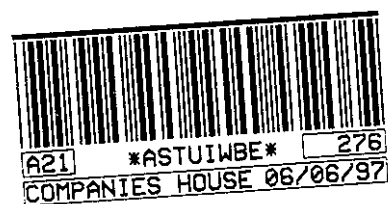


HARTLEPOOL WATER PLC

Registered Number 3017251

Annual Report and Accounts

year ended 31 March 1997



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DIRECTORS AND ADVISERS

DIRECTORS

NON-EXECUTIVE

J.V. ROPNER, Chairman
J. TILLY, Deputy Chairman
J.M. CAMERON
SIR WILLIAM H. GRAY Bt.
D.H. PEART

EXECUTIVE

K.B. HALL, Managing Director
A.J.F. BATEMAN, Finance Director

SECRETARY

A.J.F. BATEMAN

AUDITORS

CLARK WHITEHILL

SOLICITORS

TILLY BAILEY AND IRVINE

MERCHANT BANKERS

HAMBROS BANK LIMITED

BANKERS

NATIONAL WESTMINSTER BANK PLC

STOCKBROKERS

BUTTERFIELD SECURITIES

REGISTRARS

THE ROYAL BANK OF SCOTLAND PLC
SECURITIES SERVICES - REGISTRARS
P.O. BOX 82
CAXTON HOUSE
REDCLIFFE WAY
BRISTOL
BS99 7NH

REGISTERED OFFICE

3 LANCASTER ROAD
HARTLEPOOL
TS24 8LW
TELEPHONE 01429 868555
FAX 01429 858000

HARTLEPOOL WATER PLC

REGISTERED IN ENGLAND NUMBER 3017251

NOTICE OF MEETING

Notice is hereby given that the Annual General Meeting of Hartlepool Water PLC will be held at the Registered Office of the Company, 3 Lancaster Road, Hartlepool on Friday, 27 June 1997 at 12 noon for the following purposes:

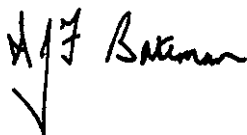
1. To receive and adopt the Report and Accounts for the year ended 31 March 1997.
2. To confirm and declare a final dividend of 5.0p (net) per share for the year ended 31 March 1997.
3. To re-elect Mr. J.V. Ropner a Director of the Company.
4. To re-elect Mr J.M. Cameron a Director of the Company.
5. To reappoint Clark Whitehill as Auditors and to authorise the Directors to fix their remuneration.

By Order of the Board

A.J.F. BATEMAN

Secretary

23 May 1997



A member entitled to attend and vote is entitled to appoint a proxy or proxies (who need not be a member(s) of the Company) to attend and, on a poll, to vote instead of him. A proxy card is enclosed.

Copies of all service agreements under which Directors are employed by the Company together with details of Directors' Interests in the Company's Shares are available for inspection at the Company's Registered Office during usual business hours on any weekday (Saturdays and Public Holidays excluded) from the date of this Notice until the date of the Annual General Meeting and at the place of the Meeting from 11.45 a.m. until the conclusion of the Meeting.

The interim dividend is paid at the beginning of January each year.

The final dividend will be paid on 1 July 1997 to shareholders on the register on 6 June 1997.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their Report and Accounts for the year ended 31 March 1997.

Operating and Financial Review

The Company supplies water to an area of approximately 90 sq.km.

The vast majority of water supplied to customers is derived from underground sources. The Company's impounding reservoirs are dedicated to supplying non-potable water to a single industrial customer. Water resources are adequate to meet demand.

Around half the water delivered is taken by industrial and commercial customers with measured supplies.

The Company has achieved very high levels of compliance with the requirements of the Drinking Water Quality Regulations.

Infrastructure and other Assets have been maintained in a good condition and the Distribution System continues to perform in a satisfactory manner. The Company has adopted a policy of utilising advanced technology to manage its operating systems and this policy will continue in future years.

The results for the year are set out in the Profit and Loss Account on Page 17.

Price control of Water Charges is based on the index of retail prices adjusted by a "K" factor. The "K" factor is set by the Director General of Water Services to be sufficient to finance capital and operating expenditure and to provide a reasonable real rate of return.

The Company's "K" factor for 1996/97 was 1.5%. The "K" factor for each of the following years to 1999/2000 is 1.5% and is 0.5% for each of the five years to 2004/2005.

The Company, as at 31 March 1997, was in compliance with Paragraph 3.1 of Condition K of its Instrument of Appointment.

Capital expenditure during the year is shown on Page 21.

It is the intention of the Board to continue the funding of all additions to fixed assets from the Company's own resources, thereby remaining self financing.

In the opinion of the Board the Company is a going concern as evidenced by the Diversification Certificate on Page 10 and the fact that the Company's "K" factor is always set by the Director General of Water Services for several years ahead.

The Chairman reviews the activities of the Company during the year in his Statement on Pages 11 and 12.

Dividends

An interim dividend of 2.8p (net) per share was paid on 1 January 1997.

The Board recommend the payment on 1 July 1997 of a final dividend of 5.0p (net) per share.

It is the policy of the Board to increase annual dividends in real terms.

REPORT OF THE DIRECTORS

(continued)

Directors

The following Directors held office in the year:

J.V. Ropner – Chairman (Non-Executive)

Born 1932, he has been a member of the Board since 1959. He is a retired Company Director and was Chairman of Ropner PLC.

J. Tilly – Deputy Chairman (Non-Executive)

Born 1940, he has been a member of the Board since 1975. A Solicitor, he is Senior Partner of Tilly Bailey and Irvine and a Director of several private companies.

J.M. Cameron (Non-Executive)

Born 1938, he has been a member of the Board since 1972. He is a Director of several private companies.

Sir William H. Gray Bt. (Non-Executive)

Born 1955, he has been a member of the Board since 1994. An Architect, he has his own local practice.

D.H. Peart (Non-Executive)

Born 1944, he has been a member of the Board since 1994. He is a Director of several private companies.

K.B. Hall (Executive)

Born 1945, he has been a member of the Board since 1989. A Chartered Civil Engineer, he is Managing Director of the Company.

A.J.F. Bateman (Executive)

Born 1951, he has been a member of the Board since 1989. A Chartered Accountant, he is Finance Director of the Company.

The Directors retiring by rotation are Mr. J.V. Ropner and Mr. J.M. Cameron who, being eligible, offer themselves for re-election.

The Executive Directors have one year rolling service agreements with the Company.

The Non-Executive Directors do not have service agreements and whilst not appointed for any specified term they are subject to re-election at frequent intervals.

At no time during the year did any Director have a material interest in a contract which was of significance in relation to the Company's business, other than a service agreement.

Directors' and Officers' liability insurance was in force during the year.

Full details of Directors' Emoluments are shown on Pages 8 and 9.

REPORT OF THE DIRECTORS

(continued)

Directors' Interests

Directors had the following beneficial interests in the Issued Shares of the Company:

	Shares	
	31 March 1997	31 March 1996
J.V. Ropner	30,000	30,000
J. Tilly	11,310	11,310
J. M. Cameron	65,000	65,000
Sir William H. Gray Bt.	2,000	2,000
D.H. Peart	2,000	2,000
K.B.Hall	256,410	256,410
A.J.F. Bateman	340,000	340,000

No changes in these interests have been notified in the period up to 1 May 1997.

Substantial Interests

Shareholders had the following interests of 3% or more in the Issued Shares of the Company at 31 March 1997:

	Shares	%
Environment Agency Pension Fund	1,093,600	14.9
Ruffer Investment Management	1,063,722	14.5
Prudential Corporation	722,250	9.9
Mercury Asset Management	654,560	8.9
AXA Equity and Law	581,090	7.9
Guardian Assurance	365,070	5.0
A.J.F. Bateman	340,000	4.6
K.B. Hall	256,410	3.5
Schroder Investment Management	238,868	3.3

No changes in these interests have been notified in the period up to 1 May 1997 other than the purchase of 10,000 Shares by Ruffer Investment Management.

Employees

The Company continues to give a high priority to matters affecting Health and Safety at Work.

Employees are kept informed of developments on a regular basis through the medium of Team Briefing.

Research and Development

The Company contributes to several organisations which undertake research nationally on behalf of the Water Industry.

Freehold Land and Buildings

All the Land and Buildings owned by the Company are used for operational purposes and are included in the Accounts at cost.

Donations

Donations to charitable organisations amounted to £500. No political donations were made.

REPORT OF THE DIRECTORS

(continued)

Corporate Governance

The Board and the Auditors are of the view that the Company has complied throughout the year with the principles of the Greenbury and Cadbury Codes, save that in view of the small size of the Company and predominance of Non-Executive Directors separate Audit and Remuneration Committees have not been created.

The Non-Executive Directors decide the remuneration of the Executive Directors.

Policy on the payment of Creditors

The Company's policy on the payment of Creditors is to make payment at the latest by the last day of the month following receipt of the invoice from the Creditor. On average, invoices are paid around 16 days after receipt.

Creditors outstanding at the year end represented 14 days of purchases.

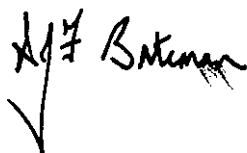
Environment

The Company endeavours to protect and enhance the value of its land holdings for the benefit of wildlife insofar as this does not conflict with its primary functions as a Water Company. Recreational use and public access are permitted on a controlled basis where this is consistent with the needs of wildlife.

Auditors

A Resolution to reappoint Clark Whitehill as the Company's Auditors will be proposed at the Annual General Meeting.

By Order of the Board
A.J.F. BATEMAN
Secretary
23 May 1997

A handwritten signature in black ink, appearing to read 'A.J.F. Bateman', with a large checkmark or 'V' shape drawn below it.

REMUNERATION OF THE DIRECTORS

Compliance

In view of the small size of the Company and predominance of Non-Executive Directors a Remuneration Committee has not been created. The Non-Executive Directors decide the remuneration of the Executive Directors.

Subject to the absence of a formal Remuneration Committee, the Company has complied throughout the year with the principles set out in Section A of the best practice provisions annexed to the Stock Exchange Listing Rules.

Full consideration has been given to the principles set out in Section B of the best practice provisions annexed to the Stock Exchange Listing Rules in framing remuneration policy.

Policy on Remuneration of Executive Directors

The Non-Executive Directors aim to ensure that remuneration packages are competitive and designed to attract and retain Executive Directors of the right calibre. In assessing all aspects of pay and benefits the Non-Executive Directors compare the packages offered by similar Companies.

Each Executive Director receives an annual salary and is provided with a motor car.

In common with nearly all of the Company's employees, the Executive Directors are members of the Water Companies' Association Pension Scheme. The Scheme provides that the taxable car benefit is regarded as pensionable remuneration.

Executive Directors do not participate in any long-term incentive scheme.

The Company has never operated any form of share option scheme or share ownership scheme.

Service Agreements

The Executive Directors have one year rolling service agreements with the Company.

Non-Executive Directors

The Non-Executive Directors do not have service agreements.

Each Non-Executive Director receives an annual fee but no other benefits are provided.

Directors' Emoluments

	Salary	Fees	Benefits	Total Emoluments Excluding Pensions	
	1997	1997	1997	1997	1996
	£000	£000	£000	£000	£000
Executive					
K.B. Hall	66	—	7	73	70
A.J.F. Bateman	61	—	9	70	67
Non-Executive					
J.V. Ropner	—	8	—	8	7
J. Tilly	—	7	—	7	6
J.M. Cameron	—	6	—	6	6
Sir William H. Gray Bt.	—	6	—	6	6
D.H. Peart	—	6	—	6	6
	<u>127</u>	<u>33</u>	<u>16</u>	<u>176</u>	<u>168</u>

Benefits represent the taxable car benefit.

REMUNERATION OF THE DIRECTORS

(continued)

Pensions of Executive Directors

As further guidance from the Stock Exchange on disclosure of Directors' pension benefits was unavailable at the time of the preparation of these Accounts; the Board have taken the decision, in the spirit of the Greenbury recommendations, to disclose the value of contributions paid on behalf of the Executive Directors during the year.

	1997	1996
	£000	£000
K.B. Hall	8	8
A.J.F. Bateman	8	7
	<u>16</u>	<u>15</u>

DIVERSIFICATION CERTIFICATE

Diversification and Protection of Core Business

As required by the Director General of Water Services the Board hereby certifies:

- * that in the opinion of the Directors, Hartlepool Water PLC will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities, including the investment programme necessary to fulfil the Appointees obligations under the Appointment
- that in the opinion of the Directors the Appointee will, for at least the next 12 months, have available to it management resources which are sufficient to enable it to carry out those functions.

Signed by:

J.V. Ropner

J. Tilly

J.M. Cameron

Sir William H. Gray Bt.

D.H. Peart

K.B. Hall

A.J.F. Bateman

STATEMENT BY THE CHAIRMAN

I am pleased to be able to report to shareholders that pre-tax profit for the year ended 31 March 1997 was £2.12m against a comparable figure for the previous year of £1.99m.

Earnings per share after allowing for an increased tax charge rose from 21.6p to 21.9p. Turnover increased from £5.89m in 1995/96 to £6.14m in the year under review.

We now have a new Government and as foreshadowed prior to the election, it has announced the intention to levy a windfall tax on the profits of privatised utilities. We have always been in the private sector. When the then Government privatised the Water Authorities and restructured their balance sheets to facilitate the transition, we received no similar financial benefits as we were already in the private sector. We do not believe that there is any justification for any such tax being imposed on us.

At the last Periodic review in 1994, the Director General of Water Services set price limits for the years 1995 to 2005. However he announced earlier this year that he would be exercising his right to call for another periodic review of prices to take place in 1999. This is a long and complex process and will take up considerable Management time over the next two and a half years. In principle, we welcome his proposal to make it a transparent process involving all interested parties.

England and Wales are in an unprecedented dry period with total rainfall in the 24 months to March 1997 the lowest for any such period since records began in 1767. Fortunately we have not experienced such extreme drought conditions in Hartlepool, but we do have to consider the possible impact of global warming on our resources. Although there is no cause for concern about these at present, we have introduced a strategy for promoting the efficient use of water by Customers.

Leakage from mains is a subject which has recently attracted public attention and was one of the topics addressed by delegates at the 'Summit' meeting held in London on 19 May which was attended by the Managing Director and myself.

We have always considered that active management of leakage is fundamental to a well run water company. We upgraded our waste detection system during the year with the purchase of new state of the art equipment and this is already proving its worth. We are also encouraging Customers to repair leaks on their pipes without delay but at the same time giving them assistance in pinpointing the leak and advice on repairs. By such means, we shall endeavour to reduce leakage still further, trying to ensure that effort and cost expended is justified by the savings achieved.

STATEMENT BY THE CHAIRMAN

(continued)

With the commissioning of a new strategic trunk main in 1996, our major item of capital expenditure during the current five year period was completed well within budget. This enabled us to concentrate our investment during the year on rehabilitation of our distribution network and replacing some of our older above ground assets to ensure a reliable and up to date system.

We have always prided ourselves in offering Customers a very high standard of service as well as charges among the lowest in England and Wales. The Director General monitors Levels of Service provided by all Companies using diverse indicators covering such matters as pressure, interruptions to supply, speed of response to billing queries and time to answer telephone calls. In announcing his Levels of Service Report for 1995/96, we were delighted that the Director General singled out our Company saying "Where comparisons between Companies can be made, one water only company, Hartlepool, not only performed well against the five measures of service, it also matched or exceeded the best performance in other sectors."

Having regard to the Director General's comments above I feel myself more than ever justified in recording my appreciation of the hard work and diligent attention given to consumers' and shareholders' interests by staff at all levels in the Company.

J. V. ROPNER
Chairman
23 May 1997

DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS AND INTERNAL CONTROL

Financial Statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that period. The Accounts must be prepared in compliance with the required formats and disclosures of the Companies Act 1985 and with applicable accounting standards. In addition the Directors are required to:

- * select suitable accounting policies and then apply them consistently
- * make judgements and estimates that are reasonable and prudent
- * take account of expenses and income relating to the period being reported on, whether or not they have been paid or received in that period
- * prepare the Accounts on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that the Accounts comply with the above requirements. The Directors are also responsible for maintaining adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Accounts comply with the Companies Act. 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.

Internal Control

The Directors, having responsibility for ensuring the effectiveness of the internal control systems of the Company, report that they are satisfied that those systems were working effectively throughout the period of the financial statements for the year ended 31 March 1997.

REPORTS OF THE AUDITORS

To the Shareholders of Hartlepool Water PLC

We have audited the Accounts on Pages 16 to 24 which have been prepared under the Accounting Policies set out on Page 16. We have also examined the amounts disclosed relating to emoluments, share options and long term incentive scheme interests of the Directors which form part of the report to Shareholders by the Board on Pages 8 and 9.

Respective responsibilities of Directors and Auditors

As described on Page 13 the Company's Directors are responsible for the preparation of Accounts. It is our responsibility to form an independent opinion, based on our Audit, on those Accounts and to report our opinion to you.

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 Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Accounts, and of whether the Accounting Policies are appropriate to the Company'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 Accounts 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 the information in the Accounts.

Opinion

In our opinion the Accounts give a true and fair view of the state of the Company's affairs as at 31 March 1997 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Corporate governance matters

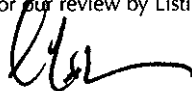
In addition to our Audit of the Accounts, we have reviewed the Directors' Statements on Page 7 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the Accounts. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Company's system of internal financial control or its corporate governance procedures nor on the ability of the Company to continue in operational existence.

Opinion

With respect to the Directors' Statements on internal financial control on Page 13, and going concern on Page 4, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our Audit work on the Accounts.

Based on enquiry of certain Directors and Officers of the Company, and examination of relevant documents, in our opinion the Directors' statement on Page 7 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

CLARK WHITEHILL 
Chartered Accountants and Registered Auditor
Hartlepool
23 May 1997

REPORTS OF THE AUDITORS

To the Director General of Water Services

We have audited the Accounts on Pages 16 to 34.

Respective responsibilities of Directors and Auditors

As described on Page 13 the Company's Directors are responsible for the preparation of Accounts. It is our responsibility to form an independent opinion, based on our Audit, on those Accounts and to report our opinion to you.

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 Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Accounts, and of whether the Accounting Policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

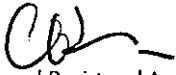
We planned and performed our Audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the Accounts in terms of generally Accepted Accounting Principles, the Regulatory Accounting Guidelines and consistency with the Statutory Accounts.

Opinion

In our opinion, the Accounts contain the information for the year to 31 March 1997 required to be published and submitted to you by Hartlepool Water PLC to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water undertaker under the Water Industry Act 1991.

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

- * proper accounting records have been kept by Hartlepool Water PLC as required by paragraph 3, Condition F of the Instrument
- * the information is in agreement with Hartlepool Water PLC's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services
- * the Accounts on Pages 16 to 24 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Company and its Appointed Business
- * the current cost financial information on Pages 25 to 34 has been properly prepared in accordance with Regulatory Accounting Guideline 1, Accounting for Current Costs, issued in May 1992 by the Office of Water Services
- * that Regulatory Accounting Guideline 5, Transfer Pricing in the Water Industry, is not relevant to the Company.

CLARK WHITEHILL 
Chartered Accountants and Registered Auditor
Hartlepool
23 May 1997

ACCOUNTING POLICIES

1. The Accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.
2. Grants and third party contributions received prior to 31 March 1990 have been deducted from the cost of the capital expenditure to which they relate. Contributions in respect of Infrastructure Assets received after 31 March 1990 have been deducted from those Assets.
3. Stocks, which consist of consumable materials, have been valued at cost with due allowance for any obsolete items.
4. Expenditure necessary to maintain the operating capability of Infrastructure Assets, principally Mains and certain Reservoirs, is charged to the Profit and Loss Account. Infrastructure Assets are not depreciated.
5. Expenditure relating to material increases in capacity of the Mains Network is Capitalised. Mains disposals, unless material, are ignored.
6. In general, Tangible Fixed Assets, except Infrastructure Assets and Freehold Land, are depreciated over the following estimated useful lives:

Buildings and concrete structures	80 years
Boreholes	50 years
Fixed plant and equipment	15 years
Computers, vehicles, plant, equipment and office fittings	5 years
7. Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the Directors consider that a liability to taxation is unlikely to crystallise.
8. Expenditure on Meters is included in Operating costs.
9. Pension costs in respect of the Company's employees are charged to the Profit and Loss Account so as to recognise the cost of pensions over employees' working lives.

PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1997

	Note	1997		1996	
		£000	£000	£000	£000
TURNOVER					
Measured Supplies		2,567		2,438	
Unmeasured Supplies		3,201		3,038	
Rechargeable Work		147		191	
Sundry Receipts		<u>230</u>		<u>221</u>	
			6,145		5,888
OPERATING COSTS					
Distribution, Works and Reservoirs		1,857		1,807	
Administration and General Expenses		1,175		1,128	
Rates		397		390	
Water Abstraction Charges		293		285	
Depreciation		199		155	
Direct Costs - Rechargeable Work		98		143	
Doubtful Debts		34		36	
Auditors - Audit Fees		8		8	
Auditors - Other Fees		<u>4</u>		<u>5</u>	
			4,065		3,957
			2,080		1,931
OPERATING INCOME					
Surplus on disposal of Tangible Fixed Assets			<u>27</u>		<u>26</u>
OPERATING PROFIT			2,107		1,957
OTHER INCOME					
Rents Receivable			<u>9</u>		<u>8</u>
			2,116		1,965
INTEREST RECEIVABLE			<u>179</u>		<u>201</u>
			2,295		2,166
INTEREST PAYABLE	2		<u>174</u>		<u>174</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION AND DIVIDENDS			2,121		1,992
TAXATION	3		<u>518</u>		<u>412</u>
PROFIT AFTER TAXATION			1,603		1,580
DIVIDENDS	4		<u>571</u>		<u>520</u>
RETAINED PROFIT FOR YEAR	11		<u>1,032</u>		<u>1,060</u>
Earnings per share	14		21.9p		21.6p

The Profit and Loss Account contains all the gains and losses recognised in the current and previous year

The Notes on Pages 20 to 24 form part of these Accounts

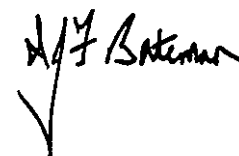
BALANCE SHEET

At 31 March 1997

		1997		1996	
	Note	£000	£000	£000	£000
FIXED ASSETS					
Tangible	5		7,913		7,220
CURRENT ASSETS					
Stocks		212		216	
Debtors	6	633		568	
Cash and Bank Balances		<u>2,516</u>		<u>2,206</u>	
		3,361		2,990	
CURRENT LIABILITIES					
Creditors: Amounts falling due within one year	8	<u>998</u>		<u>966</u>	
NET CURRENT ASSETS			<u>2,363</u>		<u>2,024</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			10,276		9,244
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR					
Bank Loan	9	1,800		1,800	
Other Creditors		<u>-</u>		<u>-</u>	
			1,800		1,800
			<u>8,476</u>		<u>7,444</u>
CAPITAL AND RESERVES					
Share Capital	10		732		732
Share Premium Account			8		8
Profit and Loss Account			<u>7,736</u>		<u>6,704</u>
	11		<u>8,476</u>		<u>7,444</u>

Approved by the Board of Directors on 23 May 1997 and signed on their behalf by:

J.V. ROPNER Chairman
J. TILLY Deputy Chairman



The Notes on Pages 20 to 24 form part of these Accounts

CASH FLOW STATEMENT

For the year ended 31 March 1997

	1997		1996	
	£000	£000	£000	£000
NET CASH FLOW FROM OPERATING ACTIVITIES		2,656		2,348
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE				
Interest Received	168		201	
Interest Paid	(175)		(173)	
NET CASH FLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(7)		28
TAXATION				
Corporation Tax Paid - including advance corporation tax		(491)		(809)
CAPITAL EXPENDITURE				
Payments to Acquire Tangible Fixed Assets	(1,033)		(1,724)	
Contributions to Fixed Assets	130		108	
Infrastructure Renewals Expenditure	(449)		(443)	
Receipts from Sales of Tangible Fixed Assets	38		27	
NET CAPITAL EXPENDITURE		(1,314)		(2,032)
		844		(465)
EQUITY DIVIDENDS PAID		(534)		(491)
		310		(956)
MANAGEMENT OF LIQUID RESOURCES*				
Net Cash Flow on bank deposits		(50)		1,050
CHANGE IN CASH		260		94

Notes

	1997	1996
	£000	£000
1. Reconciliation of Operating Profit to Net Cash Flow from Operating Activities		
Operating Profit	2,107	1,957
Infrastructure Renewals Expenditure	449	443
Other Income Received	9	8
Depreciation Charges	199	155
Surplus on Disposal of Tangible Fixed Assets	(27)	(26)
Change in Stocks	4	11
Change in Debtors	(54)	27
Change in Creditors	(31)	(227)
Net Cash Flow from Operating Activities	2,656	2,348
	£000	£000
2. Reconciliation of Net Cash Flow to Movement in Net Funds		
Change in Cash in the Year	260	94
Change in Liquid Resources	50	(1,050)
Change in Net Funds	310	(956)
Opening Net Funds	406	1,362
Closing Net Funds	716	406

* Hartlepool Water PLC includes as liquid resources all bank deposits requiring notice of withdrawal

NOTES ON THE ACCOUNTS

For the year ended 31 March 1997

1. DIRECTORS' EMOLUMENTS

Full details of Directors' Emoluments are shown on Pages 8 and 9

2. INTEREST PAYABLE

	1997 £000	1996 £000
Repayable within 5 years: Bank Loan	<u>174</u>	<u>174</u>

3. TAXATION

	1997 £000	1996 £000
The Charge comprises:		
Corporation Tax	528	490
Adjustment to Corporation Tax liability of an earlier year	(10)	(78)
	<u>518</u>	<u>412</u>

No provision for Deferred Taxation is considered necessary. The full potential liability for Deferred Taxa amounts to approximately £1.3 million.

4. DIVIDENDS

	1997 £000	1996 £000
Interim - Paid January	205	191
Recommended Final - Payable July	<u>366</u>	<u>329</u>
	<u>571</u>	<u>520</u>

NOTES ON THE ACCOUNTS

(continued)

For the year ended 31 March 1997

5. FIXED ASSETS - TANGIBLE

	Infrastructure Assets £000	Operational Assets £000	Other Tangible Assets £000	Total £000
COST				
1 April 1996	6,157	3,434	1,058	10,649
Disposals	–	(32)	(184)	(216)
Additions	422	169	442	1,033
31 March 1997	<u>6,579</u>	<u>3,571</u>	<u>1,316</u>	<u>11,466</u>
DEPRECIATION				
1 April 1996	–	1,627	860	2,487
Disposals	–	(32)	(173)	(205)
Charge for year	–	89	110	199
31 March 1997	<u>–</u>	<u>1,684</u>	<u>797</u>	<u>2,481</u>
CONTRIBUTIONS				
1 April 1996	942			942
Receipts	130			130
31 March 1997	<u>1,072</u>			<u>1,072</u>
NET				
31 March 1997	<u>5,507</u>	<u>1,887</u>	<u>519</u>	<u>7,913</u>
31 March 1996	<u>5,215</u>	<u>1,807</u>	<u>198</u>	<u>7,220</u>

Included within the above amounts are sums relating to Freehold Land and Buildings.

The cost of Freehold Land is £54,000 (1996 – £54,000).

The cost of Buildings is £881,000 (1996 – £881,000) and accumulated depreciation is £200,000 (1996 – £189,000)

6. DEBTORS

	1997 £000	1996 £000
Due within 1 year:		
Trade Debtors	557	508
Prepayments and Accrued Income	65	60
Interest on Bank Balances	11	–
	<u>633</u>	<u>568</u>
Due after 1 year:		
Other Debtors	–	–
	<u>633</u>	<u>568</u>

NOTES ON THE ACCOUNTS

(continued)

For the year ended 31 March 1997

7. CAPITAL COMMITMENTS

The liability on contracts for capital expenditure, not provided for in these Accounts, is estimated at £39,000 (1996 - £113,000)

8. CREDITORS

	1997 £000	1996 £000
Amounts falling due within one year:		
Accruals and Payments in Advance	50	68
Trade Creditors	156	169
Interest on Bank Loan	32	33
Proposed Dividend	366	329
Corporation Tax	394	367
	<u>998</u>	<u>966</u>

9. BANK LOAN

The £1,800,000 unsecured Loan from National Westminster Bank PLC carries a 9¹¹/₁₆% fixed rate of interest. The repayment date of the Loan is March 2000 at the latest.

10. AUTHORISED AND ISSUED SHARE CAPITAL

	Authorised		Issued	
	1997 £000	1996 £000	1997 £000	1996 £000
Ordinary Shares of 10p	<u>1,000</u>	<u>1,000</u>	<u>732</u>	<u>732</u>

11. SHAREHOLDERS' FUNDS

	Share Capital £000	Share Premium Account £000	Profit and Loss Account £000	Total £000
1 April 1995	732	8	5,644	6,384
Retained Profit for Year	<u>-</u>	<u>-</u>	<u>1,060</u>	<u>1,060</u>
31 March 1996	732	8	6,704	7,444
Retained Profit for Year	<u>-</u>	<u>-</u>	<u>1,032</u>	<u>1,032</u>
31 March 1997	<u>732</u>	<u>8</u>	<u>7,736</u>	<u>8,476</u>

NOTES ON THE ACCOUNTS

(continued)

For the year ended 31 March 1997

12. MANPOWER COSTS AND NUMBERS INCLUDING EXECUTIVE DIRECTORS

	1997	1996
	£000	£000
Salaries	1,165	1,171
Company's Social Security Costs	95	95
Company's W.C.A. Pension Scheme Costs	119	120
	<u>1,379</u>	<u>1,386</u>
	Number	Number
Average manpower during the year - full time equivalent	<u>61</u>	<u>63</u>

13. CONTINGENT LIABILITIES

The Company has a statutory liability to maintain the solvency of the Company's share of the Water Companies' Association Pension Scheme. At the Balance Sheet date no such liability existed.

14. EARNINGS PER SHARE

	1997	1996
Earnings per share	<u>21.9p</u>	<u>21.6p</u>

Earnings per share is based upon the weighted number of shares in issue for the period, 7,320,000 (1996 - 7,320,000) and the post tax profits.

NOTES ON THE ACCOUNTS

(continued)

For the year ended 31 March 1997

15. PENSION COMMITMENTS

The Company is a member of the Water Companies' Association Pension Scheme which provides benefits based on final pensionable pay.

The assets of the Scheme are held separately from those of the Company, being invested by discretionary fund managers.

Contributions to the Scheme are charged to the Profit and Loss Account so as to spread the cost of pensions over employees' working lives with the Company. The contributions are determined by a qualified actuary on the basis of triennial valuations.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions. The most recent valuation, at 1 April 1996, assumed that investment returns would be 8% per annum, that salary increases would average 6½% per annum and that present and future pensions would increase at the rate of 4½% per annum.

The value of existing assets adopted in the valuation represents a long-term value unaffected by the short-term fluctuations inherent in stock market values and is consistent with the value placed on the liabilities.

The pension charge for the year is shown in Note 12.

At the date of the last actuarial valuation the market value of the Scheme's assets relating to the Company was £7.9m.

The actuarial value of the assets was sufficient to cover 129% of the value of the past service liabilities after allowing for the post valuation benefit changes implemented by the Company and assumed future pay and pensions increases.

16. INSTRUMENT OF APPOINTMENT

Total Turnover and all Tangible Fixed Assets are wholly attributable to the Appointed Business.

CURRENT COST PROFIT AND LOSS ACCOUNT

For the year ended 31 March 1997

	1997 £000	1996 £000
Turnover	6,145	5,888
Current Cost Operating Costs	(4,141)	(4,032)
Operating Income	<u>26</u>	<u>26</u>
	2,030	1,882
Working Capital Adjustment	<u>(14)</u>	<u>(10)</u>
Current Cost Operating Profit	2,016	1,872
Other Income	9	8
Net Interest	5	27
Financing Adjustment	<u>-</u>	<u>(15)</u>
Current Cost Profit Before Taxation	2,030	1,892
Taxation	<u>(518)</u>	<u>(412)</u>
Current Cost Profit on Ordinary Activities	1,512	1,480
Dividends	<u>(571)</u>	<u>(520)</u>
Current Cost Profit Retained	<u>941</u>	<u>960</u>

ANALYSIS OF CURRENT COST TURNOVER AND OPERATING INCOME

For the year ended 31 March 1997

	1997 £000	1996 £000
TURNOVER		
Measured	2,567	2,438
Unmeasured	3,201	3,038
Other Sources	96	91
Third Party Services	281	321
TOTAL TURNOVER	<u>6,145</u>	<u>5,888</u>
OPERATING INCOME		
Current Cost Profit on sale of Fixed Assets	26	26
Exceptional Items	-	-
TOTAL OPERATING INCOME	<u>26</u>	<u>26</u>

CURRENT COST ACTIVITY COST TABLE

For the year ended 31 March 1997

	Resources & Treatment		Distribution		Water Service Total	
	1997 £000	1996 £000	1997 £000	1996 £000	1997 £000	1996 £000
Total Direct Costs	734	709	555	512	1,289	1,221
General and Support Expenditure	215	244	494	448	709	692
Functional Expenditure	<u>949</u>	<u>953</u>	<u>1,049</u>	<u>960</u>	1,998	1,913
OPERATING EXPENDITURE						
Customer Services					318	313
Scientific Services					118	119
Other Business Activities					<u>258</u>	<u>251</u>
Total Business Activities					694	683
Rates					397	390
Doubtful Debts					34	36
Exceptional Items					<u>-</u>	<u>-</u>
Total Opex less Third Party Services					3,123	3,022
Third Party Services - Opex					<u>294</u>	<u>337</u>
Total Operating Expenditure					<u>3,417</u>	<u>3,359</u>
REACTIVE AND PLANNED MAINTENANCE (included in Opex)						
Reactive and Planned Maintenance:						
Infrastructure	26	25	331	319	357	344
Reactive and Planned Maintenance:						
Non-infrastructure	<u>94</u>	<u>121</u>	<u>132</u>	<u>150</u>	<u>226</u>	<u>271</u>
CAPITAL MAINTENANCE						
Infrastructure Renewals Expenditure*	19	3	430	440	449	443
Current Cost Depreciation	<u>95</u>	<u>45</u>	<u>139</u>	<u>58</u>	234	103
Business Activities Current Cost Depreciation					<u>35</u>	<u>121</u>
Capital Maintenance Excluding Third Party Services					718	667
Third Party Services - Capital Maintenance					<u>6</u>	<u>6</u>
Total Capital Maintenance					<u>724</u>	<u>673</u>
TOTAL OPERATING COSTS					<u>4,141</u>	<u>4,032</u>

*Included in "Infrastructure Renewals Expenditure" is £22,000 (1996 - £3,000) relating to a non potable water supply

CURRENT COST BALANCE SHEET

At 31 March 1997

		1997 £000	1996 £000
	Note		
Tangible Fixed Assets	2	105,177	101,784
Third Party Contributions since 1989/90		(1,165)	(1,009)
Working Capital	3	628	547
NET OPERATING ASSETS		104,640	101,322
Cash and Investments		2,516	2,206
Non-Trade Debtors		11	-
Non-Trade Creditors due within one year		(426)	(400)
Creditors due after one year		(1,800)	(1,800)
Provisions for Liabilities and Charges		-	-
Dividend Payable		(366)	(329)
NET ASSETS EMPLOYED		104,575	100,999
CAPITAL AND RESERVES			
Called Up Share Capital		732	732
Share Premium		8	8
Profit and Loss Account		7,116	6,175
Current Cost Reserve	4	96,719	94,084
TOTAL CAPITAL AND RESERVES		104,575	100,999

NOTES ON THE CURRENT COST ACCOUNTS

For the year ended 31 March 1997

1. CURRENT COST ACCOUNTING POLICIES

These Accounts have been prepared for the Appointed Business of the Company in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry.

They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business.

The accounting policies used are the same as those adopted in the statutory historical cost accounts except as set out below.

Tangible Fixed Assets

Assets in operational use are valued at the replacement cost of their operating capability.

To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle.

Also, no provision is made for the possible funding of future replacements of assets by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business.

Redundant assets are valued at their recoverable amounts.

Quinquennial reviews of the Company's assets, the Asset Management Plan ("AMP"), leading to adjustments in the valuation of fixed assets, are carried out under the requirements of the Office of Water Services.

An AMP review of existing assets as at 31 March 1993 was undertaken and adjustments resulting from this exercise incorporated in the Accounts for the year ended 31 March 1996.

In the intervening years between AMP reviews values are restated to take account of changes in the general level of inflation, as measured by changes in the Retail Price Index ("RPI").

Grants and Third Party Contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year.

NOTES ON THE CURRENT COST ACCOUNTS

(continued)

For the year ended 31 March 1997

Real Financial Capital Maintenance Adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

Working Capital Adjustment

This is calculated by applying the change in the RPI over the year to the opening total of working capital.

Financing Adjustment

This is calculated by applying the change in the RPI over the year to the opening total of net finance which comprises all monetary assets and liabilities in the Balance Sheet apart from those included in working capital.

NOTES ON THE CURRENT COST ACCOUNTS

(continued)

For the year ended 31 March 1997

2. FIXED ASSETS – TANGIBLE

	Infrastructure Assets £000	Operational Assets £000	Other Tangible Assets £000	Total £000
GROSS REPLACEMENT COST				
1 April 1996	96,437	11,733	1,272	109,442
AMP Adjustment	–	–	–	–
RPI Adjustment	2,508	305	33	2,846
Disposals	–	(98)	(226)	(324)
Additions	422	169	442	1,033
31 March 1997	<u>99,367</u>	<u>12,109</u>	<u>1,521</u>	<u>112,997</u>
DEPRECIATION				
1 April 1996	–	6,589	1,069	7,658
AMP Adjustment	–	–	–	–
RPI Adjustment	–	171	28	199
Disposals	–	(98)	(214)	(312)
Charge for year	–	161	114	275
31 March 1997	<u>–</u>	<u>6,823</u>	<u>997</u>	<u>7,820</u>
NET				
31 March 1997	<u>99,367</u>	<u>5,286</u>	<u>524</u>	<u>105,177</u>
31 March 1996	<u>96,437</u>	<u>5,144</u>	<u>203</u>	<u>101,784</u>

3. WORKING CAPITAL

	1997 £000	1996 £000
Stocks	212	216
Trade Debtors	557	508
Working Cash Balances	–	–
Trade Creditors	(134)	(169)
Short Term Capital Creditors	(22)	–
Infrastructure Renewals Accrual	–	–
Accruals	(50)	(68)
Payments in Advance	–	–
Payroll related Tax and Social Security	–	–
Prepayments	65	60
	<u>628</u>	<u>547</u>

NOTES ON THE CURRENT COST ACCOUNTS

(continued)

For the year ended 31 March 1997

4. CURRENT COST RESERVE

	1997 £000	1996 £000
Opening Balance	94,084	100,697
AMP Adjustment	-	(9,251)
RPI Adjustments:		
Fixed Assets	2,647	2,637
Working Capital	14	10
Financing	-	15
Grants and Third Party Contributions	(26)	(24)
Closing Balance	<u>96,719</u>	<u>94,084</u>

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

	1997 £000	1996 £000
Current Cost Operating Profit	2,016	1,872
Infrastructure Renewals Expenditure	449	443
Other Income Received	9	8
Current Cost Depreciation	275	230
Current Cost Profit on Sale of Assets	(26)	(26)
Change in Stocks	4	11
Change in Debtors and Prepaid Expenses	(54)	27
Change in Creditors and Accrued Expenses	(31)	(227)
Release of Provisions	-	-
Effect of Other Deferrals and Accruals on Operating Activity Cash Flow	-	-
Working Capital Adjustment	14	10
Net Cash Flow from Operating Activities	<u>2,656</u>	<u>2,348</u>

**FIVE YEAR ROLLING SUMMARY:
CURRENT COST PROFIT AND LOSS ACCOUNT**

(all figures are stated at 1996/97 prices)

	1992/93 £000	1993/94 £000	1994/95 £000	1995/96 £000	1996/97 £000
Turnover	5,865	5,995	6,213	6,029	6,145
Current Cost Operating Costs	(4,553)	(4,362)	(4,131)	(4,129)	(4,141)
Operating Income	18	13	626	27	26
Working Capital Adjustment	(14)	(13)	(16)	(10)	(14)
Current Cost Operating Profit	<u>1,316</u>	<u>1,633</u>	<u>2,692</u>	<u>1,917</u>	<u>2,016</u>
Other Income	6	8	7	8	9
Net Interest	(101)	(119)	(84)	28	5
Financing Adjustment	<u>23</u>	<u>36</u>	<u>34</u>	<u>(15)</u>	<u>—</u>
Current Cost Profit Before Taxation	<u>1,244</u>	<u>1,558</u>	<u>2,649</u>	<u>1,938</u>	<u>2,030</u>
Taxation	<u>(326)</u>	<u>(457)</u>	<u>(900)</u>	<u>(422)</u>	<u>(518)</u>
Current Cost Profit on Ordinary Activities	<u>918</u>	<u>1,101</u>	<u>1,749</u>	<u>1,516</u>	<u>1,512</u>
Dividends	(445)	(477)	(503)	(532)	(571)
Current Cost Profit Retained	<u><u>473</u></u>	<u><u>624</u></u>	<u><u>1,246</u></u>	<u><u>984</u></u>	<u><u>941</u></u>

FIVE YEAR ROLLING SUMMARY: CURRENT COST BALANCE SHEET

(all figures are stated at 1996/97 prices)

	1992/93 £000	1993/94 £000	1994/95 £000	1995/96 £000	1996/97 £000
Tangible Fixed Assets	112,343	112,685	112,678	104,430	105,177
Third Party Contributions since 1989/90	(496)	(671)	(924)	(1,035)	(1,165)
Working Capital	<u>564</u>	<u>473</u>	<u>377</u>	<u>561</u>	<u>628</u>
Net Operating Assets	112,411	112,487	112,131	103,956	104,640
Cash and Investments	1,059	1,717	3,333	2,263	2,516
Non-Trade Debtors	-	-	-	-	11
Non-Trade Creditors	(629)	(746)	(839)	(410)	(426)
Creditors due after one year	(2,009)	(1,964)	(1,897)	(1,847)	(1,800)
Provisions	-	-	-	-	-
Dividend Payable	(270)	(296)	(316)	(338)	(366)
Net Assets Employed	<u>110,562</u>	<u>111,198</u>	<u>112,412</u>	<u>103,624</u>	<u>104,575</u>
Called Up Share Capital	817	799	772	751	732
Share Premium	9	9	8	8	8
Profit and Loss Account	3,864	4,402	5,497	6,336	7,116
Current Cost Reserve	105,872	105,988	106,135	96,529	96,719
Total Capital and Reserves	<u>110,562</u>	<u>111,198</u>	<u>112,412</u>	<u>103,624</u>	<u>104,575</u>

STATISTICS

Financial Year	Ordinary Shares Dividends £000	Profit After Tax and Dividends £000	Issued Ordinary Shares £000	Water Into Supply MI/day
1987/88	26	32	732	45
1988/89	26	(67)	732	47
1989/90	26	60	732	47
1990/91	315	310	732	46
1991/92	366	495	732	45
1992/93	403	519	732	42
1993/94	439	605	732	41
1994/95	476	1,323	732	41
1995/96	520	1,060	732	39
1996/97	571	1,032	732	39