REGULATORY FINANCIAL STATEMENTS

NORTHUMBRIAN WATER LIMITED

FOR THE YEAR ENDED 31 MARCH 2003

Registered no: 2366703

CONDITION F REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2003

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DIRECTORS' REPORT
For the year ended 31 March 2003

The directors present their report and the audited regulatory financial statements for the year ended 31 March 2003.

Results and dividends

The group's profit after taxation for the year ended 31 March 2003 amounts to £50.0m (2002: £106.9m). The directors proposed a final dividend of £43.9m (2002: £42.1m) for the year ended 31 March 2003 which, together with the interim dividend of £ 43.9m (2002: £42.0m), makes a total of £87.8m for the year (2002: £84.1m).

Post balance sheet event

During the year, Suez S.A. decided to reduce its shareholding in the companys immediate parent company, Northumbrian Services Limited (formerly Ondeo Services UK plc). To facilitate this disposal, a new company, Atlantic Water Limited, was incorporated (registered in Guernsey) to acquire 100% of the shares of Northumbrian Services Limited.

A new company, Aquavit plc was incorporated by the successful consortium, which acquired Atlantic Water Limited for a consideration of £1,009.7m on 16 May 2003. The consideration was satisfied by a short term loan from Deutsche Bank AG London for £536.0m, cash of £344.0m (net of expenses) raised from a group of institutional investors and 25% of the issued share capital of the new company, Aquavit plc (£129.7m).

On 20 May 2003, Aquavit plc changed its name to Northumbrian Water Group plc and on 23 May 2003 its shares were listed on the Alternative Investment Market.

Principal activities and review of business

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

In August 2002, Ofwat published its annual report comparing the levels of service achieved by the water and sewerage companies for the 2001/02 regulatory year. For the third consecutive year, Northumbrian Water was the only water and sewerage company to achieve the highest category against all seven levels of service measure; and in the south, Essex and Suffolk Water achieved the highest category against all of its five service measures The company also achieved the highest score (417) in Ofwat's overall performance assessment for 2001/02, 20 points higher than the next best performing water and sewerage company.

Operational compliance against Ofwat's level of service indicators during the 2002/03 year has remained in the highest Ofwat category for all measures except sewer flooding, which was adversely affected by the severe storms which occurred in the summer of 2002. In five of the seven measures, the company achieved a further improvement in performance compared to the 2001/02 regulatory year. Ofwat has not yet published its water industry comparative performance statistics against these measures but, given that Northumbrian Water Limited achieved the best performance in the water industry in 2000/01 and in 2001/02 and has improved its performance in the majority of the 2002/03 measures, the company expects to be well placed in the 2002/03 performance rankings.

The appointed business turnover has slightly reduced by 0.2% from £422.3m to £421.7m. This reflects increases due to the application of RPI (0.9 %) to the previous years tariff income of £422.3m (£3.8m) and an increase in commercial contract income from Bran Sands (£1.0m). However, these increases are more than offset by income losses in 2002/03 due to reductions in consumption, customer closures and increases in metering (£2.7m in total), together with the impact of a one off income receipt for £2.7m in 2001/02.

The appointed business operating costs show an increase on the prior year of £13.7m, reflecting the impact of new operating costs from a variety of sources, partially offset by further efficiencies achieved in the year. The most significant increases related to higher costs of bad debts (£3.1m) and insurance (£3.0m), neither of which were funded in the prices set by Ofwat at the last periodic review. Payroll costs have also increased by £3.2m due to the cost of living increase and recruitment of new staff in some business areas.

Other increases have occured in a number of operational areas including rates costs (£1.5m), sludge transportation (£1.6m), phosphate dosing (£0.8m), metering (£0.8m) and the full year impact of the new sewage treatment facilities which were commissioned in 2001/02 (£0.6m). Inflationery price increases on the remaining cost categories account for a further £2.8m.

DIRECTORS' REPORT (continued)

These cost increases were offset by £4.7m of efficiencies achieved in the year, reflecting the ongoing internal efficiency programme

The appointed business capital maintenance costs also show an increase of £6.3m, reflecting the depreciation impact of the new assets commissioned during 2001/02 (£268.4m) and 2002/3 (£132.3m).

During 2002/03 the company took advantage of the prevailing lower interest rates, and the favourable level of interest shown by the sterling bond market in water companies, to issue a new sterling bond dated 2033 for £250.0m. The issue was completed in December 2002, at a very favourable interest rate of 5.625%, thereby securing prefunding for further capital investment obligations. In October 2002 the company also borrowed a further £80.0m from the European Investment Bank at a very competitive interest rate of 4.96% and repaid an intercompany debt of £119.5m due to North East Water plc. These funding issues have lowered the company's average interest cost as shown in note 13, although the total net interest payable has increased, reflecting the increase in net debt during the year.

The gearing of the appointed business has now risen to 62% whilst the interest cover has fallen to just 1.85, well below the interest cover ratio assumed as a floor for PR99. This deterioration reflects the impact of a flat tariff income profile which is adversely affected by further volumetric income losses, additional operating and capital maintenance costs and higher financing costs due to the increasing debt.

The appointed business tax charge has shown a significant increase of £31.7m compared to the prior year credit. This is explained in detail in note 8, but is mainly due to deferred tax which has been adversely affected by lower interest rates used to discount the provision.

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.

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 2003 and the forecast for 2004. Their analysis included a review of the capital expenditure and investment plans, the anticipated funding requirements and facilities available, and the reasonableness of the underlying assumptions of both the budget and the forecast.

Research and development

The company places a high priority on research and technological innovation to serve the needs of customers. Research and development is co-ordinated by a sister company, Northumbrian Water Technical Centre Limited (formerly Northumbrian Lyonnaise Technical Research Centre), a specialist subsidiary, wholly owned by the company's immediate parent. The company incurred costs of research and development in the year of £5.6m (2002: £5.1m).

Northumbrian Water Limited 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 28 days (2002: 28 days).

Fixed assets

Freehold land and buildings are carried in the financial statements at historical cost with a net book value of £64.3m (2002: £58.7m). In the opinion of the directors, at 31 March 2003, there is no significant difference between the net book value and the market value of property capable of disposal within the foreseeable future. Note 10 gives more details of the fixed asset movements during the year.

Financial review

The level of capital expenditure that the company is obliged to incur is such that it cannot be wholly financed by internally generated sources. As a result, the company must rely upon raising additional finance on a regular basis, to be principally used to fund the long-term assets required in its regulated businesses. The strategy of Northumbrian

Services Limited, of which the company is a subsidiary, 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. Details of the funding activity in 2002/03 are given under the Principal Activities section of the Director's Report.

DIRECTORS' REPORT (continued)

Directors

The directors who served during the year were as follows:

Professor Sir F G T Holliday CBE (67)
Non-Executive Chairman

J A Cuthbert (50)
Executive Managing Director

C M Green (48)
Executive Director

G Neave (47)
Executive Director

R R Allan (68)
Non-Executive Director

A G Balls (59)
Non-Executive Director – appointed 1 April 2002

A M Frew (45)
Non-Executive Director – appointed 1 April 2002

B Guirkinger (50)
Non-Executive Director – appointed 25 July 2002

J F Petry (48)
Non-Executive Director – appointed 14 October 2002

P Babin (45)
Non-Executive Director - resigned 25 July 2002

A Chaigneau (52)
Non-Executive Director – resigned 23 May 2003

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.

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Training and Development

Training and development of employees is a priority of the company. The company has developed a Management Development Programme and, by the end of 2003, all senior managers will have benefited from this programme. The company also has an Accelerated Development Programme for employees with management potential, which will be completed by August 2003.

Communication

Communication with staff is achieved through the company's corporate newspaper 'Hel'eau' 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.

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.

Employee Investment Schemes

Employees have previously been able to invest in a number of investment schemes, which were offered by the former parent company, Suez S.A. Following the change of ownership, Northumbrian Water Group plc has stated its intention to introduce a new employee share ownership scheme.

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 £56,827 (2002: £74,644). The company made no donations to any political party during the year (2002: £nil).

Auditors

In 2002, Arthur Andersen resigned as auditors. The shareholders, by written resolution, appointed Ernst & Young LLP as auditors to fill the vacancy arising.

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 2003. 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.

ON BEHALF OF THE BOARD

M Parker
Company Secretary

9th July 2003

GROUP HISTORICAL COST PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2003

		2003			2002		
	Note	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
		£'m	£'m	£'m	£'m	£'m	£'m
Turnover	2	421.7	18.2	439.9	422.3	15.8	438.1
Operating costs - ordinary	3(a)	(199.7)	(4.2)	(203.9)	(186.0)	(5.9)	(191.9)
- exceptional	3(d)	(4.4)	-	(4.4)	-	-	-
Total operating costs		(204.1)	(4.2)	(208.3)	(186.0)	(5.9)	(191.9)
Capital maintenance costs	3(b)	(87.8)	(0.6)	(88.4)	(81.5)	(0.5)	(82.0)
OPERATING PROFIT		129.8	13.4	143.2	154.8	9.4	164.2
Net interest payable	4	(70.1)	(0.5)	(70.6)	(67.4)	(0.7)	(68.1)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3(c)	59.7	12.9	72.6	87.4	8.7	96.1
Taxation	8(a)	(18.9)	(3.7)	(22.6)	12.8	(2.0)	10.8
PROFIT FOR THE FINANCIAL YEAR		40.8	9.2	50.0	100.2	6.7	106.9
Dividends	9	(74.9)	(12.9)	(87.8)	(72.8)	(11.3)	(84.1)
(LOSS)/PROFIT RETAINED FOR THE YEAR	24	(34.1)	(3.7)	(37.8)	27.4	(4.6)	22.8

All activities are continuing.

The group has no recognised gains or losses other than the (losses)/profits above and therefore no separate statement of total recognised gains or losses has been presented.

GROUP HISTORICAL COST BALANCE SHEET
At 31 March 2003

	Note	2003	2002
		£'m	£'m
FIXED ASSETS			
Tangible assets	10	2,399.5	2,289.9
CURRENT ASSETS			
Stocks	12	3.2	2.7
Debtors	13	105.0	95.5
Investments	14	95.2	33.7
Cash at bank and in hand		13.0	16.2
		216.4	148.1
CREDITORS			
Amounts falling due within one year	15(a)	(230.3)	(226.6)
NET CURRENT LIABILITIES		(13.9)	(78.5)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,385.6	2,211.4
CREDITORS: Amounts falling due after more than one year	16	(1,328.0)	(1,137.8)
PROVISIONS FOR LIABILITIES AND CHARGES	21	(168.6)	(149.4)
ACCRUALS AND DEFERRED INCOME	22	(36.1)	(33.5)
		(1,532.7)	(1,320.7)
NET ASSETS		852.9	890.7
CAPITAL AND RESERVES			
Called up share capital	23	122.7	122.7
Profit and loss account	24	730.2	768.0
EQUITY SHAREHOLDERS' FUNDS	25	852.9	890.7

Approved on behalf of the board

J A Cuthbert

C M Green

9th July 2003

COMPANY HISTORICAL COST BALANCE SHEET
At 31 March 2003

	Note	2003			2002		
		Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
		£'m	£'m	£'m	£'m	£'m	£'m
FIXED ASSETS							
Tangible assets	10	2,302.6	96.9	2,399.5	2,192.6	97.3	2,289.9
Investments	11	89.4	-	89.4	89.4	-	89.4
		2,392.0	96.9	2,488.9	2,282.0	97.3	2,379.3
CURRENT ASSETS							
Stocks	12	3.1	0.1	3.2	2.5	0.2	2.7
Debtors	13	104.1	0.9	105.0	94.6	0.9	95.5
Investments	14	95.2	-	95.2	33.7	-	33.7
Cash at bank and in hand		13.0	-	13.0	16.2	-	16.2
		215.4	1.0	216.4	147.0	1.1	148.1
CREDITORS Amounts falling due within one year	15(b)	(212.3)	(18.0)	(230.3)	(210.9)	(15.7)	(226.6)
NET CURRENT ASSETS / (LIABILITIES)		3.1	(17.0)	(13.9)	(63.9)	(14.6)	(78.5)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,395.1	79.9	2,475.0	2,218.1	82.7	2,300.8
CREDITORS: Amounts falling due after more than one year	16	(1,417.1)	(0.3)	(1,417.4)	(1,227.1)	(0.1)	(1,227.2)
PROVISIONS FOR LIABILITIES AND CHARGES	21	(162.8)	(5.8)	(168.6)	(144.3)	(5.1)	(149.4)
ACCRUALS AND DEFERRED INCOME	22	(35.6)	(0.5)	(36.1)	(33.0)	(0.5)	(33.5)
		(1,615.5)	(6.6)	(1,622.1)	(1,404.4)	(5.7)	(1,410.1)
NET ASSETS		779.6	73.3	852.9	813.7	77.0	890.7
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	687.5	42.7	730.2	721.6	46.4	768.0
EQUITY SHAREHOLDERS' FUNDS	25	779.6	73.3	852.9	813.7	77.0	890.7

Approved on behalf of the board

J A Cuthbert

C M Green

9th July 2003

GROUP HISTORICAL COST CASH FLOW STATEMENT
For the year ended 31 March 2003

	Note	2003 Appointed business	2003 Non-appointed business	2003 Aggregated basis	2002 Appointed business	2002 Non-appointed business	2002 Aggregated basis
		£'m	£'m	£'m	£'m	£'m	£'m
NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES	a	161.7	20.5	182.2	189.2	13.8	203.0
Returns on investments and servicing of finance							
Interest received		4.5	-	4.5	3.9	-	3.9
Interest paid		(71.0)	(0.5)	(71.5)	(64.3)	(0.6)	(64.9)
Interest element of finance lease rentals		(1.8)	-	(1.8)	(0.4)	-	(0.4)
Net cash outflow from returns on investments and servicing of finance		(68.3)	(0.5)	(68.8)	(60.8)	(0.6)	(61.4)
Taxation							
United Kingdom corporation tax paid		(5.3)	(2.7)	(8.0)	(6.5)	(2.2)	(8.7)
Net cash outflow from taxation		(5.3)	(2.7)	(8.0)	(6.5)	(2.2)	(8.7)
Capital expenditure and financial investment							
Purchase of tangible fixed assets		(170.5)	(0.1)	(170.6)	(157.8)	(0.1)	(157.9)
Sale of tangible fixed assets		2.3	-	2.3	0.8	-	0.8
Grants, contributions and connection charges		9.1	-	9.1	8.6	-	8.6
Net cash outflow from capital expenditure and financial investment		(159.1)	(0.1)	(159.2)	(148.4)	(0.1)	(148.5)
Equity dividend paid		(74.2)	(11.8)	(86.0)	(70.2)	(12.0)	(82.2)
CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(145.2)	5.4	(139.8)	(96.7)	(1.1)	(97.8)
Management of liquid resources							
Purchase of short term deposits		(155.0)	-	(155.0)	(1,028.9)	-	(1,028.9)
Sale of short term deposits		93.5	-	93.5	995.4	-	995.4
Net cash outflow from management of liquid resources	b	(61.5)	-	(61.5)	(33.5)	-	(33.5)
Financing							
New loans		355.7	-	355.7	457.7	-	457.7
New leases		0.8	-	0.8	0.8	-	0.8
Loan repayments		(150.1)	-	(150.1)	(324.3)	-	(324.3)
Capital element of finance lease rental payments		(2.9)	-	(2.9)	(4.0)	-	(4.0)
Net cash inflow from financing	b	203.5	-	203.5	130.2	-	130.2
(DECREASE)/INCREASE IN CASH IN THE YEAR	b	(3.2)	5.4	2.2	-	(1.1)	(1.1)

CASH IN THE YEAR						

NOTES TO THE HISTORICAL COST CASH FLOW STATEMENT
For the year ended 31 March 2003

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

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Operating profit	129.8	13.4	143.2	154.8	9.4	164.2
Depreciation on tangible fixed assets	55.0	0.5	55.5	49.0	0.5	49.5
Infrastructure renewals expenditure	(36.4)	-	(36.4)	(34.7)	-	(34.7)
Provision for infrastructure renewals	33.7	0.1	33.8	33.0	0.1	33.1
Amortisation of grants	(1.7)	-	(1.7)	(3.3)	(0.1)	(3.4)
Profit on sale of fixed assets	(0.9)	-	(0.9)	(0.6)	-	(0.6)
(Increase)/decrease in stock	(0.6)	0.1	(0.5)	(0.3)	(0.1)	(0.4)
(Increase)/decrease in debtors	(1.6)	-	(1.6)	(2.8)	3.6	0.8
Increase/(decrease) in creditors	0.4	-	0.4	(4.2)	(0.6)	(4.8)
(Decrease)/increase in provisions	(9.6)	-	(9.6)	(0.8)	0.1	(0.7)
(Decrease)/increase in inter business creditor/debtor	(6.4)	6.4	-	(0.9)	0.9	-
Net cash inflow from operating activities	161.7	20.5	182.2	189.2	13.8	203.0

The operating cash flows are all from continuing operations.

b. ANALYSIS AND RECONCILIATION OF NET DEBT

	Appointed business			
	1 April 2002	Cash Flow	Other non-cash changes	31 March 2003
	£'m	£'m	£'m	£'m
Cash in hand and at bank	16.2	(3.2)	-	13.0
Debt due after 1 year	(1,081.8)	(326.5)	138.0	(1,270.3)
Debt due within 1 year	(30.6)	120.9	(137.9)	(47.6)
Finance leases	(58.0)	2.1	(3.5)	(59.4)
	(1,170.4)	(203.5)	(3.4)	(1,377.3)
Current asset investments	33.5	61.5	0.1	95.1
Net debt	(1,120.7)	(145.2)	(3.3)	(1,269.2)

b. ANALYSIS AND RECONCILIATION OF NET DEBT (continued)

	Non-appointed business			
	1 April 2002	Cash Flow	Other non-cash changes	31 March 2003
	£'m	£'m	£'m	£'m
Overdrafts	(18.0)	5.4	-	(12.6)
Net debt	(18.0)	5.4	-	(12.6)

	Group			
	1 April 2002	Cash Flow	Other non-cash changes	31 March 2003
	£'m	£'m	£'m	£'m
Group net debt (note 17)	(1,138.7)	(139.8)	(3.3)	(1,281.8)

Reconciliation of cash flow movement to net debt:

	2003	2003			2002
	Group	Appointed business	Non-appointed business	Aggregated business	Group and Aggregated business
	£'m	£'m	£'m	£'m	£'m
Increase/(decrease) in cash in the year	2.2	(3.2)	5.4	2.2	(1.1)
Cash inflow from increase in debt and lease financing	(203.5)	(203.5)	-	(203.5)	(130.2)
Cash outflow from reduction in liquid resources	61.5	61.5	-	61.5	33.5
Change in net debt resulting from cash flows	(139.8)	(145.2)	5.4	(139.8)	(97.8)
Finance costs amortised during the year	0.2	0.2	-	0.2	0.1
Finance lease interest capitalised	(1.0)	(1.0)	-	(1.0)	(2.2)
Finance lease non cash movement	(2.5)	(2.5)	-	(2.5)	(2.5)
Movement in net debt in year	(143.1)	(148.5)	5.4	(143.1)	(102.4)
Net debt at 1 April 2002	(1,138.7)	(1,120.7)	(18.0)	(1,138.7)	(1,036.3)
Net debt at 31 March 2003	(1,281.8)	(1,269.2)	(12.6)	(1,281.8)	(1,138.7)

NOTES TO THE HISTORICAL COST FINANCIAL STATEMENTS
For the year ended 31 March 2003

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, in accordance with RAG 3.05, has been accounted for in accordance with RAG 2.03, "Classification of Infrastructure Expenditure". RAG 2.03 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. Intra-group sales and profits are eliminated fully on consolidation.

(c) Turnover

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

(d) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

(i) Infrastructure assets

Infrastructure assets comprise a network of systems which include water mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls.

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost after deducting grants and contributions.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(i) Infrastructure assets (continued)

In accordance with RAG 3.05 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 it is not permitted to recognise a provision for the costs of renewals expenditure. Adoption of FRS12, taken together with FRS15, 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 2002 and 31 March 2003 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.

- restatement of the cost of infrastructure fixed assets to reflect Section 19 "overlap" expenditure. The objective of the Section 19 quality programme is to address water discolouration problems caused by iron pipes, either through relining these pipes or replacing them where relining is not possible. The "overlap" represents the extra cost of replacing pipes rather than relining them where their structural condition is insufficient to withstand the relining process. Such expenditure is included in the infrastructure renewals charge in the regulatory accounts. The statutory accounts classify such expenditure as capital in nature and include this under infrastructure assets in the fixed asset note, resulting in a higher profit in the statutory accounts (2003 difference: £4.9m).

(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, which is when the asset is available for use.

(e) Grants and contributions

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

Grants and contributions relating to infrastructure assets have been deducted from the cost of those assets, in accordance with RAG 3.05. 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. The effect of the departure on the value of tangible fixed assets is disclosed in note 10. The statutory accounts reflect grants and contributions as deferred income and amortise them to profit and loss account over the expected useful economic lives of the assets, resulting in a higher operating profit in the stautory accounts (2003 difference: £1.4m).

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 of work in progress includes labour, materials, transport and an element of overheads.

(h) Pension costs

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

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

(i) Taxation

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

Under Financial Reporting Standard No. 19 , "Deferred taxation" ("FRS 19") full provision for deferred tax is required for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.

As permitted by FRS 19, the company has decided to adopt a policy of discounting deferred tax assets and liabilities to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on government bonds with similar maturity dates to those of the deferred tax assets or liabilities.

(j) Foreign currency

All transactions denominated in foreign currencies are translated into sterling at the actual rates of exchange ruling at the date of transaction. Foreign currency balances are translated into sterling at the rates of exchange ruling at the balance sheet date 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.

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(m) Derivative financial instruments

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.

(n) Bad debt provisioning

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

2. TURNOVER 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:

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Materials and consumables	11.9	0.6	12.5	12.3	0.6	12.9
Other external charges	48.5	1.8	50.3	50.7	2.7	53.4
Manpower costs (note 7a)	62.3	1.7	64.0	59.3	1.8	61.1
Other operating charges	93.2	0.1	93.3	79.9	0.8	80.7
Own work capitalised	(16.2)	-	(16.2)	(16.2)	-	(16.2)
	199.7	4.2	203.9	186.0	5.9	191.9

The value of own work capitalised represents both employment costs (note 7a) and some other costs incurred on capital projects.

(b) Capital maintenance costs comprise:

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Depreciation:						
Owned tangible fixed assets	50.1	0.5	50.6	44.7	0.4	45.1
Tangible fixed assets held under finance leases	4.9	-	4.9	4.4	-	4.4
Infrastructure renewals						

expenditure (note 21)	36.4	-	36.4	34.7	-	34.7
Infrastructure renewals (prepaid)/accrued (note 21)	(2.7)	0.1	(2.6)	(1.7)	0.1	(1.6)
Profit on disposal of fixed assets	(0.9)	-	(0.9)	(0.6)	-	(0.6)
	87.8	0.6	88.4	81.5	0.5	82.0

3. OPERATING COSTS AND CAPITAL MAINTENANCE COSTS (continued)

(c) Profit on ordinary activities before taxation

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Profit on ordinary activities before taxation is stated after crediting:						
Receipt and amortisation of capital grants and contributions	3.4	-	3.4	4.0	-	4.0
And after charging:						
Operating leases:						
Plant and machinery	0.2	-	0.2	0.8	-	0.8
Other assets	1.0	-	1.0	0.8	-	0.8
Costs of research and development	5.6	-	5.6	5.1	-	5.1
Directors' emoluments (note 5)	0.7	-	0.7	0.8	-	0.8

Auditors' remuneration for the regulatory audit amounted to £31,543 (2002: £31,000). There were no fees for non audit services (2002: £nil).

(d) Exceptional operating costs comprise:

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Pension provision	3.0	-	3.0	-	-	-
Severance provision	1.4	-	1.4	-	-	-
Total exceptional costs	4.4	-	4.4	-	-	-

The pension charge relates to pensions payable to former directors of water-only companies which have since merged with Northumbrian Water Limited. The charge of £3.0m (note 21) represents the full future amounts payable, based on an actuarial assessment, for which the company is directly liable.

The severance charge of £1.4m (note 21) relates to severance and pension costs relating to senior managers who are leaving the business.

4. NET INTEREST PAYABLE

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Net interest payable comprises:						
Interest payable:						
Bank loans and overdrafts	70.2	0.5	70.7	67.0	0.7	67.7
Debenture stock interest	2.1	-	2.1	2.3	-	2.3
Financing charges payable under finance leases	2.8	-	2.8	2.7	-	2.7
Total interest payable	75.1	0.5	75.6	72.0	0.7	72.7
Interest receivable	(5.0)	-	(5.0)	(4.6)	-	(4.6)
Net interest payable	70.1	0.5	70.6	67.4	0.7	68.1

5. DIRECTORS' EMOLUMENTS AND INTERESTS

(a) Directors' remuneration

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

	2003	2002
	£'000	£'000
Emoluments (including benefits in kind)	740.6	806.7

Three of the directors at 31 March 2003 were members of a defined benefit pension scheme where the company makes contributions towards the cost (2002: 3)

The directors who held office at 31 March 2003 had no interest in the shares of the company.

In accordance with the Companies (Disclosure of Directors' Interests) (Exemptions) Regulations 1985, the company is no longer required to be notified of and to report on Directors' interests in its ultimate parent company. This is due to the company becoming wholly owned by its ultimate parent company during the financial year to 31 March 2003, which as at the balance sheet date was a company incorporated outside of Great Britain.

(b) Highest paid director

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

	2003	2002
	£'000	£'000
Emoluments (including benefits in kind)	238.0	204.2

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 March 2003 was £68,700 (2002: £34,746). In addition to the pension, there is a tax free lump sum at normal pension date of which the accrued entitlement at 31 March 2003 is £nil (2002: £104,238).

6. TRANSACTIONS WITH DIRECTORS AND OFFICERS

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

7. EMPLOYEE INFORMATION

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

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Costs charged to the profit and loss account:						
Wages and salaries	40.5	1.4	41.9	38.7	1.5	40.2
Social security costs	3.2	0.1	3.3	3.1	0.1	3.2
Other pension costs	3.2	0.2	3.4	2.9	0.2	3.1
	46.9	1.7	48.6	44.7	1.8	46.5
Costs charged to capital schemes and infrastructure renewals:						
Wages and salaries	13.3	-	13.3	12.6	-	12.6
Social security costs	1.0	-	1.0	1.0	-	1.0
Other pension costs	1.1	-	1.1	1.0	-	1.0
	15.4	-	15.4	14.6	-	14.6
Total employee costs	62.3	1.7	64.0	59.3	1.8	61.1

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

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	No.	No.	No.	No.	No.	No.
Average during the year	2,221	61	2,282	2,148	55	2,203
Total at 31 March	2,281	59	2,340	2,185	50	2,235

8. TAXATION

(a) Analysis of charge in the year:

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Current tax:						
UK corporation tax on profits for the year at 30%	1.6	-	1.6	1.4	0.3	1.7
Adjustments in respect of prior years	(14.8)	-	(14.8)	(4.6)	-	(4.6)
Payable in respect of group relief for the current year at 30%	2.3	3.1	5.4	2.9	1.7	4.6
Adjustments in respect of prior years	0.8	-	0.8	0.4	-	0.4
Total current tax	(10.1)	3.1	(7.0)	0.1	2.0	2.1
Deferred tax:						
Origination and reversal of timing differences in the year	16.3	0.6	16.9	27.8	0.1	27.9
Adjustment in respect of prior years	12.4	-	12.4	-	-	-
	28.7	0.6	29.3	27.8	0.1	27.9
Increase/(decrease) due to discount	0.3	-	0.3	(40.7)	(0.1)	(40.8)
Total deferred tax	29.0	0.6	29.6	(12.9)	-	(12.9)
Tax on profit on ordinary activities	18.9	3.7	22.6	(12.8)	2.0	(10.8)

The appointed business has provisionally claimed tax losses from fellow subsidiaries in the current year of £8.0m (2002: £9.7m) for which payment will be made at the rate of 30%.

The non-appointed business has provisionally claimed tax losses from fellow subsidiaries in the current year of £10.0m (2002: £5.6m) for which payment will be made at the rate of 30%.

8. TAXATION (continued)

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

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

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Profit on ordinary activities before tax	59.7	12.9	72.6	87.4	8.7	96.1
Profit on ordinary activities multiplied by standard rate of UK corporation tax (30%)	17.9	3.9	21.8	26.2	2.6	28.8
Effects of:						
Expenses not deductible for tax purposes	2.0	0.1	2.1	1.8	0.1	1.9
Capital allowances in excess of depreciation	(22.7)	(0.6)	(23.3)	(21.0)	(0.6)	(21.6)
Other timing differences	6.4	-	6.4	(2.5)	-	(2.5)
Other items	0.3	(0.3)	-	(0.2)	(0.1)	(0.3)
Adjustment to tax charge in respect of previous periods	(14.0)	-	(14.0)	(4.2)	-	(4.2)
Current tax (credit)/charge	(10.1)	3.1	(7.0)	0.1	2.0	2.1

(c) Factors that may affect future tax charges:

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

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

9. DIVIDENDS

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Equity:						
Interim paid of 35.81p (2002: 34.23p) per share on an aggregated basis	37.4	6.5	43.9	36.0	6.0	42.0
Final paid of 35.81p (2002: 34.31p) per share on an aggregated basis	37.5	6.4	43.9	36.8	5.3	42.1
	74.9	12.9	87.8	72.8	11.3	84.1

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.

The directors are of the opinion that it is appropriate to maintain the current dividend policy notwithstanding the significant reduction in profit before tax, as this has been influenced by factors outside the company's control, as described in the directors' report.

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

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

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

10. TANGIBLE FIXED ASSETS – GROUP AND COMPANY

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 £101.5m (2002: £96.7m) in order to give a true and fair view (note 1e).

	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 2002	78.6	968.1	1,426.6	90.2	69.0	2,632.5
Additions	-	-	-	-	171.3	171.3
Schemes commissioned	0.6	37.3	77.8	16.5	(132.2)	-
Reclassifications	6.9	69.3	(109.0)	0.9	31.9	-
Disposals	(0.1)	(1.2)	-	(0.8)	-	(2.1)
Grants and contributions	-	(8.6)	-	-	3.8	(4.8)
At 31 March 2003	86.0	1,064.9	1,395.4	106.8	143.8	2,796.9
Depreciation:						
At 1 April 2002	19.9	-	263.3	59.4	-	342.6
Provision for year	1.7	-	45.7	8.1	-	55.5
Reclassifications	0.1	-	(0.3)	0.2	-	-
Disposals	-	-	-	(0.7)	-	(0.7)
At 31 March 2003	21.7	-	308.7	67.0	-	397.4
Net book value:						
At 31 March 2003	64.3	1,064.9	1,086.7	39.8	143.8	2,399.5
At 31 March 2002	58.7	968.1	1,163.3	30.8	69.0	2,289.9
Leased assets included above:						
Net book value						
At 31 March 2003	-	2.2	25.4	1.1	-	28.7
At 31 March 2002	-	2.2	27.6	1.9	-	31.7

	Appointed business Water Supply	Appointed business Sewerage services	Non-Appointed business	Aggregated basis
	£'m	£'m	£'m	£'m
Cost:				
At 1 April 2002	1,062.4	1,451.2	118.9	2,632.5
Additions	110.9	60.3	0.1	171.3
Disposals	(2.1)	-	-	(2.1)
Grants and contributions	(4.9)	0.1	-	(4.8)
At 31 March 2003	1,166.3	1,511.6	119.0	2,796.9
Depreciation:				
At 1 April 2002	116.9	204.1	21.6	342.6
Provision for year	18.6	36.4	0.5	55.5
Disposals	(0.7)	-	-	(0.7)
At 31 March 2003	134.8	240.5	22.1	397.4
Net Book Value:				
At 31 March 2003	1,031.5	1,271.1	96.9	2,399.5

At 31 March 2002	945.5	1,247.1	97.3	2,289.9

11. FIXED ASSET INVESTMENTS – COMPANY

	2003	2002
	£'m	£'m
At 1 April and 31 March	89.4	89.4

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.

The company has a wholly owned subsidiary undertaking in Suffolk Water plc, whose principal activity is the holding of a loan note due from the 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.

The company has a wholly owned subsidiary undertaking, Northumbrian Water Finance plc, whose principal activity is to hold certain finance instruments on behalf of Northumbrian Water Limited. This investment equates to a 100% holding in the ordinary shares of Northumbrian Water Finance plc.

12. STOCKS – GROUP AND COMPANY

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Raw materials and consumables	3.1	0.1	3.2	2.5	0.2	2.7

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

13. DEBTORS – GROUP AND COMPANY

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Trade debtors	57.2	0.4	57.6	57.4	0.6	58.0
Amounts owed by other group companies	1.5	0.2	1.7	2.1	0.2	2.3
Other debtors	6.8	0.1	6.9	5.4	-	5.4
Prepayments and accrued income	31.2	0.2	31.4	29.7	0.1	29.8
Corporation tax	5.6	-	5.6	-	-	-
Infrastructure renewals prepayment (note 21)	1.8	-	1.8	-	-	-
	104.1	0.9	105.0	94.6	0.9	95.5

Trade debtors are shown net of bills raised in advance.

14. INVESTMENTS – GROUP AND COMPANY

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Short term deposits	95.1	-	95.1	33.5	-	33.5
Assets held for resale	0.1	-	0.1	0.2	-	0.2
	95.2	-	95.2	33.7	-	33.7

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

(a) Group:

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Obligations under finance leases (note 19)	3.2	-	3.2	3.6	-	3.6
Bank overdraft	-	12.6	12.6	-	18.0	18.0
Loans (note 17)	18.4	-	18.4	22.6	-	22.6
Debenture stock (note 18)	-	-	-	8.0	-	8.0
Trade creditors	9.7	0.2	9.9	3.1	0.2	3.3
Amounts owed to other group companies	44.8	1.4	46.2	13.6	0.8	14.4
Taxation and social security	1.6	0.1	1.7	1.2	0.1	1.3
Corporation tax	-	-	-	12.8	0.4	13.2
Receipts in advance	14.9	-	14.9	15.1	-	15.1
Other creditors	14.2	0.1	14.3	14.9	0.1	15.0
Dividend payable	37.5	6.4	43.9	36.8	5.3	42.1
Accruals and deferred income	64.8	0.4	65.2	69.6	0.4	70.0
Inter business balance	3.2	(3.2)	-	9.6	(9.6)	-
	212.3	18.0	230.3	210.9	15.7	226.6

(b) Company:

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Obligations under finance leases (note 19)	3.2	-	3.2	3.6	-	3.6
Bank overdraft	-	12.6	12.6	-	18.0	18.0
Loans (note 17)	18.4	-	18.4	22.6	-	22.6
Debenture stock (note 18)	-	-	-	8.0	-	8.0
Trade creditors	9.7	0.2	9.9	3.1	0.2	3.3
Amounts owed to other group companies	57.0	1.4	58.4	19.1	0.8	19.9
Taxation and social security	1.6	0.1	1.7	1.2	0.1	1.3
Corporation tax	-	-	-	12.8	0.4	13.2
Receipts in advance	14.9	-	14.9	15.1	-	15.1
Other creditors	14.2	0.1	14.3	14.9	0.1	15.0
Dividend payable	37.5	6.4	43.9	36.8	5.3	42.1
Accruals and deferred income	52.6	0.4	53.0	64.1	0.4	64.5
Inter business balance	3.2	(3.2)	-	9.6	(9.6)	-

212.3	18.0	230.3	210.9	15.7	226.6

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (continued)

Accruals and deferred income includes accruals related to capital projects of £25.3m (2002: £29.0m). Amounts owed to other group companies includes amounts related to capital projects of £4.8m (2002: £2.9m).

Included in amounts owed to other group companies is £8.1m (appointed business £6.7m (2002: £3.7m), non-appointed business £1.4m (2002: £0.9m)) payable in respect of tax losses surrendered by fellow subsidiaries.

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

	2003		2002	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
Obligations under hire purchase contracts and finance leases (note 19)	56.2	56.2	54.4	54.4
Loans (note 17)	904.5	357.1	596.4	295.5
Debenture stocks (note 18)	14.2	14.2	14.2	14.2
Amounts owed to other group companies	351.9	988.7	471.7	862.0
Other creditors	1.2	1.2	1.1	1.1
	1,328.0	1,417.4	1,137.8	1,227.2

At 31 March 2003 the group and company had entered into the following interest swap arrangements: £15.0m (2002: £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 £0.7m (2002: £29.0m) 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 (2002: £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.

Included in amounts owed to other group companies is £0.3m (appointed business £nil (2002: £0.4m), non-appointed business £0.3m (2002: £0.1m)) payable in respect of tax losses surrendered by fellow subsidiaries.

Included in other creditors is £0.1m (appointed business £0.1m (2002: £0.1m), non-appointed business £nil (2002: £nil)) in respect of corporation tax payable.

17. LOANS

	2003		2002	
	Group	Company	Group	Company
	£'m	£'m	£'m	£'m
External loans are repayable as follows:				
Within one year	18.4	18.4	22.6	22.6
Between one and two years	48.1	48.1	23.0	23.0
Between two and five years	53.0	53.0	94.8	94.8
After five years	803.4	256.0	478.6	177.7
	922.9	375.5	619.0	318.1

17. LOANS (continued)

Loans repayable by instalments wholly repayable within 5 years amount to £23.4m (2002: £32.4m).

Loans repayable by instalments not wholly repayable within 5 years amount to £247.2m (2002: £180.8m) and bear interest rates in the range of 3.51% to 8.55% of which £66.2m (2002: £78.0m) falls due in less than 5 years and £181.0m (2002: £102.8m) falls due after more than 5 years.

Loans repayable otherwise than by instalments which fall due in less than 5 years amount to £30.0m (2002: £30.0m) and bear interest rates in the range of 3.96% to 7.95%.

Loans repayable otherwise than by instalments which fall due after more than 5 years amount to £622.3m (2002: £375.8m) and bear interest at rates in the range of 3.46% to 6.0%.

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 Services Limited. The aim of this strategy is to assess the ongoing capital requirement of the company and to raise funding on a timely basis, taking advantage of any favourable market opportunities.

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

Risks arising from company's financial instruments

The main risks arising from the company's financial instruments are liquidity risk and interest rate risk. As noted above, the company's financing strategy is developed in accordance with the treasury policies of Northumbrian Services Limited, 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 Services Limited. Northumbrian Services Limited'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 Services Limited's policy is to keep a minimum 50 per cent of its borrowings at fixed rates of interest.

Foreign currency risk

Northumbrian Services Limited'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 2003 were:

			Fixed Rate Net Borrowings				
	Total net borrowings	Variable rate net borrowings	Fixed Rate Borrowings	Weighted average interest rate	Weighted average period until maturity	Weighted average period for which rate is fixed	Financial liabilities on which no interest is paid
	£'m	£'m	£'m	%	Years	Years	£'m
Sterling borrowings:							
External loans	(375.5)	(135.5)	(240.0)	6.55	10.3	10.3	-
Eurobonds	(547.4)	-	(547.4)	5.85	21.6	21.6	-
Debentures	(14.2)	-	(14.2)	9.84	4.2	4.2	-
Internal loans	(380.8)	(29.2)	(351.6)	6.75	19.9	19.9	-
Finance leases	(59.4)	(52.6)	(6.8)	7.09	5.5	5.5	-
Bank overdraft	(12.6)	(12.6)	-	-	-	-	-
Total borrowings	(1,389.9)	(229.9)	(1,160.0)	6.32	18.4	18.4	-
Cash	13.0	13.0	-				-
Short term investments	95.1	95.1	-				-
Net borrowings	(1,281.8)	(121.8)	(1,160.0)				-

The interest rates and currency profile of the net borrowings of the group at 31 March 2002 were:

			Fixed Rate Net Borrowings				
	Total net borrowings	Variable rate net borrowings	Fixed Rate Borrowings	Weighted average interest rate	Weighted average period until maturity	Weighted average period for which rate is fixed	Financial liabilities on which no interest is paid
	£'m	£'m	£'m	%	Years	Years	£'m
Sterling borrowings:							
External loans	(318.1)	(90.8)	(227.3)	7.56	9.1	9.1	-
Eurobonds	(300.9)	-	(300.9)	6.00	15.5	15.5	-
Debentures	(22.2)	-	(22.2)	10.53	4.3	4.3	-
Internal loans	(471.2)	(119.5)	(351.7)	6.75	20.9	20.9	-
Finance leases	(58.0)	(51.6)	(6.4)	8.24	5.6	5.6	-
Bank overdraft	(18.0)	(18.0)	-	-	-	-	-
Total borrowings	(1,188.4)	(279.9)	(908.5)	6.81	15.6	15.6	-
Cash	16.2	16.2	-				-
Short term investments	33.5	33.5	-				-
Net borrowings	(1,138.7)	(230.2)	(908.5)				-

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 £21.3m (2002: £98.8m) 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 2003, the group and the company had no currency exposures (2002: nil).

Borrowing facilities

The group had no undrawn committed borrowing facilities as at 31 March 2003 (2002: nil) but had access to undrawn committed borrowing facilities available to Northumbrian Services Limited which, at 31 March 2003, amounted to £40.0m (2002: £150m).

The facilities available to Northumbrian Services Limited at 31 March 2003, in respect of which all conditions precedent have been met, were as follows:

	£'m
Expiring in one year or less	40.0

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 2003:

	Book value	Fair value
	£’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	(63.5)	(67.4)
Long-term borrowings	(1,326.4)	(1,384.6)
Financial assets	108.1	108.1
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps	-	1.0
As at 31 March 2003	(1,281.8)	(1,342.9)

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 2002:

	Book value	Fair value
	£’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	(52.2)	(57.6)
Long-term borrowings	(1,136.2)	(1,159.8)
Financial Assets	49.7	49.7
Derivative financial instruments held to manage the interest rate and currency profile:		

Interest rate swaps	-	1.9
As at 31 March 2002	(1,138.7)	(1,165.8)

17. LOANS (continued)

The fair values of the interest rate swaps, and sterling denominated long-term fixed rate debt with a book value of £913.5m (2002: £674.8m), 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:

	Gains	Losses	Total net Gains/Losses
	£'m	£'m	£'m
Unrecognised gains and losses on hedges at 1 April 2002	2.2	0.3	1.9
Gains and losses arising in previous years that were recognised in 2002/2003	(1.3)	(0.3)	(1.0)
Gains and losses arising before 1 April 2002 that were not recognised in 2002/2003	0.9	-	0.9
Gains and losses arising in 2002/2003 that were not recognised in 2002/2003	0.5	0.4	0.1
Unrecognised gains and losses on hedges at 31 March 2003	1.4	0.4	1.0
Of which:			
Gains and losses expected to be recognised in 2003/2004	0.7	0.4	0.3
Gains and losses expected to be recognised in 2004/2005 or later	0.7	-	0.7
	1.4	0.4	1.0

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

	2003 Appointed and aggregated basis	2002 Appointed and aggregated basis
	£'m	£'m
Debenture stocks are repayable as follows:		
In less than one year:		
£1, 11.75% Redeemable 2002/04	-	8.0
Between one and two years		
£1, 12.0% Redeemable 2004	5.0	-
Between two and five years:		
£1, 12.0% Redeemable 2004	-	5.0
£1, 12.0% Redeemable 2005	2.0	2.0
£1, 11.2% Redeemable 2005/09	3.5	3.5
In five years or more:		
£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	0.2
£1, 4.0% Irredeemable	0.8	0.8
£1, 5.0% Irredeemable	1.0	1.0
Total due in more than one year	14.2	14.2
At 31 March	14.2	22.2

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:

	2003 Appointed and aggregated basis	2002 Appointed and aggregated basis
	£'m	£'m
Amounts due:		
Within one year	3.2	3.6
Between one and two years	3.3	2.5
Between two and five years	8.7	9.7
After five years	68.8	75.5
	84.0	91.3
Less:		
Finance charge allocated to future periods	(24.6)	(33.3)
	59.4	58.0
Disclosed as due:		
Within one year (note 15)	3.2	3.6
After more than one year (note 16)	56.2	54.4
	59.4	58.0

20. AMOUNTS DUE TO OTHER GROUP COMPANIES

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

	2003		2002	
	Group	Company Appointed and aggregated basis	Group	Company Appointed and aggregated basis
	£'m	£'m	£'m	£'m
Within one year	29.2	29.2	-	-
Between one and two years	-	-	-	-
Between two and five years	-	-	-	-
After five years	351.6	988.4	471.2	861.5
	380.8	1,017.6	471.2	861.5

£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.

At 31 March 2002 £119.5m was owed to a fellow subsidiary, North East Water plc, in the form of an unsecured loan note repayable, at par. At that time there was no intention to repay and the loan was therefore classified as being due in five years or more. In December 2002, the company exercised its option to repay the loan note at any time, also at par.

£351.6m is owed to the immediate parent company, Northumbrian Services Limited. Northumbrian Services Limited issued £200.0m Guaranteed Eurobonds in February 1998 and issued a further £150.0m Guaranteed Eurobonds in September 2001, maturing 6 February 2023, with an annual coupon of 6.875%. The issues were guaranteed by the company who received the issue proceeds by way of inter-company loans of £194.2m and £156.2m respectively. Finance costs allocated during the year amounted to £0.2m (2002: £0.2m). Amortisation of loan issue receipts during the year amounted to £0.3m (2002: nil).

£300.9m is owed to Northumbrian Water Finance plc, a subsidiary undertaking of the group. Northumbrian Water Finance plc issued £300.0m Guaranteed Eurobonds in December 2001, maturing October 2017, with an annual coupon of 6.0%. The issue was guaranteed by Northumbrian Water Limited who received the issue proceeds by way of an inter company loan.

£246.5m is owed to Northumbrian Water Finance plc, a subsidiary undertaking of the group. Northumbrian Water Finance plc issued £250.0m Guaranteed Eurobonds during December 2002, maturing April 2033, with an annual coupon of 5.625%. The issue was guaranteed by Northumbrian Water Limited who received the issue proceeds by way of an inter-company loan.

21. PROVISIONS FOR LIABILITIES AND CHARGES – GROUP AND COMPANY

	2003		
	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m
Infrastructure renewals:			
At 1 April	0.9	1.2	2.1
Transferred from profit and loss account	33.7	0.1	33.8
Utilised during the year (note 3b)	(36.4)	-	(36.4)
At 31 March	(1.8)	1.3	(0.5)
Reorganisation/ restructuring provision:			
At 1 April	5.7	-	5.7
Released to profit and loss account	(0.4)	-	(0.4)
Transferred from pension provision	7.6	-	7.6
Utilised during the year	(12.9)	-	(12.9)
At 31 March	-	-	-
Pension provision:			
As at 1 April	8.1	-	8.1
Released to profit and loss account	(0.5)		(0.5)
Transferred to reorganisation/restructuring provision	(7.6)		(7.6)
At 31 March	-	-	-
Deferred tax:			
As at 1 April	129.6	3.9	133.5
Movement in the year	29.0	0.6	29.6
At 31 March	158.6	4.5	163.1
Severance provision:			
As at 1 April	-	-	-
Transferred from profit and loss account (note 3d)	1.4	-	1.4
Utilised during the year	(0.2)	-	(0.2)
At 31 March	1.2	-	1.2
Pension provision for former directors:			
As at 1 April	-	-	-
Transferred from profit and loss account (note 3d)	3.0	-	3.0
At 31 March	3.0	-	3.0
Closing balance	161.0	5.8	166.8

21. PROVISIONS FOR LIABILITIES AND CHARGES – GROUP AND COMPANY (continued)

	2003		
	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m
Disclosed as:			
Infrastructure renewals prepayment (note 13)	(1.8)	-	(1.8)
Provisions for liabilities and charges	162.8	5.8	168.6
Closing balance	161.0	5.8	166.8

The reorganisation and restructuring provision incorporated outstanding pension contributions for staff who left the business on early retirement terms as part of voluntary severance schemes in 1999 and earlier. Following the recommendation of the actuaries of the pension schemes in which the individuals concerned belong, the amount was paid in full in January 2003 with the approval of the trustees of the pension schemes.

The provision for deferred tax comprises:

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Accelerated capital allowances	419.0	16.5	435.5	384.0	15.8	399.8
Other timing differences	(23.7)	(0.6)	(24.3)	(17.4)	(0.5)	(17.9)
Undiscounted provision for deferred tax	395.3	15.9	411.2	366.6	15.3	381.9
Discount	(236.7)	(11.4)	(248.1)	(237.0)	(11.4)	(248.4)
Discounted provision for deferred tax	158.6	4.5	163.1	129.6	3.9	133.5

The severance provision of £1.4m (note 3d) relates to severance and pension costs relating to senior managers who are leaving the business.

The pension provision for former directors relates to pensions payable to those former directors of water-only companies which have since merged with Northumbrian Water Limited. The charge of £3.0m (note 3d) represents the full future amounts payable, based on an actuarial assessment, for which NWL is directly liable.

22. ACCRUALS AND DEFERRED INCOME – GROUP AND COMPANY

	2003			2002		
	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	33.0	0.5	33.5	32.7	0.6	33.3
Additions	4.3	-	4.3	3.6	-	3.6
Amortised during the year	(1.7)	-	(1.7)	(3.3)	(0.1)	(3.4)

At 31 March	35.6	0.5	36.1	33.0	0.5	33.5

23. CALLED UP SHARE CAPITAL – GROUP AND COMPANY

	2003			2002		
	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 (2002: 122,650,000)	92.1	30.6	122.7	92.1	30.6	122.7

	2003			2002		
	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 (2002: 122,650,000)	92.1	30.6	122.7	92.1	30.6	122.7

24. PROFIT AND LOSS ACCOUNT – GROUP AND COMPANY

	2003		
	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m
At 1 April	721.6	46.4	768.0
Loss retained for the year	(34.1)	(3.7)	(37.8)
At 31 March	687.5	42.7	730.2

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 £50.0m (2002: £106.9m) relates to the operations of the company.

The retained profit of the appointed business reflects the accounting treatments for both section 19 infrastructure expenditure and for amortisation of infrastructure grants which are explained in notes 1 (d) and 1 (e). If the statutory accounting treatment had been applied to the regulatory accounts, the retained profits would have been increased.

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

	2003		
	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m
Profit for the financial year	40.8	9.2	50.0
Dividends	(74.9)	(12.9)	(87.8)
Net deductions from equity shareholders' funds	(34.1)	(3.7)	(37.8)

Opening equity shareholders' funds	813.7	77.0	890.7
Closing equity shareholders' funds	779.6	73.3	852.9

26. COMMITMENTS – GROUP AND COMPANY

(a) Capital expenditure:

	2003			2002		
	Appointed business	Non-appointed business	Aggregated basis	Appointed business	Non-appointed business	Aggregated basis
	£'m	£'m	£'m	£'m	£'m	£'m
Expenditure contracted for	67.6	-	67.6	67.2	-	67.2

(b) Lease commitments:

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

	2003			2002		
	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	0.1	-	0.1	0.4	-	0.4
In five years or more	0.6	-	0.6	0.2	-	0.2
	0.7	-	0.7	0.6	-	0.6
Other:						
Leases which expire:						
Within one year	-	-	-	0.5	-	0.5

27. PENSIONS

Northumbrian Services Limited operates a funded defined benefit pension scheme, providing benefits based on final pensionable remuneration to 2,345 employees. The Scheme, named the Northumbrian Water Pension Scheme, comprises four unitised sub-funds – WPS, LUKPS (North), LUKPS (South) and MIS.

The assets of the Scheme are held separately from those of Northumbrian Services Limited in independently administered funds.

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

The following table sets out the contributions agreed based on the 31 December 2001 valuations:

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

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

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

During the year the group made contributions amounting to £4.5m.

The next valuation will be carried out as at 31 December 2004. An independent qualified actuary performs the actuarial valuation.

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

The latest actuarial valuation of the Scheme, prepared for the purposes of making the transitional disclosures in accordance with FRS 17 in the consolidated financial statements of the parent company, shows a deficit of £76.3m. Further details of this valuation can be found in the consolidated financial statements of the parent company for the year ended 31 December 2002. Note that the company paid over £13.2m on 2 January 2003 which reduced the deficit to £63.1m.

In addition, Northumbrian Services Limited operates the Northumbrian Water Group Personal Pension Plan which provides defined contribution benefits to 885 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 Services Limited 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 Services Limited.

30. ULTIMATE PARENT COMPANY

At the balance sheet date, the ultimate parent company and controlling party of the company was Suez S.A., 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., 16 rue de la Ville l’Eveque, 75383, Paris, France.

The smallest group which consolidates the results of the company is that of which Northumbrian Services Limited (formerly Ondeo Services UK plc.) is the parent. Copies of the consolidated accounts may be obtained from Northumbrian Services Limited, Northumbria House, Abbey Road, Pity Me, Durham DH1 5FJ. Northumbrian Services Limited is registered in England and Wales.

31. POST BALANCE SHEET EVENT

Following the change of ownership described in the Director’s Report, the ultimate parent company and controlling party of the company is now Northumbrian Water Group plc.

CURRENT COST PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2003

	Note	2003	2002
		£'m	£'m
Turnover	2	421.7	422.3
Current cost operating costs - ordinary	3	(199.7)	(186.0)
Current cost operating costs - extraordinary	3	(4.4)	-
Total current cost operating costs		(204.1)	(186.0)
Capital maintenance costs	3	(120.4)	(109.1)
Profit on sale of fixed assets	2	0.9	0.6
CURRENT COST OPERATING PROFIT		98.1	127.8
Working capital adjustment	2	0.5	0.5
CURRENT COST OPERATING PROFIT		98.6	128.3
Net interest payable		(70.1)	(67.4)
Financing adjustment	6	40.0	15.1
CURRENT COST PROFIT BEFORE TAXATION		68.5	76.0
Taxation:			
Current tax		10.1	(0.1)
Deferred tax		(29.0)	12.9
CURRENT COST PROFIT ATTRIBUTABLE TO SHAREHOLDERS		49.6	88.8
Dividends		(74.9)	(72.8)
CURRENT COST (LOSS)/PROFIT RETAINED		(25.3)	16.0

CURRENT COST BALANCE SHEET
At 31 March 2003

	Note	2003	2002
		£'m	£'m
FIXED ASSETS			
Tangible fixed assets	4	11,769.3	11,340.1
Third party contributions since 1989/90		(62.1)	(58.7)
		11,707.2	11,281.4
Working capital	5	69.9	(16.2)
NET OPERATING ASSETS		11,777.1	11,265.2
Investment		89.4	89.4
Non trade debtors		8.3	7.5
Non trade creditors due within one year		(37.6)	(33.1)
Creditors due after more than one year		(1,417.1)	(1,227.1)
Provisions for liabilities and charges – deferred tax		(158.6)	(129.6)
Provisions for liabilities and charges – other		(4.2)	-
Dividends payable		(37.5)	(36.8)
NET ASSETS EMPLOYED		10,219.8	9,935.5
CAPITAL AND RESERVES			
Called up share capital		92.1	92.1
Profit and loss account		398.8	424.1
Current cost reserve	6	9,728.9	9,419.3
TOTAL CAPITAL AND RESERVES		10,219.8	9,935.5

CURRENT COST CASH FLOW STATEMENT
For the year ended 31 March 2003

	Note	2003	2002
		£'m	£'m
NET CASH INFLOW FROM CONTINUING OPERATING ACTIVITIES	7	198.1	223.9
Returns on investments and servicing of finance			
Interest received		4.5	3.9
Interest paid		(71.0)	(64.3)
Interest element of finance lease rentals		(1.8)	(0.4)
Net cash outflow from returns on investments and servicing of finance		(68.3)	(60.8)
Taxation			
United Kingdom corporation tax paid		(5.3)	(6.5)
Net cash outflow from taxation		(5.3)	(6.5)
Capital expenditure and financial investment			
Gross cost of purchase of fixed assets		(170.5)	(157.8)
Infrastructure renewals expenditure		(36.4)	(34.7)
Receipt of grants and contributions		9.1	8.6
Sale of tangible fixed assets		2.3	0.8
Net cash outflow from capital expenditure and financial investment		(195.5)	(183.1)
Equity dividends paid		(74.2)	(70.2)
CASH OUTFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(145.2)	(96.7)
Management of liquid resources			
Purchase of short term deposits		(155.0)	(1,028.9)
Sale of short term deposits		93.5	995.4
Net cash outflow from management of liquid resources		(61.5)	(33.5)
Financing			
New loans		355.7	457.7
New leases		0.8	0.8
Loan repayment		(150.1)	(324.3)
Capital element of finance lease rental payments		(2.9)	(4.0)
Net cash inflow from financing		203.5	130.2
DECREASE IN CASH IN THE YEAR		(3.2)	-

NOTES TO THE CURRENT COST FINANCIAL INFORMATION
For the year ended 31 March 2003

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) Grants and contributions
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

	2003			2002		
	Water services	Sewerage services	Appointed business	Water services	Sewerage services	Appointed business
	£'m	£'m	£'m	£'m	£'m	£'m
Measured	61.3	39.0	100.3	59.4	36.9	96.3
Unmeasured	145.6	119.0	264.6	145.0	117.3	262.3
Trade effluent	-	4.0	4.0	-	4.2	4.2
Large user revenues	21.1	7.2	28.3	22.2	7.5	29.7
Other sources	1.4	1.1	2.5	4.9	14.4	19.3
Third party services	10.4	11.6	22.0	10.4	0.1	10.5
Total turnover	239.8	181.9	421.7	241.9	180.4	422.3
Operating income:						
Current cost profit on disposal of fixed assets	0.7	0.2	0.9	0.4	0.2	0.6
Working capital adjustment	0.3	0.2	0.5	0.3	0.2	0.5

Sewerage services revenue from third party services is principally comprised of the income from sewerage treament activities at Bran Sands. In the prior year this was classified as income from other sources.

3. OPERATING COSTS

2003

Activity cost table

	Service analysis								Business analysis		
	Water supply			Sewerage services							
	Resources & Treatment	Distribution	**Water Supply Subtotal**	Sewerage	Sewage Treatment	Sludge Treatment & Disposal	Sewage T & D Subtotal	**Sewerage Service Subtotal**	Customer Services	Scientific Services	Cost of Regulation
	£'m	£'m	**£'m**	£'m	£'m	£'m	£'m	**£'m**	£'m	£'m	£'m
Direct Costs											
Employment costs	7.0	8.7	**15.7**	3.2	2.6	3.9	6.5	**9.7**			
Power	2.7	5.1	**7.8**	1.8	3.9	2.5	6.4	**8.2**			
Hired & contracted services	1.9	3.5	**5.4**	1.1	0.4	8.0	8.4	**9.5**			
Associated companies	0.4	-	**0.4**	-	0.7	1.1	1.8	**1.8**			
Materials and consumables	5.0	1.0	**6.0**	0.1	0.6	1.5	2.1	**2.2**			
Service charges (EA)	15.2	-	**15.2**	1.2	1.2	-	1.2	**2.4**			
Bulk supply imports	0.9	-	**0.9**	-	-	-	-	**-**			
Other direct costs	0.2	4.4	**4.6**	0.9	0.1	0.1	0.2	**1.1**			
Total direct costs	33.3	22.7	**56.0**	8.3	9.5	17.1	26.6	**34.9**	10.3	8.0	1.4
General and support expenditure	11.1	12.4	**23.5**	3.6	4.5	5.3	9.8	**13.4**	4.8	1.4	0.2
Functional expenditure	44.4	35.1	**79.5**	11.9	14.0	22.4	36.4	**48.3**	15.1	9.4	1.6
Business analysis			**16.7**					**9.4**			
Total business activities c/fwd			**96.2**					**57.7**			

3. OPERATING COSTS (continued)

2003

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**
Total business activities b/fwd			**96.2**					**57.7**
Rates			**14.8**					**3.6**
Doubtful debts			**7.0**					**6.4**
Exceptional costs			**3.9**					**0.5**
Total opex less third party services			**121.9**					**68.2**
Third party services – opex			**9.1**					**4.9**
Total operating expenditure			**131.0**					**73.1**
Capital costs								
Infrastructure renewal expenditure	1.6	23.8	**25.4**	11.0	-	-	-	**11.0**
Movement in infrastructure renewals accrual/prepayment	-	(1.6)	**(1.6)**	(1.1)	-	-	-	**(1.1)**
Current cost depreciation (allocated)	20.2	7.9	**28.1**	6.0	37.8	4.0	41.8	**47.8**
Business activities current cost depreciation (non allocated)			**5.9**					**4.9**
Total capital maintenance			**57.8**					**62.6**
Total operating costs			**188.8**					**135.7**
CCA (MEA) values								
Service activities			**5,598.4**					**6,094.2**
Business activities			**51.0**					**25.7**
Service totals			**5,649.4**					**6,119.9**

Sewerage service charges from third party services are principally comprised of the costs from sewerage treament activities at Bran Sands. In the prior year this was classified under other cost headings.

3. OPERATING COSTS (continued)

2002

Activity cost table

	Service analysis								**Business analysis**		
	Water supply			Sewerage services							
	Resources & Treatment	Distribution	**Water Supply Subtotal**	Sewerage	Sewage Treatment	Sludge Treatment & Disposal	Sewage T & D Subtotal	**Sewerage Service Subtotal**	Customer Services	Scientific Services	Cost of Regulation
	£'m	£'m	**£'m**	£'m	£'m	£'m	£'m	**£'m**	£'m	£'m	£'m
Direct Costs											
Employment costs	6.3	9.2	**15.5**	3.2	3.0	4.4	7.4	**10.6**			
Power	3.8	4.1	**7.9**	1.8	4.3	3.2	7.5	**9.3**			
Hired & contracted services	1.5	3.2	**4.7**	0.7	1.4	8.4	9.8	**10.5**			
Associated companies	0.4	-	**0.4**	0.1	0.4	0.3	0.7	**0.8**			
Materials and consumables	4.7	1.1	**5.8**	0.3	1.1	2.4	3.5	**3.8**			
Service charges (EA)	14.9	-	**14.9**	1.1	1.2	-	1.2	**2.3**			
Bulk supply imports	1.1	-	**1.1**	-	-	-	-	**-**			
Other direct costs	0.4	3.3	**3.7**	0.7	0.1	0.1	0.2	**0.9**			
Total direct costs	33.1	20.9	**54.0**	7.9	11.5	18.8	30.3	**38.2**	9.2	8.1	1.5
General and support expenditure	10.2	10.1	**20.3**	2.8	5.2	4.2	9.4	**12.2**	4.0	1.3	0.2
Functional expenditure	43.3	31.0	**74.3**	10.7	16.7	23.0	39.7	**50.4**	13.2	9.4	1.7
Business analysis			**15.9**					**8.4**			
Total business activities c/fwd			**90.2**					**58.8**			

3. OPERATING COSTS (continued)

2002

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**
Total business activities b/fwd			**90.2**					**58.8**
Rates			**14.0**					**2.8**
Doubtful debts			**5.5**					**5.2**
Total opex less third party services			**109.7**					**66.8**
Third party services – opex			**9.5**					**-**
Total operating expenditure			**119.2**					**66.8**
Capital costs								
Infrastructure renewal expenditure	1.3	24.0	**25.3**	9.4	-	-	-	**9.4**
Movement in infrastructure renewals accrual/prepayment	-	(2.0)	**(2.0)**	0.3	-	-	-	**0.3**
Current cost depreciation (allocated)	18.4	7.1	**25.5**	5.9	29.3	4.9	34.2	**40.1**
Business activities current cost depreciation (non allocated)			**8.0**					**2.5**
Total capital maintenance			**56.8**					**52.3**
Total operating costs			**176.0**					**119.1**
CCA (MEA) values								
Service activities			**5,367.4**					**5,906.0**
Business activities			**44.0**					**22.7**
Service totals			**5,411.4**					**5,928.7**

4. TANGIBLE FIXED ASSETS

Analysis by asset type

Water Service

	Specialised operational assets	Non specialised properties	Infrastructure assets	Other tangible assets	Total
	£'m	£'m	£'m	£'m	£'m
Gross Replacement Cost:					
At 1 April 2002	1,559.7	61.2	4,554.5	104.2	6,279.6
RPI Adjustment	48.3	1.9	140.9	3.2	194.3
Disposals	(0.9)	-	(1.2)	-	(2.1)
Additions	71.0	1.1	25.4	8.5	106.0
At 31 March 2003	1,678.1	64.2	4,719.6	115.9	6,577.8
Depreciation:					
At 1 April 2002	795.6	12.4	-	60.2	868.2
RPI Adjustment	24.6	0.4	-	1.9	26.9
Disposals	(0.7)	-	-	-	(0.7)
Charge for year	28.1	3.1	-	2.8	34.0
At 31 March 2003	847.6	15.9	-	64.9	928.4
Net Book Value at 31 March 2003	830.5	48.3	4,719.6	51.0	5,649.4
Net Book Value at 31 March 2002	764.1	48.8	4,554.5	44.0	5,411.4

Analysis by asset type

Sewerage Services

	Specialised operational assets	Non specialised properties	Infrastructure assets	Other tangible assets	Total
	£'m	£'m	£'m	£'m	£'m
Gross Replacement Cost:					
At 1 April 2002	2,126.3	14.5	4,975.9	56.2	7,172.9
RPI Adjustment	65.8	0.5	154.0	1.7	222.0
Disposals	-	-	-	-	-
Additions	45.7	0.3	9.5	4.9	60.4
At 31 March 2003	2,237.8	15.3	5,139.4	62.8	7,455.3
Depreciation:					
At 1 April 2002	1,210.6	0.1	-	33.5	1,244.2
RPI Adjustment	37.5	-	-	1.0	38.5
Disposals	-	-	-	-	-
Charge for year	47.8	2.3	-	2.6	52.7
At 31 March 2003	1,295.9	2.4	-	37.1	1,335.4
Net Book Value at 31 March 2003	941.9	12.9	5,139.4	25.7	6,119.9
Net Book Value at 31 March 2002	915.7	14.4	4,975.9	22.7	5,928.7

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 2002	3,686.0	75.7	9,530.4	160.4	13,452.5
RPI Adjustment	114.1	2.4	294.9	4.9	416.3
Disposals	(0.9)	-	(1.2)	-	(2.1)
Additions	116.7	1.4	34.9	13.4	166.4
At 31 March 2003	3,915.9	79.5	9,859.0	178.7	14,033.1
Depreciation:					
At 1 April 2002	2,006.2	12.5	-	93.7	2,112.4
RPI Adjustment	62.1	0.4	-	2.9	65.4
Disposals	(0.7)	-	-	-	(0.7)
Charge for year	75.9	5.4	-	5.4	86.7
At 31 March 2003	2,143.5	18.3	-	102.0	2,263.8
Net Book Value at 31 March 2003	1,772.4	61.2	9,859.0	76.7	11,769.3
Net Book Value at 31 March 2002	1,679.8	63.2	9,530.4	66.7	11,340.1

5. WORKING CAPITAL

	2003	2002
	£'m	£'m
Stocks	3.1	2.5
Trade debtors	57.2	57.4
Working cash balances	108.2	49.9
Trade creditors	(9.7)	(3.1)
Short term capital creditors	(30.1)	(31.9)
Infrastructure renewals prepayment/(accrual)	1.8	(0.9)
Other trade accruals	(39.5)	(54.4)
Trade payments in advance	31.2	29.7
Payroll related taxes and DSS contributions	(1.6)	(1.2)
Other creditors due in less than one year	(50.7)	(64.2)
At 31 March	69.9	(16.2)

6. MOVEMENT ON CURRENT COST RESERVE

	2003 £'m	2002 £'m
At 1 April	9,419.3	9,128.4
RPI Adjustments:		
Fixed assets	350.9	307.3
Working capital	(0.5)	(0.5)
Financing	(40.0)	(15.1)
Grants and third party contributions	(0.8)	(0.8)
At 31 March	9,728.9	9,419.3

7. RECONCILIATION OF CURRENT COST OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2003 £'m	2002 £'m
Current cost operating profit	98.6	128.3
Additional current cost depreciation	31.7	27.0
Working capital adjustment	(0.5)	(0.5)
Historical cost operating profit	129.8	154.8
Aggregate of historical cost adjusting items	68.3	69.1
Net cash flow from operating activities	198.1	223.9

8. ANALYSIS OF NET DEBT

	At 1 April 2002 £'m	Cash Flow £'m	Other non cash changes £'m	At 31 March 2003 £'m
Cash in hand and at bank	16.2	(3.2)	-	13.0
Loans due after one year	(1,171.2)	(326.5)	138.0	(1,359.7)
Loans due within one year	(30.6)	120.9	(137.9)	(47.6)
Finance leases	(58.0)	2.1	(3.5)	(59.4)
Current asset investment	33.5	61.5	0.1	95.1
Total	(1,210.1)	(145.2)	(3.3)	(1,358.6)

9. DISCLOSURE OF TRANSACTIONS WITH ASSOCIATES

Services supplied by the appointee to associated companies:

Associate	Service	31.12.02 Turnover	Terms of Supply	2002/03 Value
		£'m		£'m
Analytical & Environmental Services Ltd	Rental of laboratories and service charges	11.7	Negotiated	0.2
SITA	Treatment of waste	3,329.5	Negotiated	0.4
Vehicle Leasing Services Ltd	Rental of garage and service charges	11.5	Negotiated	0.1

Services supplied to the appointee by associated companies:

Associate	Service	31.12.02 Turnover	Terms of Supply	2002/03 Value
		£'m		£'m
Analytical & Environmental Services Ltd	Sampling and analysis	11.7	No market	8.8
Ondeo Degremont	Construction and engineering design	517.3	Competitive letting	12.3
Entec UK Ltd	Engineering design consultancy	33.4	Competitive letting	6.9
Entec UK Ltd	Engineering design consultancy	33.4	Other market testing	1.9
Fastflow Pipeline Services Ltd	Mains renewals , sewer repairs	18.4	Competitive letting	11.3
Imass Ltd	System development	5.4	Competitive letting	0.4
Imass Ltd	System development, training and maintenance support	5.4	Other market testing	0.1
Imass Ltd	System development, training and maintenance support	5.4	No market	0.3
Ondeo Nalco	Chemical supplier	1,855.5	Competitive letting	0.5
Ondeo Nalco	Chemical supplier	1,855.5	Other market testing	0.1
SITA	Waste disposal	3,329.5	Competitive letting	0.7
Suez Environnement	Group research and development costs	26,677.9	No market	7.4
Three Rivers Insurance Company Ltd	Public liability insurance	0.5	No market	0.4
Vehicle Lease & Service Ltd	Maintenance and capital finance charge	11.5	Competitive letting	5.8

With effect from 23 December 2002, Imass Ltd was no longer an associate of the Appointee following its disposal by Northumbrian Services Limited. The above transactions relate to the period up to the date of disposal.

10. ROLLING SUMMARY: CURRENT COST PROFIT AND LOSS ACCOUNT

	1998/99	1999/00	2000/01	2001/02	2002/03
	£'m	£'m	£'m	£'m	£'m
Turnover	373.7	384.2	422.2	431.0	421.7
Current cost operating costs	(198.8)	(209.1)	(295.7)	(300.6)	(319.2)
Exceptional items	(2.6)	(9.1)	(2.0)	-	(4.4)
Working capital adjustment	(2.0)	(2.0)	0.5	0.5	0.5
Current cost operating profit	170.3	164.0	125.0	130.9	98.6
Net interest	(36.5)	(37.5)	(66.8)	(68.8)	(70.1)
Financing adjustment	12.9	11.9	24.9	15.4	40.0
Current cost profit before taxation	146.7	138.4	83.1	77.5	68.5
Taxation	(27.6)	(26.8)	(47.8)	13.1	(18.9)
Current cost profit on ordinary activities	119.1	111.6	35.3	90.6	49.6
Dividends	(55.8)	(56.9)	(67.4)	(74.3)	(74.9)
Current cost profit/(loss) retained	63.3	54.7	(32.1)	16.3	(25.3)

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 onwards 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 1999	31 March 2000	31March 2001	31 March 2002	31 March 2003
	£'m	£'m	£'m	£'m	£'m
Tangible fixed assets	9,510.5	9,680.2	11,432.8	11,691.0	11,769.3
Third party contributions since 89/90	(56.6)	(58.4)	(60.2)	(60.5)	(62.1)
Working capital	116.2	(18.4)	(41.1)	(16.7)	69.9
Net operating assets	9,570.1	9,603.4	11,331.5	11,613.8	11,777.1
Investments	51.8	50.9	93.4	92.2	89.4
Non trade debtors	33.0	22.8	12.8	7.7	8.3
Non trade creditors	(47.1)	(38.0)	(176.9)	(34.1)	(37.6)
Creditors due after > 1 year	(735.1)	(710.7)	(1,016.9)	(1,265.1)	(1,417.1)
Provisions for liabilities and charges	-	-	(148.9)	(133.6)	(162.8)
Dividends payable	(28.2)	(27.9)	(35.8)	(37.9)	(37.5)
Net assets employed	8,844.5	8,900.5	10,059.2	10,243.0	10,219.8
Called up share capital	100.9	99.3	96.2	95.0	92.1
Profit and loss account	537.6	583.6	426.3	437.2	398.8
Current cost reserve	8,206.0	8,217.6	9,536.7	9,710.8	9,728.9
Total capital and reserves	8,844.5	8,900.5	10,059.2	10,243.0	10,219.8

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 onwards include the impact of the transfer of assets and liabilities to Northumbrian Water Limited from Essex & Suffolk Water plc on 1 April 2001.

12. REGULATORY CAPITAL VALUE AT 2002/2003 PRICES

	2002/2003
	£'m
Opening regulatory capital value	2,112.0
Capital expenditure (excluding IRE)	149.0
Infrastructure renewals expenditure	35.0
Infrastructure renewals charge	(29.0)
Grants and contributions	(7.0)
Current cost depreciation	(73.0)
Out-performance of regulatory assumptions (5 years in arrears)	(16.0)
Closing regulatory capital value	2,171.0
Average year regulatory capital value	2,113.0

The table shows the regulatory capital value used by Ofwat in setting the price limits for 2002/2003.

The numbers included above from capital expenditure to current cost depreciation (inclusive) are taken from Ofwat's final determination published in November 1999, and therefore do not agree exactly with the corresponding actual numbers in these financial statements.

Differences from the actual capital expenditure, infrastructure renewals expenditure, infrastructure renewals charge, grants and contributions and depreciation will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next periodic review.

STATEMENT OF DIRECTORS' RESPONSIBILITIES
For the year ended 31 March 2003

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

9th July 2003

INDEPENDENT AUDITORS' REPORT TO THE DIRECTOR GENERAL OF WATER SERVICES

We have audited the regulatory financial statements of Northumbrian Water Limited for the year ended 31 March 2003, which comprise the historic cost financial statements (Section B), itself comprising the group historical cost profit and loss account, group historical cost balance sheet, company historical cost balance sheet, group historical cost cash flow statement, notes to the cash flow statement a and b and related notes to the historical cost financial statements numbered 1 to 31, and the current cost financial information (Section C), itself comprising the current cost profit and loss account, current cost balance sheet, current cost cash flow statement and related notes to the current cost financial information numbered 1 to 12. These regulatory financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the directors as a body and the Regulator in accordance with conditions of the Regulatory Licence and the terms of our engagement. Our audit work has been undertaken so that we might state to the directors and the Regulator those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body, the company and the Regulator, for our audit work, for our report, or for the opinions we have formed. The terms of our engagement do not confer benefits on any other parties and exclude the application of the Contracts (Rights of Third Parties) Act 1999.

Respective responsibilities of directors and auditors

As described in the Statements of Directors' Responsibilities the company's directors are responsible for the preparation of the historical cost and current cost financial information ("the regulatory financial statements") in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the regulatory financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We read the other information contained in the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the regulatory financial statements.

Bases of audit opinions

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory financial statements, and of whether the accounting policies are appropriate to the group'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 historic 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 regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the regulatory financial statements.

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

Opinions – qualified solely as regards the historical cost regulatory financial statements

The historical cost regulatory balance sheets have been drawn up in accordance with the RAG 3.05 guidance that infrastructure renewals accounting as applied in previous years should be continued and the relevant sections of Financial Reporting Standards No. 12 and No. 15 disapplied. As a consequence, as explained in note 1(d)(i) and 1(e), provision is made for maintenance expenditure in accordance with the annual maintenance plan, infrastructure assets are not depreciated, Section 19 "overlap" expenditure is included in the infrastructure renewals charge and grants and contributions relating to infrastructure assets are deducted from the cost of those assets.

In our opinion, the regulatory financial statements contain the information for the year ended 31 March 2003 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.

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 of Appointment;

b) the information is in agreement with the Appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F of the Instrument of Appointment and the Regulatory Accounting Guidelines numbers 1 to 4 issued by the Office of Water Services;

c) except for accounting for infrastructure renewals and grants and contributions relating to infrastructure assets in the historic cost regulatory financial statements in the manner referred to above, the regulatory financial statements give, under a historic cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and their appointed business; and

d) the current cost financial information has been properly prepared in accordance with Regulatory Accounting Guideline 1.03, "Accounting for current costs", issued in January 2003 by the Office of Water Services.

Ernst & Young LLP

Registered auditors

Newcastle-upon-Tyne

9th July 2003

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INFORMATION IN RELATION TO ALLOCATIONS AND APPORTIONMENTS

Turnover is separately recorded 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. 4.02. The company has developed an activity-based approach to allocating indirect costs in order to comply with Regulatory Accounting Guideline No. 5.03.

The inter-business balance represents the net unsettled balance of transactions between the appointed and non-appointed businesses.

Interest has been allocated between the appointed and non-appointed businesses on the basis of the actual cash balances held by these businesses during the year at market rates.

The majority of capital costs, and therefore the related depreciation charges, are specifically identifiable to principal services. It has only been necessary to allocate general assets, for example vehicles, between principal services based on usage.

The appointed and non-appointed businesses operate separate accounting ledgers, including sales and purchase ledgers. Debtors and creditors balances are taken directly from these ledgers and no apportionment has been necessary.

TRANSACTIONS WITH ASSOCIATED COMPANIES - BASIS OF CLASSIFICATION

The materiality level for the appointed business of Northumbrian Water Limited has been set at £4,217k, 1% of the Appointee's turnover, to comply with Regulatory Accounting Guideline No. 5.03. Details of contacts are also provided where the aggregate value of trade with an associate represents more than 50% of the associates turnover, but individual contracts are less than 1% of the Appointed Business turnover, also to comply with RAG 5.03.

The transactions entered into with associated companies by the Appointee during the year ended 31 March 2003 are set out in the tables on pages 66 and 67. In the opinion of the directors, the basis for classifying transactions as competitive, other market tested or no market is consistent with the guidance given in Regulatory Accounting Guideline No. 5.03, and these transactions have been correctly extracted and classified from the accounting records.

For the purpose of this analysis, a transaction is defined as follows:

(a) Where a general memorandum of understanding/agreement covers a series of inter-group transactions, they are classed as a single transaction.

(b) Where no general memorandum of understanding/agreement exists, then each contract constitutes a separate transaction.

IMPLEMENTATION OF REGULATORY ACCOUNTING GUIDELINE NO. 5.03

STATEMENT OF COMPLIANCE

The directors consider that the company complies with the objectives and principles of Regulatory Accounting Guideline No. 5.03 with the exception of the following significant transactions. Details of these exceptions are set out below.

Associate	Total number of transactions	Value of transactions	Method of classification
		£'000	
Analytical & Environmental Services Ltd	76	8,789	No market
Three Rivers Insurance Company Ltd	1	357	No market
Imass Ltd	6	332	No market
Northumbrian Water Technical Centre Ltd	1	28	No market
Suez Environnement	4	7,354	No market
Total	88	16,860	

INTRODUCTION

This report has been produced to comply with the requirements of Regulatory Accounting Guideline No. 5.03, "Transfer Pricing in the Water Industry". A separate section has been included for each of the associated companies from which Northumbrian Water Limited (NWL) has procured goods or services in the year ended 31 March 2003. Each section addresses the procedures and controls implemented to date. All material exceptional cases are also documented and explained in the report, such as when the price accepted was not the lowest tendered or an activity was not market tested. Details are also given of any contracts, which have been negotiated for reasons specified by European Union Guidelines, such as framework contracts. This report should be read in conjunction with the financial analysis of transactions with associated companies on pages 66 and 67.

Analytical & Environmental Services Limited (AES)

AES provided analytical and scientific operational services for the appointed business in 2002/03, to the value of £7,636k. The nature of this work, which requires a detailed knowledge of the processes, procedures and locations within the appointed business and the availability of a rapid response to emergencies 24 hours per day, means that there are no external suppliers capable of fulfilling these requirements. Nor is it possible to obtain meaningful comparisons with market prices for an equivalent service. These services have therefore been classified as no market for similar reasons as in previous years. £1,153k of capital work has been similarly classified.

AES continues to use the "Cost Plus" model, which has been highlighted by Ofwat in its report on transfer pricing as an example of industry best practice. This model applies full absorption costing to calculate what the charge from AES to NWL should be on a cost recovery basis and compares this to the actual value charged. The model allocates indirect costs based on appropriate cost drivers which are consistent with the requirements of RAG 5.03. The model included the work associated with the section 19 programme, cryptosporidium monitoring and all other work required to support capital investment. It also includes £911k relating to the services provided to NWL by the team which was based in the laboratory at Hanningfield from July 1st 2002 to 31st March 2003. This team was transferred into AES on July 1st 2002.

The model was applied retrospectively to the actual cost incurred by AES in providing operational services to NWL during 2002/03. As in previous years, the difference was not material. NWL has examined the cost allocation bases applied in this model and are satisfied these comply with the cost allocation principles set out in RAG 5.03.

Ondeo Degremont UK Limited (Degremont)

Ondeo Degremont is a process engineering contractor which designs, supplies, installs and commissions mechanical and electrical equipment. The company remains on the NWL AMP 3 framework list of contractors for major process, mechanical and electrical engineering works.

Transactions with Degremont mainly relate to the four contracts below, which were all awarded in previous regulatory years. The full value of the contract awards was as follows:

- Horsley WTW (£7.3m)
- Langford WTW (£4.5m)
- Wear Valley WTW (£7.7m)
- Tosson WTW (£1.3m)

The award of these contracts have all been covered in previous June returns.

The total value of work done by Degremont for NWL in the 2002/03 regulatory year was as follows:

Account Description	**£**
Horsley WTW	5,542,570
Langford WTW	1,944,736
Wear Valley WTW	3,568,910
Tosson WTW - crypto risk reduction	362,916
Other small contracts	857,297
Total	**12,276,429**

The work classified under other small contracts relates to the remaining work done for the secondary sewage treatment programme which has also been covered in previous June returns.

There have been no new awards to Degremont to report on during the 2002/03 period. It is anticipated that all four contracts will be substantially complete during the forthcoming 2003/04 regulatory period.

Entec UK Limited (Entec)

As stated in the last June return, the Framework Agreement (FA009) for Engineering Design Consultancy Services expired during 2001/02. The Framework Agreement was re-tendered (FA019) following a Call for Competition through the Official Journal of the European Community, and awarded based on price and quality considerations. Entec UK Limited are one of the two successful consultants, and there is a third held as reserve. FA019 covers all engineering design consultancy services for both the northern and southern regions.

The rates submitted as part of the tender process are the actual rates that are being applied to appointments made under the Framework Agreement. This therefore removes the need for further rounds of competition within the operation of the Framework. Under the new Framework Agreement (FA019) it is anticipated that the two successful consultants will each have a broadly equal share of the work by value. A team has been set up within NWL to manage the process of work allocation across the various strands of the AMP3 programme. The award of the new Framework Agreement has been independently audited by Strategic Management Consultants.

The majority of expenditure with Entec during the 2002/03 regulatory year relates to work awarded from the new framework agreement In addition, expenditure has also been incurred on long term commissions being completed on the old FA009 framework agreement. This accounts for approximately 30% of the total £8.3m of capital transactions this regulatory year and it is anticipated to reduce even further during the forthcoming 2003/04 regulatory period as the commissions finally come to an end.

Entec continued to carry out some operational projects in 2002/03 for the NWL commercial team, to the value of £484k. This work was also charged at the framework contract rates.

Fastflow Pipeline Services Limited (FPS)

As reported in last year's June return, FPS are one of five framework contractors (FA015) for water network rehabilitation, repair and maintenance works for the northern operating region.

The award of work packages to contractors under the framework depends primarily on cost, using the competitively tendered unit prices to establish an incentivised target cost. However, the company must also consider other factors when awarding the work packages such as the balance between renewal and re-line and the availability of resources.

Fastflow Pipeline Services Limited (FPS) (continued)

NWL also use the contractor's performance when measured against key performance indicators in terms of quality, safety and customer service.

FPS tendered the lowest unit prices of all the framework contractors and was awarded 32%, by value, of the work packages released in the northern operating region in 2002/03, with the remainder being awarded to the other 4 framework contractors. In the south, FPS have been awarded 46% (50% in 2001/02), by value, of the work packages released from the framework agreement, with the remainder being awarded to the one other framework contractor. The total value of capital work done by FPS for NWL in 2002/03 was £11,223k. There was also a small amount of work which was charged to the profit and loss account (£78k).

During 2002/03, FPS withdrew from working in the southern region and are no longer being awarded any more work packages in the area. This arrangement is expected to continue to the end of the current AMP period. FPS will continue to be active in the northern operating area.

Imass Limited (Imass)

On 23rd December 2002, Imass was sold to its management and ceased to be a subsidiary of NSL and is therefore no longer subject to regulatory accounting guidelines. Transactions reported therefore cover the period 1st April 2002 to 23rd December 2002.

Costs charged to the profit and loss account arise from maintenance and support costs of legacy systems for which Imass own the intellectual property rights, based on a percentage of the original purchase price. The total of £23.8k is made up of £1.3k for Autocad that covers the period from 17th September 2002 to 16th September 2003 and £22.5k for Agresso that covers the period from 1st October 2001 to 31st December 2002.

Capital investment costs of £804k have been incurred under competitive letting (£380k), other market testing (£92k) and no market (£332k).

The bulk of the £380k included in competitive letting arises from projects, still in progress, that were competitively tendered in the prior year. Charges include project management for the whole of the regulatory year (£153k), Oracle development resource from April to December (£220k) and expenses on the GIS convergence project (£7k). The Oracle developers have been used on a number of projects particularly ICIS V2001 and Con29. The project management has benefited a number of projects (ICIS V2001, Debt Management, MIPS and Customer +2 / k2) but is higher than anticipated due to the need for continuity in the customer applications implementations coupled with long term maternity and bereavement leave in NWL.

Of the £92k in other market testing, £80k relates to an arrangement to take 160 days of resource during the 2002/03 regulatory year to deliver user-requested enhancements to NWL's converged Apic application. Competitively tendering the GIS convergence project, following the merger of ESW and NWL, resulted in only one bid demonstrating that only Imass has core Apic skills in the UK. The rate of £500 per day is in line with costs for Oracle skills where arms length competitive tendering has been applied. The balance of £12k relates to post implementation bug fixing and a small number of change controls generated during implementation of the fixed price convergence project charged at £650 per day.

The bulk of the charges classed as no market (£332k) relates to the purchase and implementation of new versions of applications used by NWL: Gemini 2 (£90k) and Customer +2 / k2 (£223k). The balance of £19k relates to feasibility investigations into the rationalisation and improvement of site-to-site communications for both business applications and scada data (£17k) and ad hoc PC support on various projects (£2k).

Gemini 2 is a sludge management system covering operational needs and regulatory reporting and replaces Gemini 1. The total contract price was £189k and the project ended on 31st March 2003 when Gemini 1 was de-supported due to changing regulatory reporting requirements that it could not handle.

The total value of the Customer +2 / k2 contract, currently in the implementation phase, is £490k. Customer +2 is an upgraded version of Customer plus (a bespoke customer service application which was originally developed by Imass) which is used in the northern region but not in the southern region and k2 is a graphical representation application not currently used in NWL. The contract covers implementation of both products across all NWL's customer service operations on common converged processes.

Ondeo Nalco (Nalco)

Ondeo Nalco supplies chemicals to NWL under the conditions of NWL Framework Agreement Reference NW176.

The existing Framework Agreement was awarded to Nalco on the 18th November 2002 for a period of 3 years (until 17th November 2005). The award of contract is for the provision of a purchasing service, in which Nalco will source polymers on behalf of Northumbrian Water in line with EU Guidelines.

Transactions during the last year are detailed below:

Account Description	**£**
Chemicals	474,861
Odour control chemicals	27,721
NPC cooling tower	22,366
Antifoams	2,687
Supply and install an acid pump	1,133
Total	**528,768**

The chemicals spend relates to the Framework Agreement (NW176).

Odour control chemicals relates to the purchase of odour suppression chemicals for Birtley, Washington and Howdon sewage treatment works. The largest percentage of spend relates to the temporary installation at Birtley during the temporary transfer of work from Bran Sands. NWL has no existing Framework Agreement for Odour Control; however, odour control is in the tender schedule for completion by the end of 2003 and odour suppression at these sites will be incorporated.

Ondeo Nalco also provides a maintenance service to the Bran Sands site for the NPC Cooling Tower. The existing arrangement expires on the 31st May 2003 and NWL are currently finalising the tender specification to allow the work to be competitively tendered.

Antifoams have been used on a trial basis from Ondeo Nalco and will be included in any odour control tender.

SITA Holding UK Limited and its subsidiaries (SITA)

SITA provide a waste management and disposal service to NWL under the conditions of NWL Framework Agreement Reference NW121.

The existing Framework Agreement was awarded to SITA on the 1st June 2000 for a period of 3-years (until 31st May 2003). The agreement covers the removal of waste from certain NWL sites. The agreement was reached through a competitive tender process conducted in accordance with EU Procurement Directives as covered in the return of 2001. Transactions during the last year amounted to £650k, an increase on the corresponding amount in the previous regulatory year of £335k.

The increased spend on skip hire relates to additional skips required at Birtley STW as a direct result of the temporary transfer of work from Bran Sands. The cost of skip hire during the temporary period rose by circa £80,000 per month for a three-month period. Birtley STW is one of the NWL sites covered by Framework Agreement NW121.

NWL are currently going through a tender process for the provision of waste management, disposal and recycling. The outcome of this exercise will be Framework Agreement(s) to replace the existing arrangement of NW121. The scope of the new agreement has been extended to cover recycling (including plastic cups, paper etc). The competitive tender process is being conducted in accordance with EU Procurement Directives. All companies tendering are registered on Achilles for this commodity. The process has taken into account the potential need for additional temporary skip hire at Birtley sewage treatment works.

Suez Environnement

Transactions during the course of the year relate mostly to the value for service agreement with NWL. The fee payable under this agreement reflects a wide range of services provided under the agreement. The services supplied to NWL are of a strategic nature for which there is no market. It was accepted by Ofwat during the Ofwat transfer pricing audit in February 2000 that the normal methods for demonstrating that a service is being supplied at cost are not appropriate in this case. NWL have therefore classified the service as "no market" in the June return.

The nature of the services provided under the agreement is the same as reported in last year's June return. These are described in more detail in an internal document which is produced each year by NWL to record the variety of services received by the company under the value for service agreement. NWL has again demonstrated that the value of benefits received from the agreement is significantly more than the fee paid to Suez for these services.

NWL was charged a total of £7,331k by Suez Environnement in 2002/03 under the value for service agreement, of which £5,738k has been charged to the profit and loss account and £1,593k has been charged to capital. The remaining capital charges from Ondeo relate to the development of the customer billing system (ICIS). This work is supplied by a third party contractor and recharged at cost to NWL by Ondeo.

Three Rivers Insurance Company Limited (TRICL)

NWL has been unable to procure public liability insurance cover from insurers for claims between £10,000 and £50,000 following a significant hardening of the insurance market since 2001. NWL decided to obtain this cover by reactivating a captive insurance company, TRICL, and obtaining insurance cover for these claims. The cost has therefore been classified as no market, although the level of premiums required by TRICL have been agreed by reference to standard insurance rates.

Vehicle Lease & Service Limited (VLS)

VLS is a joint venture with Northern Electric and Gas Limited and Northumbrian Services Ltd which commenced trading on 1 January 1999. Its primary objective is to supply and maintain vehicles to the NSL and the Northern Electric companies.

The existing Framework Agreement (NW165) was awarded to VLS on the 1st January 2003 for a period of 5-years (until 31st December 2007). The agreement covers the leasing of commercial vehicles to NWL. The agreement was reached through a competitive tender process conducted in 2002 accordance with EU Procurement Directives. Tender evaluation was undertaken in conjunction with Accenture.

Transactions during the last year are detailed below:

Account Description	**£**
Vehicle leasing finance (capex)	2,469,001.24
Vehicle maintenance	2,508,383.83
Vehicle charges (non-standard & short term hire)	364,624.14
Interest payment on leases	446,251.05
Total	**5,788,260.26**

All charges are detailed in accordance with the Framework Agreement. VLS is a 50:50 joint venture between NWL and Northern Electric for the supply and maintenance of vehicles.

The evaluation of the proposals indicated an overall saving through adopting VLS. Of the five key financial elements, VLS was the most economically advantageous tenderer in four of these categories.

Transactions with associated companies extending beyond 2002/03

The following are estimates of the future value of the contracts in excess of £1m let during 2002/03 that span more than one regulatory year.

	2002/03
	£'000
Fastflow Pipeline Services Ltd	600
Total	**600**

INFORMATION IN RESPECT OF TRANSACTIONS WITH ASSOCIATED COMPANIES

The directors confirm that, to the best of their knowledge, all appropriate transactions with associated companies have been disclosed.

Supply of services

Services supplied by the appointee to associated companies:

Company	Nature of service	Total charge
		£'000
Fastflow Pipeline Services Ltd	Plumbing services	8.0
Northumbrian Water Technical Centre Ltd	Rental of premises at Horsley	18.3
SITA	Treatment of tankered waste at Bran Sands	434.3
Vehicle Lease and Service Limited	Sale of vehicles at end of finance lease	108.4
Analytical & Environmental Services Ltd	Rental of laboratories and service charges	162.6
Total		**731.6**

Note that the above table excludes recharges of costs to associated companies for use of NWL's assets. Some of these recharges (SITA and various) were raised by the non-appointed business to the other group companies, and are matched by recharges to the non-appointed business of the costs incurred by the appointed business in providing these services. The other recharges were made directly from the appointed business to group Companies. These were as follows:

Company	Nature of service	Total charge
		£'000
Agrer	Secondee recharges	37.8
Cirsee	Secondee recharges	(5.0)
CITI	Secondee recharges	(3.2)
Macao Water Supply Company	Secondee recharges	144.4
Suez Environnement	Secondee recharges	1,180.5
Suez S.A.	Secondee recharges	62.7
United Water	Secondee recharges	162.3
Sino French Water Development	Secondee recharges	52.2
Ondeo Industrial Solutions Ltd	Secondee recharges	61.9
Lyonnaise des Eaux	Secondee recharges	30.7
Total		**1,724.3**

Services supplied to the appointee by associated companies:

Company	2002/03
	£'m
Imass Ltd	0.8
Analytical & Environmental Services Ltd	8.8
Entec UK Ltd	8.8
SITA Holding UK Ltd	0.7
Suez Environnement	7.4
Fastflow Pipeline Services Ltd	11.3
Ondeo Nalco	0.6
Ondeo Degremont UK Ltd	12.3
Three Rivers Insurance Company Ltd	0.4
Vehicle Lease & Service Ltd	5.8
Total	**56.9**

The terms of supply are documented on pages 58 to 62.

During the year ended 31 March 2003 the Appointee entered into transactions with the following associated companies, whose total turnover for the year ended 31 December 2002 is stated below:

	2002
	£'m
Imass Ltd	5.4
Analytical & Environmental Services Ltd	11.7
Ondeo Degremont UK Ltd	517.3
Entec UK Ltd	33.4
SITA Holding UK Ltd	3,329.5
Fastflow Pipeline Services Ltd	18.4
Ondeo Nalco	1,855.5
Suez S.A.	26,677.9
Vehicle Lease & Service Ltd	11.5

Amounts borrowed by the appointee from associated companies

£351.6m is owed to Ondeo Services UK plc in respect of £200m of guaranteed Eurobonds maturing 6 February 2023 with an annual coupon of 6.875% and a further £150m of guaranteed Eurobonds which were issued in September 2001 with the same maturity date and annual coupon. The appointee guaranteed the issue by way of an inter-company loan.

£300.9m is owed to Northumbrian Water Finance plc, a subsidiary undertaking of the company. Northumbrian Water Finance plc issued £300.0m Guaranteed Eurobonds in December 2001, maturing October 2017, with an annual coupon of 6.0%. The issue was guaranteed by Northumbrian Water Limited who received the issue proceeds by way of an inter company loan.

£246.5m is is also owed to Northumbrian Water Finance plc. Northumbrian Water Finance plc issued £250.0m Guaranteed Eurobonds during December 2002, maturing April 2033, with an annual coupon of 5.625%. The issue was guaranteed by Northumbrian Water Limited who received the issue proceeds by way of an inter-company loan.

The appointee has two unsecured loan notes outstanding as at 31 March 2003. £47.2m is owed to Newcastle and Gateshead Water Limited and £42.2m to Suffolk Water Limited.

Details of all inter company loans are disclosed in note 20 within Section B of the Regulatory Accounts.

Transfers of assets and liabilities

During the year laboratory equipment with a net book value of £101.7k was sold to AES.

Omission of right

None.

Waivers

None.

"Ring fencing" - disposals & changes of use of land

Northumbrian Water Limited confirms that as at 31 March 2003 the appointee had available to it sufficient rights and assets (other than financial resources) to enable a special administrator to manage the affairs, business and property of the Appointee, should a special administrative order be made.

Transactions with Associated Companies 2002/03
Profit and Loss Charges

Associate	Description	No	£000	Percentage of total
	Competitive tendering			
SITA Holding UK Ltd & its subsidiaries	Waste disposal	1	650	3
Vehicle Lease and Service Ltd	Supply/maintenance of vehicles	3	3,318	18
Ondeo Nalco	Supply of chemicals	1	474	3
Fastflow Pipeline Services Ltd	Mains and services contractor	6	78	0
	Other Market Testing			
Entec UK Ltd	Engineering design consultancy	181	484	3
Imass Ltd	Autocad and Agresso m’tce	2	24	0
Ondeo Nalco	Supply of chemical	4	54	0
	No market			
Analytical & Environmental Services Ltd	Sampling and analysis	1	7,636	41
Suez Environnement	Value for service	2	5,738	30
Three Rivers Insurance Company Ltd	Public liability insurance	1	357	2
Northumbrian Water Technical Centre Ltd	Recharge of labour costs	1	28	0
	Total	**203**	**18,841**	**100**

Transactions with Associated Companies 2002/03: Capital expenditure

Associate	Description	No	£000	Percentage of total
	Competitive Tendering			
Entec UK Ltd	Environmental and design consultancy	271	6,898	18
Fastflow Pipeline Service Ltd	Mains renewals, sewer repairs	122	11,223	30
Ondeo Degremont UK Ltd	Process design and installation	15	12,276	32
Imass Ltd	System development	4	380	1
Vehicle Lease & Sevice Ltd	Capital finance charges for vehicles	1	2,469	7
	Other Market Testing			
Imass Ltd	GIS enhancement	1	92	0
Entec UK Ltd	Engineering design consultancy	62	1,400	4
	No Market			
Analytical & Environmental Services Ltd	Sampling and analysis	75	1,153	3
Imass Ltd	System development and maintenance	6	332	1
Suez Environnement	Value for Service and ICIS upgrade	2	1,616	4
	Total	**559**	**37,839**	**100**