) and bear interest at rates in the range of 4.94% and 5.11%.

Loans repayable otherwise than by instalments which fall due after more than 5 years amount to £644.7m (2004: £547.4m) and bear interest at rates in the range of 5.63% and 6.0%.

Included in loans due after five years is a Eurobond due 23 January 2034 which is secured on the income receivable under the Kielder Water transfer scheme for the period to 23 January 2034.

### Treasury operations

The company's board of directors is responsible for the financing strategy of the company which is determined within treasury policies set by the company's ultimate parent company, NWG. The aim of this strategy is to assess the ongoing capital requirement of the company and to raise funding on a timely basis, taking advantage of any favourable market opportunities.

The Treasury department carries out treasury operations on behalf of the company. Surplus funds are invested based upon forecast requirements, in accordance with the treasury policy. On occasion, derivatives are used as part of this process, but the treasury policies prohibit their use for speculation.

### Risks arising from company's financial instruments

The main risks arising from the company's financial instruments are liquidity risk and interest rate risk. As noted above, the company's financing strategy is developed in accordance with the treasury policies of NWG, whose board reviews and agrees policies for managing each of these risks. These are summarised below. All NWL treasury activities are conducted in accordance with these policies.

#### Liquidity risk

As regards day to day liquidity, the company is responsible for cash management but is reliant upon the committed borrowing facilities available NWG. NWG's policy is to have available standby committed bank borrowing facilities with a value of no less than £50m and with a bank agreement availability period of no less than 3 months. At 31 March 2005, NWG had £90.0 million available in standby committed bank facilities.

## 16. LOANS (continued)

### Interest rate risk

The company finances its operations through a mixture of retained profits and borrowings. It borrows at both fixed and floating rates of interest and, as noted above, on occasion uses derivatives to generate the desired interest profile and to manage its exposure to interest rate fluctuations. NWG's policy is to keep a minimum 60 per cent of its borrowings at fixed rates of interest. At 31 March 2005, 88% (2004: 78%) of the NWG's borrowings were at fixed rates of interest.

### Foreign currency risk

NWG's policy is that any foreign currency exposure in excess of £100,000 sterling equivalent of a transactional nature, or £3m sterling equivalent of a translation nature, should be covered immediately on identification.

### Interest rate risk profile of financial assets and financial liabilities

The interest rates and currency profile of the net borrowings of the group at 31 March 2005 were:

	Total net Borrowings	Variable rate net borrowings	Fixed Rate Net Borrowings		
			Fixed rate borrowings	Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
Sterling borrowings:					
External loans	(324.1)	(151.7)	(172.4)	6.42	10.1
Eurobonds	(884.0)	-	(884.0)	5.92	23.0
Debentures	(9.2)	-	(9.2)	8.67	4.3
Group loans	(423.0)	(71.5)	(351.5)	6.76	17.9
Finance leases	(61.8)	(54.3)	(7.5)	5.94	4.4
Total borrowings	(1,702.1)	(277.5)	(1,424.6)	6.33	18.6
Cash	30.9	30.9	-		
Group loans	159.0	-	159.0	6.17	28.8
Net borrowings	(1,512.2)	(246.6)	(1,265.6)		

## 16. LOANS (continued)

The interest rates and currency profile of the net borrowings of the group at 31 March 2004 were:

	Total net borrowings	Variable rate net borrowings	Fixed Rate Net Borrowings		
			Fixed rate borrowings	Weighted average interest rate	Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years
Sterling borrowings:					
External loans	(403.1)	(200.2)	(202.9)	6.43	9.9
Eurobonds	(547.4)	-	(547.4)	5.85	20.6
Debentures	(14.2)	-	(14.2)	9.84	3.2
Group loans	(403.6)	(52.0)	(351.6)	6.75	18.9
Finance leases	(60.9)	(53.0)	(7.9)	7.55	5.0
Total borrowings	(1,429.2)	(305.2)	(1,124.0)	6.44	16.9
Cash	0.3	0.3	-		
Net borrowings	(1,428.9)	(304.9)	(1,124.0)		-

The variable rate net borrowings comprise sterling denominated bank borrowings, overdrafts and deposits that bear interest at rates based upon up to twelve months LIBOR. In addition there are provisions and other creditors due after more than one year of £4.1m (2004: £5.4m), on which no interest is payable.

As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures, other than the currency disclosures.

Included in the debentures above are £2.0m of irredeemable debentures that have been excluded from the calculation of the weighted average maturity and fixed periods.

### Currency exposures

At 31 March 2005, the group and the company had no currency exposures (2004: £nil).

### Borrowing facilities

NWL has an undrawn committed borrowing facility. The facility available in respect of which all conditions precedent have been met is as follows:

	31 March 2005	31 March 2004
	£'m	£'m
Expiring in less than one year	90.0	90.0

## 16. LOANS (continued)

### Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the financial assets and liabilities of the group as at 31 March 2005:

	<u>Book value</u>	<u>Fair value</u>
	£'m	£'m
Primary financial instruments held or issued to finance the group's operations:		
Short-term financial liabilities and current portion of long-term borrowings	(29.1)	(30.7)
Short-term loan from parent company	(71.5)	(71.5)
Long term borrowings	(1,601.5)	(1,692.6)
Financial assets	189.9	200.2
	<u>(1,512.2)</u>	<u>(1,594.6)</u>
As at 31 March 2005	<u>(1,512.2)</u>	<u>(1,594.6)</u>

Set out below is a comparison by category of book values and fair values of the financial assets and liabilities of the group as at 31 March 2004:

	<u>Book value</u>	<u>Fair value</u>
	£'m	£'m
Primary financial instruments held or issued to finance the group's operations:		
Short term financial liabilities and current portion of long-term borrowings	(41.5)	(44.4)
Short-term loan from parent company	(52.0)	(52.0)
Long term borrowings	(1,335.7)	(1,391.0)
Financial assets	0.3	0.3
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps	-	2.1
As at 31 March 2004	<u>(1,428.9)</u>	<u>(1,485.0)</u>

The fair values of the sterling denominated long term fixed rate debt with a book value of £1,244.7m (2004: £913.2m) has been determined by reference to prices available from the markets on which the instruments involved are traded. All the other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

## 16. LOANS (continued)

### Gains and losses on hedges

The company's board uses the NWL treasury function to enter into any necessary forward foreign currency contracts on the company's behalf to eliminate the currency exposures that arise on sales denominated in foreign currencies immediately those sales are transacted. The company also uses interest rate swaps to manage its interest rate profile. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

An analysis of these unrecognised gains and losses as at 31 March 2005 is as follows:

	Gains	Losses	Total net
	£'m	£'m	gains/losses
	£'m	£'m	£'m
Unrecognised gains and losses on hedges at 1 April 2004	1.3	-	1.3
Gains and losses arising in previous years that were recognised in 2004/2005	(1.3)	-	(1.3)
Unrecognised gains and losses on hedges at 31 March 2005	-	-	-

An analysis of these unrecognised gains and losses as at 31 March 2004 is as follows:

	Gains	Losses	Total net
	£'m	£'m	gains/losses
	£'m	£'m	£'m
Unrecognised gains and losses on hedges at 1 January 2003	1.4	0.4	1.0
Gains and losses arising in previous years that were recognised in 2003/2004	(0.6)	(0.4)	(0.2)
Gains and losses arising before 1 January 2003 that were not recognised in 2003/2004	0.8	-	0.8
Gains and losses arising in 2003/2004 that were not recognised in 2003/2004	0.5	-	0.5
Unrecognised gains and losses on hedges at 31 March 2004	1.3	-	1.3
Of which:			
Gains and losses expected to be recognised in 2004/2005	1.3	-	1.3
Gains and losses expected to be recognised in 2005/2006 or later	-	-	-
	1.3	-	1.3

### Market price risk

The company's exposure to market price risk principally comprises interest rate exposure. The company's policy is to accept a degree of interest rate risk. On the basis of the company's analysis, it is estimated that a 1% rise in interest rates would not have a material affect on its pre-tax profits.

## 17. DEBENTURE STOCKS

	<u>31 March 2005</u>	<u>31 March 2004</u>
	£'m	£'m
Debenture stocks are repayable as follows:		
Total due in less than one year	<u>5.7</u>	<u>5.0</u>
Between one and two years		
£1, 12.0% Redeemable 2005	-	2.0
Between two and five years		
£1, 11.2% Redeemable 2005/09	3.5	3.5
In five years or more:		
£1, 3.75% Redeemable 2012	-	0.3
£1, 4.25% Redeemable 2012	-	0.7
£1, 5.25% Redeemable 2012	-	0.7
£1, 3.5% Irredeemable	-	0.2
£1, 4.0% Irredeemable	-	0.8
£1, 5.0% Irredeemable	-	1.0
Total due in more than one year	<u>3.5</u>	<u>9.2</u>
At 31 March	<u>9.2</u>	<u>14.2</u>

The debenture stocks are secured by a floating charge on the company's business undertaking and on its assets. The 12% debentures redeemable in 2005, and the 11.2% debentures redeemable between 2005 and 2009 will be repaid in December 2005. Apart from £12,686 of irredeemable debentures, all other debentures were repaid in April 2005.

## 18. OBLIGATIONS UNDER FINANCE LEASES – GROUP AND COMPANY

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

	<u>31 March 2005</u>	<u>31 March 2004</u>
	£'m	£'m
Amounts due:		
Within one year	4.5	3.6
Between one and two years	4.0	4.0
Between two and five years	12.1	10.4
After five years	62.3	66.1
	<u>82.9</u>	<u>84.1</u>
Less:		
Finance charge allocated to future periods	(21.1)	(23.2)
	<u>61.8</u>	<u>60.9</u>
Disclosed as due:		
Within one year (note 14)	4.5	3.6
After more than one year (note 15)	57.3	57.3
	<u>61.8</u>	<u>60.9</u>

The aggregate gross amount of obligations under hire purchase contracts and finance leases, any part of which falls due for repayment in five years or more, is £82.5 million (2004: £82.9 million).

## 19. AMOUNTS DUE TO OTHER GROUP COMPANIES

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

	31 March 2005		31 March 2004	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Within one year	71.5	71.5	52.0	52.0
After five years	351.5	996.2	351.6	899.0
	<u>423.0</u>	<u>1,067.7</u>	<u>403.6</u>	<u>951.0</u>

£351.5m is owed to the immediate parent company, NSL. NSL issued £200.0m Guaranteed Eurobonds in February 1998 and issued a further £150.0m Guaranteed Eurobonds in September 2001, maturing 6 February 2023, with an annual coupon of 6.875%. The issues were guaranteed by NWL who received the issue proceeds by way of inter-company loans of £194.2m and £156.2m respectively. Finance costs allocated during the year amounted to £0.3m (15 months ended 31 March 2004: £0.3m). Amortisation of loan issue receipts during the year amounted to £0.2m (15 months ended 31 March 2004: £0.3m).

£300.7m is owed to NWF plc, a subsidiary undertaking of the group. NWF plc issued £300.0m Guaranteed Eurobonds in December 2001, maturing October 2017, with an annual coupon of 6.0%. The issue was guaranteed by NWL who received the issue proceeds by way of an inter-company loan. Amortisation of loan receipts during the year amounted to £0.1m (15 months ended 31 March 2004: £0.1m).

£246.8m is owed to NWF plc, a subsidiary undertaking of the group. NWF plc issued £250.0m Guaranteed Eurobonds during December 2002, maturing April 2033, with an annual coupon of 5.625%. The issue was guaranteed by NWL who received the issue proceeds by way of an inter-company loan. Finance costs allocated during the year amounted to £0.1m (15 months ended 31 March 2004: £0.1m).

£97.2m is owed to NWF plc, a subsidiary undertaking of the group. NWF plc issued £100.0m Guaranteed Eurobonds during December 2004, maturing April 2033, with an annual coupon of 5.625%. The issue was guaranteed by NWL who received the issue proceeds by way of an inter-company loan.

## 20. PROVISIONS FOR LIABILITIES AND CHARGES

	Group £'m	Company £'m
Pension provision for former directors:		
At 1 April 2004	3.2	3.2
Utilised during the year	<u>(0.2)</u>	<u>(0.2)</u>
At 31 March 2005	<u>3.0</u>	<u>3.0</u>
Severance provision:		
At 1 April 2004	1.1	1.1
Transferred from profit and loss account	(0.1)	(0.1)
Utilised during the year	<u>(0.6)</u>	<u>(0.6)</u>
At 31 March 2005	<u>0.4</u>	<u>0.4</u>
Deferred tax :		
At 1 April 2004	159.9	159.9
Movement in the year (note 8a)	<u>11.4</u>	<u>12.6</u>
At 31 March 2005	<u>171.3</u>	<u>172.5</u>
Closing balance	<u>174.7</u>	<u>175.9</u>

## 20. PROVISIONS FOR LIABILITIES AND CHARGES (continued)

The pension provision for former directors relates to pensions payable to those former directors of water-only companies which have since merged with NWL. The provision of £3.0m represents the full future amounts payable, based on an actuarial assessment, for which NWL is directly liable.

The severance provision of £0.4m relates to severance and pension costs relating to senior managers who are leaving the business. This represents the best estimate of amounts payable, principally in the next 24 months.

The provision for deferred tax comprises:

	31 March 2005		31 March 2004	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Accelerated capital allowances	504.2	504.2	482.2	482.2
Other timing differences	(54.2)	(52.9)	(54.4)	(54.4)
Tax losses carried forward	(0.7)	-	-	-
Undiscounted provision for deferred tax	449.3	451.3	427.8	427.8
Discount	(278.0)	(278.8)	(267.9)	(267.9)
Discounted provision for deferred tax	171.3	172.5	159.9	159.9

## 21. ACCRUALS AND DEFERRED INCOME

	Group			
	Interest Rate Hedge	Capital Grants & Contributions	Sale Proceeds Kielder Securitisation	Total
	£'m	£'m	£'m	£'m
At 1 April	-	139.3	-	139.3
Additions	4.4	21.2	-	25.6
Amortised during the year	(0.1)	(3.7)	-	(3.8)
At 31 March	4.3	156.8	-	161.1

The interest rate on the bonds issued as part of the Kielder securitisation was locked in advance of issuance. At completion of the securitisation, long term interest rates were higher than when the hedge was put in place, leading to a gain of £4.4m, which will be amortised in the group accounts over the 30 year life of the bonds. In the company accounts, whole gain has been realised in the profit and loss account in the current trading period.

	Company			
	Interest Rate Hedge	Capital Grants & Contributions	Sale Proceeds Kielder Securitisation	Total
	£'m	£'m	£'m	£'m
At 1 April	-	139.3	-	139.3
Additions	4.4	21.2	212.1	237.7
Amortised during the year	(4.4)	(3.7)	(6.5)	(14.6)
At 31 March	-	156.8	205.6	362.4

## 21. ACCRUALS AND DEFERRED INCOME (continued)

The Kielder securitisation process involved the non appointed business assigning the right to the future income stream associated with the Kielder operating contract to Reiver Finance Limited up to 2034 in return for consideration of £212.1m. This income is to be amortised to the profit and loss account of the company over the life of the transaction.

## 22. CALLED UP SHARE CAPITAL – GROUP AND COMPANY

	<u>31 March 2005</u>	<u>31 March 2004</u>
	£'m	£'m
Authorised:		
122,650,000 Ordinary Shares of £1 each (2004: 122,650,000)	122.7	122.7
	<u>31 March 2005</u>	<u>31 March 2004</u>
	£'m	£'m
Allotted, called-up and fully paid:		
122,650,000 Ordinary Shares of £1 each (2004: 122,650,000)	122.7	122.7

## 23. PROFIT AND LOSS ACCOUNT

	Group	Company
	£'m	£'m
At 1 April 2004	678.0	678.0
Profit retained for the year	23.9	35.7
At 31 March 2005	<u>701.9</u>	<u>713.7</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. The profit for the financial year of £103.3m (15 months ended 31 March 2004: £96.5m) relates to the operations of the company.

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

	31 March 2005		31 March 2004	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Opening equity shareholders' funds	800.7	800.7	855.7	855.7
Profit for the financial year	91.5	103.3	96.5	96.5
Dividends	(67.6)	(67.6)	(151.5)	(151.5)
Closing equity shareholders' funds	<u>824.6</u>	<u>836.4</u>	<u>800.7</u>	<u>800.7</u>

## 25. COMMITMENTS – GROUP AND COMPANY

### (a) Capital expenditure:

	<u>31 March 2005</u>	<u>31 March 2004</u>
	£'m	£'m
Expenditure contracted for but not provided for	82.4	53.3

### (b) Lease commitments:

The company and group have 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:-

	<u>31 March 2005</u>	<u>31 March 2004</u>
	£'m	£'m
Land and buildings:		
Leases which expire:		
Within one year	0.1	0.1
In five years or more	0.5	0.6
	<u>0.6</u>	<u>0.7</u>
	<u>31 March 2005</u>	<u>31 March 2004</u>
	£'m	£'m
Other:		
Leases which expire:		
Within one year	0.1	-
In five years or more	0.3	-
	<u>0.4</u>	<u>-</u>

## 26. PENSIONS

NWG operates a funded defined benefit pension scheme, providing benefits based on final pensionable remuneration to 2,406 employees. The Scheme, named the Northumbrian Water Pension Scheme, comprises four unitised sub-funds – WPS, Northumbrian Water (North), Northumbrian Water (South) and MIS.

The assets of the Scheme are held separately from those of NWG in independently administered funds.

The most recent actuarial valuation of the Scheme was at 31 December 2001. At that date the market value of the assets amounted to £441.0m in aggregate (excluding MIS which was valued at approximately £20.0m). The 2001 valuation disclosed that the combined value of the assets represented 109% of the value of the accrued liabilities.

The following table sets out the contributions agreed based on the 31 December 2001 valuations for WPS, North and South sub-funds.

Section	WPS	North	South	MIS
Members' contributions	6%	5%	5%	5%/6%
Employer's contributions	15.5%	10.5%	Nil	6%/7.2%

## 26. PENSIONS (continued)

The company contribution rate was assessed using the Projected Unit Method and the following actuarial assumptions: -

<b>Investment Return</b>	
- Pre Retirement	6.1%
- Post Retirement	5.7%
<b>Pay Increases</b>	3.5%
<b>Pension Increases</b>	2.5%
<b>Price Inflation</b>	2.5%

Following an interim review of the funding position of the MIS sub-fund, employer contributions increased from July 2003 to 21.0%/20.7% for 5%/6% members respectively. In addition, further annual lump sum contributions of £275,000 to the MIS sub-fund have been agreed for a period of 10 years.

The actuarial valuation as at 31 December 2004 is currently in progress. An independent qualified actuary performs the actuarial valuation. Employer contribution rates will be reviewed once the results of this valuation are known.

Under the transitional provisions of FRS 17 "Retirement benefits" additional disclosures regarding the group defined benefit pension scheme are required. In accordance with FRS 17, the company will account for its contributions to the relevant sub-funds of the Scheme as if it were a defined contribution scheme because it is not possible to identify the company's share of the net assets and liabilities in the Scheme on a consistent and reasonable basis.

FRS 17 actuarial assumptions:

	Group	
	31.3.2005	31.3.2004
	%	%
Pay increases	3.9	4.0
Pension increases	2.9	3.0
Price inflation	2.9	3.0
Discount rate	5.4	5.5

## 26. PENSIONS (continued)

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the long term expected rate of return at 31 March 2005 were:

	Long term expected rate of return 2005	2005	Long term expected rate of return 2004	2005
	%	£'m	%	£'m
Equities	6.7	373.9	6.8	335.4
Corporate bonds	5.4	39.7	5.5	37.7
Government bonds	4.7	45.2	4.8	41.8
Property	5.7	55.5	5.8	47.5
Cash	4.7	12.3	4.0	12.7
Total fair value of assets		526.6		475.1
Present value of scheme liabilities		(600.2)		(565.7)
Deficit in the scheme		(73.6)		(90.6)

In addition, NWG operates a defined contribution scheme, the Northumbrian Water Group Personal Pension Plan, which provides defined contribution benefits to 886 employees.

## 27. RELATED PARTY DISCLOSURES

The company is a wholly owned subsidiary of NWG, which produces publicly available financial statements which include 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 NWG.

## 28. ULTIMATE PARENT COMPANY

NWG, incorporated in the UK, is regarded by the directors of the company as the company's ultimate parent company and controlling party.

The largest group in which the results of the company are consolidated is that of which NWG is the parent company. The consolidated financial statements of NWG may be obtained from Northumbria House, Abbey Road, Pity Me, Durham, DH1 5FJ. The smallest group in which the results of the company are consolidated is that of which NSL is the parent company. The consolidated financial statements of NSL may be obtained from Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ. NSL is incorporated in the UK.

## 29. QUASI-SUBSIDIARIES

As noted under accounting policy 1(a), under FRS 5 two companies are consolidated as quasi-subidiaries. The principal quasi-subidiary is Bakethin Holdings Limited, the shares in which are owned by Bakethin Charitable Trust. The other quasi-subidiary is Bakethin Finance plc, which is a wholly-owned subsidiary of Bakethin Holdings Limited.

Bakethin Finance plc was established for the purpose of issuing guaranteed secured bonds. On 12 May 2004 Bakethin Finance plc issued £248m of guaranteed secured bonds. The bonds are due to mature in January 2034. Bakethin Finance plc used the proceeds of the bond issue to make a loan to Reiver Finance Limited to fund the consideration given by that company to NWL for the securitisation of the cash flows receivable from the Environment Agency under the Water Resources Operating Agreement relating to Kielder Reservoir. The assignment is for a period of 30 years.

## 29. QUASI-SUBSIDIARIES (continued)

The summarised combined accounts of the quasi-subidiaries are as follows:

Profit and loss account:	Year ended 31 March 2005
	£'m
Interest receivable	13.2
Interest payable	(13.2)
	<hr/>
Retained profit	-
	<hr/> <hr/>
Balance sheet:	31 March 2005
	£'m
Investments	239.3
Net current assets	1.6
Creditors: amounts falling due after more than one year	(240.9)
	<hr/>
Net assets	-
	<hr/> <hr/>
Cash flow statement:	Year ended 31 March 2005
	£'m
Return on investments and servicing of finance	(0.4)
Cash outflow from loan granted to Reiver Finance Limited	(248.0)
Financing	
Cash inflow from guaranteed secured bonds	248.0
Cash inflow from loan	1.5
	<hr/>
Increase in cash	1.1
	<hr/> <hr/>