

**NORTHUMBRIAN SERVICES LIMITED**

**(Formerly Ondeo Services UK plc)**

**REPORT AND FINANCIAL STATEMENTS FOR**

**THE FIFTEEN MONTH PERIOD ENDED**

**31 MARCH 2004**

Registered Number 3114615



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## Northumbrian Services Limited DIRECTORS' REPORT

### Directors' Report for the 15 months ended 31 March 2004

The directors are pleased to present their report on the affairs of the Company and its subsidiaries, together called the Group, along with the audited financial statements and the Auditors' Report for the period.

#### Activities

Northumbrian Services Limited (NSL) (formerly Ondeo Services UK plc) comprises a number of companies of which the largest are Northumbrian Water Limited (NWL), Entec UK Limited (Entec), Analytical & Environmental Services Limited and Fastflow Pipeline Services Limited (Fastflow). A division of NSL, Northumbrian Water International, manages waste water treatment plants in Scotland and Ireland, and water operations in Gibraltar.

NWL is a regulated water and sewerage company operating in the north east and south east of England (trading as Northumbrian Water and Essex & Suffolk Water respectively) and is committed to maintaining its leading position in the UK water industry for customer service and environmental protection. NWL currently provides water and sewerage services to 2.6 million people in the north east of England and water services to 1.7 million people in the south east of England.

On 23 May 2003 ownership of the Group was transferred from Suez SA (Suez) to Northumbrian Water Group (NWG) through the sale by Suez and subsequent floating of NWG on the alternative investment market. At this time the Company changed its name from Ondeo Services UK plc to Northumbrian Services Limited. This also involved a change of accounting period for the new Group, hence this report and financial statements has been prepared for the fifteen months ended 31 March 2004.

#### Financial Results and Dividends

The Group's results and dividends are as follows:

	Period to 31.03.2004 £m	Year to 31.12.2002 £m (as restated)
Profit for the financial period	101.1	91.2
Dividends	<u>(106.5)</u>	<u>(62.3)</u>
Transferred (from)/to reserves	<u>(5.4)</u>	<u>28.9</u>

Turnover for the trading period from 31 December 2002 to 31 March 2004 was £648.5million, a pro rata increase of 3% over the twelve month period to 31 December 2002 (Year to 31 December 2002: £504.0 million), reflecting a £16.2 million increase in income at NWL, mainly due to the increase in RPI, and £9.2 million of additional income from the first full period of operations at CES and Ayres, the waste water treatment plants in Scotland, offset by a reduction of £4.8 million following the sale of Imass in December 2002.

Operating profit for the trading period was £203.9 million (Year to 31 December 2002 (as restated): £164.4 million). Operating costs have increased by £16.0 million at NWL and by £7.4 million at CES and Ayres, offset by a reduction of £7.2 million reduction in costs following the sale of Imass. In addition exceptional operating costs of £5.5 million have been recognised in the current period relating to severance costs and pensions payable to former employees of water only companies which have since merged with NWL.

A comprehensive review of the lives of operational assets at NWL was undertaken in the period to support the depreciation charges included in the final business plan submitted to Ofwat in April 2004. This concluded that lives were shorter for civil structures and longer for electrical, mechanical and instrumentation equipment. This resulted in a reduction of depreciation charges which, when combined with increased depreciation following commissioning of new assets increased capital maintenance costs of £1.0million on a pro rata basis.

The profit for the period, after taxation and before dividend payments, amounted to £101.1 million (2002 (as restated): £91.2 million). The directors recommend a final ordinary dividend amounting to £43.0 million (2002: £31.2 million), making the total of ordinary dividends of £106.5 million for the period (2002: £62.3 million).

#### Post balance sheet events

On 12 May 2004, the Group's financial position was improved by the announcement of the securitisation of NWL's contract with the Environment Agency for the operation of the Kielder Water transfer scheme. The proceeds of £212.1 million were used to repay short term debt, of £205.0 million, arising from the acquisition of the Group's business by Northumbrian Water Group plc.

On 7 December 2004 NWL's finance subsidiary (Northumbrian Water Finance plc) issued a £100 million increase to its 5.625% Eurobond 2033. The proceeds will be used to repay short term working capital facilities thereby extending the profile of the debt maturity and funding the ongoing capital programme.

**Northumbrian Services Limited**  
**DIRECTORS' REPORT (continued)**

Ofwat published its final determination of prices on 2 December 2004. The regulator will allow NWL to raise price limits by 15% above the rate of inflation over the years 2005 to 2010. The determination also recognises NWL's need to increase investment in addition to imposing efficiency saving requirements.

**Directors**

The following served as directors during the period and, unless stated otherwise, were directors of the Company as at 31 March 2004:

Professor Sir F G T Holliday CBE (69)	Non-Executive Chairman
R R Allan (70)	Independent Non-Executive Director
J A Cuthbert (51)	Executive Director
C M Green (50)	Executive Director – appointed 17 June 2003
A Chaigneau (53)	Non-Executive Director – resigned 23 May 2003
J-F T Chambolle (65)	Non-Executive Director – resigned 23 May 2003
B Guirkingier (52)	Non-Executive Director – resigned 23 May 2003
A J Harding (55)	Non-Executive Director – resigned 3 March 2003
J F Petry (50)	Non-Executive Director – resigned 23 May 2003

**Directors' Interests**

The directors who held office as at 31 March 2004 had no interests in the shares of the Company either at 31 March 2004 or 31 December 2002.

The directors who held office as at 31 March 2004 had the following interests in the debentures of the Company:

Name of director	Class of debentures	Amount of debentures held as at 1 January 2003	Amount of debentures held as at 31 March 2004
John Arthur Cuthbert	8.625% bonds 28/6/06	-	40,000
Christopher Michael Green*	8.625% bonds 28/6/06	-	25,000

\* These debentures are beneficially owned by Mrs. Geraldine Green.

The directors who held office as at 31 March 2004 had the following interests in the shares of the Company's ultimate parent company, Northumbrian Water Group plc:

Name of director	Class of shares	Number of shares held as at 1 January 2003	Number of shares held as at 31 March 2004
John Arthur Cuthbert	Ordinary 10p	-	80,000
Christopher Michael Green*	Ordinary 10p	-	50,000
Sir Frederick George Thomas Holliday	Ordinary 10p	-	8,700

\*These shares are beneficially owned by Mrs. Geraldine Green.

The directors who held office as at 31 March 2004 held the following conditional interests in Ordinary 10p shares of the Company's ultimate parent company, Northumbrian Water Group plc, awarded in accordance with the terms of its Long Term Incentive Plan:

Name of director	Number of awards held as at 1 January 2003	Number of shares awarded during the period	Number of awards vested during the period*	Number of awards held as at 31 March 2004
John Arthur Cuthbert	-	85,603	-	85,603
Christopher Michael Green	-	56,618	-	56,618

\* Some or all of the shares will vest only if specified performance targets are achieved during the three year period 1 October 2003 to 30 September 2006. The performance conditions are complex but, in essence, shares can vest depending on NWG's total shareholder return ("TSR") in this three year period compared with the TSR of a group of other water companies (in respect of 70% of the shares awarded) and with the FTSE 250 Total Return Index (in respect of 30% of the shares awarded). No awards lapsed or vested during the period.

As at 31 March 2004 and 31 December 2002 no directors hold any other interests required to be disclosed, in accordance with Schedule 7 of the Companies Act 1985.

**Northumbrian Services Limited**  
**DIRECTORS' REPORT (continued)**

**Donations**

The Group made charitable donations totalling £64,115 (2002: £58,130) during the period, and political donations of £7,961 (2002: £ nil). It is the Company's policy that it does not, directly or through any subsidiary, make what are commonly regarded as donations to any political party. The definition of donations in the Political Parties, Elections and Referendums Act 2000 (PPERA 2000) is wide and covers activities that form part of the normal relationship between the Company and political organisations, such as sponsoring receptions and fringe meetings at party conferences and taking tables at dinners, intended to heighten awareness within the political arena of key industry issues and matters affecting the Company. Political expenditure and/or donations up to a total of £40,000 for the Group for the period of two years from the date of the approval, were approved by the shareholders at the Extraordinary General Meeting of the Company held on 16 December 2003. During the period, the Group did not incur any political expenditure as defined in the PERA 2000 but did make political donations, applying the wide definitions from the PERA 2000, as follows:

<b>Name of EU political organisation</b>	<b>Donations for the period</b>
Labour	£5,989
Liberal Democrats	£889
Conservative	<u>£1,083</u>
<b>Total</b>	<b><u>£7,961</u></b>

**Research and Development**

NWTC, a specialist subsidiary of the Group, co-ordinates all research and development activities relating to underground assets for the Group. The Group, through NWL, maintains a limited programme of research and development activities, which are linked to UK business operations. During the period, the Group incurred research and development costs of £6.4m (2002: £5.5m).

**Employees and Employment Policies**

*Equal Opportunities*

The Group operates an equal opportunity policy which, since the end of the period, has been incorporated into a new broader policy document called "Our Code of Conduct" and adopted by the Board. A copy of the new Code of Conduct can be found on the Group's website at [www.nwg.co.uk](http://www.nwg.co.uk). The Group promotes equality of opportunity in recruitment, employment continuity, training and career development throughout the Group. The policy is designed to ensure that no applicant or employee receives less favourable treatment on the grounds of age, gender, marital status, nationality, ethnic or national origin, religion, disability or sexual orientation.

*Training and Development*

Training and development of employees is important to the achievement of Group goals and policies. Individual training needs are assessed regularly and the corporate initiatives of subsidiaries include an accelerated development programme for graduates and a management development programme. Annual appraisals are conducted and training needs are properly assessed throughout the Group.

*Communication*

Employees receive the Group magazine 'Watermark', which includes articles on Group activities and news from subsidiary companies. When necessary, information is communicated via a Group-wide 'news flash' facility ensuring employees are kept abreast of news. Individual Group companies utilise a range of communication mechanisms, including team briefing, magazines, newsletters, intranet, noticeboards and regular team meetings. NWL won a silver award from the northern region of the Institute of Public Relations for its internal communication activities in 2003. The Group encourages open feedback and protects employees who wish to voice concerns about behaviour or decisions that they believe to be unethical. NWL and Entec also invite employee feedback through the use of annual questionnaires.

*Health and Safety*

The Group health and safety policy is maintained and implemented through each subsidiary's individual health and safety team. Occupational health services are provided by the Group's medical advisor, Previa UK. Most employees are members of a Group-wide occupational health care plan.

*Employee Share Incentive Plan*

The directors believe that employee investment is a valuable method of strengthening the ties between the Company and Group employees by providing the opportunity to participate more closely in the Northumbrian Water Group plc's economic performance and results.

**Northumbrian Services Limited**  
**DIRECTORS' REPORT (continued)**

In January 2004, the Group launched its Share Incentive Plan (SIP). All UK based employees of the Group are eligible to participate in the SIP. The SIP enables Group employees to purchase ordinary shares in Northumbrian Water Group plc, in a flexible and tax efficient way. In addition, for every three shares purchased, the employee receives a bonus of one free share. Shares must be held in the plan for five years to obtain the full tax benefits.

**Pensions**

Information about the pension schemes operated by the Group is contained in note 24 to the financial statements.

**Auditors**

The Company has appointed Ernst & Young LLP as its auditors and has, by elective resolution pursuant to s386 of the Companies Act 1985, dispensed with the obligation to appoint auditors annually.

**Creditors**

The Company's policy is to agree payment terms with suppliers and to pay on time according to those agreed terms. In the absence of alternative agreement, the policy is to make payment not more than thirty days after receipt of a valid invoice. The ratio, expressed in days, between the amount invoiced to the Company by its suppliers during the period and the amount owed to its trade creditors at 31 March 2004 was 17 days.

**Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of the Group's affairs as at the end of each financial period and of the profit and loss for that financial period.

In preparing the financial statements, the directors are required to:

- select appropriate accounting policies and apply them consistently;
- state whether applicable United Kingdom law and accounting standards have been followed subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis unless they consider it to be inappropriate.

The directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Group and that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



**MARTIN PARKER**  
**COMPANY SECRETARY**

4/2/2005

## REPORT OF THE AUDITORS

### Independent auditors' report to the members of Northumbrian Services Limited

We have audited the group's financial statements for the period ended 31 March 2004 which comprise the Consolidated Profit and Loss Account, Consolidated Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet and the related notes 1 to 29. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

#### Respective responsibilities of directors and auditors

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

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

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

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

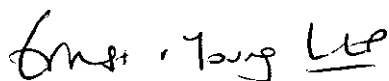
#### Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

#### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2004 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP  
Registered Auditor  
Newcastle upon Tyne

4 January 2005

**Northumbrian Services Limited**

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**

For the 15 months ended 31 March 2004

	Notes	15 months to 31.03.2004 £m	Year to 31.12.2002 £m as restated
<b>Turnover: group and share of joint ventures</b>		<b>657.3</b>	<b>511.0</b>
Less share of joint ventures' turnover		(8.8)	(7.0)
<b>Group turnover</b>	3	<b>648.5</b>	<b>504.0</b>
Operating costs	4	(439.1)	(339.6)
Exceptional operating costs	4	(5.5)	-
<b>Total operating costs</b>		<b>(444.6)</b>	<b>(339.6)</b>
<b>Operating profit</b>	3	<b>203.9</b>	<b>164.4</b>
Share of associated undertakings' operating profit		3.6	0.6
Share of joint ventures' operating profit		1.4	1.3
<b>Total operating profit: Group and share of joint ventures and associates</b>		<b>208.9</b>	<b>166.3</b>
Investment income		-	0.2
Net interest payable	5	(111.8)	(75.2)
<b>Profit on ordinary activities before taxation</b>	3	<b>97.1</b>	<b>91.3</b>
Tax on profit on ordinary activities	7	4.4	(0.2)
<b>Profit on ordinary activities after taxation</b>		<b>101.5</b>	<b>91.1</b>
Minority interest		(0.4)	0.1
<b>Profit for the period</b>		<b>101.1</b>	<b>91.2</b>
Dividends paid and proposed	8	(106.5)	(62.3)
<b>Retained (loss) /profit for the period</b>	22	<b>(5.4)</b>	<b>28.9</b>

All results relate to continuing activities,

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

For the 15 months ended 31 March 2004

	15 months to 31.03.2004 £m	Year to 31.12.2002 £m
<b>Result for the period</b>		
Group	100.3	88.9
Associates	-	1.6
Joint ventures	0.8	0.7
Profit for the period attributable to the members of the parent company	101.1	91.2
Exchange differences	-	0.2
<b>Total recognised gains in the period</b>	<b>101.1</b>	<b>91.4</b>
Prior year adjustment (see note 2)	(3.7)	
<b>Total gains and losses recognised since the last annual report and financial statements</b>	<b>97.4</b>	



**Northumbrian Services Limited**

**BALANCE SHEETS**

As at 31 March 2004

	Notes	Group		Company	
		31.03.2004	31.12.2002	31.03.2004	31.12.2002
		£m	£m	£m	£m
			As restated		As restated
<b>Fixed assets</b>					
Intangible assets		0.2	-	-	-
Tangible assets	9	2,692.9	2,559.4	-	-
Investments in joint ventures: share of gross assets		12.5	11.0	-	-
share of gross liabilities		(9.1)	(8.0)	-	-
	10	3.4	3.0	-	-
Investments in associates	10	1.7	3.1	-	-
Others	10	0.4	0.5	1,031.1	1,087.9
		2,698.6	2,566.0	1,031.1	1,087.9
<b>Current assets</b>					
Stocks	11	4.8	7.5	-	-
Debtors: receivable within one year	12	629.8	539.6	992.8	775.8
Debtors: receivable after more than one year	12	16.0	18.1	-	-
Investments		-	0.1	-	-
Cash at bank and short term deposits	13	40.4	86.8	52.3	47.1
		691.0	652.1	1,045.1	822.9
<b>Creditors: amounts falling due within one year</b>	14	(265.7)	(261.2)	(90.5)	(92.5)
<b>Net current assets</b>		425.3	390.9	954.6	730.4
<b>Total assets less current liabilities</b>		3,123.9	2,956.9	1,985.7	1,818.3
<b>Creditors: amounts falling due after more than one year</b>	15	(1,771.5)	(1,602.6)	(970.5)	(984.9)
<b>Provisions for liabilities and charges</b>	19	(165.9)	(176.0)	-	-
<b>Accruals and deferred income</b>	20	(142.8)	(128.2)	-	-
		(2,080.2)	(1,906.8)	(970.5)	(984.9)
<b>Net assets</b>		1,043.7	1,050.1	1,015.2	833.4
<b>Capital and reserves</b>					
Called up share capital	21	466.2	466.2	466.2	466.2
Share premium account	22	217.9	217.9	217.9	217.9
Group reconstruction relief reserve	22	107.6	107.6	-	-
Profit and loss account	22	250.3	255.7	331.1	149.3
<b>Equity shareholders' funds</b>	23	1,042.0	1,047.4	1,015.2	833.4
Minority equity interest		1.7	2.7	-	-
<b>Total capital and reserves</b>		1,043.7	1,050.1	1,015.2	833.4

Approved by the Board of Directors on 3/2/05 and signed on its behalf by:



Director

## Northumbrian Services Limited

### NOTES TO THE FINANCIAL STATEMENTS

#### 1 Accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. The accounting policies have been reviewed in accordance with the requirements of FRS 18. The directors consider the following accounting policies to be relevant in relation to the Group's financial statements. These have been applied consistently throughout the current period with the exception of the accounting for court costs and solicitors fees as explained in note 2.

**(a) Basis of accounting** The financial statements have been prepared under the historical cost convention.

**(b) Basis of consolidation** The consolidated financial statements include the Company and its subsidiary undertakings. The results of subsidiaries acquired during the period are included from the date of their acquisition. The results of subsidiaries disposed of during the period are included to the date of their disposal. Inter segment sales and profits are eliminated fully on consolidation. Where, for commercial reasons, the accounting reference date of a subsidiary is a date other than that of the Company, management accounts made up to the Company's accounting reference date have been used.

**(c) Cash flow** The directors have taken advantage of the exemption in Financial Reporting Standard No.1 (revised) from including a cash flow statement in the financial statements on the grounds that the Company is wholly owned and its ultimate parent publishes a consolidated cash flow statement.

**(d) Associated undertakings and joint ventures** The Group's share of profits less losses of associated undertakings and joint ventures is included in the consolidated profit and loss account and the Group's share of their net assets/liabilities is included in the consolidated balance sheet. Joint ventures are accounted for using the gross equity method. Goodwill arising on the acquisition of associates and joint ventures is accounted for in accordance with the accounting policy set out below.

**(e) Goodwill** Goodwill arising on the acquisition of subsidiary undertakings, businesses, associates and joint ventures, representing the excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life up to a maximum of 20 years. Provision is made for any impairment.

**(f) Turnover** Turnover, which excludes value added tax, represents the income receivable in the ordinary course of business for goods and services provided.

**(g) Tangible fixed assets and depreciation** Tangible fixed assets, including assets in the course of construction, comprise infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) and other assets (including properties, overground plant and equipment):

**i) Infrastructure assets** Infrastructure assets comprise a network of physical overground and underground systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements to the network and on maintaining the operating capability of the network, in accordance with defined standards of service, is treated as additions which are included at cost. Costs include internal and external costs to bring the asset into use. The depreciation charge for infrastructure assets is the estimated average amount of expenditure required to maintain the operating capability of the network, which is based on independently certified asset management plans, adjusted to reflect differences between estimated and actual expenditure over each five year regulatory period.

**ii) Other assets** Other assets are included at cost less accumulated depreciation and any provision for impairment. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows: freehold buildings, 30-60 years; short leasehold land and buildings, 25 years or lease term if shorter; operational structures, plant and machinery, 4-92 years; fixtures, fittings, tools and equipment, 4-10 years. Where the remaining useful economic life of the asset is estimated to be greater than 50 years, an impairment review is performed at the end of each reporting period to ensure that the carrying amount can be supported.

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

**(h) Grants and contributions** Revenue grants are credited to the profit and loss account in the period to which they relate. Capital grants and contributions relating to tangible fixed assets are treated as deferred income and amortised in the profit and loss account over the expected useful economic lives of the qualifying assets. Specifically, in the case of infrastructure assets, the expected useful economic lives have been determined by reference to the physical replacement cycle of those assets.

**(i) Fixed asset investments** Fixed asset investments are stated at their purchase cost, less any provision for impairment.

**(j) 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 Group, 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 written off 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 expensed in the period they are incurred.

**(k) Stocks** Stores are stated at cost less any provisions necessary to recognise damage and obsolescence. Work in progress and finished goods are valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

**(l) Pension costs** The cost of providing pension benefits is charged to the profit and loss account so as to spread the cost over the expected average service lives of employees. Differences between the amounts funded and amounts charged to the profit and loss account are treated as prepayments or provisions in the balance sheet. Pension surpluses/deficits arising on acquisition are recognised as an asset/liability on the balance sheet, in accordance with FRS7.

**(m) Taxation** The charge for current UK corporation tax is based on the profit for the period as adjusted for taxation purposes using the rates of tax enacted at the balance sheet date. Provision is made for deferred tax in respect of all timing differences that have originated but not reversed at the balance sheet date that will result in an obligation to pay more, or a right to pay less tax in future periods. Deferred tax is calculated at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. As permitted by FRS 19, the Group has decided to adopt a policy of discounting deferred tax assets and liabilities to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained at the balance sheet date on UK Government bonds with similar maturity dates to those of the deferred tax assets or liabilities.

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

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

**(o) Foreign currencies** Assets and liabilities of subsidiaries in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial period and the results of foreign subsidiaries are translated at the average rate of exchange for the period. Differences on exchange arising from the re-translation of the opening net investment in subsidiary and associate companies, and from the translation of the results of those companies at average rate, are taken to reserves. All other foreign exchange differences are taken to the profit and loss account in the period in which they arise.

**(p) Derivative financial instruments** The Group utilises interest rate swaps, forward rate agreements and forward exchange contracts as derivative financial instruments. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies. Interest rate swap agreements are used to manage interest rate exposures. Amounts payable or receivable in respect of these derivatives are recognised over the period of the contracts as adjustments to net interest payable in the profit and loss account. Forward exchange contracts are valued at the period end rates of exchange. Resultant gains and losses are offset against foreign exchange gains or losses on the related borrowings or, where the instrument is used to hedge a committed future transaction, are deferred until the transaction occurs.

**(q) Liquid resources** Liquid resources comprise external deposits.

## 2 Prior Year Adjustment

The Group has changed its accounting policy for court costs and solicitors fees charged to customers as part of the debt recovery process. The policy is now to write off court costs and solicitors' fees as incurred and credit the profit and loss account with any amounts recovered from customers on receipt. The directors believe this is a more appropriate accounting treatment.

Furthermore the Group has included the results of Three Rivers Insurance Company Limited, a captive insurance company, as now the net assets of the company are considered material.

As a result, the comparatives have been restated as follows:

### a Group profit and loss account

	Operating costs - ordinary £m	Taxation £m	Profit for the financial period £m
Year ended 31 December 2002 as previously reported	(338.7)	(0.5)	91.8
Prior year adjustment	(0.9)	0.3	(0.6)
Year ended 31 December 2002 as restated	(339.6)	(0.2)	91.2

This entirely relates to the change in debt recovery costs policy.

### b Group balance sheet

	As previously reported 31.12.2002	Prior year Adjustment	As Restated
Investments – other	1.0	(0.5)	0.5
Trade debtors	64.5	(6.4)	58.1
Cash	84.0	2.8	86.8
Other creditors	(19.0)	(0.1)	(19.1)
Accruals and deferred income	(145.7)	(1.4)	(147.1)
Provisions for liabilities – deferred tax	(162.1)	1.9	(160.2)
Profit and loss reserve (see note 22)	259.4	(3.7)	255.7

The adjustments to debtors and provision for liabilities – deferred tax and a reduction of £4.5m to the profit and loss reserve relates to the change in accounting for court costs and solicitors' fees, the remainder of the adjustments relate to the inclusion of Three Rivers insurance Company Limited.

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### c Company balance sheet

	As previously reported 31.12.2002	Prior year Adjustment	As Restated
Investments – other	1.0	(0.5)	0.5
Subsidiaries – ordinary share capital	1,085.1	0.5	1,085.6

### 3 Segmental Analysis

#### (a) Analysis by class of business and by geographical origin

	UK Water		International Water		Related Services		Total 15 months to 31.03.2004	Year to 31.12.2002
	31.03.2004	31.12.2002	31.03.2004	31.12.2002	31.03.2004	31.12.2002	31.03.2004	31.12.2002
	£m	£m	£m	£m	£m	£m	£m	£m
	as restated		as restated		as restated		as restated	
<b>Turnover:</b>								
UK	565.2	439.2	16.1	5.8	90.3	73.8	671.6	518.8
Rest of Europe, Middle East and Far East	-	-	10.0	7.9	4.5	5.7	14.5	13.6
Rest of World	-	-	-	1.2	3.0	2.6	3.0	3.8
Total turnover	565.2	439.2	26.1	14.9	97.8	82.1	689.1	536.2
Inter segment	-	-	(0.7)	(0.6)	(39.9)	(31.6)	(40.6)	(32.2)
<b>External turnover</b>	565.2	439.2	25.4	14.3	57.9	50.5	648.5	504.0
<b>Operating profit:</b>								
UK	198.8	161.3	3.5	1.8	4.9	(1.2)	207.2	161.9
Rest of Europe, Middle East and Far East	-	-	0.4	0.9	0.8	0.4	1.2	1.3
Rest of World	-	-	-	(1.3)	0.1	0.2	0.1	(1.1)
	198.8	161.3	3.9	1.4	5.8	(0.6)	208.5	162.1
Central unallocated costs and provisions							(4.6)	2.3
<b>Group operating profit</b>							203.9	164.4
Share of associates' operating profit							3.6	0.6
Share of joint ventures' operating profit							1.4	1.3
Investment income							-	0.2
Net interest payable							(111.8)	(75.2)
<b>Profit on ordinary activities before taxation</b>								97.1
								91.3

The Central unallocated costs and provisions include those costs that relate to the performance of the Holding Company's functions.

#### (b) Analysis of external turnover by geographical destination

	15 months to 31.03.2004	Year to 31.12.2002
	£m	£m
UK	626.1	482.2
Rest of Europe, Middle East and Far East	21.2	19.5
Rest of World	1.2	2.3
<b>External turnover</b>	648.5	504.0

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### (c) Net assets

	UK Water		International Water		Related Services		Total	
	31.03.2004	31.12.2002	31.03.2004	31.12.2002	31.03.2004	31.12.2002	31.03.2004	31.12.2002
	£m	£m	£m	£m	£m	£m	£m	£m
	as restated		as restated		as restated		as restated	
Subsidiary undertakings	2,300.7	2,138.4	52.7	55.2	(5.8)	(13.1)	2,347.6	2,180.5
Share of associated undertakings' net assets	-	-	-	-	5.1	6.1	5.1	6.1
Net operating assets	2,300.7	2,138.4	52.7	55.2	(0.7)	(7.0)	2,352.7	2,186.6
Unallocated net liabilities							(1,309.0)	(1,136.5)
<b>Net assets</b>							<b>1,043.7</b>	<b>1,050.1</b>

Net operating assets comprise tangible fixed assets, stocks, debtors and creditors which relate to segmental operating activities. Unallocated net liabilities comprise other fixed asset investments, current investments, cash and short term deposits, borrowings, current taxation balances, dividends and other common assets and liabilities.

The net assets of the Group are almost entirely situated in the United Kingdom.

### 4 Operating Costs

	15 months to 31.03.2004 £m	Year to 31.12.2002 £m As restated
(a) Operating profit is stated after charging/(crediting):		
Materials and consumables	31.8	27.8
Manpower costs (see note 6)	139.4	109.8
Own work capitalised	(33.8)	(28.9)
Depreciation of tangible fixed assets (see note 9)	109.3	85.6
Other operating charges	197.9	145.3
<b>Total operating costs</b>	<b>444.6</b>	<b>339.6</b>

Own work capitalised includes both employment and other costs charged to capital schemes.

The impact on the current period of the revision of useful economic lives of assets was a reduction of £5m in depreciation.

	15 months to 31.03.2004 £m	Year to 31.12.2002 £m
(b) Operating profit		
<b>This is stated after charging/(crediting):</b>		
Auditors' remuneration:		
audit*	0.3	0.2
non-audit services	0.1	0.1
Depreciation of tangible fixed assets: (see note 9)		
owned	104.6	81.1
under hire purchase contracts and finance leases	4.7	4.5
Profit on disposal of tangible fixed assets	(0.9)	(1.0)
Amortisation of capital grants (see note 20)	(4.2)	(3.0)
Operating leases:		
plant and machinery	0.3	0.2
other	2.6	1.2
Costs of research and development	6.4	5.5

\* £10,800 (2002: £10,000) relates to the company.

### Exceptional operating costs

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

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 5 Net Interest Payable

	15 months to 31.03.2004 £m	Year to 31.12.2002 £m
Interest payable on debentures, bank and other loans and overdrafts	135.7	91.7
Amortisation of discount, fees and loan issue costs	(0.4)	(0.3)
Amounts receivable on derivative contracts	-	(3.1)
Interest payable on hire purchase contracts and finance leases	3.0	2.8
Group interest payable	138.3	91.1
Share of associates' interest payable	3.5	0.8
Share of joint ventures' interest payable	0.3	0.3
Total interest payable	142.2	92.2
Interest receivable from current parent undertaking	(24.9)	-
Interest receivable from former parent undertaking	(5.4)	(17.0)
<b>Net interest payable</b>	<b>111.8</b>	<b>75.2</b>
Disclosed as:		
Net interest payable: Group	108.0	74.1
associates	3.5	0.8
joint ventures	0.3	0.3
	111.8	75.2

### 6 Employee Information

The total employment costs of all employees (including directors) of the Group were:

	15 months to 31.03.2004 £m	Year to 31.12.2002 £m
Wages and salaries	117.5	94.0
Social security costs	10.2	7.7
Other pension costs	11.7	8.1
<b>Total employment costs</b>	<b>139.4</b>	<b>109.8</b>
Total employment costs were charged as follows:		
Capital schemes and infrastructure renewals	32.6	27.4
Manpower costs	106.8	82.4
	139.4	109.8

The average monthly number of employees of the Group during the period was:

	15 months to 31.03.2004 Number	Year to 31.12.2002 Number
UK Water	2,320	2,259
International Water	124	122
Related Services	1,111	1,182
	3,555	3,563

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

The remuneration of the directors of the Company was as follows

	15 months to 31.03.2004 £000	Year to 31.12.2002 £000
Emoluments (including benefits in kind)	1,107.8	377.0

### Highest paid director

The amounts for remuneration in note (a) above include the following in respect of the highest paid director:

	15 months to 31.03.2004 £000	Year to 31.12.2002 £000
Emoluments (including benefits in kind)	386.8	229.0

The accrued pension entitlement under the company's defined benefit scheme of the highest paid director at 31 March 2004 was £91,000 (31 December 2002: £65,000).

### Directors' pension entitlements

As explained in note 24, the Group operates a defined benefit final salary scheme, the Northumbrian Water Pension Scheme (NWPS).

Alain Chaigneau, Jean-François Thierry Chambolle, Bernard Guirkingner and Jacques Francis Petry participated in pension schemes administered by SUEZ SA and not any of the Group's UK pension schemes.

Two of the directors at 31 March 2004 were members of a defined benefit pension scheme (2002: 2).

## 7 Tax on Profit on Ordinary Activities

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

	15 months to 31.03.2004 £m	Year to 31.12.2002 £m as restated
Current tax:		
UK corporation tax on profits for the period at 30% (2002: 30%)	6.6	6.2
Overseas tax	0.1	-
Adjustment in respect of prior years	(10.9)	(14.4)
Group current tax credit	(4.2)	(8.2)
Share of associates' tax charge/(credit)	0.1	(1.8)
Share of joint ventures' tax charge	0.3	0.3
Total current tax credit (note 7b)	(3.8)	(9.7)
UK corporation tax on profits for the period includes a £0.4m tax credit in respect of exceptional costs		
Deferred tax:		
Origination and reversal of timing differences in the period	24.8	24.7
Adjustment in respect of prior years	(2.2)	10.9
	22.6	35.6
Increase in discount	(23.2)	(25.7)
Total deferred tax (see note 19)	(0.6)	9.9
Origination and reversal of timing differences in the period includes a £1.3m tax credit in respect of exceptional costs.		
Tax on profit on ordinary activities	(4.4)	0.2

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### (b) Factors affecting the tax credit for the financial period:

	15 months to 31.03.2004 £m	Year to 31.12.2002 £m as restated
Profit on ordinary activities before taxation	97.1	91.3
Profit on ordinary activities multiplied by standard rate of UK corporation tax (30%) (2002: 30%)	29.1	27.4
Effects of:		
Expenses not deductible for tax purposes	0.6	2.2
Depreciation in respect of non-qualifying items	1.6	1.1
Overseas losses not recognised	0.5	-
Capital allowances in excess of depreciation	(28.9)	(26.1)
Other timing differences	3.5	0.9
Pension revaluation surplus	0.6	0.5
Disposal of investments in subsidiaries/associates	-	(0.1)
Differences in associates'/joint ventures' tax	0.1	(1.2)
Adjustment to tax charge in respect of prior years	(10.9)	(14.4)
Total current tax credit (note 7a)	(3.8)	(9.7)

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

The Group 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 may therefore be influenced by future fluctuations in gilt rates.

## 8 Dividends

	15 months to 31.03.2004 £m	Year to 31.12.2002 £m
Interim paid	63.5	31.1
Final proposed	43.0	31.2
	106.5	62.3



# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9 Tangible Fixed Assets

Group:	Freehold land and buildings £m	Short leasehold land and buildings £m	Infra- structure assets £m	Operational structures, plant and machinery £m	Fixtures, fittings, tools and equipment £m	Assets in the course of construction £m	Total £m
Cost:							
At 1 January 2003	89.2	5.2	1,288.0	1,492.0	127.2	140.1	3,141.7
Additions	0.2	-	0.6	1.5	2.7	242.7	247.7
Schemes commissioned	5.9	-	143.3	125.9	49.2	(324.3)	-
Reclassifications	(0.4)	-	(26.5)	(0.1)	(0.1)	27.1	-
Disposals	-	-	(27.9)	(0.5)	(0.1)	-	(28.5)
<b>At 31 March 2004</b>	<b>94.9</b>	<b>5.2</b>	<b>1,377.5</b>	<b>1,618.8</b>	<b>178.9</b>	<b>85.6</b>	<b>3,360.9</b>
Depreciation:							
At 1 January 2003	26.5	1.5	101.8	357.8	94.7	-	582.3
Charge for the period	4.4	0.7	37.4	47.5	19.3	-	109.3
Reclassifications	0.5	0.5	0.4	(1.6)	0.2	-	-
Disposals	-	-	(23.1)	(0.4)	(0.1)	-	(23.6)
<b>At 31 March 2004</b>	<b>31.4</b>	<b>2.7</b>	<b>116.5</b>	<b>403.3</b>	<b>114.1</b>	<b>-</b>	<b>668.0</b>
<b>Net book value at 31 March 2004</b>	<b>63.5</b>	<b>2.5</b>	<b>1,261.0</b>	<b>1,215.5</b>	<b>64.8</b>	<b>85.6</b>	<b>2,692.9</b>
Net book value at 31 December 2002	62.7	3.7	1,186.2	1,134.2	32.5	140.1	2,559.4

Operational structures, plant and machinery include an element of land and buildings dedicated to those assets.

The net book value of tangible fixed assets held under hire purchase contracts and finance leases was as follows:

	31.03.2004 £m	31.12.2002 £m
Infrastructure assets	2.2	2.2
Operational structures, plant and machinery	25.7	25.4
Fixtures, fittings, tools and equipment	0.7	4.5
	<b>28.6</b>	<b>32.1</b>

### 10 Fixed Asset Investments

#### (a) Group:

	Joint ventures £m	Associated undertakings £m	Other investments £m	Total £m
At 31 December 2002 as previously reported	3.0	3.1	1.0	7.1
Prior year adjustment (see note 2)	-	-	(0.5)	(0.5)
<b>At 31 December 2002 as restated</b>	<b>3.0</b>	<b>3.1</b>	<b>0.5</b>	<b>6.6</b>
Disposals	(0.4)	(1.3)	(0.1)	(1.8)
Share of profits	0.8	(0.1)	-	0.7
<b>At 31 March 2004</b>	<b>3.4</b>	<b>1.7</b>	<b>0.4</b>	<b>5.5</b>

All fixed asset investments are unlisted.

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### (b) Company:

	Associated undertakings and joint ventures £m	Interests in subsidiaries £m	Loans to subsidiaries £m	Other investments £m	Total £m
<b>Cost</b>					
At 31 December 2002 as previously reported	1.8	1,085.1	-	1.0	<b>1,087.9</b>
Prior year adjustment (see note 2)	-	0.5	-	(0.5)	-
<b>At 31 December 2002 as restated</b>	<b>1.8</b>	<b>1,085.6</b>	<b>-</b>	<b>0.5</b>	<b>1,087.9</b>
Transfer from loans	-	-	11.0	-	<b>11.0</b>
Disposals	(0.8)	(64.4)	-	(0.1)	<b>(65.3)</b>
Dividends	(0.6)	-	-	-	<b>(0.6)</b>
<b>At 31 March 2004</b>	<b>0.4</b>	<b>1,021.2</b>	<b>11.0</b>	<b>0.4</b>	<b>1033.0</b>
<b>Impairment</b>					
At 31 December 2002	-	-	-	-	-
Impairments in the period	-	1.9	-	-	<b>1.9</b>
<b>At 31 March 2004</b>	<b>-</b>	<b>1.9</b>	<b>-</b>	<b>-</b>	<b>1.9</b>
<b>Net book value of investments at 31 March 2004</b>	<b>0.4</b>	<b>1,019.3</b>	<b>11.0</b>	<b>0.4</b>	<b>1,031.1</b>

### (c) The Group's interests in principal trading associates at 31 March 2004 were as follows:

Name of undertaking	Country of incorporation or registration and operation	Description of shares held	Proportion of nominal value of issued shares held by Group and Company %	Business activity
Ayr Environmental Services Limited	Scotland	Ordinary shares of £1	50	Water and sewerage services

(d) The Group holds 50% of the nominal value of issued ordinary £1 shares in Vehicle Lease and Service Limited (VLS), the Group's principal joint venture arrangement. VLS was incorporated in England and Wales and undertakes the business of hiring, leasing and servicing of vehicles and plant.

### (e) The Group's interests in principal subsidiaries at 31 March 2004 were as follows:

Name of undertaking	Country of incorporation or registration and operation	Description of shares held	Proportion of nominal value of issued shares held by Group and Company %	Business activity
Northumbrian Water Limited	England and Wales	Ordinary shares of £1	100	Water and sewerage services
AquaGib Limited	Gibraltar	Ordinary shares of £1	67	Water and sewerage services
Entec UK Limited	England and Wales	Ordinary shares of £1	100	Environmental and engineering consultancy
Northumbrian Water Technical Centre Limited	England and Wales	Ordinary shares of £1	100	Research and development
Analytical & Environmental Services Limited	England and Wales	Ordinary shares of £1	100	Analytical, laboratory and scientific services
Fastflow Pipeline Services Limited	England and Wales	Ordinary shares of £1	100	Infrastructure replacement and rehabilitation
Caledonian Environmental Services plc	Scotland	Ordinary shares of £1	75	Water and sewerage services
ULG Northumbrian Limited	England and Wales	Ordinary shares of £1	100	Aid-funded project work
SA Agrer NV	Belgium	Ordinary shares of £1	100	Aid-funded project work
Northumbrian Water Finance plc	England and Wales	Ordinary shares of £1	100	Holding of finance instruments

The directors consider that to give full particulars of all subsidiary and associated undertakings would lead to a statement of excessive length. The above information relates to those subsidiary and associated undertakings or groups of undertakings whose results or financial position, in the opinion of the directors, principally affect the figures of the Group.

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 11 Stocks

	Group	
	31.03.2004	31.12.2002
	£m	£m
Stores	3.7	3.2
Work in progress	1.1	4.3
	4.8	7.5

### 12 Debtors

	Group		Company	
	31.03.2004	31.12.2002	31.03.2004	31.12.2002
	£m	£m	£m	£m
		as restated		
Amounts receivable within one year:				
Trade debtors	61.3	58.1	0.4	0.1
Amounts owed by subsidiary undertakings	-	-	490.2	462.6
Amounts owe by associated undertakings	3.8	-	3.8	-
Amounts owed by parent company	513.0	432.0	494.7	311.0
Corporation tax	7.7	-	-	-
Other debtors	8.4	8.7	0.8	1.3
Deferred tax	-	-	2.8	0.7
Prepayments and accrued income	35.6	40.8	0.1	0.1
	629.8	539.6	992.8	775.8

Amounts receivable after more than one year:

Pension surplus	16.0	18.1	-	-
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Trade debtors are shown net of bills paid in advance. In the Company, the debtor for amounts owed by subsidiary undertakings includes nil (2002: £3.8m) in respect of amounts receivable for the provisional surrender of tax losses by the Company.

The deferred tax asset in the Company comprises:

	31.03.2004	31.12.2002
	£m	£m
Accelerated capital allowances	0.1	0.1
Losses carried forward	2.3	-
Other timing differences	0.4	0.6
	2.8	0.7

### 13 Cash at Bank and Short Term Deposits

	Group		Company	
	31.03.2004	31.12.2002	31.03.2004	31.12.2002
	£m	£m	£m	£m
		as restated		
Short term cash deposits	9.1	21.6	3.2	9.4
Cash at bank	31.3	65.2	49.1	37.7
	40.4	86.8	52.3	47.1

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 14 Creditors: Amounts falling due within one year

	Group		Company	
	31.03.2004	31.12.2002	31.03.2004	31.12.2002
	£m	£m	£m	£m
		as restated		
Bank loans and overdrafts (see note 16)	50.2	39.7	15.3	16.6
Debentures (see note 16)	5.0	-	-	-
Obligations under hire purchase contracts and finance leases (see note 17)	3.6	3.2	-	-
Trade creditors	20.9	8.8	1.1	0.4
Amounts owed to group undertakings	11.5	3.6	7.6	0.7
Other creditors	19.3	19.1	1.7	1.3
Taxation and social security	4.0	8.1	3.5	8.9
Dividends payable:				
equity shareholders	43.0	31.6	43.0	31.1
Accruals and deferred income	108.2	147.1	18.3	33.5
	265.7	261.2	90.5	92.5

The creditor for taxation and social security in the Group includes corporation tax amounting to £ nil (2002: £3.3m).

Amounts owed to Group undertakings includes amounts payable for the provisional surrender of tax losses amounting to £8.0m (2002: £3.2m).

Taxation and social security in the Company includes corporation tax amounting to £3.4m (2002: £9.0m).

Amounts owed to Group undertakings in the Company includes amounts payable for group relief of £6.5m (2002: £ nil)

### 15 Creditors: Amounts falling due after more than one year

	Group		Company	
	31.03.2004	31.12.2002	31.03.2004	31.12.2002
	£m	£m	£m	£m
Loans (see note 16)	534.4	357.1	143.7	-
Debentures (see note 16)	9.2	14.3	-	-
Eurobond – due 28 June 2006 bearing interest rate of 8.625%	200.0	200.0	200.0	200.0
Eurobond – due 11 October 2017 bearing interest rate of 6.0%	300.8	300.8	-	-
Eurobond – due 6 February 2023 bearing interest rate of 6.875%	351.6	351.7	351.6	351.7
Eurobond – due 29 April 2033 bearing interest rate of 5.625%	246.5	246.5	-	-
Eurobond – due 31 March 2037 bearing interest rate of 6.627%	58.3	58.1	-	-
Amounts owed to parent company and fellow subsidiaries (see note 16)	-	3.8	275.2	433.2
Obligations under hire purchase contracts and finance leases (see note 17)	57.3	55.9	-	-
Other creditors	13.4	14.4	-	-
	1,771.5	1,602.6	970.5	984.9

At 31 March 2004, the Group had the following interest swap arrangements: £15.0m over a ten year period commencing on 10 May 1994 under which the Group is required to pay interest at a rate linked to LIBOR and will receive interest at 9.00%.

At 31 December 2002, the Group had the following interest swap arrangements: £15.0m over a ten year period commencing on 10 May 1994 under which the Group is required to pay interest at a rate linked to LIBOR and will receive interest at 9.00%; £10.0m over a seven year period commencing on 16 December 1996 under which the Group is required to pay interest at a rate linked to LIBOR and will receive interest at 7.45%; £10.0m over a three year period commencing 31 January 2000 under which the Group is required to pay interest at a rate linked to LIBOR and will receive interest at 7.165%; and £25.0m over a three year period commencing on 7 December 2000 under which the Group is required to pay interest at 5.61% and will receive interest at a rate linked to LIBOR.

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 16 Loans

	Group		Company	
	31.03.2004	31.12.2002	31.03.2004	31.12.2002
	£m	£m	£m	£m
Loans are repayable as follows:				
Less than one year	38.1	18.5	15.3	-
Between one and two years	229.3	53.1	603.6	-
Between two and five years	345.4	259.1	-	451.9
In more than five years	1,126.1	1,220.1	351.6	533.0
	1,738.9	1,550.8	970.5	984.9
Disclosed as due:				
Within one year:				
Bank loans and overdrafts	50.2	39.7	15.3	16.6
Debentures	5.0	-	-	-
Amounts owed to parent company and fellow subsidiaries	-	0.1	-	-
Less: Bank overdrafts	(17.1)	(21.3)	(15.3)	(16.6)
After one year:				
Loans	534.4	357.1	143.7	-
Eurobonds	1,157.2	1,157.1	551.6	551.7
Debentures	9.2	14.3	-	-
Amounts owed to parent company and fellow subsidiaries	-	3.8	275.2	433.2
	1,738.9	1,550.8	970.5	984.9

Loans to the Group from third parties, any part of which falls due for repayment in five years or more and which are repayable by instalments, amount to £242.0m (2002: £259.9m) and bear rates of interest in the range of 5.05% to 8.55% (2002: 4.94% to 8.55%). £18.8m (2002: None) of these loans bear interest rates linked to LIBOR.

Loans to the Group from third parties repayable otherwise than by instalments which fall due for repayment after more than five years amount to £1,032.0m (2002: £1,029.8m) and bear rates of interest in the range of 3.5% to 11.75% (2002: 3.5% to 11.75%). Of these loans, £120.5m (2002: £120.5m) bears interest rates linked to LIBOR.

The aggregate amount of Group loans, any part of which falls due for repayment in five years or more, is £1,274.0m (2002: £1,289.7m).

Included in the loans are debenture stocks as follows:

- (a) £8.6m issued by North East Water plc and secured by a floating charge on the assets of Northumbrian Water Limited;
- (b) £5.6m issued by Essex and Suffolk Water plc and secured by a floating charge on the assets of Northumbrian Water Limited.

### 17 Obligations under Hire Purchase Contracts and Finance Leases

	Group	
	31.03.2004	31.12.2002
	£m	£m
Amounts due:		
In less than one year	3.6	3.2
Between one and two years	4.0	3.2
Between two and five years	10.4	8.9
In more than five years	66.1	68.9
Gross obligations	84.1	84.2
Less: finance charges allocated to future periods	(23.2)	(25.1)
	60.9	59.1
Disclosed as due:		
Within one year	3.6	3.2
After more than one year	57.3	55.9
	60.9	59.1

The aggregate gross amount of obligations under hire purchase contracts and finance leases, any part of which falls due for repayment in five years or more, is £82.9m (2002: £77.2m).

## **Northumbrian Services Limited**

### **NOTES TO THE FINANCIAL STATEMENTS (continued)**

#### **18 Derivatives and Financial Instruments**

##### **(a) Group strategy**

The level of capital expenditure which the Group is obliged to incur is such that it cannot be wholly financed by internally generated sources. As a result, the Group must rely upon raising additional finance on a regular basis, to be principally used to fund the long term assets required in its regulated business. The Group's strategy is to finance such investment by raising medium to long term debt, to provide a balance sheet match with long term assets and to fix a major proportion of interest rates.

##### **(b) Treasury operations**

The main purpose of the Group's treasury function is to assess the Group's ongoing capital requirement and to raise funding on a timely basis, taking advantage of any favourable market opportunities. It also invests any surplus funds the Group may have, based upon its forecast requirements and in accordance with the Group's treasury policy. On occasions, derivatives are used as part of this process, but the Group's policies prohibit their use for speculation.

##### **(c) Risks arising from the Group's financial instruments**

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. All treasury activities are conducted in accordance with these policies.

##### **(d) Liquidity risk**

As regards day to day liquidity, the Group's policy is to have available standby committed bank borrowing facilities with a value of no less than £50.0 m and with a bank agreement availability period of no less than three months.

##### **(e) Interest rate risk**

The Group finances its operations through a mixture of retained profits and bank borrowings. It borrows at both fixed and floating rates of interest and accordingly then uses interest rate swaps to generate the desired interest profile and to manage the Group's exposure to interest rate fluctuations. The Group's policy is to keep a minimum 60% of its borrowings at fixed rates of interest. At 31 March 2004 78% of the Group's borrowings were at fixed rates of interest.

##### **(f) Foreign currency risk**

The Group's policy is that any foreign currency exposure in excess of £100,000 sterling equivalent of a transactional nature or £3.0 m sterling equivalent of a translation nature, should be covered immediately on identification.

##### **(g) Market price risk**

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

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### (h) Interest rate risk profile of financial assets and financial liabilities

The interest rates and currency profile of the Group's net debt at 31 March 2004 were:

	Total net borrowings £m	Variable rate net borrowings £m	Fixed rate net borrowings		
			Borrowings £m	Weighted average interest rate %	Weighted average period until maturity years
Sterling borrowings:					
Subordinated loan stock	3.6	-	3.6	5.25	33.0
Bank loans	563.9	348.8	215.1	6.43	9.9
Eurobonds	1,157.2	-	1,157.2	6.64	17.5
Debentures	14.2	-	14.2	9.84	3.2
Finance leases	60.9	53.0	7.9	7.55	5.0
	1,799.8	401.8	1,398.0	6.65	16.2
Cash including overdrafts	(23.3)	(23.3)	-		
Parent co. loan receivable	(490.0)	-	(490.0)		
Associated undertaking loan receivable	(3.8)	(3.8)			
<b>Net debt at 31 March 2004</b>	<b>1,282.7</b>	<b>374.7</b>	<b>908.0</b>		

In addition, there are provisions due after more than one year of £6.3 m, on which no interest is payable.

The interest rates and currency profile of the Group's net debt at 31 December 2002 (as restated) were:

	Total net borrowings £m	Variable rate net borrowings £m	Fixed rate net borrowings		
			Borrowings £m	Weighted average interest rate %	Weighted average period until maturity years
Sterling borrowings:					
Subordinated loan stock	3.2	-	3.2	5.25	34.3
Bank loans	375.5	135.4	240.1	6.55	10.6
Eurobonds	1,157.1	-	1,157.1	6.64	18.7
Debentures	14.3	-	14.3	9.84	4.5
Finance leases	59.1	52.1	7.0	7.15	5.8
	1,609.2	187.5	1,421.7	6.66	17.27
Amounts owed to parent company:					
Euro borrowings	0.4	0.4	-		
SA Rand borrowings	0.3	0.3	-		
SA Rand borrowings	(65.8)	(65.8)	-		
Cash including overdrafts	(430.9)	(325.9)	(105.0)		
Sterling loans receivable					
<b>Net debt at 31 December 2002</b>	<b>1,113.4</b>	<b>(203.3)</b>	<b>1,316.7</b>		

In addition, there are provisions due after more than one year of £2.9 m, on which no interest is payable.

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

The variable rate net borrowings comprise sterling denominated bank borrowings and deposits that bear interest at rates based upon up to twelve months LIBOR.

Included in the debentures above are £2.1 m of irredeemable debentures that have been excluded from the calculation of the weighted average maturity and fixed periods.

The benchmark for variable rate loans receivable is LIBOR.

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### (i) Currency exposures

At 31 March 2004 and 31 December 2002, after taking into account the effects of forward foreign exchange contracts, the Group had no currency exposures.

### (j) Borrowing facilities

The Group has various undrawn committed borrowing facilities. The facilities available at 31 March 2004, in respect of which all conditions precedent have been met, are as follows:

	31.3.2004 £m	31.12.2002 £m
Expiring in one year or less	-	100.0
Expiring in more than one year but not more than two years	90.0	-
<b>At 31 March 2004</b>	<b>90.0</b>	<b>100.0</b>

### (k) Gains and losses on hedges

The Group enters into forward foreign currency contracts to eliminate the currency exposures that arise on sales denominated in foreign currencies immediately those sales are transacted. It also uses interest rate swaps to manage its interest rate profile. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures.

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

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 1 January 2003	1.5	0.4	1.1
Gains and losses arising in previous years that were recognised in 2003/04	(1.0)	(0.4)	(0.6)
Gains and losses arising before 1 January 2003 that were not recognised in 2003/04	0.5	-	0.5
Gains and losses arising in 2003/04 that were not recognised in 2003/04	2.9	-	2.9
<b>Unrecognised gains and losses on hedges at 31 March 2004</b>	<b>3.4</b>	<b>-</b>	<b>3.4</b>
Of which:			
Gains and losses expected to be recognised in 2004/05	3.4	-	3.4

An analysis of these unrecognised gains and losses as at 31 December 2002 is as follows:

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 1 January 2002	2.6	0.4	2.2
Gains and losses arising in previous years that were recognised in 2002	(1.4)	(0.4)	(1.0)
Gains and losses arising before 1 January 2002 that were not recognised in 2002	1.2	-	1.2
Gains and losses arising in 2002 that were not recognised in 2002	0.3	0.4	(0.1)
<b>Unrecognised gains and losses on hedges at 31 December 2002</b>	<b>1.5</b>	<b>0.4</b>	<b>1.1</b>
Of which:			
Gains and losses expected to be recognised in 2003/04	0.8	0.4	0.4
Gains and losses expected to be recognised in 2004/05 or later	0.7	-	0.7



# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### (1) Fair values of financial assets and financial liabilities

A comparison by category of book values and fair values of the Group's financial assets and liabilities as at 31 March 2004 is set out below:

	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:		
Short term financial liabilities and current portion of long term borrowings	58.8	61.5
Long term borrowings	1,758.1	1,825.1
Financial assets	(534.2)	(534.2)
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps	-	(3.4)
<b>At 31 March 2004</b>	<b>1,282.7</b>	<b>1,349.0</b>

A comparison by category of book values and fair values of the Group's financial assets and liabilities as at 31 December 2002 is set out below:

	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:		
Short term financial liabilities and current portion of long term borrowings	43.0	46.6
Long term borrowings	1,588.2	1,695.3
Financial assets	(517.8)	(517.8)
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps	-	(1.0)
<b>At 31 December 2002</b>	<b>1,113.4</b>	<b>1,244.5</b>

The fair values of the interest rate swaps, forward foreign currency contracts and sterling denominated long term fixed rate debt with a book value of £1,113.2m (2002: £1,174.6m) 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.

### 19 Provisions for Liabilities and Charges

	Reorganisation and restructuring provision £m	Group Deferred taxation (as restated) £m	Other £m	Total £m
At 31 December 2002 as previously reported	12.9	162.1	2.9	177.9
Prior year adjustment	-	(1.9)	-	(1.9)
At 31 December 2002 as restated	12.9	160.2	2.9	176.0
Charged/(credited) to the profit and loss account	5.1	(0.6)	-	4.5
Reclassification	1.3	-	(1.2)	0.1
Utilised during the period	(14.7)	-	-	(14.7)
<b>At 31 March 2004</b>	<b>4.6</b>	<b>159.6</b>	<b>1.7</b>	<b>165.9</b>

The reorganisation and restructuring provision represents outstanding severance and pension contributions of £1.5 m in respect of costs of restructuring programmes within the Group and £3.2 m relating to discretionary pension liabilities. The former represents the best estimate of amounts payable, principally in the next 24 months.

Other provisions relate to dilapidations in respect of leasehold properties which will be payable at the end of the term of the lease.

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

The provision for deferred tax comprises:

	31.03.2004 £m	Group 31.12.2002 £m as restated
Accelerated capital allowances	483.7	457.0
Pension revaluation surplus	4.9	5.5
Other timing differences	(58.2)	(54.7)
Undiscounted provision for deferred tax	430.4	407.8
Discount	(270.8)	(247.6)
	159.6	160.2

In addition, there are tax losses of approximately £10.4m (2002: £9.0m) available to be carried forward and set against future profits arising in territories outside the United Kingdom.

## 20 Accruals and Deferred Income

	Group £m
Capital grants and contributions:	
At 1 January 2003	128.2
Additions	18.8
Amortisation in the period	(4.2)
At 31 March 2004	142.8

## 21 Called up Share Capital

The share capital of the Company and Group is shown below:

	31.03.2004 £m	31.12.2002 £m
Authorised:		
1,000m ordinary shares of £1 each	1,000.0	1,000.0
Allotted, called up and fully paid:		
466.2m ordinary shares of £1 each	466.2	466.2

## 22 Reserves

	Share premium account £m	Group reconstruction relief reserve £m	Profit and loss account £m
Group:			
At 1 January 2003 as previously stated	217.9	107.6	259.4
Prior Year adjustment (see note 2)	-	-	(3.7)
At 1 January 2003 as restated	217.9	107.6	255.7
Retained profit for the period	-	-	(5.4)
At 31 March 2004	217.9	107.6	250.3
Company:			
At 1 January 2003 as previously stated	217.9	-	149.3
Retained profit for the period	-	-	181.8
At 31 March 2004	217.9	-	331.1

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. Its profit for the period was £288.3m (2002: £147.5m).

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 23 Reconciliation of Movement in Equity Shareholders' Funds

	Group		Company	
	15 months to 31.03.2004 £m	Year to 31.12.2002 £m	15 months to 31.03.2004 £m	Year to 31.12.2002 £m
Opening equity shareholders' funds as previously stated	1,051.1	1,021.4	833.4	810.5
Prior year's adjustment	(3.7)	(3.1)	-	-
Opening equity shareholders' funds as restated	1,047.4	1,018.3	833.4	810.5
Profit for the period	101.1	91.2	288.3	85.2
Dividends	(106.5)	(62.3)	(106.5)	(62.3)
Exchange differences	-	0.2	-	-
<b>Closing equity shareholders' funds</b>	<b>1,042.0</b>	<b>1,047.4</b>	<b>1,015.2</b>	<b>833.4</b>

### 24 Pensions

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

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

The most recent actuarial valuation of the Scheme was at 31 December 2001. At that date the market value of assets amounted to £441m in aggregate (excluding MIS which was transferred into the scheme on 1 April 2002 and was valued at approximately £20.0 m). The 2001 valuation disclosed that the combined value of the assets represented 109% of the value of the accrued liabilities. NSL contributed a further £15.0 m to the scheme on 2 January 2003.

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

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

The MIS employer contributions increased to 21% of Pensionable Earnings and 20.7% of Pensionable Earnings for 5% and 6% members respectively from July 2003 following advice from the actuary. In addition the company have agreed to pay £275,000 p.a. for 10 years starting on the 1 January 2005.

The employer contribution rate was assessed, at the December 2001 valuation, using the Projected Unit Method and the following actuarial assumptions:

	Group 31.03.2004 %	31.12.2002 %
Investment return:		
Pre retirement	6.1	6.1
Post retirement	5.7	5.7
Pay increases	3.5	3.5
Pension increases	2.5	2.5
Price inflation	2.5	2.5

The next valuation will be carried out at 31 December 2004. An independent qualified actuary performs the actuarial valuation. Additional disclosures regarding the Group's defined benefit scheme are required under the transitional provisions of FRS 17 'Retirement benefits' and these are set out below.

# Northumbrian Services Limited

## NOTES TO THE FINANCIAL STATEMENTS (continued)

During the period the Group made contributions amounting to £9.6 m to the defined benefit pension scheme and the Northumbrian Water Group Personal Pension Plan, which provides defined contribution benefits to 705 employees, £8.4 m of which related to the defined benefit pension scheme.

A qualified actuary, using revised assumptions that are consistent with the requirements of FRS 17, has updated the actuarial valuation described above at 31 December 2001. Investments have been valued, for this purpose, at fair value.

FRS 17 actuarial assumptions:

	Group	
	31.03.2004	31.12.2002
	%	%
Pay increases	4.0	3.5
Pension increases	3.0	2.5
Price inflation	3.0	2.5
Discount rate	5.5	5.4

The fair value of the assets in the scheme, the present value of the liabilities in the scheme and the long term expected rate of return at 31 March 2004 were:

	Long term expected rate of return 31.03.2004 %	31.03.2004 £m	Long term expected rate of return 31.12.2002 %	31.12.2002 £m
Equities	6.8	335.4	7.0	268.9
Corporate bonds	5.5	37.7	5.4	14.4
Government bonds	4.8	41.8	4.8	46.9
Property	5.8	47.5	6.0	48.9
Cash	4.0	12.7	4.0	9.2
Total fair value of assets		475.1		388.3
Present value of scheme liabilities		(565.7)		(464.6)
Deficit in the scheme		(90.6)		(76.3)
Related deferred tax asset		27.2		22.9
<b>Net pension liability</b>		<b>(63.4)</b>		<b>(53.4)</b>

Analysis of the amount that would have been charged to operating profit under FRS 17:

	31.03.2004 £m	31.12.2002 £m
Current service cost	11.9	7.9
Curtailments and settlements	0.5	-
	<b>12.4</b>	<b>7.9</b>

Analysis of the amount that would have been credited to net finance income under FRS 17:

Expected return on pension scheme assets	32.2	25.6
Interest on pension scheme liabilities	(31.4)	(21.8)
	<b>0.8</b>	<b>3.8</b>

Analysis of the actuarial loss that would have been recognised in the statement of total recognised gains and losses:

Actual return less expected return on pension scheme assets	43.5	(67.1)
Experience gains and losses arising on the scheme liabilities	(8.0)	(52.1)
Changes in assumptions underlying the present value of the scheme liabilities	(62.2)	(22.6)
	<b>(26.7)</b>	<b>(141.8)</b>

Northumbrian Services Limited

NOTES TO THE FINANCIAL STATEMENTS (continued)

	31.03.2004
	£m
<b>Deficit in scheme at 31 December 2002</b>	(76.3)
Current service cost	(11.9)
Total other finance income	0.6
Actuarial loss	(26.7)
Impact of curtailments and settlements	(0.5)
Other	-
Net Return	0.8
Contributions	23.4
<b>Deficit in scheme at 31 March 2004</b>	<b>(90.6)</b>

History of experience gains and losses	31.03.2004	31.12.2002
	£m	£m
Difference between the expected and actual return on scheme assets:		
Amount (£)	30.4	(67.1)
Percentage of scheme assets	6.4%	17.3%
Experience of gains and losses on scheme liabilities:		
Amount (£)	8.0	(52.1)
Percentage of scheme assets	1.4%	11.2%
Total actuarial gain recognised in the statement of total recognised gains and losses		
Amount (£)	37.6	(141.8)
Percentage of scheme assets	6.7%	30.5%

Reconciliation of net assets and reserves under FRS 17:

Net assets - Group	31.03.2004	31.12.2002
	£m	£m
Net assets in balance sheet	1,043.7	1,053.8
SSAP 24 balance	(16.0)	(18.1)
Related deferred tax	4.9	5.5
Net assets excluding defined benefit assets/(liabilities)	1,032.6	1,041.2
FRS 17 net pension liability	(63.4)	(53.4)
<b>Net assets including defined assets/(liabilities)</b>	<b>969.2</b>	<b>987.8</b>

Reserves - Group	31.03.2004	31.12.2002
	£m	£m (as restated)
Profit and loss account in balance sheet	250.3	255.7
SSAP 24 balance	(16.0)	(18.1)
Related deferred tax	4.9	5.5
Profit and loss account excluding amounts relating to defined benefit assets/(liabilities)	239.2	243.1
FRS 17 net pension liability	(63.4)	(53.4)
<b>Profit and loss account including defined assets/(liabilities)</b>	<b>175.8</b>	<b>189.7</b>

## Northumbrian Services Limited

### NOTES TO THE FINANCIAL STATEMENTS (continued)

#### 25 Financial commitments

##### (a) Capital expenditure

	Group 31.3.2004 £m
Expenditure contracted for	53.3

In addition to these commitments, the Group has longer term expenditure plans, which include investment to meet shortfalls in performance and condition and to provide for new demand and growth within the water and sewerage business.

##### (b) Lease commitments

The 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:

	Land and buildings £m	Other £m	31.3.2004 £m
Leases which expire:			
Within one year	0.1	0.6	0.7
Within two to five years	0.3	1.3	1.6
After five years	0.6	0.2	0.8
	1.0	2.1	3.1

#### 26 Commitments – Company

The Company has issued letters of continuing support to subsidiary companies with net current liabilities amounting to £193.9 m of which £178.7 m is in respect of NWL. These subsidiary companies are expected to meet their working capital requirements from operating cash flows.

#### 27 Related parties

The company is a wholly owned subsidiary of Northumbrian Water Group plc, the consolidated financial statements for which are publicly available. Accordingly, the company has taken advantage of the exemption conferred by FRS 8 from disclosing transactions with members or investees of the Northumbrian Water Group plc group.

#### 28 Post balance sheet events

On 12 May 2004, the Group's financial position was improved by the announcement of the securitisation of NWL's contract with the Environment Agency for the operation of the Kielder Water transfer scheme. The proceeds of £212.1 m were used to repay short term debt, of £205.0 m, arising from the acquisition of the Group's business by Northumbrian Water Group plc.

On 7 Dec 2004 NWL's finance subsidiary (Northumbrian Water Finance plc) issued a £100 m increase to its 5.625% Eurobond 2033. The proceeds will be used to repay short term working capital facilities thereby extending the profile of the debt maturity and funding the ongoing capital programme.

Ofwat published its final determination of prices on 2 December 2004. The regulator will allow NWL to raise price limits by 15% above the rate of inflation over the years 2005 to 2010. The determination also recognises NWL's need to increase investment in addition to imposing efficiency saving requirements.

#### 29 Ultimate Parent Company

The ultimate parent company and the controlling party of the Company is Northumbrian Water Group PLC (NWG), incorporated in England. NWG consolidates the results of the Company and Group and copies of the consolidated financial statements are available to the public from its registered office: Northumbria House, Abbey Road, Durham, DH1 5FJ.