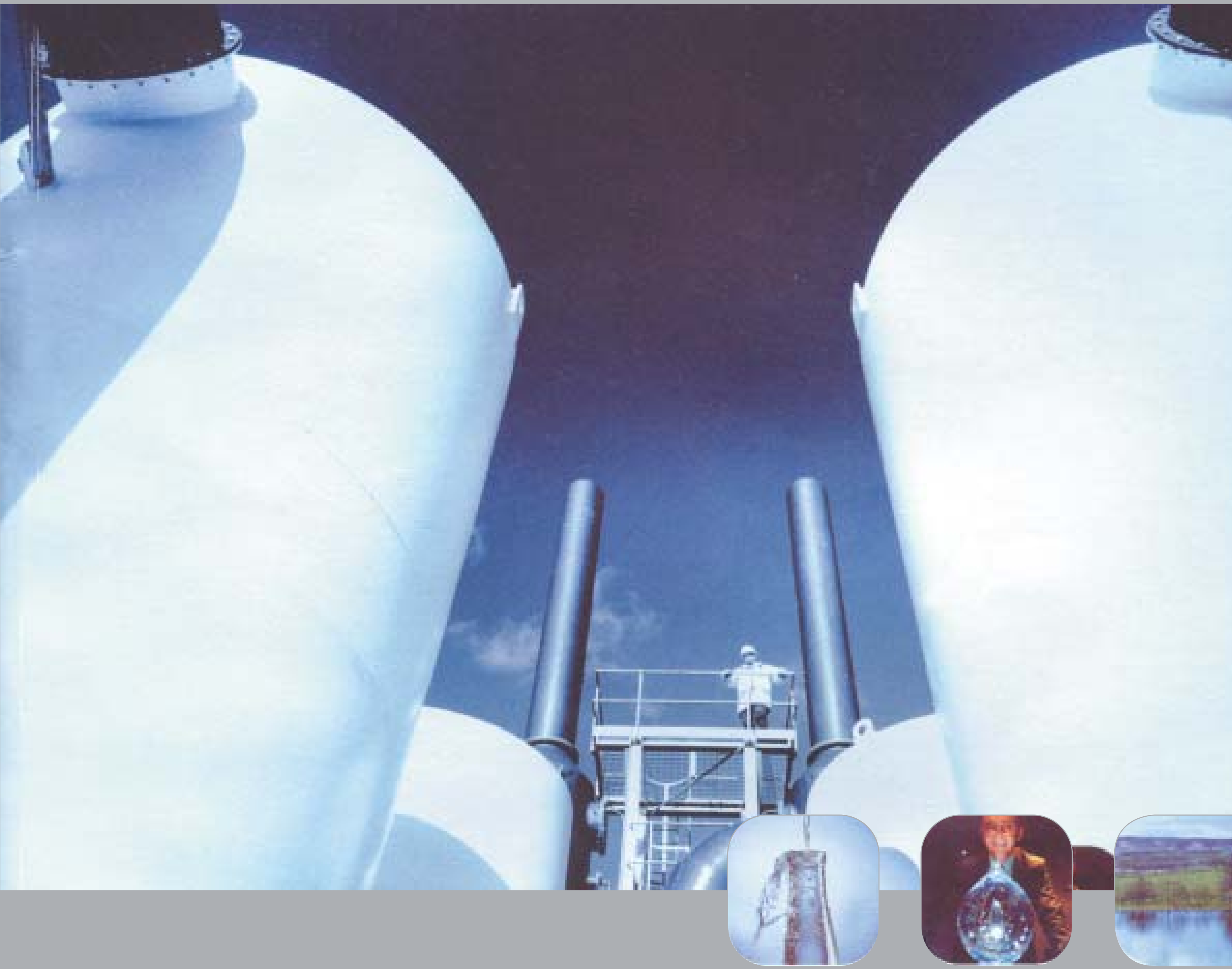
Annual Report & Financial Statements 2000

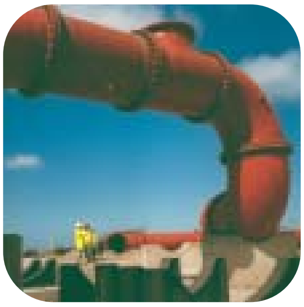


NORTHUMBRIAN
WATER GROUP

Northumbrian Water Group plc and its subsidiaries (together "the Group") work in three related businesses: the supply of water and waste water services within the UK; international water management; and a range of supporting technical and consultancy services.

We started our business life as one of the UK's ten privatised water and sewerage companies.

We are part of the Suez group, an international infrastructure services group and one of the largest companies in Europe. Our Group businesses during the period were:



Northumbrian Water Limited - water and waste water services in North East England and water services in South East England

Northumbrian Lyonnaise International - international water and waste water management

Entec UK - environmental and engineering consultancy

Imass - IT consultancy

Analytical and Environmental Services - analytical and environmental services

Fastflow Pipeline Services - pipeline rehabilitation technology

Agrer and ULG Northumbrian - aid-funded project work in developing countries

Coquetdale Property Investment - property management

Northumbrian Lyonnaise Technology & Research Centre - research into underground asset management

The Group has a 35% shareholding in SITA Holding UK

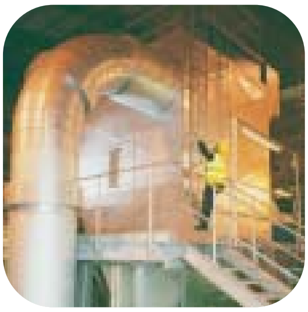



In my statement last year, I talked of the changes that the Northumbrian Water Group had successfully managed over the past four years. The processes of fundamental structural and operational transformation have continued to characterise our industry and the broader utilities sector generally, in 2000. It is my belief that they will continue to do so for the foreseeable future.

Some analysts say that there is a crisis of confidence in our industry. They believe that the crisis stems from the results of the Office of Water Services' (Ofwat) periodic review, announced at the end of 1999. There is no question that the periodic review settlement was tough, but the rules of the process had been clearly understood for some time and the settlement was firmly within the rules.

I do not believe that our industry is in crisis; it certainly is not so far as the Northumbrian Water Group is concerned. I believe our Group has cause for confidence in its ability to succeed in the future. Confidence based on our capabilities to meet the challenges of a changing industry and emerging market opportunities; in our employees to consistently deliver the highest quality of product and service to our customers at the right price.

The year 2000 has seen a trend emerging amongst some UK water companies to consider splitting the ownership of their assets from their operation. We believe that the integrated water and waste water companies have been highly successful. Any radical change in structure must offer significant benefits to customers and be consistent with effective long-term asset management and environmental stewardship. Of course, public health must always be paramount. We remain to be convinced that the new corporate structures so far envisaged offer significant benefits.



However, we must also face the realities and requirements of regulation, competition, shareholder value and the market. One company in the industry has already been given permission by Ofwat to create a separate asset ownership company and others have signalled their interest in following suit. Should the companies concerned be allowed to separate operation from asset ownership, we shall compete for the operating contract opportunities that arise, provided they are financially viable and technically well founded.

It is the ability to identify and evaluate, rapidly respond to and capitalise on commercial benefits that will be the key to the Northumbrian Water Group's success in the future. Our Group has proved its strength, not only in the face of significant water industry change, but also throughout the fluctuations in the economic fortunes of the UK as a whole and the North East region in particular. Whilst many companies have suffered mixed fortunes, the Northumbrian Water Group has delivered continuing, consistent success within the limits imposed by the regulators.

The merger last year of Essex and Suffolk Water plc and Northumbrian Water Limited has resulted in a single streamlined management structure, simplified lines of communication and greater administrative efficiency. Throughout both operating areas, our staff have risen to the resulting challenges and there is a strong sense of ownership and involvement. I am confident that we have achieved the mix of personnel, skills and technology needed to create and sustain competitive advantage across all the markets in which we operate.

The Group's abilities are demonstrated by its record of environmental stewardship. The year 2000 has witnessed the completion of a network of waste water treatment plants along the North East coast. This network is the largest single capital project ever undertaken by Northumbrian Water and it is testament to the skills and determination of our personnel and contractors that all elements of the project were delivered on time and on budget. We

I believe our Group has cause for confidence in its ability to succeed in the future

plan over a long horizon, normally twenty five years, with a detailed rolling programme for the immediate seven years. All our investment programmes follow an approval process that ensures the right solution is found from both present and long term perspectives.

Our coastal treatment works represent the finest solution after integrating design, advanced technology, cost-effective investment and efficient operation. We have much to contribute in creating a healthy and sustainable environment in our areas of operation, both for domestic and commercial customers. Through projects such as these and our innovative Bran Sands sewage and sludge treatment plants on Teesside, Northumbrian Water helps provide the environmental protection and technical facilities necessary to enable regional industry to flourish.

It is particularly pleasing to report that our environmental investment in the plants at Bran Sands led to Northumbrian Water being chosen as the laureate company to receive the Stockholm Industry Water Award 2000 – the international water industry's equivalent of a Nobel Prize. According to the citation, the award was in recognition of our 'forward looking initiative at achieving a regional solution to sewage treatment and disposal, in co-operation with local government and regulatory agencies, businesses and other non-governmental organisations'.

During 2000 the Group created a new ethics and environment committee – giving a formal structure to the Group's recognition of the importance of the environment and the priorities of the society in which we operate. In addition to its own specific policies, the Group has adopted the ethics codes and environmental charter of the Suez group and, through it, our Group is playing a role in the development of ethical and environmental policies worldwide.

Nearer to home, Northumbrian Water achieved the top category in all seven levels of customer service as published in Ofwat's review (the only water and sewerage company to achieve such a high standard). Essex & Suffolk Water achieved the top category in all five of the performance indicators used for water only companies (the other two indicators relate to sewerage). Our performance against Ofwat efficiency targets is also increasingly encouraging. Amongst other milestones during 2000, we were the first in the UK water industry to introduce on-line payment for domestic customers. Also, with the continued vigilance and effort of our leakage detection teams, we met increasingly tight Ofwat leakage targets.

The issue of security of water supply is of great importance throughout the industry and nowhere more so than in our Essex & Suffolk operating area, where rainfall levels are typically only half the national average. We are confident that our approach to resource and demand management, based on the implementation of imaginative engineering and technical solutions, will ensure both continuity and quality of supply for our customers. After ten years of planning and promotion we succeeded in gaining the necessary licences to proceed with the Langford water recycling scheme, an important element in our long term ability to supply the needs of Essex and Suffolk. The scheme is imaginative, technically advanced and consistent with the principles of sustainability.

Our core product, unlike many others, will always be in demand. That does not breed complacency; quite the reverse. The need to provide optimum levels of customer service and product quality at the right price call for constant vigilance and commercial agility if we are to retain existing customers and win new ones.

Our ability to succeed in international markets was bolstered during 2000 with contract wins for Northumbrian Lyonnaise International (NLI) in Johannesburg, South Africa and in Cork, Ireland. Whilst we are a significant international business in our own right, we gain much additional confidence from being part both of ONDEO (the new water division of the previously named Suez Lyonnaise des Eaux), and the wider Suez group. The business secured in Cork by NLI is the first in the Republic of Ireland for any Suez division.

As we move into international markets, I am conscious of the fundamental requirement for high quality water for all peoples, of all countries, regardless of status or wealth. We are confident that this requirement can be achieved at a price that makes commercial sense and, in most instances, with a product more affordable and of better quality than the existing provision.

The skills of our specialist environmental and engineering consultancy, Entec UK, are increasingly utilised by businesses outside our own Group. The year 2000 saw Entec's work expand with organisations such as East of Scotland Water, West of Scotland Water, Southern Water, the MOD, the Environment Agency and Railtrack.

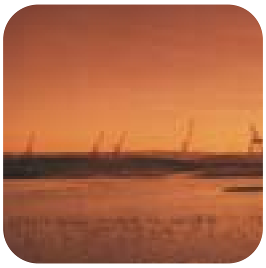
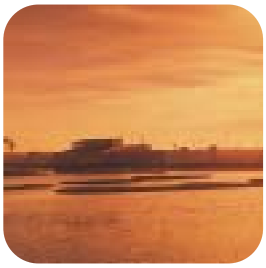
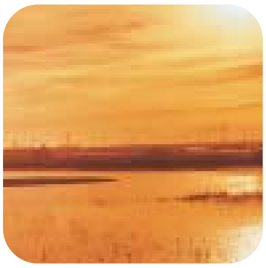
Turning to the work of another Group company, systems developed by Imass, our IT company, are now utilised by several UK fire services to ensure that critical information is available to facilitate more efficient and safer fire fighting operations. Last year I highlighted the importance of the application of advanced technology throughout our businesses. Our future lies in being clever and finding novel solutions to both new and old challenges.

I was fascinated to spend time alongside our customer services staff and to experience, by 'listening in', the calm and informed manner with which our customers' telephone enquiries were handled. I was impressed by the breadth of technical knowledge and the balance of personal skills displayed – qualities that helped our customer centre team achieve a 'highly commended' rating in the 2000 Utility Industry achievement awards.

In conclusion, to those who view the water industry as facing a crisis of confidence, I would say that the Northumbrian Water Group has cause for considerable confidence. This is based on a strong commercial performance, an excellent record of environmental stewardship, effective streamlined management, dedicated workforce and a powerful international business dimension – backed by the resources of the Suez group.

F. G. T. Holliday

Professor Sir Frederick Holliday
Chairman
26 April 2001


The Chairman referred to changes within the UK water industry and there have been changes within our parent company too. Suez Lyonnaise des Eaux has brought together all its water activities into a new division, called ONDEO. Its aim is to be the premier provider of sustainable water related solutions and services, worldwide, through long-term partnerships that benefit customers, communities, employees and the environment. Suez Lyonnaise des Eaux is also changing its name to the much shorter 'Suez'.

The Northumbrian Water Group is now part of ONDEO Services (formerly Lyonnaise des Eaux), a subsidiary of ONDEO. It is a company with some 48,000 employees serving more than 110 million people in 30 countries worldwide. Because of our success in winning industrial water and waste water services contracts, we will also play a significant role in the UK with the newly-created ONDEO Industrial Solutions, the aim of which is to become the company of choice in providing water related solutions for industrial customers.

This involvement is strongly underpinned by our record of success in winning major competitive contracts both in the UK and abroad. During 2000, our capital investment and operating projects for West of Scotland Water and East of Scotland Water came to successful fruition and it is worthy of particular note that the financing of both projects was particularly well received by the markets. Our international business, NLI, successfully bid for and won major contracts in Johannesburg and Cork and our international competitiveness and stature has been enhanced through the strong co-operation we have established with other ONDEO companies, notably ONDEO Nalco and ONDEO Degrémont.

Meanwhile, in the UK, we have enjoyed continued success in the commercial arena and have secured contracts for the management of water and waste water with Scottish Courage Brewing, British Energy, GKN, Princes Soft Drinks, Bairds Malt and BOC. We are also negotiating a contract with BP Grangemouth, the UK's largest potable water user.

Success in the competitive UK commercial market place and the global market does not come easily. It is squarely based on our strong performance in the management of all aspects of our business in our home UK markets. This success also has financial benefits. It is pleasing to be able to report that Northumbrian Water sustained an 'A' credit rating with a stable outlook, reflecting market confidence in our commercial capability and facilitating funding for our future investment projects.

As well as the streamlining of its water operations, Suez is also consolidating its various waste management businesses in the UK under the SITA UK operating banner. In light of this, we have decided to sell our 35% holding in SITA UK to SITA SA, in line with our core business as a specialist water and waste water services company.

Northumbrian Water Group has proved its capability as a major water business in both its home UK market and in the intensely competitive global arena. As we move forward into a new era for our industry, the solid foundations we have already established and our ongoing continuous improvement initiatives across all areas of our business ensure that we face the future with considerable confidence.

Results

As anticipated, the outcome of the Ofwat periodic review of prices has proved to be hugely challenging. Despite evidence of the costs associated with environmental and service provision, the final Ofwat decision for both Northumbrian Water and Essex & Suffolk Water has resulted in significant reductions in income from 1 April 2000. Whilst we continue to do everything possible to mitigate this impact, this has had a significant effect on our turnover and profit figures for 2000, particularly compared with 1999.

Group turnover was £497.5 million, a reduction of 10.6% compared with the previous twelve months, operating profit was £183.6 million and profit before tax was £105.9 million.

Northumbrian Water Group plc	Year to 31.12.2000 (365 days) £m	Period to 31.12.1999 (374 days) £m
Turnover	497.5	556.6
Operating Profit	183.6	236.9
Profit before Taxation	105.9	176.0
Profit after Taxation	103.9	143.9

Tony Harding
Group Managing Director
26 April 2001

continuous improvement initiatives across all areas of our business ensure that we face the future with considerable confidence

Directors' Report for the year ended 31 December 2000.

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 year.

Activities

The principal activities of the Group during the year were the provision of water, waste water management, waste management and related services. A review of the Group's business is contained in the Chairman's Statement (page 2) and the Group Managing Director's Review (page 6).

Financial Results and Dividends

The Group's results and dividends are as follows:

	Year to 31.12.2000 £m	Period to 31.12.1999 £m
Profit for the financial period	103.8	143.4
Dividends	(57.0)	(54.6)
Transferred to reserves	46.8	88.8

The Directors declare a second interim dividend of 6.115p (period to 31 December 1999 – 5.85p) and recommend a final dividend of 0p (period to 31 December 1999 – 0p) per ordinary share. The second interim dividend will be payable on 27 April 2001 to shareholders whose names appeared on the Company's Register of Members at the close of business on 30 March 2001. Together with the interim dividend of 6.115p (period to 31 December 1999 – 5.85p) per ordinary share, paid on 13 October 2000, the total dividend for the year will be 12.23p (period to 31 December 1999 – 11.7p) per ordinary share.

Share Capital

There have been no changes to the issued share capital of the Company during the financial year.

Substantial Shareholdings

As at 31 December 2000, the Company's register of substantial shareholdings showed the following interests in 3% or more of the Company's ordinary shares:

Lyonnaise Europe plc	65%
Northumbrian Partnership	20%
ONDEO Services SA	7.67%
Compagnie Francaise de l'Asie	3.6%

Lyonnaise Europe plc is owned 80% by ONDEO Services SA and is a 50:50 partner in the Northumbrian Partnership.

Directors

The following served as directors during the year and were directors of the Company as at 31 December 2000:

Professor Sir Frederick Holliday CBE (65)
Non-Executive Chairman

Patrick Babin (43)
Non-Executive Director

Alain Chaigneau (49) – appointed 1 April 2000
Non-Executive Director

Kam-Ling Chan (60)
Non-Executive Director

Peter Cheng (48)
Non-Executive Director

Donald Correll (50)
Non-Executive Director

Antony Haynes (70)
Non-Executive Director

Martin Nègre (54) – appointed 1 April 2000
Group Managing Director

Sir Derek Bradbeer, John Cuthbert, Anthony Harding, Anne Minto, Gérard Payen and Hugh Speed were directors of the Company at the beginning of the year and resigned on 31 March 2000. Jean François Didion was also a director at the beginning of the year. He resigned on 4 April 2000. Donald Correll resigned as a director on 17 January 2001. Martin Nègre ceased to be a director on 20 April 2001.

Anthony Harding was appointed as Group Managing Director, to replace Martin Nègre, on 20 April 2001.

Donations

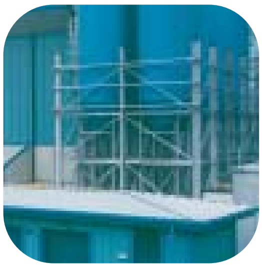
The Group made charitable donations totalling £108,913 (period to 31 December 1999 - £70,048) during the year. No political donations were made (31 December 1999 - £nil).

Research and Development

Northumbrian Lyonnaise Technology & Research Centre Limited, a specialist subsidiary wholly owned by the Company, undertakes all research and development activities relating to underground assets. This company has very close links with other Suez Lyonnaise des Eaux group research organisations worldwide (the Global Technology Network).

The Group, through Northumbrian Water Limited, maintains a limited programme of research and development activities which are linked to UK business operations.

During the year, the Group incurred research and development costs of £5.6m (period to 31 December 1999 - £5.9m).



Employees and Employment Policies

Equal Opportunities

The Group operates an equal opportunity policy and promotes the equality of opportunity in recruitment, employment continuity, training and career development. The policy is designed to ensure that no applicant or employee receives less favourable treatment on the grounds of age, gender, marital status, nationality, ethnic or national origin, religion, disability or sexual orientation. Our progressive 'family friendly' policies have recently gained national recognition in the Government's Opportunity 2000 awards.

Training and Development

Training and development of employees is a priority of the Group. Individual training needs are assessed regularly and corporate initiatives include an Accelerated Development Programme for graduates and a new Management Development Programme. This year employees from the Group have again participated in the Global Player Programme which was created to ensure that highly skilled and experienced staff are ready and available to meet the ongoing worldwide business needs of the Group and its parent company.

Communication

Employees receive 'WaterMark', the Group employee newspaper ten times a year. 'WaterMark' covers Group activities and news from the parent company. When necessary, information is communicated via a groupwide 'news flash' facility ensuring employees are kept abreast of news.

Individual Group companies utilise a range of communication mechanisms including team briefing, newsletters, intranet, noticeboards and regular team meetings.

In addition, the Suez group operates a worldwide intranet, SW@N, and publishes a quarterly employee magazine, 'Terre Bleue', available in English for Group employees.

Health and Safety

Health and safety policies are maintained and implemented through the Group's safety team. Employee health services are provided by the Group's Medical Adviser. Most employees are members of a Group-wide corporate health care plan managed by CIGNA Healthcare.

Employee Investment Schemes

During the year, and for the fourth consecutive year, the Group has invited employees to join an employee investment scheme which is offered by the parent company, Suez Lyonnaise des Eaux.

The present scheme, called SPRING, consists of two elements giving employees a choice of two different types of investment, or a combination of both. They can invest in a fund, SPRING Classic, which holds Suez Lyonnaise des Eaux shares which have been purchased at a discount, and/or, they can invest in a company, SPRING Multiple, which also holds Suez Lyonnaise des Eaux shares. Employees investing in SPRING Multiple are guaranteed the return of their initial investment at the end of the five year investment period but it gives them an opportunity to increase that investment by participating in the growth in value of Suez Lyonnaise des Eaux shares through the existence of a matched investment by Credit Agricole Indosuez, the scheme manager.

To encourage investment in the scheme, the Group made a discretionary contribution of up to £100 for each employee who invested in SPRING Classic.

The Directors believe that employee investment is a valuable method of strengthening the ties between Group employees and Suez Lyonnaise des Eaux by providing the opportunity for employees to participate more closely in the parent company's economic performance and results. A total of 45% of Group employees participated in SPRING 2000.

Pensions

Information about the pension schemes operated by the Group is contained in note 25 to the financial statements.

Auditors

Arthur Andersen have expressed their willingness to be re-appointed as auditors of the Company at the Annual General Meeting.

Creditors

The Company's policy is to make payment not more than thirty days after receipt of a valid invoice. The number of credit days for the Company at 31 December 2000 was 0 days (31 December 1999 - 27 days). This calculation is based upon the average daily amount invoiced by suppliers during the year.

Corporate Governance

The Company's shares are not listed on the Stock Exchange. Therefore, the Company is not required to comply with rule 12.43A of the UKLA Listing Rules or with the Combined Code on Corporate Governance prepared by the Hampel Committee. However, the Company is committed to high standards of corporate governance throughout the Group and the Directors have taken account of the recommendations of the Combined Code in determining the format and content of their report. They have endeavoured to maintain a proper level of disclosure in keeping with the Combined Code provisions which they considered applicable to the Company's particular circumstances.

On 31 December 2000, the Board of Directors of the Company comprised eight directors, seven of whom were Non-Executive Directors.

The following Standing Committees operated during the year within defined terms of reference. Their meetings and decisions were reported to the Company's Board of Directors.

Audit Committee

The Audit Committee comprised exclusively Non-Executive Directors. It met several times during the year with internal and external auditors. The Audit Committee considered the appointment of external auditors, provided an independent perspective on all financial reporting matters, internal control procedures and the consistency of accounting policies. It co-ordinated the activities of the Group's internal audit team.

Remuneration Committee

The Remuneration Committee comprised exclusively Non-Executive Directors. It determined, and agreed with the Board, the policy for remuneration and other terms of service of the Executive Director and some other members of the executive management in the Group. The objective of such policy is to ensure that members of the executive management are provided with appropriate performance incentives and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. In addition, the Director General of the Office of Water Services keeps the Chairman of the Remuneration Committee informed of performance in respect of the water companies' levels of service, including leakage.

Further details of the Group's remuneration policy are disclosed in note 5 to the financial statements.

Standing Committee

This comprised the Chairman, the Group Managing Director and one Non-Executive Director of the Company and dealt with the day to day business between Board meetings.

Nomination Committee

This comprised all directors of the Company and its function was to review regularly the Board structure, composition and size and make all necessary adjustments, including proposing candidates for executive and non-executive appointments as directors of the Company.

Ethics and Environment Committee

This comprised at least two directors of the Company with other members co-opted from the Group. Its function was to establish best practice and compliance across the Group on ethical and environmental matters and to evaluate future trends. The Committee requires, and reviews annually, a compliance letter from the Group Managing Director.

The Company Secretary acted as Secretary for the above Committees, except for the Remuneration Committee and the Ethics and Environment Committee. Appropriate notice was given for each meeting and minutes of each meeting were prepared and reported to the Board of Directors of the Company.

Internal Controls

The Board of Directors has overall responsibility for the Group's system of internal control. There are inherent limitations in any system of internal control and even the most effective system can only provide a reasonable, and not absolute, assurance against material misstatement or loss. The Directors have reviewed the effectiveness of the Group's system of internal control, the major elements of which are detailed below.

Organisational Structure

Local Boards of Directors in the Group trading subsidiaries, the 'subsidiary boards', are responsible for the operational and financial control of their own businesses. Subsidiary boards report to the Group Managing Director or the Standing Committee (as required) and to the Company's Board of Directors on matters including major strategic, financial, organisational, compliance and regulatory issues. Following the publication of the Turnbull Report, the local Boards of Directors have performed a business risk analysis using a risk methodology developed by one of the Group's subsidiaries, Entec UK Limited. The results of the risk reviews have been reported to the Group's Directors.

On a monthly basis, the Group Managing Director and the Group Finance Director compare the actual operational and financial performance of each business with plan and budget. Targets are set to measure performance and regular forecasts are made.

Information and Reporting System

The Company's subsidiaries are grouped into operating business units. Each of these business units holds a copy of the Group's financial control manual.

The Company's Board receives monthly management reports for each business unit; the Board also monitors treasury and funding activities.

Budgets and Business Planning

The Group prepares detailed five year business plans and annual budgets which are reviewed by the Group Managing Director and Group Finance Director and submitted to the Company's Board for approval. Business plans and budgets include an assessment of the key risks and success factors facing each business unit.

A framework exists which requires the approval of the Board of Directors of the Company for major investments, including those in new and foreign market places, and large capital expenditure programmes. The treasury strategy, which is approved by the Board, requires that investments are limited to certain money market and treasury instruments and that the Group's exposure to any single bank, building society or market is controlled, with maximum deposits allowed with any single counterparty. The Group's investment strategy aims to fix interest rates for part of the Group's borrowings and investments for periods determined by the forecast cash flow of the individual businesses, thus effectively managing the exposure to the risk of changes in short term interest rates. Foreign currency exposure is also managed as part of the treasury strategy approved by the Board of Directors of the Company.

Directors' Responsibilities in Respect of the Preparation of the Financial Statements

Company law requires the Directors to prepare financial statements which give a true and fair view of the state of the Group's affairs as at the end of each accounting period and of the profit and loss for the accounting 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;
- prepare the financial statements on the going concern basis unless they consider it to be inappropriate.

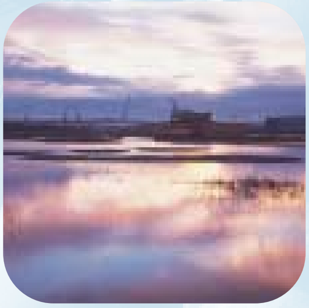
The Directors are responsible for ensuring that the Company keeps sufficient accounting records to disclose with reasonable accuracy the financial position of the Group and that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company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

Auditors' Responsibilities

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

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

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



Financial Statements Preparation and Going Concern

The Directors consider that it is appropriate to prepare the financial statements for the financial year on a going concern basis. The Directors have arrived at their decision based on consideration of the Group's detailed budget for 2001 and the five year business plans for the period from 2000 to 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 business plans.

By Order of the Board
Chris Green
Company Secretary
26 April 2001

Report of the Auditors to the Shareholders of Northumbrian Water Group plc

We have audited the financial statements set out on pages 16 to 43 which have been prepared under the historical cost convention and the accounting policies set out on pages 20 and 21.

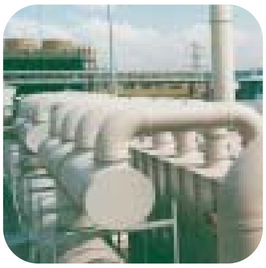
Respective Responsibilities of Directors and Auditors

As described on page 13, the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

Basis of Opinion

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

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



Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2000 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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

26 April 2001

Consolidated Profit and Loss Account

For the year ended 31 December 2000

	Notes	Year to 31.12.2000 £m	Period to 31.12.1999 £m
Turnover	2	497.5	556.6
Operating costs	3	(313.9)	(319.7)
Operating profit	2	183.6	236.9
Share of associated undertakings' operating profit		3.8	10.8
Investment income		0.3	0.3
Net interest payable : Group	4	(73.9)	(67.2)
Net interest payable : Associates	4	(7.9)	(4.8)
Profit on ordinary activities before taxation	2	105.9	176.0
Tax on profit on ordinary activities	8	(2.0)	(32.1)
Profit on ordinary activities after taxation		103.9	143.9
Minority interests		(0.1)	(0.5)
Profit for the financial year		103.8	143.4
Dividends paid and proposed	9	(57.0)	(54.6)
Retained profit for the financial year	23	46.8	88.8

There is no difference between the operating profit and profit for the financial year as stated above and their historical cost equivalents.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 December 2000

	Year to 31.12.2000 £m	Period to 31.12.1999 £m
Profit for the financial year		
Group	105.0	139.2
Associates	(1.2)	4.2
	103.8	143.4
Exchange differences and other transfers	-	(1.0)
Total recognised gains and losses in the financial year	103.8	142.4
Prior year adjustment	-	1.5
Total gains and losses recognised since last annual report and financial statements	103.8	143.9

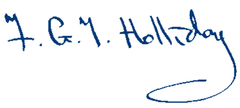
The information on pages 19 to 43 forms part of these financial statements.

Balance Sheets
As at 31 December 2000

	Notes	Group 31.12.2000 £m	Group 31.12.1999 £m	Company 31.12.2000 £m	Company 31.12.1999 £m
Fixed assets					
Tangible assets	10	2,315.2	2,094.9	0.1	0.4
Investments	11	4.3	4.6	1,113.1	1,111.6
		2,319.5	2,099.5	1,113.2	1,112.0
Current assets					
Stocks	12	6.7	8.4	-	-
Debtors: receivable within one year	13	122.4	149.8	504.8	407.9
Debtors: receivable after more than one year	13	21.5	23.2	-	-
Investments		0.2	0.2	-	-
Cash at bank and short term deposits	14	84.2	112.4	44.1	96.4
		235.0	294.0	548.9	504.3
Creditors: amounts falling due within one year	15	(423.2)	(303.8)	(362.1)	(165.0)
Net current (liabilities)/assets		(188.2)	(9.8)	186.8	339.3
Total assets less current liabilities		2,131.3	2,089.7	1,300.0	1,451.3
Creditors: amounts falling due after more than one year	16	(967.7)	(973.3)	(494.8)	(656.7)
Provisions for liabilities and charges	20	(40.0)	(45.2)	-	-
Accruals and deferred income	21	(115.9)	(109.3)	-	-
		(1,123.6)	(1,127.8)	(494.8)	(656.7)
Net assets		1,007.7	961.9	805.2	794.6
Capital and reserves					
Called up share capital	22	466.2	466.2	466.2	466.2
Share premium account	23	217.9	217.9	217.9	217.9
Profit and loss account	23	321.0	274.2	121.1	110.5
Equity shareholders' funds	24	1,005.1	958.3	805.2	794.6
Minority equity interest		2.6	3.6	-	-
Total capital and reserves		1,007.7	961.9	805.2	794.6

Approved by the Board of Directors on 26 April 2001 and signed on its behalf by:

Professor Sir Frederick Holliday, Chairman



Tony Harding, Group Managing Director

The information on pages 19 to 43 forms part of these financial statements.

Consolidated Cash Flow Statement
For the year ended 31 December 2000

	Notes	Year to 31.12.2000 £m	Period to 31.12.1999 £m
Net cash inflow from operating activities	a	244.9	321.6
Returns on investments and servicing of finance			
Interest received		3.9	13.8
Interest paid		(73.6)	(77.1)
Interest paid on hire purchase contracts and finance leases		(3.6)	(3.2)
Dividends received from other fixed asset investments		0.3	0.1
Dividends paid to minority interests		(0.3)	(0.4)
Net cash outflow from returns on investments and servicing of finance		(73.3)	(66.8)
Taxation			
Taxation paid on ordinary activities		(20.2)	(31.0)
Net cash outflow from taxation		(20.2)	(31.0)
Capital expenditure and financial investments			
Purchase of tangible fixed assets		(300.4)	(234.6)
Purchase of associate companies		(1.0)	(1.4)
Disposal of tangible fixed assets		2.1	3.6
Capital grants received		10.0	8.4
Net cash outflow from capital expenditure and financial investments		(289.3)	(224.0)
Equity dividends paid		(55.9)	(52.9)
Cash outflow before management of liquid resources		(193.8)	(53.1)
Management of liquid resources			
Purchase of short term deposits		(636.2)	(440.9)
Disposal of short term deposits		679.0	363.3
Net cash inflow/(outflow) from management of liquid resources		42.8	(77.6)
Financing			
New long term borrowings received	b	154.2	79.4
Borrowings repaid	b	(6.3)	(27.9)
Repayment of loans to associates and parent company	b	14.2	78.2
Payment of principal under hire purchase contracts and finance leases	b	(4.7)	(5.0)
Net cash inflow from financing		157.4	124.7
Increase/(decrease) in cash in the year		6.4	(6.0)

Reconciliation of net borrowings			
Increase/(decrease) in cash in the year		6.4	(6.0)
Cash inflow from increase in net borrowings		(157.4)	(124.7)
Cash (inflow)/outflow from management of liquid resources		(42.8)	77.6
Increase in net borrowings resulting from cash flows	b	(193.8)	(53.1)
Inception of new finance lease contracts	b	(3.1)	(13.3)
Increase in net borrowings in the year		(196.9)	(66.4)
Net borrowings at start of the year		(857.5)	(791.1)
Net borrowings at end of the year	b	(1,054.4)	(857.5)

Net borrowings is the sum of all borrowings net of cash and short term deposits.

The information on pages 19 to 43 forms part of these financial statements.

Notes to the Consolidated Cash Flow Statement
For the year ended 31 December 2000

(a) Net cash inflow from operating activities

	Notes	Year to 31.12.2000 £m	Period to 31.12.1999 £m
Operating profit	2	183.6	236.9
Depreciation of tangible fixed assets	10	70.5	71.9
Profit on disposal of tangible fixed assets		(0.4)	(2.8)
Loss on disposal of fixed asset investments		0.2	-
Other non-cash movements		-	(1.0)
Amortisation of capital grants	21	(3.4)	(2.5)
Movement in other provisions		(7.5)	3.0
Decrease in stocks		1.7	-
Decrease in debtors		14.9	18.6
Decrease in creditors		(14.7)	(2.5)
Net cash inflow from operating activities		244.9	321.6

(b) Analysis of net borrowings

	At start of year £m	Cash flow £m	Other non-cash changes £m	As at 31.12.2000 £m
Cash at bank	24.8	14.6	-	39.4
Bank overdrafts	(24.2)	(8.2)	-	(32.4)
	0.6	6.4	-	7.0
Loans granted to associates and parent company	27.5	(14.2)	-	13.3
Borrowings due after one year	(903.1)	(154.2)	157.8	(899.5)
Borrowings due within one year	(11.0)	6.3	(157.8)	(162.5)
Finance leases	(59.1)	4.7	(3.1)	(57.5)
	(945.1)	(151.0)	(3.1)	(1,099.2)
Short term deposits	87.6	(42.8)	-	44.8
Net borrowings	(857.5)	(193.8)	(3.1)	(1,054.4)

(c) Analysis of cash balances

	At start of year £m	Trading for the year £m	As at 31.12.2000 £m
Cash at bank and short term deposits	112.4	(28.2)	84.2
Less short term deposits with maturity dates greater than one day	(87.6)	42.8	(44.8)
	24.8	14.6	39.4
Bank overdrafts	(24.2)	(8.2)	(32.4)
	0.6	6.4	7.0

Notes to the Financial Statements

1 Accounting Policies

The financial statements have been prepared in accordance with applicable United Kingdom law and accounting standards. A summary of the more important Group accounting policies, which have been applied consistently, are set out below:

(a) Basis of accounting. The financial statements have been prepared under the historical cost convention. As discussed in the Directors' Report on page 14, the financial statements have been prepared on a going concern basis.

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

(c) Associated undertakings. The Group's share of profits less losses of associated undertakings 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. Goodwill arising on the acquisition of associates is accounted for in accordance with the accounting policy set out below.

(d) Goodwill. Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any 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, which is between seven and a maximum of twenty years. Provision is made for any impairment. Goodwill arising on acquisitions in the period ended 22 December 1998 and earlier periods was written off to reserves in accordance with the accounting standard then in force. As permitted by the current accounting standard the goodwill previously written off to reserves has not been reinstated in the balance sheet.

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

(f) 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 of the network and on maintaining the operating capability of the network, in accordance with defined standards of service, is treated as additions. 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, 4-80 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.

(g) Government grants and contributions. Revenue grants are credited to the profit and loss account when received. 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.

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

(i) 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.

(j) 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.

(k) 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. On acquisition, the pension surplus has been recognised as an asset on the balance sheet.

(l) Taxation. The charge for current taxation at the current rate is based on the profit for the period as adjusted for taxation purposes. Timing differences arise from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise in the foreseeable future, except that the deferred tax effects of timing differences arising from pension and other post retirement benefit revaluations are recognised in full. Provision is made at the rate which is expected to apply when the liability or asset crystallises.

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

(n) 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.

(o) 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.

Notes to the Financial Statements continued

2 Segmental Analysis

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

	UK Water		International Water		Related Services		Total	
	31.12.2000	31.12.1999	31.12.2000	31.12.1999	31.12.2000	31.12.1999	Year to 31.12.2000	Period to 31.12.1999
	£m	£m	£m	£m	£m	£m	£m	£m
Turnover:								
UK	446.6	510.3	0.5	0.2	73.1	72.6	520.2	583.1
Rest of Europe, Middle East and Far East	-	-	7.2	7.1	2.7	3.3	9.9	10.4
Rest of World	-	-	-	-	2.5	2.1	2.5	2.1
Total turnover	446.6	510.3	7.7	7.3	78.3	78.0	532.6	595.6
Inter segment	(0.5)	(0.2)	-	-	(34.6)	(38.8)	(35.1)	(39.0)
External turnover	446.1	510.1	7.7	7.3	43.7	39.2	497.5	556.6
Operating profit:								
UK	194.2	242.1	(1.2)	(3.9)	(2.6)	4.4	190.4	242.6
Rest of Europe, Middle East and Far East	-	1.3	0.2	0.1	0.7	(0.3)	0.9	1.1
Rest of World	-	-	(0.2)	(0.1)	0.1	0.1	(0.1)	-
	194.2	243.4	(1.2)	(3.9)	(1.8)	4.2	191.2	243.7
Corporate centre							(5.9)	(5.8)
Other central non-allocable costs and provisions							(1.7)	(1.0)
Group operating profit							183.6	236.9
Share of associates' profit							3.8	10.8
Net common costs							(81.5)	(71.7)
Profit on ordinary activities before taxation							105.9	176.0

The Corporate centre comprises those costs that relate to the performance of the Holding Company's functions.

Net common costs, comprising investment income and net interest payable, are analysed on the face of the profit and loss account.

(b) Analysis of external turnover by geographical destination

	Year to 31.12.2000	Period to 31.12.1999
	£m	£m
UK	474.8	535.4
Rest of Europe, Middle East and Far East	17.9	18.7
Rest of World	4.8	2.5
External turnover	497.5	556.6

(c) Net assets

	UK Water		International Water		Waste Management		Related Services		Total	
	31.12.2000	31.12.1999	31.12.2000	31.12.1999	31.12.2000	31.12.1999	31.12.2000	31.12.1999	31.12.2000	31.12.1999
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Subsidiary undertakings	2,083.7	1,888.8	39.4	1.7	-	-	(18.6)	(16.9)	2,104.5	1,873.6
Share of associated undertakings' net (liabilities)/assets	-	-	-	-	(14.5)	(12.8)	3.7	3.9	(10.8)	(8.9)
Net operating assets									2,093.7	1,864.7
Unallocated net liabilities									(1,086.0)	(902.8)
Net assets									1,007.7	961.9

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.

3 Operating Costs

	Year to 31.12.2000	Period to 31.12.1999
Operating profit is stated after charging/(crediting):	£m	£m
Materials and consumables	23.4	24.5
Manpower costs (see note 7)	100.0	100.1
Own work capitalised	(26.2)	(28.5)
Depreciation on tangible fixed assets:		
owned	62.9	65.8
under hire purchase contracts and finance leases	7.6	6.1
Amortisation of capital grants (see note 21)	(3.4)	(2.5)
Other operating charges	141.4	146.8
Other operating income	(1.3)	(0.8)
Profit on disposal of tangible fixed assets	(0.4)	(2.8)
Operating leases:		
plant and machinery	0.8	1.2
other	3.2	3.2
Costs of research and development	5.6	5.9
Auditors' remuneration:		
audit	0.2	0.2
non-audit services	0.1	0.1
Regional fund	-	0.4
Total operating costs	313.9	319.7

4 Net Interest Payable

	Year to 31.12.2000 £m	Period to 31.12.1999 £m
Interest payable on debentures, bank and other loans and overdrafts	73.9	77.5
On hire purchase contracts and finance leases	3.6	3.2
Group interest payable	77.5	80.7
Share of associates' interest payable	7.9	4.8
Total interest payable	85.4	85.5
Interest receivable	(3.6)	(13.5)
Net interest payable	81.8	72.0
Disclosed as:		
Net interest payable : Group	73.9	67.2
Net interest payable : Associates	7.9	4.8
	81.8	72.0

5 Directors' Remuneration and Interests

(a) Directors' remuneration

The remuneration of the Directors of the Company was:

Serving Directors	Fixed remuneration £000	Performance related bonus £000	Benefits in kind £000	Pension contributions £000	Total Year to 31.12.2000 £000	Total Period to 31.12.1999 £000
Professor Sir Frederick Holliday	76	-	30	-	106	98
Sir Derek Bradbeer (resigned 31 March 2000)	11	-	-	-	11	43
Patrick Babin*	26	33	16	-	75	212
Alain Chaigneau (appointed 1 April 2000)	-	-	-	-	-	-
Kam-Ling Chan	21	-	-	-	21	21
Peter Cheng	21	-	-	-	21	21
Donald Correll	21	-	-	-	21	21
John Cuthbert* (resigned 31 March 2000)	29	8	2	-	39	154
Jean-François Didion (resigned 4 April 2000)	5	-	-	-	5	21
Anthony Harding* (resigned 31 March 2000)	33	10	2	2	47	200
Antony Haynes	51	-	-	-	51	66
Anne Minto (resigned 31 March 2000)	26	-	-	-	26	21
Martin Nègre* (appointed 1 April 2000)	84	-	88	-	172	-
Gérard Payen (resigned 31 March 2000)	5	-	-	-	5	21
Hugh Speed (resigned 31 March 2000)	15	-	3	-	18	100
Total remuneration	424	51	141	2	618	999

*Executive Director

The aggregate remuneration of the highest paid director, excluding pension contributions, was £172,000 (31 December 1999: £198,000).

Executive Directors

The emoluments of the Executive Directors, including the annual bonus, are determined by the Remuneration Committee which receives independent external advice. In addition to this market information, account will be taken of changes in job size, the individual's assessed experience, competency and performance and the Remuneration Committee will also have regard to budgetary constraints and public perceptions. The Remuneration Committee is comprised solely of Non-Executive Directors.

The bonus scheme for senior executives was approved by the Remuneration Committee. The scheme is based upon the principle of rewarding achievement on agreed objectives relating as far as possible to quantifiable criteria. Performance appraisals are conducted annually by the Group Managing Director, who makes recommendations for bonus payments to the Remuneration Committee. The scheme can reward both collective and individual performance and is variable from 0% to a maximum of 30% of base salary. There are no other performance linked incentive schemes for executives. The performance related bonuses shown above are for the period from 1 January 2000 to 31 December 2000 which will be subject to review by the Remuneration Committee following appraisal of the performance of the respective directors.

Benefits in kind include work related accommodation, if appropriate, and provision of company cars and fuel.

Non-Executive Directors

The emoluments of the Non-Executive Directors are determined by reference to Hay Management Consultants. The Chairman is contracted for an average of two days each week and his level of salary is commensurate with this and the duties and responsibilities he performs. The other Non-Executive Directors are expected to be available to the Company for an average of two days each month, which includes membership of certain Board Committees. All notice periods comply with the recommendation of the Combined Code on Corporate Governance. Each Non-Executive Director is appointed for a twelve month period.

Other than the Chairman, the Non-Executive Directors do not receive benefits from the Company, but expenses are reimbursed for attending meetings. The Chairman is provided with work related accommodation and transport, both of which are available to the Company when not used by the Chairman.

The Non-Executive Directors, including the Chairman, do not participate in any of the bonus arrangements or pension schemes.

Service contracts

The service contracts for all Executive Directors have been set at two years, on a rolling basis. The contracts do not include actions which would be taken in the event of an Executive or Non-Executive being removed from office. In such circumstances, the Board aims to seek an amicable settlement within the terms of the individual's contract of employment.

None of the Executive Directors have paid appointments or directorships outside the Group.

Notes to the Financial Statements continued

(b) Directors' interests

The Directors who held office on 31 December 2000 had no interests in the shares of the Company.

The Directors who held office on 31 December 2000 had the following beneficial interests in the ordinary shares, other than share options, and debentures of the Company's ultimate parent company, Suez Lyonnaise des Eaux:

Name of Director	Description of shares or debentures	31 December 2000	Start of year or subsequent date of appointment
Patrick Babin	Ordinary Shares of €10	603	522
Alain Chaigneau	Ordinary Shares of €10	1,058	720
Professor Sir Frederick Holliday	Ordinary Shares of €10	400	400
Martin Nègre	Ordinary Shares of €10	1,510	1,510

The Directors who held office on 31 December 2000 held the following options over ordinary shares of €10 (formerly shares of FF60) each in Suez Lyonnaise des Eaux:

Name of Director	Start of year or subsequent date of appointment	Granted/(exercised) during year	31 December 2000	Exercise price
Patrick Babin	3,500	-	3,500	FF573
	4,000	-	4,000	FF978
	4,500	-	4,500	€151.11
	-	6,500	6,500	€182.07
	12,000	6,500	18,500	
Alain Chaigneau	1,000	-	1,000	FF456
	3,500	-	3,500	FF573
	4,000	-	4,000	FF978
	5,000	-	5,000	€151.11
	-	6,000	6,000	€182.07
	13,500	6,000	19,500	
Donald Correll	2,000	-	2,000	FF573
	2,000	-	2,000	FF978
	4,000	-	4,000	
Professor Sir Frederick Holliday	3,000	-	3,000	FF573
	3,000	-	3,000	FF978
	3,000	-	3,000	€151.11
	-	3,000	3,000	€182.07
	9,000	3,000	12,000	
Martin Nègre	2,000	-	2,000	FF573
	3,000	-	3,000	FF978
	3,000	-	3,000	€151.11
	8,000	-	8,000	

No options have lapsed during the year.

All options with an exercise price of FF456 were granted on 24 July 1996 and are exercisable between 24 July 1998 and 24 July 2004.

All options with an exercise price of FF573 were granted on 17 November 1997 and are exercisable between 17 November 2002 and 17 November 2005.

All options with an exercise price of FF978 were granted on 16 November 1998 and are exercisable between 16 November 2003 and 16 November 2006.

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

All options with an exercise price of €182.07 were granted on 28 November 2000 and are exercisable between 28 November 2005 and 28 November 2010.

The highest and lowest prices of the Suez Lyonnaise des Eaux ordinary shares during the year were €199.7 and €139.0 respectively.

No other director holds any beneficial interest in options over ordinary shares of Suez Lyonnaise des Eaux.

(c) Directors' pension entitlements

As explained in note 25, the Group operates two defined benefit final salary schemes, the Northumbrian Lyonnaise Pension Scheme (NLPS) and the Water Mirror Image Pension Scheme (MIS).

Patrick Babin and Martin Nègre participate in pension schemes administered by Suez Lyonnaise des Eaux and not any of the Group's UK pension schemes.

None of the other directors participate in any of the UK pension schemes.

6 Transactions with Directors and Officers

There are no transactions or arrangements which would require disclosure under the provisions of the Companies Act 1985.

7 Employee Information

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

	Year to 31.12.2000 £m	Period to 31.12.1999 £m
Wages and salaries	84.4	84.1
Social security costs	7.5	7.8
Other pension costs	8.1	8.2
Total employment costs	100.0	100.1
Total employment costs were charged as follows:		
Capital schemes and infrastructure renewals	25.7	26.8
Manpower costs	74.3	73.3
	100.0	100.1

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

	Year to 31.12.2000 Number	Period to 31.12.1999 Number
UK Water	2,155	2,306
International Water	118	116
Related Services	1,207	1,113
	3,480	3,535

8 Tax on Profit on Ordinary Activities

	Year to 31.12.2000 £m	Period to 31.12.1999 £m
UK corporation tax at 30% (31 December 1999: 30.26%):		
Current	5.3	31.0
Under/(over) provision in respect of previous periods	0.1	(0.2)
Share of associates' tax (credit)/charge	(2.9)	1.8
	2.5	32.6
Deferred taxation (see note 20)	(0.5)	(0.5)
	2.0	32.1

The tax charge for the year has been reduced by £26.9m (31 December 1999: £20.2m) primarily due to the availability of capital allowances for which no deferred taxation was provided.

9 Dividends

	Year to 31.12.2000 £m	Period to 31.12.1999 £m
Interim paid of 6.115 pence (period to 31 December 1999: 5.85 pence) per £1 ordinary share	28.5	27.3
Second interim proposed of 6.115 pence (period to 31 December 1999: 5.85 pence) per £1 ordinary share	28.5	27.3
Final proposed of nil pence (period to 31 December 1999: nil pence) per £1 ordinary share	-	-
	57.0	54.6

10 Tangible Fixed Assets

(a) 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 31 December 1999	80.5	2.8	1,031.8	960.1	106.7	314.5	2,496.4
Additions	0.3	2.4	26.5	0.4	1.9	261.0	292.5
Reclassifications	-	-	-	7.0	(6.7)	-	0.3
Schemes commissioned	3.2	-	80.1	85.8	3.3	(172.4)	-
Disposals	(2.2)	-	(14.8)	(0.5)	(1.6)	-	(19.1)
At 31 December 2000	81.8	5.2	1,123.6	1,052.8	103.6	403.1	2,770.1
Depreciation:							
At 31 December 1999	22.1	0.8	62.7	233.6	82.3	-	401.5
Charge for the year	1.8	0.4	28.5	31.4	8.4	-	70.5
Reclassifications	-	-	-	6.6	(6.3)	-	0.3
Disposals	(0.6)	-	(14.8)	(0.5)	(1.5)	-	(17.4)
At 31 December 2000	23.3	1.2	76.4	271.1	82.9	-	454.9
Net book value at 31 December 2000	58.5	4.0	1,047.2	781.7	20.7	403.1	2,315.2
Net book value at 31 December 1999	58.4	2.0	969.1	726.5	24.4	314.5	2,094.9

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:

	31.12.2000 £m	31.12.1999 £m
Operational structures, plant and machinery	31.7	31.6
Fixtures, fittings, tools and equipment	4.2	4.3
	35.9	35.9

(b) Company:

The Company had tangible fixed assets of £0.1m (31 December 1999: £0.4m), comprising mainly fixtures and fittings.

Notes to the Financial Statements continued

11. Fixed Asset Investments

(a) Group:

	Associated undertakings £m	Other investments £m	Total £m
At 31 December 1999	(8.9)	0.7	(8.2)
Additions	0.4	-	0.4
Disposals	(0.8)	(0.1)	(0.9)
Share of associates' losses	(1.3)	-	(1.3)
Dividends received	(0.2)	-	(0.2)
At 31 December 2000	(10.8)	0.6	(10.2)
Disclosed as:			
Fixed asset investments	3.7	0.6	4.3
Provisions for liabilities and charges (see note 20)	(14.5)	-	(14.5)
	(10.8)	0.6	(10.2)

All fixed asset investments are unlisted.

(b) Company:

	Associated undertakings £m	Interests in subsidiaries £m	Other investments £m	Total £m
At 31 December 1999	123.6	987.4	0.6	1,111.6
Additions	0.3	1.7	-	2.0
Transfers/disposals	(0.5)	-	-	(0.5)
At 31 December 2000	123.4	989.1	0.6	1,113.1

(c) The Group's interests in principal trading associates at 31 December 2000 are 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
SITA Holding UK Limited (and subsidiary companies)	England and Wales	Ordinary shares of £1	35	Waste management
Lyonnaise Water Southern Africa (PTY) Limited	South Africa	Ordinary shares of 0.5 Rand	50	Water and sewerage services
Baerum Vann AS	Norway	Ordinary shares of 100,000 Norwegian Krone	24	Water services
Vehicle Lease and Service Limited	England and Wales	Ordinary shares of £1	50	Hiring, leasing and servicing of vehicles and plant

(d) The Group's interests in principal trading subsidiaries at 31 December 2000 are 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
Lyonnaise des Eaux (Gibraltar) 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 Lyonnaise Technology & Research Centre Limited	England and Wales	Ordinary shares of £1	100	Research and development
Imass Limited	England and Wales	Ordinary shares of £1	100	IT consultancy
Fastflow Pipeline Services Limited	England and Wales	Ordinary shares of £1	100	Infrastructure replacement and rehabilitation

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.

(e) The following information is given in respect of the Group's share of SITA Holding UK Limited:

	31.12.2000 £m	31.12.1999 £m
Turnover	138.0	134.8
(Loss)/profit before taxation	(4.3)	5.8
Taxation	2.6	(1.8)
(Loss)/profit after taxation	(1.7)	4.0
Fixed assets	93.2	91.6
Current assets	38.0	36.9
Liabilities due within one year	41.1	29.7
Liabilities due after more than one year	103.1	107.5

Notes to the Financial Statements continued

12 Stocks

	Group 31.12.2000 £m	Group 31.12.1999 £m
Stores	2.7	4.6
Work in progress	4.0	3.8
	6.7	8.4

13 Debtors

	Group		Company	
	31.12.2000 £m	31.12.1999 £m	31.12.2000 £m	31.12.1999 £m
Amounts receivable within one year:				
Trade debtors	65.5	76.7	0.1	0.9
Amounts owed by subsidiary undertakings	-	-	483.5	375.8
Amounts owed by parent company and fellow subsidiaries	15.1	6.2	13.3	5.0
Amounts owed by associates	-	22.5	-	22.5
Other debtors	12.5	10.2	6.9	2.9
Prepayments and accrued income	29.3	34.2	1.0	0.8
	122.4	149.8	504.8	407.9
Amounts receivable after more than one year:				
Pension surplus on acquisition	21.5	23.2	-	-

In the Company, the debtor for amounts owed by subsidiary undertakings includes £8.6m (31 December 1999: £9.1m) in respect of amounts receivable for the provisional surrender of tax losses by the Company.

14 Cash at Bank and Short Term Deposits

	Group		Company	
	31.12.2000 £m	31.12.1999 £m	31.12.2000 £m	31.12.1999 £m
Short term cash deposits	44.8	87.6	16.7	87.6
Cash at bank	39.4	24.8	27.4	8.8
	84.2	112.4	44.1	96.4

15 Creditors: Amounts falling due within one year

	Group		Company	
	31.12.2000 £m	31.12.1999 £m	31.12.2000 £m	31.12.1999 £m
Bank loans and overdrafts (see note 17)	104.3	35.1	187.6	12.1
Commercial paper (see note 17)	90.5	-	90.5	-
Obligations under hire purchase contracts and finance leases (see note 18)	4.7	4.8	-	-
Trade creditors	12.0	7.8	0.1	-
Amounts owed to subsidiary undertakings	-	-	2.7	76.0
Amounts owed to parent company and fellow subsidiaries	4.0	3.1	16.8	13.3
Other creditors	30.9	28.0	1.6	1.8
Taxation and social security	20.5	35.3	-	-
Dividends payable				
non-equity shareholders	-	0.1	-	-
equity shareholders	28.5	27.3	28.5	27.3
Accruals and deferred income	127.8	162.3	34.3	34.5
	423.2	303.8	362.1	165.0

The creditor for taxation and social security in the Group includes corporation tax amounting to £19.3m (31 December 1999: £34.1m).

16 Creditors: Amounts falling due after more than one year

	Group		Company	
	31.12.2000 £m	31.12.1999 £m	31.12.2000 £m	31.12.1999 £m
Loans (see note 17)	318.1	385.6	-	162.1
Debentures (see note 17)	22.3	22.3	-	-
Eurobond – due 1 February 2002 bearing interest rate of 9.25%	100.0	100.0	100.0	100.0
Eurobond – due 28 June 2006 bearing interest rate of 8.625%	200.0	200.0	200.0	200.0
Eurobond – due 6 February 2023 bearing interest rate of 6.875%	194.8	194.6	194.8	194.6
Eurobond – due 31 March 2037 bearing interest rate of 6.627%	63.7	-	-	-
Amounts owed to parent company and fellow subsidiaries (see note 17)	0.6	0.6	-	-
Obligations under hire purchase contracts and finance leases (see note 18)	52.8	54.3	-	-
Other creditors	15.4	15.9	-	-
	967.7	973.3	494.8	656.7

At 31 December 2000, 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%; £25.0m over a five year period commencing on 23 May 1997 under which the Group is required to pay at a rate linked to LIBOR and will receive interest at 7.48%; £10.0m over a three year period commencing on 5 August 1999 under which the Group is required to pay interest at a rate linked to LIBOR and will receive interest at 6.74%; £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.

Notes to the Financial Statements continued

17 Loans

	Group 31.12.2000 £m	Group 31.12.1999 £m	Company 31.12.2000 £m	Company 31.12.1999 £m
Loans are repayable as follows:				
Less than one year	162.5	11.0	280.9	13.3
Between one and two years	130.7	68.1	100.0	162.1
Between two and five years	92.7	196.0	-	100.0
In more than five years	676.1	639.0	394.8	394.6
	1,062.0	914.1	775.7	670.0
Disclosed as due:				
Within one year: Bank loans and overdrafts	104.3	35.1	187.6	12.1
Commercial paper	90.5	-	90.5	-
Amounts owed to parent company and fellow subsidiaries	0.1	0.1	16.8	13.3
Less: Bank overdrafts	(32.4)	(24.2)	(14.0)	(12.1)
After one year: Loans	318.1	385.6	-	162.1
Debentures	22.3	22.3	-	-
Eurobonds	558.5	494.6	494.8	494.6
Amounts owed to parent company and fellow subsidiaries	0.6	0.6	-	-
	1,062.0	914.1	775.7	670.0

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 £207.5m (31 December 1999: £227.8m) and bear rates of interest in the range of 6.05% to 8.55% (31 December 1999: 6.95% to 11.05%) and £0.7m (31 December 1999: £0.7m) 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 £555.7m (31 December 1999: £508.8m) and bear rates of interest in the range of 3.5% to 11.75% (31 December 1999: 3.5% to 11.75%). Of these loans, £90.0m (31 December 1999: £80.0m) 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 £763.2m (31 December 1999: £736.6m).

Loans to the Company from third parties repayable otherwise than by instalments which fall due for repayment after more than five years amount to £394.8m (31 December 1999: £394.6m).

Included in the loans are debenture stocks as follows:

(a) £8.7m issued by North East Water plc and secured by a floating charge on the assets of Northumbrian Water Limited.

(b) £13.6m issued by Essex and Suffolk Water plc and secured by a floating charge on the assets of Northumbrian Water Limited.

18 Obligations under Hire Purchase Contracts and Finance Leases

	Group	
	31.12.2000 £m	31.12.1999 £m
Amounts due:		
In less than one year	4.7	4.8
Between one and two years	3.9	5.3
Between two and five years	7.8	7.9
In more than five years	78.2	80.8
Gross obligations	94.6	98.8
Less: finance charges allocated to future periods	(37.1)	(39.7)
	57.5	59.1
Disclosed as due:		
Within one year	4.7	4.8
After more than one year	52.8	54.3
	57.5	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 £87.6m (31 December 1999: £89.4m).

19 Derivatives and Financial Instruments

The Group's policy in respect of derivative financial instruments is disclosed in note 1(o).

(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 occasion, derivatives are used as part of this process, but the Group's policies prohibit their use for speculation.

(c) Risks arising from Group's financial instruments

The main risks arising from the Group's financial instruments are interest rate risk, liquidity 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 £50.0m and with a bank agreement availability period of no less than 3 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 50% of its borrowings 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 £3.0m sterling equivalent of a translation nature, should be covered immediately on recognition.

(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 rise in interest rates would not have a material affect on the Group's pre-tax profits.

Notes to the Financial Statements continued

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

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

	Total net borrowings £m	Variable rate net borrowings £m	Fixed rate net borrowings: Borrowings £m	Fixed rate net borrowings: Weighted average interest rate %	Fixed rate net borrowings: Weighted average period until maturity Years
Currency					
Sterling borrowings:					
Bank loans	1,039.0	182.9	856.1	7.76%	12.1
Debentures	22.3	-	22.3	10.47%	4.0
Finance leases	57.5	50.4	7.1	9.25%	1.9
	1,118.8	233.3	885.5	7.84%	11.8
French Franc borrowings:					
Amount owed to parent company	0.7	0.7	-		
Cash	(51.8)	(51.8)	-		
Sterling loans receivable	(13.3)	(13.3)	-		
Net borrowings at 31 December 2000	1,054.4	168.9	885.5		

The interest rates and currency profile of the Group's net borrowings at 31 December 1999 were:

	Total net borrowings £m	Variable rate net borrowings £m	Fixed rate net borrowings: Borrowings £m	Fixed rate net borrowings: Weighted average interest rate %	Fixed rate net borrowings: Weighted average period until maturity Years
Currency					
Sterling borrowings:					
Bank loans	891.2	94.2	797.0	7.94%	11.2
Debentures	22.3	-	22.3	10.53%	4.9
Finance leases	59.1	49.0	10.1	9.29%	2.1
	972.6	143.2	829.4	8.03%	10.9
French Franc borrowings:					
Amount owed to parent company	0.6	0.6	-		
Cash	(88.2)	(88.2)	-		
Sterling loans receivable	(27.5)	(27.5)	-		
Net borrowings at 31 December 1999	857.5	28.1	829.4		

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 within the external sterling borrowings of the Group above are loans amounting to £132.0m 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.

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

(i) Currency exposures

At 31 December 2000, 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 December 2000, in respect of which all conditions precedent have been met are as follows:

	£m
Expiring in one year or less	75.0
Expiring in more than one year but not more than three years	75.0
At 31 December 2000	150.0

(k) 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 December 2000 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	199.5	202.0
Long term borrowings	952.4	1,000.7
Financial assets	(97.5)	(97.5)
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps	-	(2.8)
At 31 December 2000	1,054.4	1,102.4

A comparison by category of book values and fair values of the Group's financial assets and liabilities as at 31 December 1999 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	36.5	38.1
Long term borrowings	960.9	1,001.9
Financial assets	(139.9)	(139.9)
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps	-	(2.1)
At 31 December 1999	857.5	898.0

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 £517.0m (31 December 1999: £516.8m) 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.

Notes to the Financial Statements continued

(l) 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 December 2000 is as follows:

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 31 December 1999	2.2	0.1	2.1
Gains and losses arising in previous years that were recognised in 2000	1.0	0.1	0.9
Gains and losses arising before 1 January 2000 that were not recognised in 2000	1.2	-	1.2
Gains and losses arising in 2000 that were not recognised in 2000	1.6	-	1.6
Unrecognised gains and losses on hedges at 31 December 2000	2.8	-	2.8
Of which:			
Gains and losses expected to be recognised in 2001	1.0	-	1.0
Gains and losses expected to be recognised in 2002 or later	1.8	-	1.8

An analysis of these unrecognised gains and losses as at 31 December 1999 is as follows:

	Gains £m	Losses £m	Total net gains/(losses) £m
Unrecognised gains and losses on hedges at 23 December 1998	4.1	0.4	3.7
Gains and losses arising in previous years that were recognised in 1999	1.0	0.4	(0.6)
Gains and losses arising before 1 January 1999 that were not recognised in 1999	3.1	-	3.1
Gains and losses arising in 1999 that were not recognised in 1999	0.9	0.1	(1.0)
Unrecognised gains and losses on hedges at 31 December 1999	2.2	0.1	2.1
Of which:			
Gains and losses expected to be recognised in 2000	0.8	0.1	0.7
Gains and losses expected to be recognised in 2001 or later	1.4	-	1.4

20 Provisions for Liabilities and Charges

	Group					
	Investment in associate £m	Reorganisation & restructuring provision £m	Pension provision £m	Deferred taxation £m	Other £m	Total £m
At 31 December 1999	12.8	8.4	9.6	7.0	7.4	45.2
Transferred from/(to) the profit and loss account	-	4.4	(0.7)	(0.5)	(3.6)	(0.4)
Other movements	(0.2)	-	-	-	-	(0.2)
Share of losses in associate	1.9	-	-	-	-	1.9
Utilised during the year	-	(5.9)	-	-	(0.6)	(6.5)
At 31 December 2000	14.5	6.9	8.9	6.5	3.2	40.0

The investment in associate relates to the Group's 35% share in SITA Holding UK Limited, as described in note 11 above.

The reorganisation and restructuring provision represents amounts payable in respect of costs of restructuring programmes within the Group. The redundancy component of the provision will be paid within 12 months of the balance sheet date, and the pension augmentation component will be paid or amortised following the recommendations of the actuaries of the respective pension schemes in which the individuals concerned belong.

The deferred taxation provision relates to the pension revaluation surplus in respect of the Northumbrian Lyonnaise Pension Scheme (South).

Other provisions comprise contract issues representing the best estimate of amounts payable principally in the next 24 months and onerous lease commitments payable over the next 36 months.

21 Accruals and Deferred Income

	Group £m
Capital grants and contributions:	
At 31 December 1999	109.3
Additions	10.0
Amortisation in the year	(3.4)
At 31 December 2000	115.9

22 Called up Share Capital

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

	31.12.2000 £m	31.12.1999 £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

23 Reserves

	Share premium account £m	Profit and loss account £m
Group:		
At 31 December 1999	217.9	274.2
Retained profit for the financial year	-	46.8
At 31 December 2000	217.9	321.0
Company:		
At 31 December 1999	217.9	110.5
Retained profit for the financial year	-	10.6
At 31 December 2000	217.9	121.1

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 financial year was £67.6m (period to 31 December 1999: £61.7m).

The cumulative amount of goodwill written off directly to reserves amounts to £116.4m (31 December 1999: £116.4m).

24 Reconciliation of Movement in Equity Shareholders' Funds

	Group		Company	
	Year to 31.12.2000 £m	Period to 31.12.1999 £m	Year to 31.12.2000 £m	Period to 31.12.1999 £m
Profit for the financial year	103.8	143.4	67.6	61.7
Dividends	(57.0)	(54.6)	(57.0)	(54.6)
Retained profit for the financial year	46.8	88.8	10.6	7.1
Exchange differences and other transfers	-	(1.0)	-	(0.4)
Increase in equity shareholders' funds	46.8	87.8	10.6	6.7
Opening equity shareholders' funds	958.3	869.0	794.6	787.9
Prior year adjustment	-	1.5	-	-
Closing equity shareholders' funds	1,005.1	958.3	805.2	794.6

25 Pensions

The Group operates a funded defined benefit pension scheme, providing benefits based on final pensionable remuneration to 2,299 employees, named the Northumbrian Lyonnaise Pension Scheme. This comprises of three (unitised) sections, the Water Pension Scheme, Lyonnaise UK (North) and Lyonnaise UK (South).

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

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

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

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

Investment return:	
Pre retirement	6.2%
Post retirement	5.7%
Pay increases:	
For 5 years after valuation date	3.8%
Thereafter	4.3%
Pension increases	2.8%
Price inflation	2.8%

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

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

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

26 Financial Commitments

(a) Capital expenditure:

	Group	
	31.12.2000 £m	31.12.1999 £m
Expenditure contracted for	82.5	110.4

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	31.12.2000 £m	31.12.1999 £m
Leases which expire:				
Within one year	0.3	0.5	0.8	1.2
Within two to five years	0.2	1.7	1.9	2.4
After five years	0.6	-	0.6	0.3
	1.1	2.2	3.3	3.9

27 Contingent Liabilities

(a) No deferred taxation provision has been made in the Group or Company, except relating to pension surpluses (see note 20), as it is not expected that any other liabilities will crystallise in the foreseeable future. The full potential amount of deferred taxation not provided, calculated at 30% (31 December 1999: 30%), on all timing differences is as follows:

	Group		Company	
	31.12.2000 £m	31.12.1999 £m	31.12.2000 £m	31.12.1999 £m
Accelerated capital allowances	363.2	334.9	-	-
Other timing differences	(24.1)	(23.3)	(1.6)	(1.5)
	339.1	311.6	(1.6)	(1.5)

In addition there are tax losses of approximately £10.0m (31 December 1999: £10.0m) available to be carried forward and set against future profits arising in territories outside the United Kingdom.

(b) The Company is party to a cross guarantee arrangement with certain subsidiary undertakings in respect of their bank overdrafts. The potential liability outstanding at 31 December 2000 amounted to £25.9m (31 December 1999: £24.7m).

(c) The Company has guaranteed loan and bank facilities of subsidiary undertakings which in aggregate amount to £281.0m at 31 December 2000 (31 December 1999: £289.1m) and interest rate swap agreements of subsidiary undertakings, the contingent liability of which cannot be determined since it is dependent on future variable interest rates.

28 Related Party Transactions

Transactions with other members of the group headed by Suez Lyonnaise des Eaux, outside of the Group, comprised purchases of £25.9m (period to 31 December 1999: £18.4m) and sales of £5.7m (period to 31 December 1999: £4.4m). As at 31 December 2000, the amount due to these companies was £4.6m (31 December 1999: £2.3m) and due from these companies was £15.1m (31 December 1999: £6.2m).

The companies with which members of the Group have had transactions during the year, included in the above balances, were as follows:

Aguas Argentinas
Corporate Dynamics
Degrémont
Lyonnaise des Eaux de Berlin
Lyonnaise des Eaux Geneva
Lyonnaise des Eaux Khatib and Alami
Lyonnaise des Eaux Management & Services
Lyonnaise Europe plc
Lyonnaise South East Asia
Safege
Suez Lyonnaise des Eaux
SITA Holding UK Limited

29 Ultimate Parent Company

The ultimate parent company and the controlling party of the Company is Suez Lyonnaise des Eaux, incorporated in France. The only group which consolidates the results of the Company and Group is Suez Lyonnaise des Eaux. Copies of the consolidated financial statements are available to the public from Suez Lyonnaise des Eaux, 16 rue de la Ville L'Evêque, 75383 Paris, France.

NORTHUMBRIAN
WATER GROUP

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A member of the Suez Lyonnaise des Eaux group

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