

REGULATORY FINANCIAL STATEMENTS

NORTHUMBRIAN WATER LIMITED

FOR THE YEAR ENDED 31 MARCH 2001

Registered no: 2366703

CONDITION F REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2001

CONTENTS	Page
SECTION A – GENERAL	
Directors' report	1
SECTION B – HISTORICAL COST FINANCIAL STATEMENTS	
Group historical cost profit and loss account	5
Group historical cost balance sheet	6
Company historical cost balance sheet	7
Group historical cost cash flow statement	8
Notes to the historical cost financial statements	11
SECTION C – CURRENT COST FINANCIAL INFORMATION FOR THE APPOINTED BUSINESS ONLY	
Current cost profit and loss account	38
Current cost balance sheet	39
Current cost cash flow statement	40
Notes to the current cost financial information	41
Statement of directors' responsibilities	52
Report of the auditors to the Director General of Water Services	53

DIRECTORS' REPORT

For the year ended 31 March 2001

The directors present their report and the audited regulatory financial statements for the year ended 31 March 2001.

Results and dividends

The group's profit after taxation for the year ended 31 March 2001 amounts to £86.9m (March 2000: £130.5m). The directors proposed a final dividend of £40.2m for the year ended 31 March 2001 which, together with the interim dividend of £36.8m (March 2000 £32.2m), makes a total of £77.0 m for the year (March 2000: £64.4m).

Principal activities and review of business

On 1 April 2000 the trade, employees, assets and liabilities of Essex and Suffolk Water plc were transferred to Northumbrian Water Limited for a consideration of £176.0m. Following agreement with Ofwat, with effect from 1 April 2000, Northumbrian Water Limited's Appointment as a water undertaking has been varied to apply also to Essex and Suffolk Water plc's area of Appointment, and the Appointment of Essex and Suffolk Water plc has been terminated. The financial results for the year ended 31 March 2001 include the results of trading in the Essex and Suffolk region.

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. Turnover has been reduced by the impact of price reductions of 19.4% for customers in the north and 13.5% for customers in the south, offset by inflation, which were required by Ofwat from April 2000.

The company achieved the best performance in the water industry against the Ofwat customer service measures for the previous regulatory year ending 31 March 2000. In addition, the investment programme delivered the required obligations by 31 December 2000 and operating efficiencies were achieved as a result of further restructuring and the merger with Essex and Suffolk Water plc. The operating costs show a significant increase on the prior year due to the inclusion of costs relating to the Essex and Suffolk region. If the comparative figure is adjusted to include the equivalent operating costs for Essex and Suffolk, the operating cost base would show an absolute reduction of approximately 7.3%.

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 the competitive market.

The company has secured a number of significant contracts during the year with major industrial customers to provide advice on how they can optimise their water usage. The directors believe that this demonstrates that the company has developed a competitive edge in the market place.

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 2001 and the five year business plan for the period from 2001 to 2005. 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 business plans.

Research and development

The company places a high priority on research and technological innovation to serve the needs of customers. Research and development is now co-ordinated by a sister company, Northumbrian Lyonnaise Technology and Research Centre Limited, a specialist subsidiary, wholly owned by the company's immediate parent, which has links with other Suez SA group research organisations worldwide. The company incurred costs of Research and development in the period of £5.9m (March 2000:£4.7m).

DIRECTORS' REPORT (continued)**Northumbrian Water 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 26 days (March 2000: 24 days). This has been calculated by dividing the year end trade creditors balance of £4.3m by the aggregate of the average daily amounts invoiced by suppliers during the year.

Fixed Assets

Freehold land and buildings are carried in the accounts at historical cost with a net book value of £69.7m (March 2000: £39.6m). In the opinion of the directors, at 31 March 2001, there is no significant difference between the net book value and the market value of property capable of disposal within the foreseeable future.

Directors

The following served as directors during the year and were directors of the Company as at 31 March 2001:

A J Harding (Managing Director)

P Babin

J A Cuthbert

Sir F G T Holliday (Chairman) (appointed 1 April 2000)

Sir J D R Bradbeer (appointed 1 April 2000)

A Chaigneau (appointed 1 April 2000)

J A Haynes (appointed 1 April 2000)

M A B Nègre (appointed 1 April 2000) (resigned 2 May 2001)

R R Allan (appointed 1 April 2000)

C M Green (appointed 1 April 2000)

Non executive directors were as follows:

P Babin (43)

HEC MBA

Sir J D R Bradbeer (69)

OBE TC

Deputy Chairman

A Chaigneau (49)

J A Haynes (70)

Deputy Chairman

M A B Nègre (54)

Ceased to be Northumbrian Water Group Managing Director on 20 April, 2001

R R Allan (66)

Sir F G T Holliday (65)

Chairman

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 and 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 than another. The company is a member of 'Opportunity Now', which demonstrates our commitment to equal opportunity, and has been awarded an 'Exemplars of Best Practice' certificate.

Training and Development

Training and development of employees is a priority of the company. This year employees from the company have again participated in the third Global Player Programme which was created to ensure that highly skilled and experienced staff are ready and available to meet the ongoing worldwide business needs of the company and its parent company, Suez SA. In addition, the company has recently introduced an accelerated development programme for staff with development potential, and a management development programme.

Communication

Communication with staff is achieved through the company's corporate newspaper 'WaterMark' and the increased use of the company's intranet facilities. Employees are regularly informed about matters concerning their interests and the financial and economic factors affecting the company. The company has also established its own communication mechanisms such as team briefings, electronic mail and notice boards. Further, the company receives Job News and an English version of 'Terre Bleue', Suez SA's corporate magazine.

Health and Safety

Health and safety policies are maintained and implemented through the company's safety team. Employee health services are provided by the company's Medical Adviser. Most employees are members of a company wide corporate health care plan managed by CIGNA Healthcare. The company introduced HSA Healthplan, which is employee funded, with effect from 1 January 2000.

Employee Investment Schemes

During the financial year and for the fourth consecutive year, the company has operated an employee investment scheme.

The new plan called SPRING 2000 consisted of two elements, which gave employees a choice of two different types of investment. The first investment opportunity was investing in a fund, SPRING Classic, which owned Suez SA shares purchased at a discount, a similar investment to that offered in previous plans. The second type of investment was in a specially created company, SPRING Multiple, which also purchased shares in the parent company. This investment guarantees the employee the return of their initial investment but gives the opportunity to increase their share in any growth in value of the ultimate parent company's shares through the existence of a matched investment by Credit Agricole Indosuez.

The opportunity to invest in the plan was limited to Suez SA group employees, and was offered to all such employees in the United Kingdom. To encourage participation in the plan the company made a discretionary contribution of up to £100 for all employees investing in SPRING Classic.

The Board of Directors believes that employee investment is a valuable method of strengthening the ties between its employees and Suez SA by providing the opportunity for employees to participate more closely in its economic performance and results. A total of 1102 employees participated in SPRING 2000.

DIRECTORS' REPORT (continued)

Pensions

Information about the pension schemes operated by the Group is contained in note 27 to the financial statements.

Charitable and Political Contributions

During the year the company made charitable donations of £55,182 (March 2000: £33,996). The company made no donations to any political party during the year (March 2000: £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 responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment for the company as a water and sewerage undertaker under the Water Industry Act 1991 to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the group as at the end of the financial year and of the profit or loss of the group for that year.

The directors confirm that suitable accounting policies have been used and applied consistently, and reasonable, prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 2001. The directors also confirm that, except for the departure in relation to infrastructure renewals accounting explained in note 1 to the financial statements which arises from the instructions of the Director General of Water Services, 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.

Auditors' Responsibilities

The auditors are responsible for forming an independent opinion on the financial statements presented by the Directors, based on their audit, and reporting their opinion to shareholders. Company law also requires the auditors to report to shareholders if the following requirements are not met:

- that the Company has maintained proper accounting records;
- that the financial statements are in agreement with the accounting records;
- that Directors' emoluments and other transactions with the Directors are properly disclosed in the financial statements; and
- that they have obtained all information and explanations which, to the best of their knowledge and belief, are necessary for the purposes of their audit.

The auditors' opinion does not encompass the Directors' Report. However, the Companies Act requires the auditors to report to the shareholders if the matters contained in the Directors' Report are inconsistent with the financial statements.

ON BEHALF OF THE BOARD

M Parker
Company Secretary
10 July 2001

GROUP HISTORICAL COST PROFIT AND LOSS ACCOUNT**For the year ended 31 March 2001**

	Note	2001			2000		
		Appointe d business	Non- appointed business	Aggregate d basis	Appointe d business	Non- appointed business	Aggregate d basis
		£'m	£'m	£'m	£'m	£'m	£'m
TURNOVER							
Existing Operations	2	300.4	23.0	323.4	359.6	23.7	383.3
Acquired Operations	2	106.9	-	106.9	-	-	-
		<u>407.3</u>	<u>23.0</u>	<u>430.3</u>	<u>359.6</u>	<u>23.7</u>	<u>383.3</u>
Operating costs	3(a)	(179.2)	(13.5)	(192.7)	(116.3)	(10.2)	(126.5)
Capital maintenance costs	3(b)	(72.3)	(1.3)	(73.6)	(52.7)	(1.4)	(54.1)
Exceptional operating costs	3(c)	<u>(2.0)</u>	<u>-</u>	<u>(2.0)</u>	<u>(8.5)</u>	<u>-</u>	<u>(8.5)</u>
Total operating expenses	3(d)	(253.5)	(14.8)	(268.3)	(177.5)	(11.6)	(189.1)
OPERATING PROFIT							
Existing Operations		120.7	8.2	128.9	182.1	12.1	194.2
Acquired Operations		<u>33.1</u>	<u>-</u>	<u>33.1</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL OPERATING PROFIT	2	<u>153.8</u>	<u>8.2</u>	<u>162.0</u>	<u>182.1</u>	<u>12.1</u>	<u>194.2</u>
Net interest payable	4	<u>(64.4)</u>	<u>(1.0)</u>	<u>(65.4)</u>	<u>(35.1)</u>	<u>(0.4)</u>	<u>(35.5)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION							
	3	89.4	7.2	96.6	147.0	11.7	158.7
Taxation	8	<u>(6.1)</u>	<u>(3.6)</u>	<u>(9.7)</u>	<u>(25.1)</u>	<u>(3.1)</u>	<u>(28.2)</u>
PROFIT FOR THE FINANCIAL YEAR							
		83.3	3.6	86.9	121.9	8.6	130.5
Dividends	9	<u>(65.0)</u>	<u>(12.0)</u>	<u>(77.0)</u>	<u>(53.2)</u>	<u>(11.2)</u>	<u>(64.4)</u>
PROFIT/(LOSS) RETAINED FOR THE YEAR							
	24	<u>18.3</u>	<u>(8.4)</u>	<u>9.9</u>	<u>68.7</u>	<u>(2.6)</u>	<u>66.1</u>

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.

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

GROUP HISTORICAL COST BALANCE SHEET**At 31 March 2001**

	Note	<u>2001</u>	<u>2000</u>
		£'m	£'m
FIXED ASSETS			
Tangible assets	10	<u>2,186.6</u>	<u>1,722.6</u>
CURRENT ASSETS			
Stocks	12	2.3	1.4
Debtors: amounts falling due within one year	13	95.6	69.5
Debtors: amounts falling due after one year	13	-	11.7
Investments	14	0.2	29.0
Cash at bank and in hand		<u>16.2</u>	<u>9.5</u>
		114.3	121.1
CREDITORS			
Amounts falling due within one year	15	<u>(350.9)</u>	<u>(176.5)</u>
NET CURRENT LIABILITIES			
		<u>(236.6)</u>	<u>(55.4)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			
		<u>1,950.0</u>	<u>1,667.2</u>
CREDITORS: Amounts falling due after more than one year			
PROVISIONS FOR LIABILITIES AND CHARGES	21	(884.2)	(614.6)
ACCRUALS AND DEFERRED INCOME	22	(18.2)	(16.6)
		<u>(33.3)</u>	<u>(31.6)</u>
		<u>(935.7)</u>	<u>(662.8)</u>
NET ASSETS			
		<u>1,014.3</u>	<u>1,004.4</u>
CAPITAL AND RESERVES			
Called up share capital	23	122.7	122.7
Profit and loss account	24	<u>891.6</u>	<u>881.7</u>
EQUITY SHAREHOLDERS' FUNDS			
	25	<u>1,014.3</u>	<u>1,004.4</u>

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

Approved on behalf of the board on 10 July 2001

A J Harding

C M Green

COMPANY HISTORICAL COST BALANCE SHEET**At 31 March 2001**

	Note	2001			2000		
		Appointe d business	Non- appointed business	Aggregate d basis	Appointe d business	Non- appointed business	Aggregate d basis
		£'m	£'m	£'m	£'m	£'m	£'m
FIXED ASSETS							
Tangible assets	10	2,076.2	110.4	2,186.6	1,611.3	111.3	1,722.6
Investments	11	89.4	-	89.4	47.2	-	47.2
		<u>2,165.6</u>	<u>110.4</u>	<u>2,276.0</u>	<u>1,658.5</u>	<u>111.3</u>	<u>1,769.8</u>
CURRENT ASSETS							
Stocks	12	2.2	0.1	2.3	1.3	0.1	1.4
Debtors: amounts falling due within one year	13	91.1	4.5	95.6	64.5	5.0	69.5
Debtors: amounts falling due after one year	13	-	-	-	11.7	-	11.7
Investments	14	0.2	-	0.2	29.0	-	29.0
Cash at bank and in hand		16.2	-	16.2	9.5	-	9.5
		<u>109.7</u>	<u>4.6</u>	<u>114.3</u>	<u>116.0</u>	<u>5.1</u>	<u>121.1</u>
CREDITORS							
Amounts falling due within one year	15	(323.2)	(27.7)	(350.9)	(155.9)	(20.6)	(176.5)
NET CURRENT LIABILITIES							
		<u>(213.5)</u>	<u>(23.1)</u>	<u>(236.6)</u>	<u>(39.9)</u>	<u>(15.5)</u>	<u>(55.4)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES							
		<u>1,952.1</u>	<u>87.3</u>	<u>2,039.4</u>	<u>1,618.6</u>	<u>95.8</u>	<u>1,714.4</u>
CREDITORS: Amounts falling due after more than one year							
	16	(973.4)	(0.2)	(973.6)	(661.4)	(0.4)	(661.8)
PROVISIONS FOR LIABILITIES AND CHARGES							
	21	(17.2)	(1.0)	(18.2)	(15.7)	(0.9)	(16.6)
ACCRUALS AND DEFERRED INCOME							
	22	(32.7)	(0.6)	(33.3)	(31.0)	(0.6)	(31.6)
		<u>(1,023.3)</u>	<u>(1.8)</u>	<u>(1,025.1)</u>	<u>(708.1)</u>	<u>(1.9)</u>	<u>(710.0)</u>
NET ASSETS							
		<u>928.8</u>	<u>85.5</u>	<u>1,014.3</u>	<u>910.5</u>	<u>93.9</u>	<u>1,004.4</u>
CAPITAL AND RESERVES							
Called up share capital	23	92.1	30.6	122.7	92.1	30.6	122.7
Profit and loss account	24	836.7	54.9	891.6	818.4	63.3	881.7
EQUITY SHAREHOLDERS' FUNDS							
	25	<u>928.8</u>	<u>85.5</u>	<u>1,014.3</u>	<u>910.5</u>	<u>93.9</u>	<u>1,004.4</u>

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

Approved on behalf of the board on 10 July 2001

A J Harding

C M Green

GROUP HISTORICAL COST CASH FLOW STATEMENT**For the year ended 31 March 2001**

Note	2001			2000			
	Appointe d business	Non- appointed business	Aggregate d basis	Appointe d business	Non- appointed business	Aggregate d basis	
	£'m	£'m	£'m	£'m	£'m	£'m	
NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES	a	192.9	11.1	204.0	219.8	8.7	228.5
Returns on investments and servicing of finance							
Interest received		5.3	-	5.3	8.7	-	8.7
Interest paid		(62.8)	(1.0)	(63.8)	(40.4)	(0.4)	(40.8)
Interest element of finance lease rentals		(2.4)	-	(2.4)	(0.4)	-	(0.4)
Net cash outflow from returns on investments and servicing of finance		(59.9)	(1.0)	(60.9)	(32.1)	(0.4)	(32.5)
Taxation							
United Kingdom corporation tax paid		(24.1)	(3.6)	(27.7)	(30.1)	(4.4)	(34.5)
Net cash outflow from taxation		(24.1)	(3.6)	(27.7)	(30.1)	(4.4)	(34.5)
Capital expenditure and financial investment							
Purchase of tangible fixed assets		(198.4)	(0.2)	(198.6)	(212.6)	(0.5)	(213.1)
Sale of tangible fixed assets		0.2	-	0.2	1.7	-	1.7
Grants, contributions and connection charges		8.9	-	8.9	9.0	-	9.0
Purchase of business		(0.7)	-	(0.7)	-	-	-
Net cash outflow from capital expenditure and financial investment		(190.0)	(0.2)	(190.2)	(201.9)	(0.5)	(202.4)
Equity dividend paid		(66.6)	(12.3)	(78.9)	(53.0)	(9.9)	(62.9)
Management of liquid resources							
Purchase of short term deposits		-	-	-	(640.0)	-	(640.0)
Sale of short term deposits		32.9	-	32.9	767.3	-	767.3
Net cash inflow from management of liquid resources		32.9	-	32.9	127.3	-	127.3
Financing							
New loans	b	134.8	-	134.8	-	-	-
New leases	b	1.1	-	1.1	1.7	-	1.7
Loan repayment receipts from other Group company		-	-	-	2.4	-	2.4
Loan repayments	b	(10.9)	-	(10.9)	(26.7)	-	(26.7)
Capital element of finance lease rental payments	b	(3.5)	-	(3.5)	(3.9)	-	(3.9)
Net cash inflow/(outflow)	b	121.5	-	121.5	(26.5)	-	(26.5)
INCREASE/(DECREASE) IN CASH IN THE YEAR		6.7	(6.0)	0.7	3.5	(6.5)	(3.0)

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

NOTES TO THE CASH FLOW STATEMENT
For the year ended 31 March 2001

a. RECONCILIATION OF OPERATING PROFIT TO CASH FLOWS

	2001			2000		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Operating profit	153.8	8.2	162.0	182.1	12.1	194.2
Depreciation on tangible fixed assets	39.6	1.1	40.7	32.9	1.2	34.1
Infrastructure renewals expenditure	(29.9)	-	(29.9)	(21.0)	(0.1)	(21.1)
Provision for infrastructure renewals	32.9	0.2	33.1	21.2	0.2	21.4
Amortisation of grants	(1.6)	-	(1.6)	(2.7)	-	(2.7)
Profit on sale of fixed assets	(0.2)	-	(0.2)	(1.3)	-	(1.3)
Decrease in stock	0.8	-	0.8	0.9	0.1	1.0
(Increase)/Decrease in debtors	(1.4)	0.5	(0.9)	4.8	(2.3)	2.5
Increase/(Decrease) in creditors	0.1	1.1	1.2	(3.7)	(0.9)	(4.6)
(Decrease)/Increase in restructuring provision	(1.1)	(0.1)	(1.2)	5.0	-	5.0
(Decrease)/Increase in inter business debtor/creditor	(0.1)	0.1	-	1.6	(1.6)	-
Net cash inflow from operating activities	192.9	11.1	204.0	219.8	8.7	228.5

The operating cash flows are all from continuing operations.

b. ANALYSIS AND RECONCILIATION OF NET DEBT

	Appointed business			
	1 April 2000	Cash Flow	Other non-cash changes	31 March 2001
	£'m	£'m	£'m	£'m
Cash in hand and at bank	9.5	7.4	(0.7)	16.2
Overdrafts	-	(0.7)	0.7	-
	9.5	6.7	-	16.2
Debt due after 1 year	(560.0)	-	(270.8)	(830.8)
Debt due within 1 year	(10.4)	(123.9)	(14.0)	(148.3)
Finance leases	(55.6)	3.5	(4.4)	(56.5)
	(626.0)	(120.4)	(289.2)	(1,035.6)
Current asset investments	29.0	(32.9)	3.9	-
Net debt	(587.5)	(146.6)	(285.3)	(1,019.4)

b. ANALYSIS AND RECONCILIATION OF NET DEBT (continued)

	Non-appointed business			31 March 2001
	1 April 2000	Cash Flow	Other non-cash changes	
	£'m	£'m	£'m	£'m
Overdrafts	(10.9)	(6.0)	-	(16.9)
Net debt	(10.9)	(6.0)	-	(16.9)

Reconciliation of cash flow movement to net debt:

	2001	2001			2000
	Group	Appointe d business	Non- appointed business	Aggregated business	Group and Aggregated business
	£'m	£'m	£'m	£'m	£'m
Increase/(decrease) in cash in the year	0.7	6.7	(6.0)	0.7	(3.0)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing	(120.4)	(120.4)	-	(120.4)	26.5
Cash inflow from reduction in liquid resources	(32.9)	(32.9)	-	(32.9)	(127.3)
Change in net debt resulting from cash flows	(152.6)	(146.6)	(6.0)	(152.6)	(103.8)
Finance costs incurred during the year	(0.2)	(0.2)	-	(0.2)	(0.2)
Finance lease interest capitalised	(1.4)	(1.4)	-	(1.4)	(2.3)
Finance lease non cash movement	(1.1)	(1.1)	-	(1.1)	-
Debt acquired from Essex & Suffolk Water plc	(106.6)	(106.6)	-	(106.6)	-
Debt issued to purchase the assets of Essex & Suffolk Water plc	(176.0)	(176.0)	-	(176.0)	-
Movement in loan acquired from debt reorganisation	-	-	-	-	2.4
Movement in net debt in year	(437.9)	(431.9)	(6.0)	(437.9)	(103.9)
Net debt at 1 April 2000	(598.4)	(587.5)	(10.9)	(598.4)	(494.5)
Net debt at 31 March 2001	(1,036.3)	(1,019.4)	(16.9)	(1,036.3)	(598.4)

NOTES TO THE HISTORICAL COST FINANCIAL STATEMENTS

For the year ended 31 March 2001

1. STATEMENT OF ACCOUNTING POLICIES

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

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

a profit and loss account, a statement of assets and liabilities and a cash flow statement, together with notes thereto prepared under the historical cost basis.

These 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 (as described in (e) below).
- infrastructure renewals accounting which, following the instructions of the Director General of Water Services set out in his letter RD15/99, dated 21 April 1999, "Regulatory Accounts for 1998/9 Reporting Requirements – RAG 3.04", has been accounted for in accordance with RAG 2, "Classification of Infrastructure Expenditure". RAG 2 is not in accordance with Financial Reporting Standard No. 12, "Provisions, Contingent Liabilities and Contingent Assets" and Financial Reporting Standard No. 15, "Tangible Fixed Assets" as described in section (d) (i) below.

A summary of the more important accounting policies, which have been applied consistently throughout the year and in the preceding year, is set out below.

(a) Basis of accounting

These accounts have not been prepared for the purposes of Section 226 of the Companies Act 1985, "Duty to prepare individual company accounts," and are therefore not statutory accounts.

The financial statements have been prepared under the historical cost convention on the 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.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

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.

In accordance with instructions from the Director General of the Office of Water Services set out in his letter RD15/99, dated 21 April 1999, “Regulatory Accounts for 1998/9 Reporting Requirements – RAG 3.04”, the Group and Company have not applied Financial Reporting Standard No. 12, “Provisions, Contingent Liabilities and Contingent Assets” (“FRS12”) and Financial Reporting Standard No 15, “Tangible Fixed Assets” (“FRS15”) in respect of infrastructure renewals accounting and have continued to charge infrastructure renewal costs (calculated in accordance with their Asset Management Plan) to the profit and loss account. Expenditure during the year is charged to the provision.

Under FRS12 and FRS15, it is not permitted to recognise a provision for the costs of renewals expenditure. Adoption of FRS12 and FRS15, taken together with Financial Reporting Standard No. 15, Measurement of Tangible Assets, would require:

- restatement of the cost and accumulated depreciation of infrastructure fixed assets to reflect infrastructure renewals expenditure, depreciation and retirement of assets since renewals accounting was first adopted. Accordingly, infrastructure renewals provisions and prepayments at years ended 31 March 2000 and 31 March 2001 would have been included within infrastructure fixed assets.
- the depreciation of infrastructure assets and the inclusion of the infrastructure renewals charge as a component of the depreciation charge for the year.

(ii) Other assets

Other assets (including properties, overground plant and equipment) are included at cost less accumulated depreciation and provisions for diminution in value. 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 – 80 years
Fixtures, fittings, tools and equipment	4 – 10 years

(iii) Assets in the course of construction

Assets in the course of construction are not depreciated until 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.

1. STATEMENT OF ACCOUNTING POLICIES (continued)**(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 purchased cost less any provision necessary to recognise damage and obsolescence. 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) Taxation

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

(j) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the dates of the transactions. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date or applicable foreign forward contract rate. 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 year 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 company 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 company in line with the company'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.

2. TURNOVER AND OPERATING PROFIT

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

3. OPERATING COSTS AND CAPITAL MAINTENANCE COSTS

(a) Operating costs comprise:

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Materials and consumables	11.7	0.5	12.2	9.4	0.5	9.9
Other external charges	36.5	2.2	38.7	14.3	0.3	14.6
Manpower costs (note 7)	44.6	2.7	47.3	30.5	0.6	31.1
Other operating charges	99.1	8.1	107.2	63.7	8.8	72.5
Own work capitalised	(12.7)	-	(12.7)	(1.6)	-	(1.6)
	<u>179.2</u>	<u>13.5</u>	<u>192.7</u>	<u>116.3</u>	<u>10.2</u>	<u>126.5</u>

(b) Capital maintenance costs comprise:

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Depreciation:						
Owned tangible fixed assets	34.9	1.0	35.9	27.5	1.2	28.7
Tangible fixed assets held under finance leases	4.7	0.1	4.8	5.4	-	5.4
Infrastructure renewals expenditure	29.9	-	29.9	21.0	0.1	21.1
Infrastructure renewals accrued	3.0	0.2	3.2	0.2	0.1	0.3
Profit on disposal of fixed assets	(0.2)	-	(0.2)	(1.4)	-	(1.4)
	<u>72.3</u>	<u>1.3</u>	<u>73.6</u>	<u>52.7</u>	<u>1.4</u>	<u>54.1</u>

Following a review, the company has harmonised asset lives where these were found to be inconsistent between the existing and acquired divisions. The harmonised asset lives are consistent with those adopted elsewhere in the water industry, and are supported by engineering evidence. The net impact of this change has been to decrease the annual depreciation charge of the company by £5.0m. This has partially offset the depreciation relating to the assets acquired from Essex and Suffolk Water plc on 1 April 2000.

(c) Exceptional operating costs comprise:

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Reorganisation/						

SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

Restructuring costs	<u>2.0</u>	<u>-</u>	<u>2.0</u>	<u>8.5</u>	<u>-</u>	<u>8.5</u>
	<u>2.0</u>	<u>-</u>	<u>2.0</u>	<u>8.5</u>	<u>-</u>	<u>8.5</u>

The reorganisation/restructuring costs represent exceptional costs resulting from a new severance scheme which was introduced during 2000 following the merging of the operations of Northumbrian Water Limited and Essex and Suffolk Water plc.

3. OPERATING COSTS AND CAPITAL MAINTENANCE COSTS (continued)

(d) Total operating expenses comprise:

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Existing operations	179.7	14.8	194.5	177.5	11.6	189.1
Acquired operations	73.8	-	73.8	-	-	-
	<u>253.5</u>	<u>14.8</u>	<u>268.3</u>	<u>177.5</u>	<u>11.6</u>	<u>189.1</u>

(e) Profit on ordinary activities before taxation

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Profit on ordinary activities before taxation is stated after crediting:						
Amortisation of capital grants (note 22)	1.6	-	1.6	2.7	-	2.7
And after charging:						
Operating leases:						
Plant and machinery	0.6	-	0.6	0.8	-	0.8
Other assets	1.8	-	1.8	0.2	-	0.2
Costs of research and development	5.9	-	5.9	4.7	-	4.7
Directors' emoluments (note 5)	0.8	-	0.8	0.5	-	0.5

Auditors' remuneration for the regulatory audit amounted to £44,200 (March 2000: regulatory audit £26,000). There were no fees for non audit services (March 2000: nil)

4. NET INTEREST

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Net interest payable comprises:						
Interest payable:						
Bank loans and overdrafts	62.4	1.0	63.4	39.1	0.4	39.5
Debenture stock interest	2.3	-	2.3	0.9	-	0.9
Financing charges payable under finance leases	3.7	-	3.7	2.7	-	2.7
Total interest payable	68.4	1.0	69.4	42.7	0.4	43.1
Interest receivable	(4.0)	-	(4.0)	(7.6)	-	(7.6)
Net interest payable	64.4	1.0	65.4	35.1	0.4	35.5

5. DIRECTORS' EMOLUMENTS AND INTERESTSDirectors' remuneration

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

	2001	2000
	£'000	£'000
Emoluments (including benefits in kind)	802.9	453.5

Highest paid director

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

	2001	2000
	£'000	£'000
Emoluments (including benefits in kind)	210.5	169.9

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 March 2001 was £56,501 (March 2000: £49,785). In addition to the pension, there is a tax free lump sum at normal pension date of which the accrued entitlement at 31 March 2001 is £148,939 (March 2000: £133,260).

Three of the directors at 31 March 2001 were members of a defined benefit pension scheme where the company makes contributions towards the cost (March 2000: 4)

The directors who held office at 31 March 2001 had no interest in the shares of the company.

The directors who held office on 31 March 2001 had the following beneficial interests in the ordinary shares, other than share options, and debentures of the Company's ultimate parent company, Suez S.A.:

Name of Director	Description of Shares or debentures	31 March 2001	1 April 2000 or subsequent date of appointment
P Babin	Ordinary Shares of €10	603	522
J A Cuthbert	Ordinary Shares of €10	710	361
A J Harding	Ordinary Shares of €10	903	468
Sir F G T Holliday	Ordinary Shares of €10	400	400
C M Green	Ordinary Shares of €10	489	264
A Chaigneau	Ordinary Shares of €10	1058	720
M A B Nègre	Ordinary Shares of €10	1510	1510

5. DIRECTORS' EMOLUMENTS AND INTERESTS (continued)

The directors who held office on 31 March 2001 held the following options over ordinary shares of €10 each in Suez SA:

Name of Director	1 April 2000 or subsequent date of appointment	Granted during the year	31 March 2001	Exercise Price
P Babin	3500	-	3500	573 FF
	4000	-	4000	978 FF
	4500	-	4500	€151.11
	-	6500	6500	€82.07
J A Cuthbert	1200	-	1200	456 FF
	2200	-	2200	573 FF
	2300	-	2300	978 FF
	2500	-	2500	€151.11
	-	2600	2600	€82.07
A J Harding	2500	-	2500	573FF
	2600	-	2600	978FF
	2800	-	2800	€151.11
	-	2900	2900	€82.07
Sir F G T Holliday	3000	-	3000	573 FF
	3000	-	3000	978 FF
	3000	-	3000	€151.11
	-	3000	3000	€82.07
C M Green	700	-	700	573 FF
	1000	-	1000	978 FF
	700	-	700	€151.11
	-	900	900	€82.07
A Chaigneau	1000	-	1000	456 FF
	3500	-	3500	573 FF
	4000	-	4000	978 FF
	5000	-	5000	€151.11
	-	6000	6000	€82.07
M A B Nègre	2000	-	2000	573 FF
	3000	-	3000	978 FF
	3000	-	3000	€151.11

No options have lapsed during the year.

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

All options with an exercise price of 573 FF 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.

All options with an exercise price of €151.11 were granted on 15 November 1999 and are exercisable between 15 November 2004 and 15 November 2007.

All options with an exercise price of €82.07 were granted on 20 November 2000 and are exercisable between 28 November 2005 and 28 November 2010.

The highest and lowest prices of the Suez SA shares during the year were €99.7 and €153.5 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:

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Costs charged to the profit and loss account:						
Wages and salaries	38.3	2.3	40.6	26.1	0.5	26.6
Social security costs	3.2	0.2	3.4	2.2	0.1	2.3
Other pension costs	3.1	0.2	3.3	2.2	-	2.2
	<u>44.6</u>	<u>2.7</u>	<u>47.3</u>	<u>30.5</u>	<u>0.6</u>	<u>31.1</u>
Costs charged to capital schemes and infrastructure renewals:						
Wages and salaries	9.8	-	9.8	7.5	-	7.5
Social security costs	0.8	-	0.8	0.6	-	0.6
Other pension costs	0.9	-	0.9	0.8	-	0.8
	<u>11.5</u>	<u>-</u>	<u>11.5</u>	<u>8.9</u>	<u>-</u>	<u>8.9</u>

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

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	No.	No.	No.	No.	No.	No.
Average during the year	<u>2066</u>	<u>74</u>	<u>2140</u>	<u>1525</u>	<u>13</u>	<u>1538</u>
Total at 31 March	<u>2053</u>	<u>64</u>	<u>2117</u>	<u>1455</u>	<u>11</u>	<u>1466</u>

The average monthly number of employees incorporates staff numbers relating to Essex & Suffolk Water plc from 1 April 2000.

8. TAXATION

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Tax on profit on ordinary activities						
United Kingdom corporation tax at 30% (March 2000:30%)						
- current year	1.9	0.7	2.6	11.4	3.1	14.5
- prior years	(3.3)	(0.9)	(4.2)	(0.1)	-	(0.1)
Payable in respect of group relief						
- current year	4.1	3.0	7.1	13.7	-	13.7
- prior years	3.4	0.8	4.2	0.1	-	0.1
Tax charge	6.1	3.6	9.7	25.1	3.1	28.2

(a) The appointed business has provisionally claimed tax losses from fellow subsidiaries in the current year of £13.7m (March 2000: £45.4m) for which payment will be made at the rate of 30%.

(b) The non-appointed business has provisionally claimed tax losses from fellow subsidiaries in the current year of £10.0m (March 2000: £nil) for which payment will be made at the rate of 30%.

(c) No deferred taxation has been provided in the financial statements since timing differences at 31 March 2001 are not expected to reverse in the foreseeable future (March 2000: £nil). The effect of not providing for deferred taxation has been a reduction in the tax charge for the year of £25.9m (March 2000: £18.8m). The full potential amount of deferred taxation calculated at 30% (March 2000: 30%) on all timing differences is as follows:

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Accelerated capital allowances	332.8	18.9	351.7	269.5	18.3	287.8
Other timing differences	(20.7)	(0.5)	(21.2)	(18.5)	(0.5)	(19.0)
	312.1	18.4	330.5	251.0	17.8	268.8

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 £212.8m assuming a tax rate of 30% (March 2000: £175.0m assuming a tax rate of 30%).

9. DIVIDENDS

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Equity:						
Interim paid of 29.99p (March 2000: 26.25p) per share on an aggregated basis	30.8	6.0	36.8	26.6	5.6	32.2
Final paid of 32.76p (March 2000: 26.25p) per share on an aggregated basis	34.2	6.0	40.2	26.6	5.6	32.2
	<u>65.0</u>	<u>12.0</u>	<u>77.0</u>	<u>53.2</u>	<u>11.2</u>	<u>64.4</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 a steady 2% real growth per annum for the Appointed business dividend. Dividends from the Non-Appointed business are determined by the Directors and are based upon 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.

Included within the dividend payable of £77.0m is an amount of £10.0m, relating to dividends payable from the profits generated by the operations acquired from Essex and Suffolk Water plc since 1 April 2000.

10. TANGIBLE FIXED ASSETS – GROUP AND COMPANY

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 £91.7m (March 2000: £60.6m) in order to give a true and fair view (note 1).

	Freehold land and buildings	Infra- structure assets	Operational structures, plant and machinery	Fixtures, fittings, tools and equipment	Assets in the course of construction	Aggregated Basis
	£'m	£'m	£'m	£'m	£'m	£'m
Cost:						
At 1 April 2000	54.6	776.7	731.9	60.2	351.7	1,975.1
Additions	-	-	-	-	185.8	185.8
Schemes commissioned	14.8	79.6	259.2	10.6	(364.2)	-
Assets transferred from Essex & Suffolk Water plc	17.7	109.9	181.9	5.0	10.1	324.6
Disposals	-	-	(0.1)	-	-	(0.1)
Grants and contributions	-	(4.6)	-	-	(1.0)	(5.6)
At 31 March 2001	87.1	961.6	1,172.9	75.8	182.4	2,479.8
Depreciation:						
At 1 April 2000	15.0	-	191.3	46.3	-	252.6
Provision for year	2.4	-	32.0	6.3	-	40.7
Disposals	-	-	(0.1)	-	-	(0.1)
At 31 March 2001	17.4	-	223.2	52.6	-	293.2
Net book value:						
At 31 March 2001	69.7	961.6	949.7	23.2	182.4	2,186.6
At 31 March 2000	39.6	776.7	540.6	13.9	351.7	1,722.5
Leased assets included above:						
Net book value						
At 31 March 2001	-	2.2	27.2	2.5	1.0	32.9
At 31 March 2000	-	-	29.6	2.8	-	32.4
			Appointed business		Non-	Aggregated
			Water	Sewerage	appointed	basis
			Supply	services	business	
			£'m	£'m	£'m	£'m
Cost:						
At 1 April 2000			568.5	1,269.6	137.0	1,975.1
Additions			60.5	125.0	0.3	185.8
Assets transferred from Essex & Suffolk Water plc			324.6	-	-	324.6
Disposals			(0.1)	-	-	(0.1)
Grants and contributions			(4.0)	(1.6)	-	(5.6)
At 31 March 2001			949.5	1,393.0	137.3	2,479.8
Depreciation:						
At 1 April 2000			79.7	147.1	25.8	252.6
Provision for the year			16.9	22.7	1.1	40.7
Disposals			(0.1)	-	-	(0.1)
At 31 March 2001			96.5	169.8	26.9	293.2
Net Book Value:						
At 31 March 2001			853.0	1,223.2	110.4	2,186.6
At 31 March 2000			488.8	1,122.5	111.2	1,722.5

11. FIXED ASSET INVESTMENTS – COMPANY

	March 2001	March 2000
	£'m	£'m
Investment in Newcastle and Gateshead Water plc	47.2	47.2
Investment in Suffolk Water plc	42.2	-
	<u>89.4</u>	<u>47.2</u>

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 a 100% holding in Newcastle and Gateshead Water plc of £40.7m, and a long term loan investment of £6.5m. Included in the net assets of Newcastle and Gateshead Water plc is a loan note receivable from Northumbrian Water Limited of £47.2m. Both companies have agreed that no interest will be levied on the loan note. The results of this subsidiary have been consolidated in these financial statements.

As a result of the acquisition of all the property and assets of Essex and Suffolk Water plc, the company now has a wholly-owned subsidiary undertaking in Suffolk Water plc, whose principal activity is the holding of a loan note due from its immediate parent company. This investment is valued at £42.2m which equates to the net assets of that company. Both companies have agreed that no interest will be levied on the loan note. The results of this subsidiary have been consolidated in these financial statements.

12. STOCKS – GROUP AND COMPANY

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Raw materials and consumables	<u>2.2</u>	<u>0.1</u>	<u>2.3</u>	<u>1.3</u>	<u>0.1</u>	<u>1.4</u>

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

13. DEBTORS – GROUP AND COMPANY

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
(a) Amounts falling due within one year:						
Trade debtors	65.5	3.1	68.6	37.5	1.1	38.6
Amounts owed by other group companies	5.8	0.2	6.0	3.4	0.1	3.5
Other debtors	5.1	-	5.1	4.8	-	4.8
Prepayments and accrued income	<u>14.7</u>	<u>1.2</u>	<u>15.9</u>	<u>18.8</u>	<u>3.8</u>	<u>22.6</u>
	<u>91.1</u>	<u>4.5</u>	<u>95.6</u>	<u>64.5</u>	<u>5.0</u>	<u>69.5</u>
(b) Amounts falling due after one year:						
Amounts owed by other group companies	<u>-</u>	<u>-</u>	<u>-</u>	<u>11.7</u>	<u>-</u>	<u>11.7</u>

SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

Included in amounts owed by other group companies are loans of £nil repayable by instalments of which £nil (March 2000: £10.2m) falls due in less than five years and £nil (March 2000: £4.0m) falls due after more than five years.

14. INVESTMENTS – GROUP AND COMPANY

	2001			2000		
	Appointed business	Non- appointed business	Aggregated basis	Appointed business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Short term deposits	-	-	-	29.0	-	29.0
Assets held for resale	0.2	-	0.2	-	-	-
	<u>0.2</u>	<u>-</u>	<u>0.2</u>	<u>29.0</u>	<u>-</u>	<u>29.0</u>

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

	2001			2000		
	Appointe d business	Non- appointed business	Aggregated basis	Appointe d business	Non- appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Obligations under finance leases (note 19)	4.5	-	4.5	3.1	-	3.1
Bank overdraft	-	16.9	16.9	-	10.9	10.9
Loans (note 17)	13.5	-	13.5	10.1	-	10.1
Trade creditors	4.2	0.1	4.3	1.8	-	1.8
Amounts owed to other group companies	152.6	1.7	154.3	16.9	-	16.9
Taxation and social security	1.7	0.1	1.8	1.0	-	1.0
Corporation Tax	16.7	0.5	17.2	16.8	2.0	18.8
Receipts in Advance	14.7	-	14.7	9.5	-	9.5
Other creditors	19.6	0.3	19.9	12.3	-	12.3
Dividend payable	34.2	6.0	40.2	25.9	6.3	32.2
Accruals and deferred income	62.8	0.8	63.6	59.7	0.2	59.9
Inter business balance	(1.3)	1.3	-	(1.2)	1.2	-
	<u>323.2</u>	<u>27.7</u>	<u>350.9</u>	<u>155.9</u>	<u>20.6</u>	<u>176.5</u>

Accruals and deferred income includes accruals related to capital projects of £31.6m (March 2000: £42.0m). Amounts owed to other group companies includes amounts related to capital projects of £2.7m (March 2000: £3.7m)

Included in amounts owed to other group companies is £6.8m (appointed business £5.1m (March 2000: £7.6m), non-appointed business £1.7m (March 2000: £nil)) payable in respect of tax losses surrendered by fellow subsidiaries; £nil (appointed business £nil (March 2000: £0.1m), non-appointed business £nil (March 2000: £nil)) payable in respect of advance corporation tax surrendered from Northumbrian Water Group plc in prior years.

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

	2001		2000	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Obligations under hire purchase contracts and finance leases (note 19)	52.0	52.0	52.5	52.5
Loans (note 17)	318.2	318.2	227.5	227.5
Debenture stocks (note 18)	22.2	22.2	8.7	8.7
Amounts owed to other group companies (note 20)	490.4	579.8	323.9	371.1
Other creditors	1.4	1.4	2.0	2.0
	<u>884.2</u>	<u>973.6</u>	<u>614.6</u>	<u>661.8</u>

At 31 March 2001 the group and company had entered into the following interest swap arrangements: £15.0m (March 2000: £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 £4.7m (March 2000: £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%, and £25.0m over a three year period commencing on 7 December 2000 under which the group and company is required to pay interest at 5.61% and will receive interest at a rate linked to LIBOR, and £25.0m over a five year period commencing 23 May 1997 under which the group and company is required to pay interest at a rate linked to LIBOR and will receive interest at 7.45%.

Included in other creditors is £0.4m (appointed business £0.2m (March 2000: £1.6m), non-appointed business £0.2m (March 2000: £0.4m)) in respect of corporation tax payable.

17. LOANS

	2001	2000
	Appointed and aggregated basis	Appointed and aggregated basis
	£'m	£'m
External loans are repayable as follows:		
Within one year	13.5	10.1
Between one and two years	22.6	11.0
Between two and five years	84.0	65.7
After five years	211.6	150.8
	<u>331.7</u>	<u>237.6</u>

Loans repayable by instalments wholly repayable within 5 years amount to £29.8m (March 2000: £10.5m).

Loans repayable by instalments not wholly repayable within 5 years amount to £196.9m (March 2000: £137.1m) and bear interest rates in the range of 7.1% to 10.4% of which £75.3m (March 2000: £61.4m) falls due in less than 5 years and £121.6m (March 2000: £75.7m) falls due after more than 5 years.

Loans repayable otherwise than by instalments which fall due in less than 5 years amount to £15.0m (March 2000: £nil) and bears interest at the rate of 7.95%.

Loans repayable otherwise than by instalments which fall due after more than 5 years amount to £90.0m (March 2000: £90.0m) and bear interest at rates in the range of 5.9% to 6.2%.

17. LOANS (continued)

The level of capital expenditure which 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 fund the long term assets required in its business. The company's strategy is to finance such investment by raising medium to long term debt, to provide a balance sheet match with long term assets and to fix a major proportion of interest rates.

Treasury operations

The company's board is responsible for the financing strategy of the company which is determined within treasury policies set by the company's immediate parent company, Northumbrian Water Group plc. 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, interest rate risk and foreign currency risk. As noted above, the company's financing strategy is developed in accordance with the treasury policies of Northumbrian Water Group plc, whose board reviews and agrees policies for managing each of these risks. These are summarised below. All Northumbrian Water Limited 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 to Northumbrian Water Group plc. Northumbrian Water Group plc'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.

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. Northumbrian Water Group plc's policy is to keep a minimum 50 per cent of its borrowings at fixed rates of interest.

Foreign currency risk

Northumbrian Water Group plc'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 recognition.

17. LOANS (continued)**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 2001 were:

	Total net borrowings	Variable rate net borrowings	Fixed Rate Net Borrowings			Financial liabilities on which no interest is paid	
			Fixed Rate Borrowings	Weighted average interest rate	Weighted average period until maturity		Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years	Years	£'m
Sterling borrowings:							
External loans	(331.7)	(92.5)	(239.2)	7.58	9.9	9.9	-
Debentures	(22.2)	-	(22.2)	10.53	5.3	5.3	-
Internal loans	(625.2)	(430.4)	(194.8)	6.99	21.9	21.9	-
Finance leases	(56.5)	(49.4)	(7.1)	9.12	1.6	1.6	-
Bank Overdraft	(16.9)	(16.9)	-	-	-	-	-
Total Borrowings	(1,052.5)	(589.2)	(463.3)	7.49	14.6	14.6	-
Cash	16.2	16.2	-	-	-	-	-
Short Term Investments	-	-	-	-	-	-	-
Net borrowings	(1,036.3)	(573.0)	(463.3)				-

The interest rates and currency profile of the net borrowings of the Group at 31 March 2000 were:

	Total net borrowings	Variable rate net borrowings	Fixed Rate Net Borrowings			Financial liabilities on which no interest is paid	
			Fixed Rate Borrowings	Weighted average interest rate	Weighted average period until maturity		Weighted average period for which rate is fixed
	£'m	£'m	£'m	%	Years	Years	£'m
Sterling borrowings:							
External loans	(237.6)	(79.2)	(158.4)	7.72	8.6	8.6	-
Debentures	(8.7)	-	(8.7)	10.58	6.3	6.3	-
Internal loans	(324.1)	(119.5)	(204.6)	7.07	22.3	22.3	-
Finance leases	(55.6)	(48.0)	(7.6)	9.85	1.4	1.4	-
Bank Overdraft	(10.9)	(10.9)	-	-	-	-	-
Total Borrowings	(636.9)	(257.6)	(379.3)	7.48	15.8	15.8	-
Cash	9.5	9.5	-	-	-	-	-
Short Term Investments	29.0	-	29.0	5.8	-	-	-
Net borrowings	(598.4)	(248.1)	(350.3)				-

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.

Included within the external sterling loans of the group above are loans amounting to £122m whose rates are fixed for a period of 5 to 7 years from their inception and which, under the terms of the respective loan agreements, can then either be repaid or rolled over for a similar period at a new fixed rate based upon prevailing market rates at that date. The weighted average period for which the rates on such loans are fixed has been taken as the same average period until maturity.

17. LOANS (continued)**Currency exposures**

At 31 March 2001, the group and the company had no currency exposures.

Borrowing facilities

The group had no undrawn committed borrowing facilities as at 31 March 2001 but had access to undrawn committed borrowing facilities available to Northumbrian Water Group plc which, at 31 March 2001, amounted to £150m.

The facilities available to Northumbrian Water Group plc at 31 March 2001, in respect of which all conditions precedent have been met, were as follows:

	£'m
Expiring in one year or less	75.0
Expiring in more than one year but not more than three years	<u>75.0</u>
	<u><u>150.0</u></u>

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 2001:

	<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	(153.5)	(156.1)
Long-term borrowings	(882.8)	(902.1)
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps	<u>-</u>	<u>2.3</u>
As at 31 March 2001	<u><u>(1,036.3)</u></u>	<u><u>(1,055.9)</u></u>

17. LOANS (continued)

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 2000:

	<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	(24.4)	(25.7)
Long-term borrowings	(612.5)	(624.0)
Financial assets	38.5	38.5
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps	-	2.4
As at 31 March 2000	<u>(598.4)</u>	<u>(608.8)</u>

The fair values of the interest rate swaps, and sterling denominated long-term fixed rate debt with a book value of £217.0m, have 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.

Gains and losses on hedges

The company's board uses the Northumbrian Water Limited 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 for the group is as follows:

	<u>Gains</u>	<u>Losses</u>	<u>Total net</u>
	£'m	£'m	Gains/Losses
			£'m
Unrecognised gains and losses on hedges at 1 April 2000	2.4	-	2.4
Gains and losses arising in previous years that were recognised in 2000/2001	(0.7)	-	(0.7)
Gains and losses arising before 1 April 2000 that were not recognised in 2000/2001	1.7	-	1.7
Gains and losses arising in 2000/2001 that were not recognised in 2000/2001	1.0	0.4	0.6
Unrecognised gains and losses on hedges at 31 March 2001	<u>2.7</u>	<u>0.4</u>	<u>2.3</u>
Of which:			
Gains and losses expected to be recognised in 2001/2002	0.9	0.1	0.8
Gains and losses expected to be recognised in 2002/2003 or later	1.8	0.3	1.5
	<u>2.7</u>	<u>0.4</u>	<u>2.3</u>

17. LOANS (continued)**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 rise in interest rates would not have a material affect on its pre-tax profits.

18. DEBENTURE STOCKS – GROUP AND COMPANY

	2001	2000
	Appointed and aggregated basis	Appointed and aggregated basis
	£'m	£'m
Debenture stocks are repayable as follows:		
Between one and two years:		
£1, 11.75% Redeemable 2002/04	8.0	-
Between two and five years:		
£1, 12.0% Redeemable 2004	5.0	5.0
£1, 12.0% Redeemable 2005	2.0	-
£1, 11.2% Redeemable 2005/09	3.5	-
In five years or more:		
£1, 12.0% Redeemable 2005	-	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
£1, 3.5% Irredeemable	0.2	-
£1, 4.0% Irredeemable	0.8	-
£1, 5.0% Irredeemable	1.0	-
	<u>22.2</u>	<u>8.7</u>

The debenture stocks are secured by a floating charge on the company's business undertaking and on its assets.

19. OBLIGATIONS UNDER FINANCE LEASES – GROUP AND COMPANY

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

	2001	2000
	Appointed and aggregated basis	Appointed and aggregated basis
	£'m	£'m
Amounts due:		
Within one year	4.5	3.1
Between one and two years	3.9	4.4
Between two and five years	8.7	6.8
After five years	<u>75.4</u>	<u>80.5</u>
	92.5	94.8
Less:		
Finance charge allocated to future periods	<u>(36.0)</u>	<u>(39.2)</u>
	<u>56.5</u>	<u>55.6</u>
Disclosed as due:		
Within one year (note 15)	4.5	3.1
After more than one year (note 16)	<u>52.0</u>	<u>52.5</u>

SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

<u>56.5</u>	<u>55.6</u>
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20. AMOUNTS DUE TO OTHER GROUP COMPANIES

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

	2001		2000	
	Group	Company Appointed and aggregated basis	Group	Company Appointed and aggregated basis
	£'m	£'m	£'m	£'m
Within one year	134.8	134.8	0.3	0.3
Between one and two years	-	-	0.7	0.7
Between two and five years	-	-	2.5	2.5
After five years	490.4	579.8	320.6	367.8
	<u>625.2</u>	<u>714.6</u>	<u>324.1</u>	<u>371.3</u>

£47.2m is owed to a subsidiary undertaking of the group, Newcastle & Gateshead Water plc, in the form of an unsecured loan note repayable, at par, otherwise than by instalments 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.

£42.2m is owed to a subsidiary undertaking of the group, Suffolk Water plc, in the form of an unsecured loan note repayable, at par, otherwise than by instalments and is subject to interest at an agreed rate of 0%. The company may exercise an option to repay the loan note at anytime, 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 North East Water plc, 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.

£176.0m is owed to a fellow subsidiary Essex and Suffolk Water plc 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.

£194.9m is owed to the immediate parent company, Northumbrian Water Group plc. 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 the issue proceeds by way of the inter company loan. Finance costs associated during the year to £0.2m (March 2000: £0.3m).

£134.8m is owed to the immediate parent company, Northumbrian Water Group plc. Northumbrian Water Group plc has issued commercial paper at rates linked to LIBOR. The commercial paper proceeds are then passed on to the company at the issued rate.

21. PROVISIONS FOR LIABILITIES AND CHARGES – GROUP AND COMPANY

	2001			2000		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Infrastructure renewals:						
At 1 April	-	0.9	0.9	(0.2)	0.8	0.6
Transferred from Essex & Suffolk Water plc	(0.4)	-	(0.4)	-	-	-
Transferred from profit and loss account	32.9	0.2	33.1	21.2	0.2	21.4
Utilised during the year (note 3(b))	(29.9)	-	(29.9)	(21.0)	(0.1)	(21.1)
At 31 March	<u>2.6</u>	<u>1.1</u>	<u>3.7</u>	<u>-</u>	<u>0.9</u>	<u>0.9</u>
Reorganisation/ restructuring provision:						
At 1 April	7.0	-	7.0	4.0	-	4.0
Transferred from Essex & Suffolk Water plc	0.1	-	0.1	-	-	-
Utilised during the year	(3.2)	(0.1)	(3.3)	(3.7)	-	(3.7)
Provided in the year (note 3(c))	2.0	-	2.0	6.7	-	6.7
At 31 March	<u>5.9</u>	<u>(0.1)</u>	<u>5.8</u>	<u>7.0</u>	<u>-</u>	<u>7.0</u>
Pension Provision:						
As at 1 April	8.7	-	8.7	7.7	-	7.7
Utilised during the year	-	-	-	(0.8)	-	(0.8)
Provided in the year	-	-	-	1.8	-	1.8
	<u>8.7</u>	<u>-</u>	<u>8.7</u>	<u>8.7</u>	<u>-</u>	<u>8.7</u>
Closing Balance	<u>17.2</u>	<u>1.0</u>	<u>18.2</u>	<u>15.7</u>	<u>0.9</u>	<u>16.6</u>

The reorganisation 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 voluntary severance schemes in 1998 and 1999 and outstanding severance and pension payments relating to the additional provision made in the year. The redundancy component of the provision will be paid within twelve months of the balance sheet date, and the pension augmentation component will be paid or amortised following the recommendations of the actuaries of the pension schemes in which the individuals concerned belong.

The pension provision represents amounts provided in respect of pension contributions for staff leaving the business as part of voluntary severance schemes prior to 1998. The company's actuary has assessed that the company is not required to make cash payments to fund these contributions. Accordingly the provision is being released over the average remaining service life of current employees.

22. ACCRUALS AND DEFERRED INCOME – GROUP AND COMPANY

	2001			2000		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Non infrastructure capital grants and contributions:						
At 1 April	31.0	0.6	31.6	29.4	0.6	30.0
Additions	3.3	-	3.3	4.3	-	4.3
Amortised during the year	(1.6)	-	(1.6)	(2.7)	-	(2.7)
At 31 March	<u>32.7</u>	<u>0.6</u>	<u>33.3</u>	<u>31.0</u>	<u>0.6</u>	<u>31.6</u>

23. CALLED UP SHARE CAPITAL – GROUP AND COMPANY

	2001			2000		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Authorised:						
122,650,000 Ordinary Shares at £1 each (March 2000: 122,650,000)	<u>92.1</u>	<u>30.6</u>	<u>122.7</u>	<u>92.1</u>	<u>30.6</u>	<u>122.7</u>

	2001			2000		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Allotted, called up and fully paid:						
122,650,000 Ordinary Shares of £1 each (March 2000: 122,650,000)	<u>92.1</u>	<u>30.6</u>	<u>122.7</u>	<u>92.1</u>	<u>30.6</u>	<u>122.7</u>

24. PROFIT AND LOSS ACCOUNT – GROUP AND COMPANY

	2001			2000		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
At 1 April	818.4	63.3	881.7	749.7	65.9	815.6
Profit/(loss) retained for the year	<u>18.3</u>	<u>(8.4)</u>	<u>9.9</u>	<u>68.7</u>	<u>(2.6)</u>	<u>66.1</u>
At 31 March	<u>836.7</u>	<u>54.9</u>	<u>891.6</u>	<u>818.4</u>	<u>63.3</u>	<u>881.7</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 £86.9m (March 2000: £130.5m) relates to the operations of the company.

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

	2001			2000		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Profit for the financial year	83.3	3.6	86.9	121.9	8.6	130.5
Dividends	(65.0)	(12.0)	(77.0)	(53.2)	(11.2)	(64.4)
Net additions to /(deductions from) equity shareholders' funds	18.3	(8.4)	9.9	68.7	(2.6)	66.1
Opening equity shareholders' funds	910.5	93.9	1,004.4	841.8	96.5	938.3
Closing equity shareholders' funds	928.8	85.5	1,014.3	910.5	93.9	1,004.4

26. COMMITMENTS AND CONTINGENT LIABILITIES – GROUP AND COMPANY

(a) Capital expenditure:

	2001			2000		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Expenditure contracted for	33.0	0.4	33.4	82.9	-	82.9

(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:-

	2001			2000		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Land and buildings:						
Leases which expire:						
Within one year	0.3	-	0.3	-	-	-
In five years or more	0.4	-	0.4	0.2	-	0.2
	0.7	-	0.7	0.2	-	0.2
Other:						
Leases which expire:						
Within one year	0.2	-	0.2	0.6	-	0.6
Between two and five years	0.8	-	0.8	0.5	-	0.5

1.0	-	1.0	1.1	-	1.1
-----	---	-----	-----	---	-----

27. PENSIONS

As a subsidiary of Northumbrian Water Group plc, the company participates in Group pension schemes.

The Group operates a funded defined benefit pension scheme providing benefits based on final pensionable remuneration. The Scheme, named the Northumbrian Lyonnaise Pension Scheme, comprises three sections reflecting the transfer from the Water Pension Scheme in 1998 and an existing separation between different businesses within the Group.

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

Details of the Scheme and its latest actuarial valuation, carried out as at 31 December 1998 are shown below.

Section	South	North	WPS
Members' contributions	5%	5%	6%
Employer's contributions	Nil	6.3%	17.2%

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

Investment Return	
Pre Retirement	6.2%
Post Retirement	5.7%
Pay Increases	
for 5 years after valuation date	3.8%
thereafter	4.3%
Pension Increases	2.8%
Price Inflation	2.8%

The market value of assets for the whole Scheme as at 31 December 1998 was £416.2m. The 1998 valuation disclosed that the value of the assets of the whole Scheme represented 114% of the value of the accrued liabilities of the whole Scheme.

The company also participates in the Water Mirror Image Pension Scheme and the Employer's contribution has been assessed and paid in accordance with the advice of an independent actuary. This Scheme provides a defined benefit pension arrangement for 60 employees. The last actuarial valuation was carried out at 31 March 1998.

The Northumbrian Water Group Personal Pension Plan provides defined contribution benefits to 670 employees.

28. INFORMATION IN RELATION TO ALLOCATIONS AND APPORTIONMENTS

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

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

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

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

29. RELATED PARTY DISCLOSURES

The company is a wholly owned subsidiary of Northumbrian Water Group plc which produces publicly available financial statements which include the results of 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 S.A. were as follows:

Transactions with other members of the group headed by Suez SA outside of the Northumbrian Water Group, comprised purchases of £27.7m (31 March 2000: £21.7m) and sales of £1.1 m (31 March 2000: £1.4m). As at 31 March 2001, the amount due to these companies was £0.2m (31 March 2000: £1.1m) and due from these companies was £0.3m (31 March 2000: £0.2m).

The companies with which Northumbrian Water Limited has had transactions during the year, included in the above balances, were as follows:

Degremont
SITA
Suez SA.
Safège

30. BILLING ON BEHALF OF WATER AND SEWERAGE COMPANIES

The Group bills and collects charges in respect of sewerage services in some of its area of supply on behalf of Anglian Water Services Limited and Thames Water Utilities Limited who are responsible for those services.

The Group receives commission income for those services, which is included in other operating income. Payments on account from customers due to Anglian Water Services and Thames Water Utilities Limited are included in creditors falling due within one year.

31. ULTIMATE PARENT COMPANY

The ultimate parent company and controlling party of the company is Suez S.A. (previously Suez Lyonnaise des Eaux), incorporated in France. The largest group which consolidates the results of the company is Suez S.A. and copies of the consolidated accounts are available to the public from Suez 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.

32. ACQUISITION

On 1 April 2000 the company acquired the trade and assets of Essex and Suffolk Water plc for a total consideration of £176.0m. The consideration was satisfied by the issue of a loan note for the full amount.

a) Profit and Loss Account

The summarised profit and loss account for Essex and Suffolk Water plc for the period from 1 January 2000, the beginning of the company's financial year, to the date of acquisition, is as follows:

	3 months ended 31 March 2000
	£'m
Turnover	29.1
Operating profit	12.7
Profit on ordinary activities before taxation	10.2
Tax on ordinary activities	(1.6)
Profit on ordinary activities after taxation	8.6

The profit on ordinary activities after taxation for Essex and Suffolk Water plc for the year ended 31 December 1999 was £27.6m.

There were no other recognised gains and losses for the three month period to 31 March 2000 other than profit for the year.

b) Assets and Liabilities

The assets and liabilities of Essex and Suffolk Water plc which were acquired on 1 April 2000, are set out below:

	Book and Fair Value
	£'m
FIXED ASSETS	324.6
Investments	42.2
	366.8
CURRENT ASSETS	
Stock	1.7
Debtors: amounts falling due within one year	32.3
Debtors: amounts falling due in more than one year	9.7
Investments	4.0
Cash at bank and in hand	-
	47.7
CREDITORS: amounts falling due within one year	(59.9)
NET CURRENT LIABILITIES	(12.2)
TOTAL ASSETS LESS CURRENT LIABILITIES	354.6
CREDITORS: amounts falling due in more than one year	(176.5)
PROVISIONS FOR LIABILITIES AND CHARGES	(2.1)
ACCRUALS AND DEFERRED INCOME	-
	(178.6)
NET ASSETS	176.0
Satisfied by:	

SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

Loan note

176.0

32. ACQUISITION (continued)

- c) Analysis of the net outflow of cash in respect of the acquisition of the trade and assets of Essex and Suffolk Water plc

	£'m
Cash consideration	-
Bank overdrafts acquired	(0.7)
	<hr/>
Net outflow of cash	(0.7)
	<hr/> <hr/>

- d) The cash flows in respect of Essex and Suffolk Water division during the nine month period commencing 1 April 2000 are as follows:

	£'m
OPERATING CASH INFLOW	38.8
Outflow from returns on investments and servicing of finance	(7.4)
Taxation Paid	(6.4)
Outflow from capital expenditure and financial investment	(18.1)
Equity Dividends Paid	(13.2)
Inflow from management of liquid resources	4.2
Outflow from financing	(3.8)
	<hr/>
DECREASE IN CASH IN THE YEAR	(5.9)
	<hr/> <hr/>

From 1 January 2001 Northumbrian Water Limited has combined financial information for its two divisions and consequently separate cash flow information could only be prepared for the Essex and Suffolk Water division for the nine months ended 31 December 2000.

CURRENT COST PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2001

		<u>2001</u>	<u>2000</u>
	Note	£'m	£'m
Turnover	2	407.3	359.6
Operating costs	3	(179.2)	(116.3)
Capital maintenance costs	3	(106.3)	(80.7)
Profit on sale of fixed assets	2	0.2	1.3
		<hr/>	<hr/>
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS		122.0	163.9
Exceptional items:			
Operating costs	3	(2.0)	(8.5)
		<hr/>	<hr/>
OPERATING PROFIT AFTER EXCEPTIONAL ITEMS		120.0	155.4
Working capital adjustment	6	0.5	(1.9)
		<hr/>	<hr/>
OPERATING PROFIT		120.5	153.5
Net interest payable		(64.4)	(35.1)
Financing adjustment	6	24.0	11.2
		<hr/>	<hr/>
PROFIT BEFORE TAXATION		80.1	129.6
Taxation		(6.1)	(25.1)
		<hr/>	<hr/>
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		74.0	104.5
Dividends		(65.0)	(53.2)
		<hr/>	<hr/>
RETAINED PROFIT		<u>9.0</u>	<u>51.3</u>

The accompanying notes on pages 41 to 51 are an integral part of this profit and loss account.

CURRENT COST BALANCE SHEET
At 31 March 2001

	Note	<u>2001</u>	<u>2000</u>
		£'m	£'m
FIXED ASSETS			
Tangible Fixed Assets	4	10,943.4	8,986.0
Grants and contributions		(57.6)	(54.2)
		<u>10,885.8</u>	<u>8,931.8</u>
Working capital	5	(39.4)	(17.1)
NET OPERATING ASSETS			
		10,846.4	8,914.7
Investment		89.4	47.2
Non trade debtors		12.2	21.1
Non trade creditors due within one year		(169.3)	(35.3)
Creditors due after more than one year		(973.4)	(659.8)
Dividends payable		(34.2)	(25.9)
NET ASSETS EMPLOYED			
		<u><u>9,771.1</u></u>	<u><u>8,262.0</u></u>
CAPITAL AND RESERVES			
Called up share capital		92.1	92.1
Profit and loss account		550.6	541.6
Current cost reserve	6	9,128.4	7,628.3
TOTAL CAPITAL AND RESERVES			
		<u><u>9,771.1</u></u>	<u><u>8,262.0</u></u>

The accompanying notes on pages 41 to 51 are an integral part of this balance sheet.

CURRENT COST CASH FLOW STATEMENT
For the year ended 31 March 2001

	Note	2001	2000
		£'m	£'m
NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES	7	222.8	240.9
Returns on investments and servicing of finance			
Interest received		5.3	8.7
Interest paid		(62.8)	(40.4)
Interest element of finance lease rentals		(2.4)	(0.4)
Net cash outflow from returns on investments and servicing of finance		(59.9)	(32.1)
Taxation			
United Kingdom corporation tax paid		(24.1)	(30.1)
Net cash outflow from taxation		(24.1)	(30.1)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(198.4)	(212.6)
Infrastructure renewals expenditure		(29.9)	(21.1)
Grants, contributions and connection charges		8.9	9.0
Sale of tangible fixed assets		0.2	1.7
Purchase of business		(0.7)	-
Net cash outflow from capital expenditure and financial investment		(219.9)	(223.0)
Equity dividends paid		(66.6)	(53.0)
Management of liquid resources			
Purchase of short term deposits		-	(640.0)
Sale of short term deposits		32.9	767.3
Net cash inflow from management of liquid resources		32.9	127.3
Financing			
New loans		134.8	-
New leases		1.1	1.7
Loan repayment		(10.9)	(26.7)
Loan repayment receipts from other Group company		-	2.4
Capital element of finance lease rental payments		(3.5)	(3.9)
Net cash inflow/(outflow) from financing		121.5	(26.5)
INCREASE IN CASH IN THE YEAR		6.7	3.5

The accompanying notes on pages 41 to 51 are an integral part of this cash flow statement.

NOTES TO THE CURRENT COST FINANCIAL INFORMATION

For the year ended 31 March 2001

1. CURRENT COST ACCOUNTING POLICIES

The accounting policies used are the same as those adopted in the historical cost accounts except as set out below. This financial information has been prepared for the appointed business of Northumbrian Water Limited in accordance with guidance issued by the Director General of Water Services for modified real time financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business.

(a) Tangible fixed assets

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, no adjustment is made in arriving at the replacement cost. No provision is made for the possible funding of future replacements of assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

A process of continuing refinement of the Asset Management Plan (AMP), based on serviceability, will result in adjustments to the existing valuation of assets at the end of the regulatory review period. In intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the Retail Price Index (RPI) over the year.

(i) Land and Buildings

Non-specialised operational properties are valued on the basis of open market value for existing use. Specialised operational properties are valued at the lower of depreciated replacement cost and recoverable amount.

(ii) Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost determined principally on the basis of data provided by the AMP.

(iii) Other fixed assets

All other fixed assets are valued periodically at depreciated replacement cost.

(iv) Surplus land

Surplus land is valued at recoverable amount taking into account that part of any proceeds to be passed on to customers under Condition B of the License.

(v) Government grants and contributions

Government grants and contributions are revalued to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

(b) Real financial capital maintenance adjustments

The real financial capital maintenance adjustments are calculated by applying depreciation to the current cost value of fixed assets.

(c) Working capital adjustment

The working capital adjustment is calculated by applying the change in the RPI over the year to the opening balance of working capital.

(d) Financing adjustment

The financing adjustment is calculated by applying the RPI change over the year to the opening balance of net finance which comprises all monetary assets and liabilities in the balance sheet except those included in working capital.

(e) Infrastructure renewals accrual/prepayment adjustment

The infrastructure renewals accrual/prepayment adjustment is calculated by applying the RPI change over the year to the opening balance of the renewals accrual/prepayment.

2. TURNOVER

	2001			2000		
	Water services £'m	Sewerage services £'m	Appointed business £'m	Water services £'m	Sewerage services £'m	Appointed business £'m
Measured	55.6	40.7	96.3	39.9	47.1	87.0
Unmeasured	146.5	115.3	261.8	100.3	151.7	252.0
Trade effluent	-	6.1	6.1	-	7.0	7.0
Large user revenues	22.8	-	22.8	-	-	-
Other sources	7.3	10.8	18.1	3.3	10.3	13.6
Total turnover	232.2	172.9	405.1	143.5	216.1	359.6
Operating income:						
Current cost profit on disposal of fixed assets	0.1	0.1	0.2	0.7	0.6	1.3
Other operating income	2.2	-	2.2	-	-	-
	2.3	0.1	2.4	0.7	0.6	1.3
 Working capital adjustment	 0.3	 0.2	 0.5	 (0.5)	 (1.4)	 (1.9)

3. OPERATING COSTS

2001

Activity cost table

	Service analysis							Business analysis			
	Water supply			Sewerage services				Customer Services	Scientific Services	Cost of Regulation	
	Resources & Treatment	Distribution	Water Supply Subtotal	Sewerage	Sewage Treatment	Sludge Treatment & Disposal	Sewage T & D Subtotal				Sewerage Service Subtotal
£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m		
Direct Costs											
Employment Costs	6.6	8.9	15.5	3.0	2.7	2.6	5.3	8.3			
Power	3.3	3.8	7.1	1.5	2.5	1.5	4.0	5.5			
Hired & contracted services	1.8	2.7	4.5	0.6	0.4	4.1	4.5	5.1			
Associated companies	0.1	0.1	0.2	0.1	0.4	0.2	0.6	0.7			
Materials and consumables	4.8	1.3	6.1	0.1	0.7	1.0	1.7	1.8			
Service charges (EA)	14.9	-	14.9	1.1	1.0	-	1.0	2.1			
Bulk supply imports	1.2	-	1.2	-	-	-	-	-			
Other direct costs	0.2	2.2	2.4	0.6	0.1	-	0.1	0.7			
Total direct costs	32.9	19.0	51.9	7.0	7.8	9.4	17.2	24.2	14.2	7.0	1.6
General and support expenditure	12.7	9.1	21.8	2.8	7.6	2.7	10.3	13.1	4.5	1.2	0.5
Functional expenditure	45.6	28.1	73.7	9.8	15.4	12.1	27.5	37.3	18.7	8.2	2.1
Business analysis			19.2					9.8			
Total business activities			92.9					47.1			

3. OPERATING COSTS (continued)

2001

Activity cost table

	Service Analysis								
	Water supply			Sewerage services					
	Resources & Treatment	Distribution	Water Supply Subtotal	Sewerage	Sewage Treatment	Sludge Treatment & Disposal	Sewage T & D Subtotal	Sewerage Service Subtotal	
£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	
Total business activities b/fwd			92.9						47.1
Rates			15.7						6.1
Doubtful debts			4.9						2.3
Exceptional items			1.5						0.5
Total opex less third party services			115.0						56.0
Third party services – opex			6.4						3.8
Total operating expenditure			121.4						59.8
Capital costs									
Infrastructure renewal expenditure	1.1	18.2	19.3	9.8	0.8	-	0.8		10.6
Movement in infrastructure renewals accrual/prepayment	-	4.0	4.0	(1.0)	-	-	-		(1.0)
Current cost depreciation (allocated)	18.3	9.5	27.8	5.5	27.3	3.5	30.8		36.3
Business activities current cost depreciation (non allocated)			6.6						2.7
Total capital maintenance			57.7						48.6
Total operating costs			179.1						108.4
CCA (MEA) values									
Service activities			5,069.1						5,813.2
Business activities			39.2						21.9
Service totals			5,108.3						5,835.1

SECTION C – CURRENT COST FINANCIAL INFORMATION FOR THE APPOINTED BUSINESS ONLY

3. OPERATING COSTS (continued)

2000

Activity cost table

	Service analysis							Business analysis		
	Water supply			Sewerage services				Customer Services	Scientific Services	Cost of Regulation
	Resources & Treatment	Distribution	Water Supply Subtotal	Sewerage	Sewage Treatment	Sludge Treatment & Disposal	Sewage T & D Subtotal			
£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	
Direct Costs										
Employment Costs	3.1	5.5	8.6	2.9	2.2	2.1	4.3	7.2		
Power	1.5	2.4	3.9	1.2	2.1	1.4	3.5	4.7		
Hired & contracted services	0.3	1.1	1.4	0.4	0.5	2.4	2.9	3.3		
Associated companies	0.3	0.3	0.6	0.1	0.4	0.3	0.7	0.8		
Materials and consumables	3.0	1.1	4.1	0.2	0.6	0.9	1.5	1.7		
Service charges (EA)	8.9	-	8.9	1.1	1.1	-	1.1	2.2		
Other direct costs	0.1	0.6	0.7	0.2	0.1	-	0.1	0.3		
Total direct costs	17.2	11.0	28.2	6.1	7.0	7.1	14.1	20.2	10.8	5.1
General and support expenditure	5.3	6.2	11.5	2.9	7.2	2.3	9.5	12.4	1.6	0.3
Functional expenditure	22.5	17.2	39.7	9.0	14.2	9.4	23.6	32.6	12.4	5.4
Business analysis			9.4					10.3		
Total business activities			49.1					42.9		1.9

3. OPERATING COSTS (continued)

2000

Activity cost table	Service Analysis								
	Water supply			Sewerage services					
	Resources & Treatment	Distribution	Water Supply Subtotal	Sewerage	Sewage Treatment	Sludge Treatment & Disposal	Sewage T & D Subtotal	Sewerage Service Subtotal	
£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m	
Total business activities b/fwd			49.1						42.9
Rates			9.6						3.7
Doubtful debts			1.5						2.3
Exceptional items			4.3						4.2
Total opex less third party services			64.5						53.1
Third party services – opex			3.3						3.9
Total operating expenditure			67.8						57.0
Capital costs									
Infrastructure renewal expenditure	1.3	10.6	11.9	9.1	-	-	-	-	9.1
Current cost depreciation (allocated)	8.7	4.9	13.6	5.2	25.8	5.1	30.9		36.1
Business activities current cost depreciation (non allocated)			5.3						4.7
Total capital maintenance			30.8						49.9
Total operating costs			98.6						106.9
CCA (MEA) values									
Service activities			3,403.7						5,560.4
Business activities			5.3						16.6
Service totals			3,409.0						5,577.0

4. TANGIBLE FIXED ASSETS

Analysis by asset type

Water Service	Specialised	Non	Infrastructure	Other	Total
	operational	specialised		tangible	
	assets	properties	assets	assets	
	£'m	£'m	£'m	£'m	£'m
Gross Replacement Cost:					
At 1 April 2000	697.2	19.6	3,068.0	42.7	3,827.5
RPI Adjustment	42.9	1.8	129.4	2.7	176.8
Disposals	(0.5)	-	-	(0.1)	(0.6)
Additions	25.2	1.9	24.3	5.1	56.5
Gross replacement cost of assets transferred from Essex and Suffolk Water plc	681.7	36.9	1,088.6	45.3	1,852.5
At 31 March 2001	1,446.5	60.2	4,310.3	95.7	5,912.7
Depreciation:					
At 1 April 2000	378.0	3.1	-	37.4	418.5
RPI Adjustment	21.6	0.1	-	1.6	23.3
Disposals	(0.4)	-	-	(0.1)	(0.5)
Charge for year	25.6	4.1	-	4.7	34.4
Accumulated depreciation transferred from Essex & Suffolk Water plc	315.8	-	-	12.9	328.7
At 31 March 2001	740.6	7.3	-	56.5	804.4
Net Book Value at 31 March 2001	705.9	52.9	4,310.3	39.2	5,108.3
Net Book Value at 31 March 2000	319.2	16.5	3,068.0	5.3	3,409.0

Analysis by asset type

Sewerage Services	Specialised	Non	Infrastructure	Other	Total
	operational	specialised		tangible	
	assets	properties	assets	assets	
	£'m	£'m	£'m	£'m	£'m
Gross Replacement Cost:					
At 1 April 2000	1,887.0	13.8	4,746.3	42.2	6,689.3
RPI Adjustment	58.8	0.4	147.8	1.3	208.3
Disposals	-	-	-	(0.1)	(0.1)
Additions	105.7	0.1	9.4	8.2	123.4
At 31 March 2001	2,051.5	14.3	4,903.5	51.6	7,020.9
Depreciation:					
At 1 April 2000	1,084.9	1.8	-	25.6	1,112.3
RPI Adjustment	33.8	-	-	0.8	34.6
Disposals	-	-	-	(0.1)	(0.1)
Charge for year	36.4	(0.8)	-	3.4	39.0
At 31 March 2001	1,155.1	1.0	-	29.7	1,185.8
Net Book Value at 31 March 2001	896.4	13.3	4,903.5	21.9	5,835.1
Net Book Value at 31 March 2000	802.1	12.0	4,746.3	16.6	5,577.0

4. TANGIBLE FIXED ASSETS (Continued)

Analysis by asset type

Total	Specialised operational assets	Non specialised properties	Infrastructure assets	Other tangible assets	Total
	£'m	£'m	£'m	£'m	£'m
Gross Replacement Cost:					
At 1 April 2000	2,584.2	33.4	7,814.3	84.9	10,516.8
RPI Adjustment	101.7	2.2	277.2	4.0	385.1
Disposals	(0.5)	-	-	(0.2)	(0.7)
Additions	130.9	2.0	33.7	13.3	179.9
Gross replacement cost of assets transferred from Essex & Suffolk Water plc	681.7	36.9	1,088.6	45.3	1,852.5
At 31 March 2001	3,498.0	74.5	9,213.8	147.3	12,933.6
Depreciation:					
At 1 April 2000	1,462.9	4.9	-	63.0	1,530.8
RPI Adjustment	55.4	0.1	-	2.4	57.9
Disposals	(0.4)	-	-	(0.2)	(0.6)
Charge for year	62.0	3.3	-	8.1	73.4
Accumulated depreciation transferred from Essex & Suffolk Water plc	315.8	-	-	12.9	328.7
At 31 March 2001	1,895.7	8.3	-	86.2	1,990.2
Net Book Value at 31 March 2001	1,602.3	66.2	9,212.8	61.1	10,943.4
Net Book Value at 31 March 2000	1,121.3	28.5	7,814.3	21.9	8,986.0

5. WORKING CAPITAL

	2001	2000
	£'m	£'m
Stocks	2.2	1.3
Trade debtors	65.7	37.5
Working cash balances	16.2	38.5
Trade creditors	(4.2)	(1.8)
Short term capital creditors	(34.3)	(42.0)
Provisions for liabilities and charges	(17.2)	(15.7)
Other trade accruals	(28.5)	(9.5)
Trade payments in advance	14.7	18.8
Payroll related taxes and DSS contributions	(1.7)	(1.0)
Other trade creditors	(52.3)	(43.2)
At 31 March	(39.4)	(17.1)

6. MOVEMENT ON CURRENT COST RESERVE

	<u>2001</u>	<u>2000</u>
	£'m	£'m
At 1 April	7,628.3	7,485.2
Transferred from Essex & Suffolk Water plc	1,226.1	-
AMP adjustment	(27.0)	-
RPI Adjustments:		
Fixed assets	327.2	153.3
Working capital	(0.5)	1.9
Financing	(24.0)	(11.2)
Grants and contributions	(1.7)	(0.9)
	<u>9,128.4</u>	<u>7,628.3</u>
At 31 March	<u><u>9,128.4</u></u>	<u><u>7,628.3</u></u>

7. NET CASH INFLOW FROM OPERATING ACTIVITIES

	<u>2001</u>	<u>2000</u>
	£'m	£'m
Current cost operating profit	120.5	153.5
Additional current cost depreciation	33.8	26.7
Working capital adjustment	(0.5)	1.9
	<u>153.8</u>	<u>182.1</u>
Historical cost operating profit	153.8	182.1
Aggregate of historical cost adjusting items	69.0	58.8
	<u>222.8</u>	<u>240.9</u>
	<u><u>222.8</u></u>	<u><u>240.9</u></u>

8. ANALYSIS OF NET DEBT

	At 1 April 2000	Cash Flow	Other non cash changes	At 31 March 2001
	£'m	£'m	£'m	£'m
Cash in hand and at bank	9.5	7.4	(0.7)	16.2
Overdrafts	-	(0.7)	0.7	-
Loans due after one year	(607.2)	-	(313.0)	(920.2)
Loans due within one year	(10.4)	(123.9)	(14.0)	(148.3)
Finance leases	(55.6)	3.5	(4.4)	(56.5)
Current asset investment	29.0	(32.9)	3.9	-
	<u>(634.7)</u>	<u>(146.6)</u>	<u>(327.5)</u>	<u>(1,108.8)</u>
Total	<u><u>(634.7)</u></u>	<u><u>(146.6)</u></u>	<u><u>(327.5)</u></u>	<u><u>(1,108.8)</u></u>

9. DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES**Services supplied by the appointee to associated companies:**

Associate	Service	2001	Terms of Supply	2001
		Turnover		Value
		£'m		£'m
Analytical & Environmental Services Ltd	Rental of laboratories and service charges	9.6	Negotiated	0.2
Safege	Secondees	36.4	Negotiated	0.1
Suez SA (previously Suez Lyonnaise des Eaux)	Secondees	21,090.0	Negotiated	0.8

Services supplied to the appointee by associated companies:

Associate	Service	2001	Terms of Supply	2001
		Turnover		Value
		£'m		£'m
Analytical & Environmental Services Ltd	Sampling and Analysis	9.6	No market	6.9
Degremont	Construction and Engineering Design	516.0	Competitive Letting	19.5
Entec UK Limited	Engineering Design Consultancy	32.0	Competitive Letting	1.3
Entec UK Limited	Engineering Design Consultancy	32.0	Other Market Testing	9.8
Fastflow Pipeline Services Ltd	Mains Renewals, Sewer Repairs	15.4	Competitive Letting	10.4
Imass Limited	System Development	4.7	Competitive Letting	1.0
Imass Limited	System Development, Training and Maintenance Support	4.7	Other Market Testing	0.3
Imass Limited	System Development, Training and Maintenance Support	4.7	No market	0.2
Safege	Engineering Consultancy	36.4	No market	0.1
SITA	Waste Disposal	2,213.0	Competitive Tendering	0.6
SITA	Disposal of Contaminated Materials	2,213.0	Other Market Testing	0.1
Suez SA (previously Suez Lyonnaise des Eaux)	Group Research and Development costs	21,090.0	No Market	7.4
Vehicle Leasing Services Ltd	Maintenance and Capital Finance Charge	8.7	Other Market Testing	4.4

10. ROLLING SUMMARY: CURRENT COST PROFIT AND LOSS ACCOUNT

	1996/97	1997/98	1998/99	1999/00	2000/01
	£'m	£'m	£'m	£'m	£'m
Turnover	342.9	349.1	360.6	370.8	407.3
Operating costs	(215.0)	(208.5)	(191.9)	(201.8)	(285.3)
Exceptional items	(7.5)	(2.7)	(2.5)	(8.8)	(2.0)
Working capital adjustment	(0.8)	0.8	(2.0)	(2.0)	0.5
Infrastructure renewals adjustment	(0.1)	0.1	-	-	-
Operating profit	119.5	138.8	164.2	158.2	120.5
Net interest	(20.1)	(28.0)	(35.3)	(36.2)	(64.4)
Financing adjustment	8.7	12.4	12.4	11.5	24.0
Profit before taxation	108.1	123.2	141.3	133.5	80.1
Taxation	(19.3)	(24.2)	(26.6)	(25.9)	(6.1)
Profit on ordinary activities	88.8	99.0	114.7	107.6	74.0
Dividends	(51.7)	(39.9)	(53.9)	(54.9)	(65.0)
Profit retained	37.1	59.1	60.8	52.7	9.0

The rolling summary financial information for prior years has been compiled in accordance with Regulatory Accounting Guideline No 1, "Accounting for current costs", with adjustments being made to reflect changes in the general level of inflation as measured by changes in the RPI.

The figures from 2000/01 include the full year results of the business of Northumbrian Water Limited and of that previously carried out by Essex & Suffolk Water plc.

11. ROLLING SUMMARY: CURRENT COST BALANCE SHEET

	31 March	31 March	31 March	31 March	31 March
	1997	1998	1999	2000	2001
	£'m	£'m	£'m	£'m	£'m
Tangible fixed assets	8,811.0	8,989.5	9,103.4	9,265.8	10,943.4
Third party contributions since 89/90	(52.4)	(53.3)	(54.2)	(55.9)	(57.6)
Working capital	(24.3)	97.1	111.2	(17.6)	(39.4)
Net operating assets	8,734.3	9,033.3	9,160.4	9,192.3	10,846.4
Cash and investments	52.3	50.6	49.5	48.7	89.4
Non trade debtors	31.8	25.8	31.6	21.8	12.2
Non trade creditors	(30.0)	(26.1)	(45.1)	(36.4)	(169.3)
Creditors due after > 1 year	(417.6)	(665.5)	(703.6)	(680.3)	(973.4)
Dividends payable	(25.3)	(13.2)	(27.0)	(26.7)	(34.2)
Net assets employed	8,345.5	8,404.9	8,465.8	8,519.4	9,771.1
Called up share capital	102.1	98.7	96.6	95.0	92.1
Profit and loss account	420.3	463.2	514.5	558.6	550.6
Current cost reserve	7,823.1	7,843.0	7,854.7	7,865.8	9,128.4
	8,345.5	8,404.9	8,465.8	8,519.4	9,771.1

The rolling summary financial information for prior years has been compiled in accordance with Regulatory Accounting Guideline No 1, "Accounting for current costs", with adjustments being made to reflect changes in the general level of inflation as measured by changes in the RPI.

SECTION C – CURRENT COST FINANCIAL INFORMATION FOR THE APPOINTED BUSINESS ONLY

The figures from 2000/01 include the impact of the transfer of assets and liabilities to Northumbrian Water Limited from Essex & Suffolk Water plc on 1 April 2000.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 March 2001

The directors are responsible under Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Industry Act 1991 for:

- (a) ensuring that proper accounting records are maintained by the Appointee to enable compliance with the requirements of Condition F and having regard also to the terms of guidelines notified by the Director General of Water Services ("the Director") to the Appointee from time to time;
- (b) preparing on a consistent basis for each financial year regulatory financial statements in accordance with Condition F, having regard also to the terms of guidelines notified by the Director from time to time, which so far as is reasonably practicable have the same content as the annual financial statements of the Appointee prepared under the Companies Act 1985 and which are prepared in accordance with the formats, accounting policies and principles which apply to those financial statements;
- (c) preparing financial statements on a current cost basis in respect of the same accounting period in accordance with guidelines issued by the Director from time to time;
- (d) preparing such other financial and related information as is required by Condition F having regard also to the terms of guidelines issued by the Director from time to time.

ON BEHALF OF THE BOARD

M Parker
Company Secretary

10 July 2001

REPORT OF THE AUDITORS TO THE DIRECTOR GENERAL OF WATER SERVICES

We have audited the financial statements on pages 5 to 37 which have been prepared under the historical cost convention and the accounting policies set out on pages 11 to 13.

We have audited the current cost financial information on pages 38 to 51 which have been prepared under the real financial capital maintenance current cost convention and the accounting policies set out on page 41.

Respective responsibilities of directors and auditors

As described on pages 4 and 52 the Company's directors are responsible for the preparation of the historical cost and current cost financial information ("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. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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 Appointee's circumstances, consistently applied and adequately disclosed.

In conjunction with our audit of the historical cost financial statements we have performed an examination, on a test basis, of the supplementary regulatory current cost financial information to determine their consistency with the historical cost financial statements as appropriate, and their compliance with relevant regulatory accounting guidelines. We have also performed an assessment of the significant estimates and judgements made by the directors in their preparation of the supplementary statements.

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 regulatory accounts.

Audit opinion

i) Unqualified opinion in respect of regulatory compliance

In our opinion the financial statements contain the information for the year to 31 March 2001 required to be published and submitted to you by Northumbrian Water Limited to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Industry Act 1991, as modified in respect of infrastructure renewals accounting by RD15/99, dated 21 April 1999, "Regulatory Accounts for 1998/9 Reporting Requirements – RAG 3.04."

In respect of this information, we report that in our opinion:

- a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- b) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument, as modified in respect of infrastructure renewals accounting by RD15/99, dated 21 April 1999, "Regulatory Accounts for 1998/9 Reporting Requirements – RAG 3.04" and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services; and
- c) the current cost financial information on pages 38 to 51 has been properly prepared in accordance with Regulatory Accounting Guideline No 1, "Accounting for current cost", issued in May 1992 by the Office of Water Services.

**REPORT OF THE AUDITORS TO
THE DIRECTOR GENERAL OF WATER SERVICES (continued)**

ii) Qualified opinion on historic cost financial statements in respect of FRS12 and FRS15

- d) As explained in note 1 (d) (i), in order to comply with the instructions of the Director General of Water Services, the financial statements do not comply with Financial Reporting Standard No.12 (“FRS12”) and Financial Reporting Standard No.15 (“FRS15”) in respect of infrastructure renewals accounting. Adoption of FRS12 and FRS15 would have required restatement of the cost and accumulated depreciation of infrastructure fixed assets to reflect infrastructure renewals expenditure, depreciation and retirement of assets since the year ended 31 March 1989, when renewals accounting was first adopted. Accordingly, infrastructure renewals provisions and prepayments at years ended 31 March 2000 and 31 March 2001 would have been included within infrastructure fixed assets. The non compliance with FRS12 and FRS15 in respect of infrastructure renewals accounting would have had no effect on the profit and loss accounts for the years ended 31 March 2000 and 31 March 2001, other than to reclassify the infrastructure renewals charges as depreciation.

Except for non-compliance with FRS12 and FRS15 in respect of infrastructure renewals accounting, in our opinion, the historical cost financial statements on pages 5 to 37 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business.

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

10 July 2001

SECTION A - GENERAL

59

SECTION B – HISTORICAL COST FINANCIAL STATEMENTS

SECTION C – CURRENT COST FINANCIAL INFORMATION FOR THE APPOINTED BUSINESS ONLY