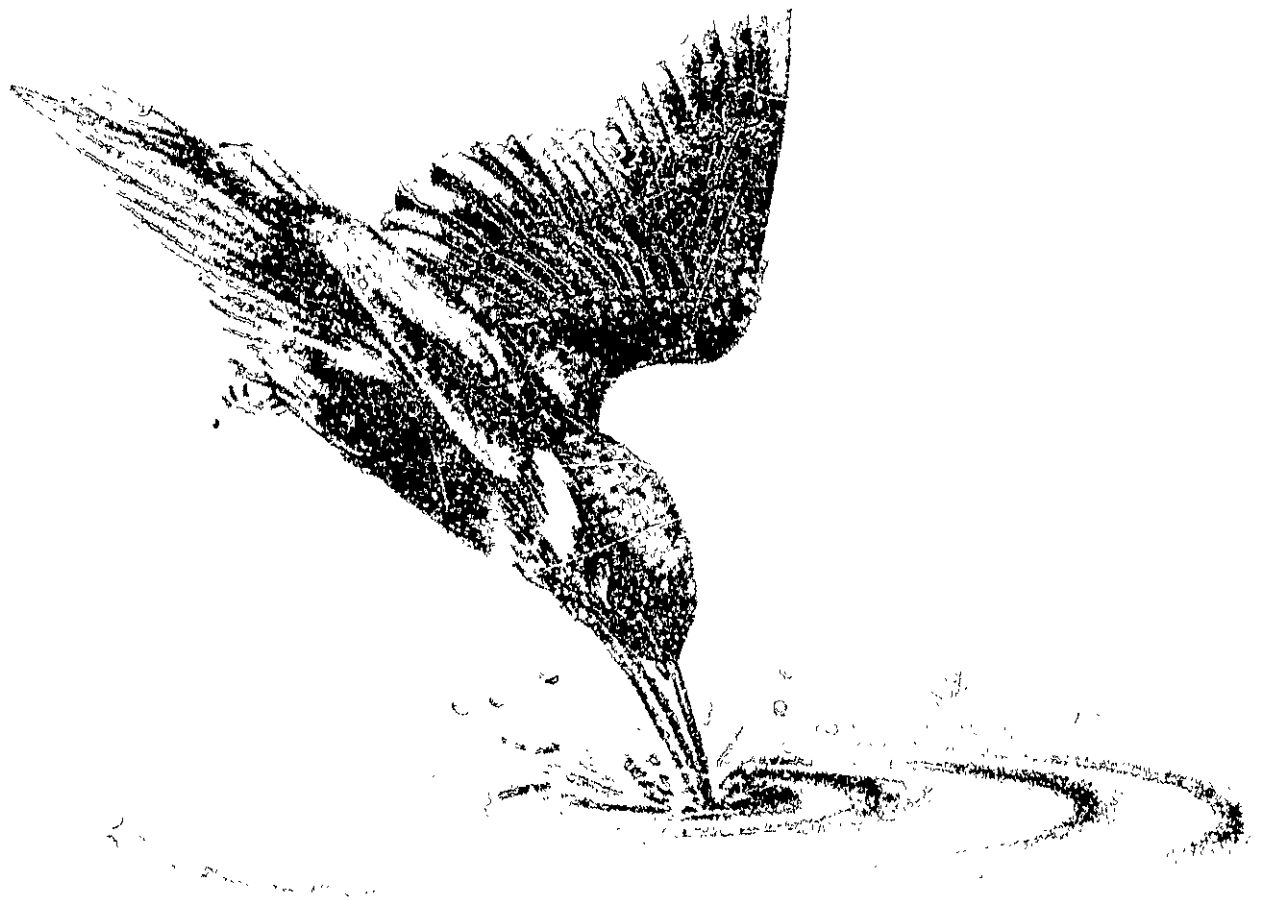


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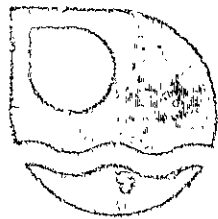
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CONTENTS

| | |
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| FINANCIAL HIGHLIGHTS | 4 |
| CHAIRMAN'S STATEMENT | 5 |
| THE GROUP BOARD | 6 |
| CHIEF EXECUTIVE'S REVIEW | 9 |
| SENIOR MANAGEMENT | 15 |
| REVIEW OF ACTIVITIES | 17 |
| DIRECTORS' REPORT | 30 |
| CONSOLIDATED PROFIT AND LOSS ACCOUNT | 34 |
| CONSOLIDATED BALANCE SHEET | 35 |
| CONSOLIDATED SOURCE AND APPLICATION OF FUNDS | 36 |
| NOTES TO THE ACCOUNTS | 37 |
| AUDITORS' REPORT | 49 |
| FINANCIAL YEAR-END SUMMARY | 49 |
| AGENDAS OF ANNUAL GENERAL MEETINGS | 50 |
| AGENDAS OF ANNUAL GENERAL MEETINGS | 51 |



FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED 31 MARCH 1990

| | |
|--|------------------|
| TURNOVER | £511 m |
| PRE-TAX PROFIT | £75 m |
| PRO FORMA PRE-TAX PROFIT | £177 m |
| PRO FORMA EARNINGS PER ORDINARY SHARE | 44.6 p |
| RECOMMENDED DIVIDEND | 10.47 p |
| PRO FORMA DIVIDEND COVER | 2.4 times |
| INVESTMENT EXPENDITURE | £264 m |

DENNIS GROVE

1964-1965



CHAIRMAN'S STATEMENT

In this first Report for North West Water Group PLC, I am delighted to welcome all our British and International shareholders and to record results that confirm most encouraging progress in the private sector.

Turnover rose to £511 million, an increase over the previous year of almost 12 per cent, and pre-tax profit of £75 million exceeded the Prospectus forecast of £70 million. Pro forma profit was £177 million, £5 million over forecast.

Investment expenditure advanced to £264 million and will continue to increase in the 1990s as we implement our £4.3 billion plan to improve water and waste water services throughout the region. An increasing share of the programme is concerned with environmental improvements.

We are committed to provide high quality water services to our North West customers and welcome the new economic and environmental regulatory arrangements that have been introduced.

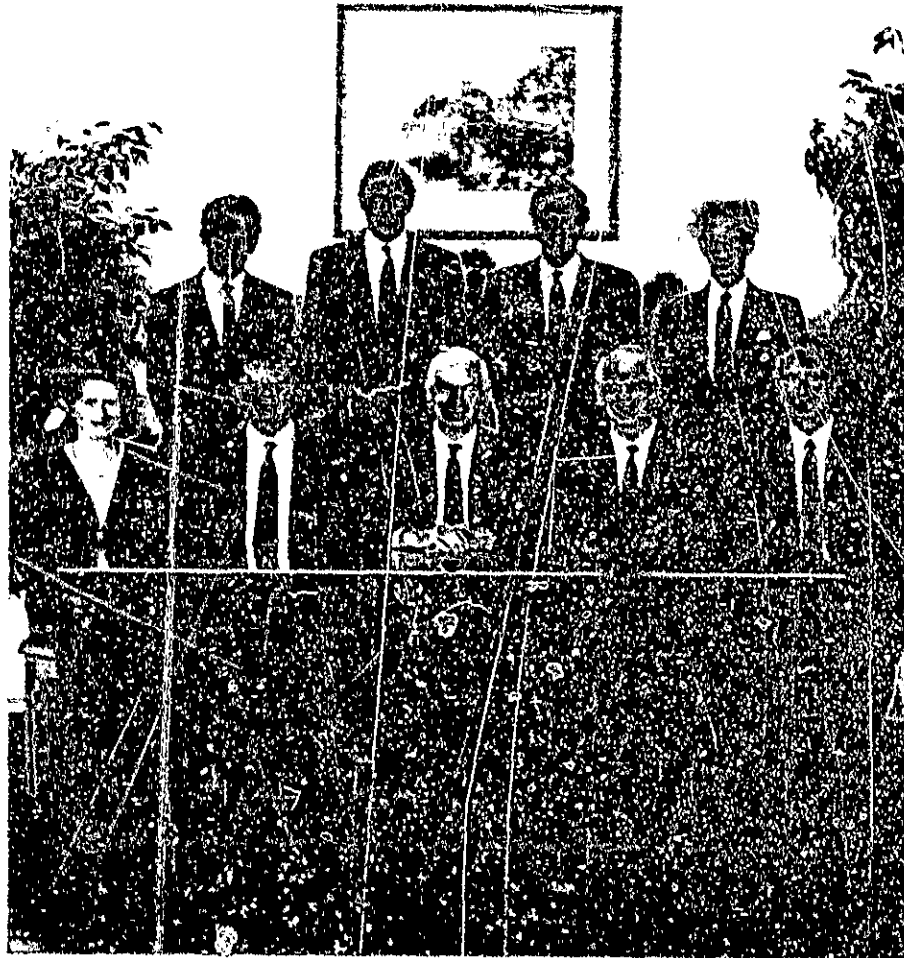
Continuing to improve our water and waste water business is our main priority. At the same time, we are developing further other business activities, concentrating on our strengths for selective expansion at home and overseas. In particular, we are building on our skills and expertise in designing, engineering and operating water and waste water systems.

We have a long and proud record on conservation, public access and recreation, and have renewed our commitment and determination to continue positive progress.

We believe our shareholders, many of whom are customers, share our confidence in the further successful development of North West Water. Our team of employees, the great majority being shareholders, have extensive experience, second-to-none, of modernising the infrastructure of the water industry. I thank them all for rising so excellently to the many challenges of last year and for striving for new achievements this year.

John G. G. G. G.

THE GROUP BOARD



Standing

James Cropper, Alan Pendleton, Frank Sanderson, Rodney Leach

Seated

Clare Bolton, Robert Thian, Dennis Grove (Chairman),
Brian Alexander, Archibald Ramsay



THE GROUP BOARD

* **Dennis Grove** BA (62), Chairman. Formerly a senior executive with the Dunlop Group, chairman and chief executive of Sonoco Europe, and a vice president of Sonoco International. Mr Grove was chairman of North West Water Authority from 1 October 1985.

Robert Thlen BSc (Gen), Director (46), Chief Executive. Formerly managing director, Glaxo Pharmaceuticals, Portugal; European regional director, Abbott International, and vice president of Novo Industries.

Archibald Ramsay CA, FCMA, FICMA, AICD (57), Group Financial Director. Formerly group financial controller, Courtaulds; group finance director, International Paint; and group finance director, Pilgrim House Group.

Brian Alexander CEng, FICE, FAWEM (58), Managing Director of North West Water Limited. Formerly planning and engineering director of North West Water Authority.

Non executive Directors

* **Clare Bolton** BA, FCA, AICD, MBIM (38), a tax partner in Coopers & Lybrand Deloitte.

* **James Cropper** DL, BA, FCA (51), Chairman of the Audit Committee. Chairman of James Cropper (Papermakers).

* **Rodney Leach** PhD, CEng, FRNA, FIM, FICM (58), formerly a partner in McKinsey & Company; an executive director of P&O; and chief executive and managing director of VSEL.

* **Alan Pendleton** MSc Tech, CChem, FRSC, FRSA (61), Chairman of Kemutec Group and a non-executive director of Chieftain Group and of Nord Anglia Education. Formerly, managing director of West's Group International; and a director of Tilbury Group.

* **Frank Sanderson** CEng, FIMechE, FAWEM (63), Chairman of the Remuneration Committee. Chairman of Acumen Technologies; Clearcall Communications; and Wyatt Bros; and a director of British Water and Wastewater. Formerly, divisional managing director (water engineering division) of Babcock International.

Secretary

John Tetlow LMA, Secretary

* *Member of the Audit Committee*

ROBERT THIAN
CHIEF EXECUTIVE



"As a utility, we shall deliver our promises of purer water to our customers and a cleaner, safer environment for our community - both at a reasonable cost.

As a public limited company, we shall deliver our promises of real growth in earnings per share and of dividends to our shareholders.

In achieving these goals, we shall be investing in quality throughout our operations."

CHIEF EXECUTIVE'S REVIEW

Key Issues

North West Water started its life in the private sector as it plans to continue: as an efficient business, serving the interests of our four stakeholders – our customers, our community, our employees and our shareholders.

The four are interdependent. The market forces which are brought to play through the public trading in our shares, provide a powerful and constructive incentive for the efficient use of our resources.

Over the next decade, the private sector will provide us with the funds for our investment programme – without the stop-go-stop imposed by public sector borrowing limits.

That is good news for our customers and our community, who will be able to count on the substantial improvements to our services which they deserve. Our customers will benefit from further improvements to the quality of drinking water and our community will enjoy the fruits of a cleaner, safer environment, at a reasonable price.

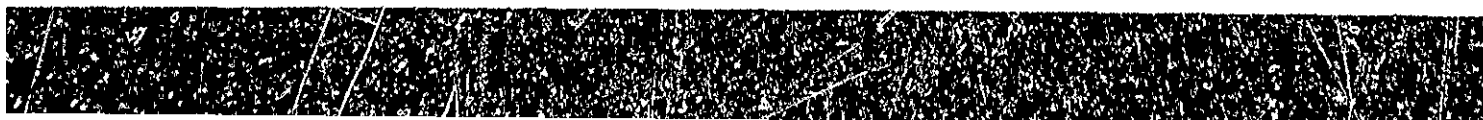
It is also good news for our employees, whose skill and dedication has only been matched by their frustration at being periodically starved of the resources they needed to get the job done.

To meet the needs and concerns of our stakeholders, North West Water is tackling three key issues: the management of our investment programme; the drive for higher standards of service and operating efficiency; and increasing regulation and environmental standards.

Investment programme

In 1974, North West Water inherited some remnants of the industrial revolution which, although grandiose in their day, by the time they reached our hands, were badly dilapidated as a result of underfunding and neglect.

North West Water invested over £1 billion in the 1970s and a further £2 billion in the 1980s, renovating the water mains and sewers,



CHIEF EXECUTIVE'S REVIEW

upgrading old and building new treatment works and planning and implementing lasting solutions to the pollution problems of the region.

But there is still a lot of catching up to do, so we are changing gear yet again and are set to spend more than £4 billion by the year 2000 – a large programme by any standards.

Whilst our rate of capital investment is accelerating, each step is quite manageable. In fact, our investment programme currently comprises something over 8,000 projects, of which around 1,000 have an individual value of more than £50,000.

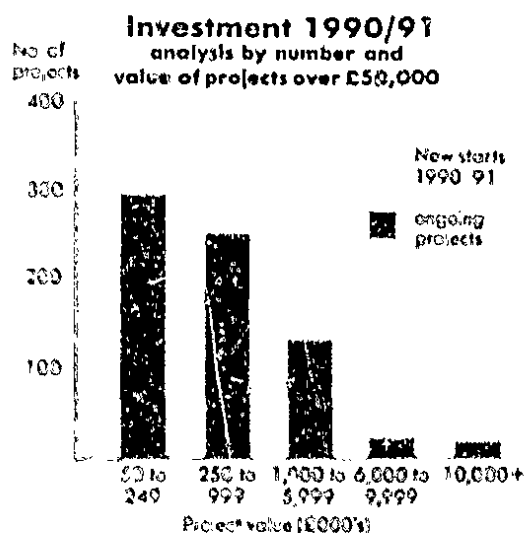
The projects themselves are spread between water resources and supply, water distribution and waste water treatment and disposal functions within the Company and the sewerage agencies. This offers further flexibility to the programme and comfort to our customers and local communities all over the region.

Our real strength, however, comes from our blend of skill and experience, built up over the last 16 years, in managing the largest and fastest growing investment programme of all the British water plc's.

Much of the engineering work is carried out in-house, by our large team

of around 600 qualified engineers and planners. Our long standing commitment to recruiting only the best young engineers and providing them with ongoing development and the latest technology is now beginning to pay dividends.

Our pioneering "whole system" and "fast track" approaches to investment planning and decision-making contribute both to the quality of our solutions and to the optimisation of the cost/benefit ratio. These disciplines apply equally to planning for water supply as to waste water and force us to consider the efficiency of





CHIEF EXECUTIVE'S REVIEW

and the effect of all our projects in the context of the whole system.

Also important is the network of special relationships North West Water has built up over the years with leading specialist consulting engineers, contractors and manufacturers. Some of our strategic alliances contribute to the expansion of our international operations as well as help us complete our domestic programme to the required standards, on time and within budget.

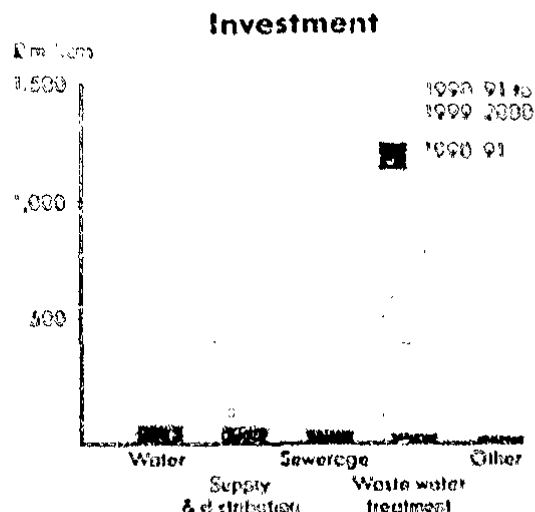
Technology, too, plays an important part. We are among the leaders in our industry and our R&D programme is designed to improve that position. We are using and developing state-of-the-art technology in planning and design, in project management and in digital mapping; and we are at the forefront in the specialised areas of geotechnology, hydraulics, microtunnelling and infrastructure surveying and renovation.

Finally, there are management factors which contribute to the security, quality and cost effectiveness of our investment programme: management focus, responsibility and accountability, tight financial control and an increasing emphasis on quality in-house and with our suppliers. There is no magic, just the setting of high standards and a meticulous attention to detail upon execution.

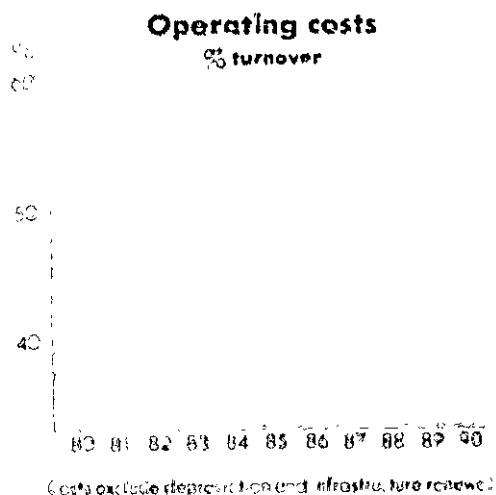
Higher standards of service and operating efficiency

International, European and British awareness – both of the general public and the environmental authorities – has raised everyone's expectations of water and waste water companies.

At the same time as improving its standards of service, North West Water has been able to cut back its operating costs from around



CHIEF EXECUTIVE'S REVIEW



60 per cent of turnover in 1980 to last year's 46 per cent. A similar trend has been reflected in the employee numbers. This has been achieved despite the substantial increase in workload arising from our growing investment programme and from our rising standards of service.

These cost reductions represent real productivity gains, the benefits of which have flowed through to our customers in lower price increases than would otherwise have been possible. The drive for increased efficiency will intensify this year and continue through the decade.

The emphasis will be placed increasingly on structural and organisational improvements, on the enhanced use of progressive information services and on technological breakthroughs. Once again, no miracles, just management-driven change.

Increasing regulation and environmental standards

North West Water's customers and community are demanding purer drinking water and cleaner rivers and beaches and our commitment to satisfying these needs is inviolate.

The new Drinking Water Inspectorate and the National Rivers Authority will be monitoring our progress and ensuring we achieve our goals. The Director General of Water Services will ensure that we do so at a reasonable cost to customers.

North West Water's commitment to meeting the expectations of its shareholders and its employees is equally inviolate.

We expect to prove that, as a private sector operation, we can meet all these commitments demonstrably better than we could in the public sector. Our efficiency and productivity gains are driven by the



CHIEF EXECUTIVE'S REVIEW

requirement to meet the expectations of our customers, our community and our shareholders.

The environment is now firmly on political and economic agendas. It is accepted that much needs to be done, but the questions remain, "How much?" and "Who pays?" Informed people and communities are just beginning to realise how demanding and expensive the environmental clean-up will be.

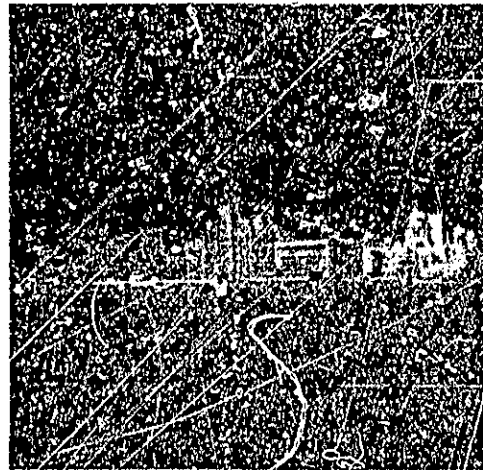
The funding alternatives are in the hands of local, national and European politicians. It is crucial that, whatever their choices, our work is not delayed. If anything, it should be accelerated.

Two recent examples taken from events in our region serve to illustrate this: the treatment and long sea outfall issue, which concerns the Fylde Coast, amongst others; and the sludge disposal debate.

It is the communities with the environmental problems which decide what standards must be met. In most cases national or EC standards are adopted - and these are changing rapidly.

North West Water is then mandated to select the solutions which meet the required specifications at the best cost. Any additional cost to that which was foreseen and agreed with the Government in our original K investment programme will be eligible for cost-pass-through. The Director General is the guardian of the integrity of that arrangement on behalf of both our customers and our shareholders.

North West Water is capable of implementing solutions to the region's waste water pollution problems and we are keen to get on with the job.



Turning the tide of pollution on the River Mersey



CHIEF EXECUTIVE'S REVIEW

However, delays do happen, especially when the community cannot agree either on what it wants or how much it is prepared to pay.

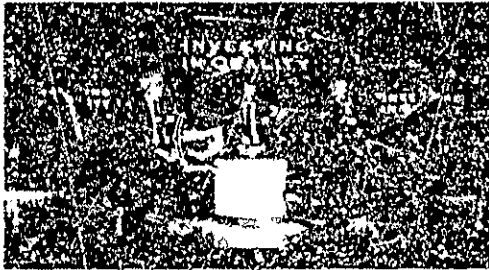
Although such delays are part of the democratic process, it is essential that a backlog is not allowed to build up.

The environmental services industry is on the edge of a tidal wave of demand and North West Water is particularly well placed to take advantage of this – both at home and overseas.

Investment in quality

North West Water will continue, as it has started, as a prosperous and efficient business.

As a utility, we shall deliver our promises of purer water to our customers and a cleaner, safer environment for our community – both at a reasonable cost.



Open forum of senior managers

As a public limited company, we shall deliver our promises of real growth in earnings per share and of dividends to our shareholders.

In achieving these goals, we shall be investing in quality throughout our operations.

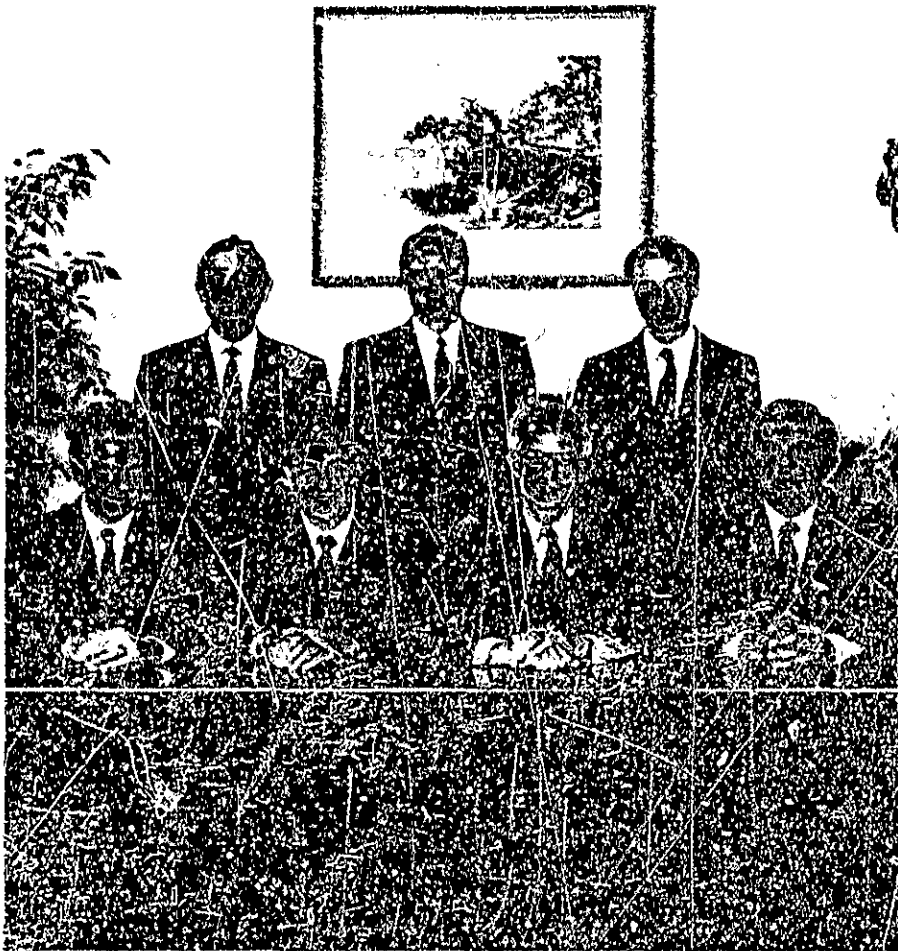
It is investment in quality which will:

- provide our customers with the services they want
- help improve productivity and drive down costs
- ensure our investment programme is completed on time, within budget and to specification

It is investment in quality which will make North West Water a long term, secure and profitable investment for our shareholders, many of whom are also customers and employees.

Robert Thlan

SENIOR MANAGEMENT

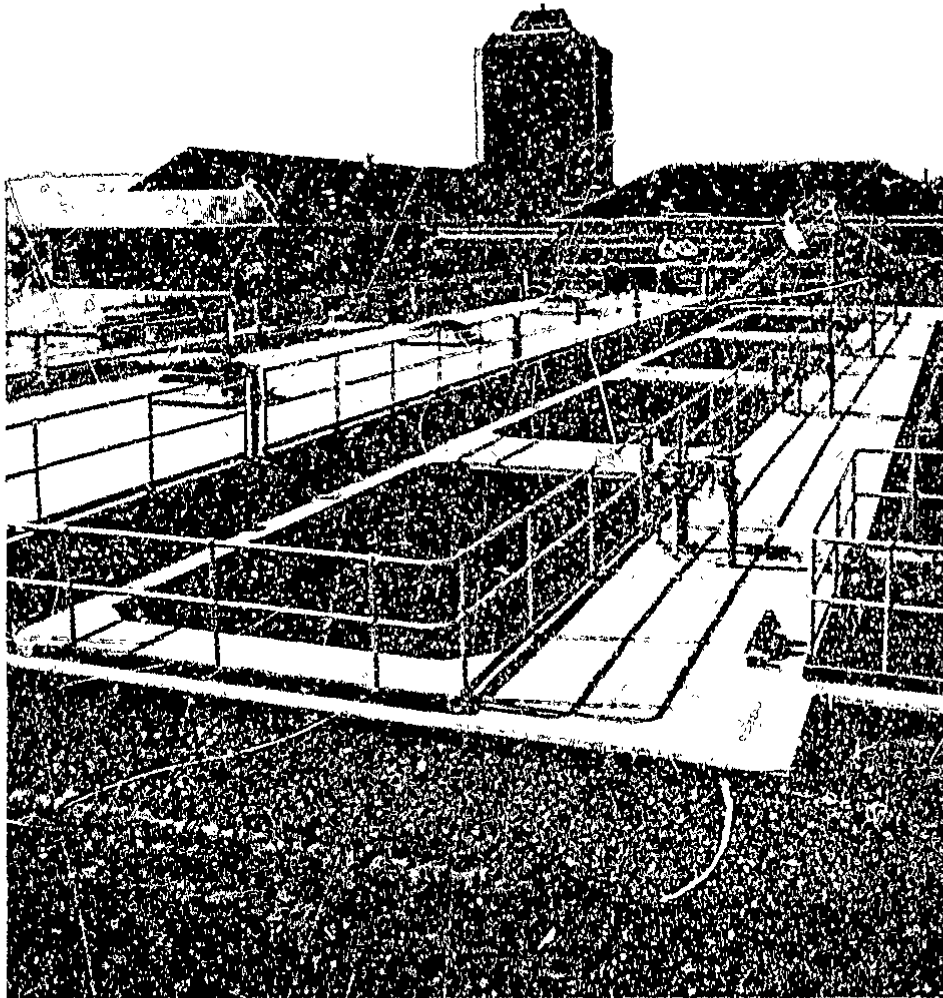


Standing:

Eric Harper Chief Scientist, John Tellow Company Secretary,
Dennis Clegg Head of Planning

Seated:

Robert Armstrong Personnel Director, Robert Ferguson Finance Director,
Michael Dyer Operations Director, Alan Fox Engineering Director



By. w/for C&P'e, cu. newest water treatment works



REVIEW OF ACTIVITIES

The year has been dominated by privatisation, a rigorous, intensive and demanding process. We have moved successfully to a new corporate structure with our principal subsidiary, North West Water Limited, operating within a new legislative and regulatory framework.

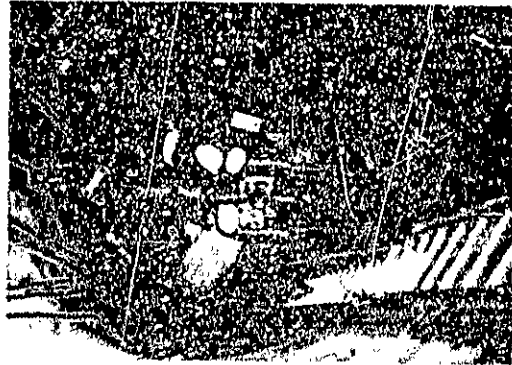
At the same time, we continued to provide water and waste water services to our customers, round the clock, to make improvements to those services, and to create and take wider business opportunities.

Particular features of the year were:

- major investment programme achieved on target
- increasing contribution to environmental improvements
- improvements in the quality of services to our customers
- continuity of water supplies maintained during one of the driest summers on record
- increasing emphasis on innovation and technology
- major project awarded in Pakistan
- dedicated workforce meeting the challenges of the year

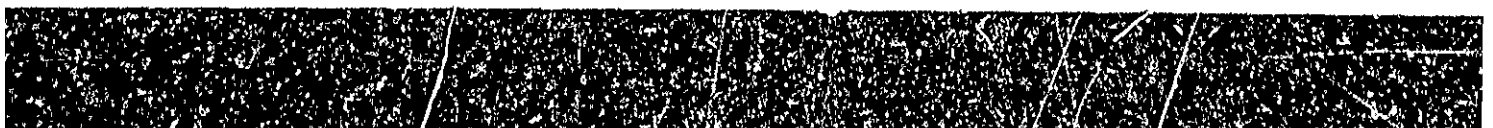
Regulatory framework

The new regulatory arrangements for our water and waste water services business, introduced by the Water Act 1989, are significantly different from those applying to the former water authorities. They have been redefined, extended or made more stringent, and introduce a more comprehensive framework of enforcement. A new system of economic regulation has also been introduced.



Microtunnelling at Northwich

New regulators were established, principally the Director General of Water Services and the National Rivers Authority. The Director General is particularly concerned with customer service standards and economic



REVIEW OF ACTIVITIES

regulation. This recognises the need for businesses to be properly financed, as well as for customers' interests to be protected, in particular by controlling charges. The National Rivers Authority's responsibilities include the prevention of water pollution.

Considerable investigation, analysis and planning were necessary during the year to ensure programmes were in place to secure compliance with the higher standards required by the new regulations. The standards for drinking water quality had a particularly high public profile as, more recently, have those relating to discharges to the sea, rivers and other surface waters.

Investment programme

Our investment target for the year was achieved. The investment expenditure of £264 million represented a 20 per cent increase on the previous year.

During the year:

- 305 new projects were started, ranging in cost from £50,000 to £12 million and with a total value of around £220 million
- 34 major projects for refurbished or extended water and waste water treatment works were completed at a total cost of around £16 million
- 630 kilometres of water mains were laid, renewed or refurbished at a cost of around £44 million
- 90 kilometres of sewers were laid, renewed or refurbished at a cost of around £78 million



Early stage construction of Europe water treatment works, Romford, Essex

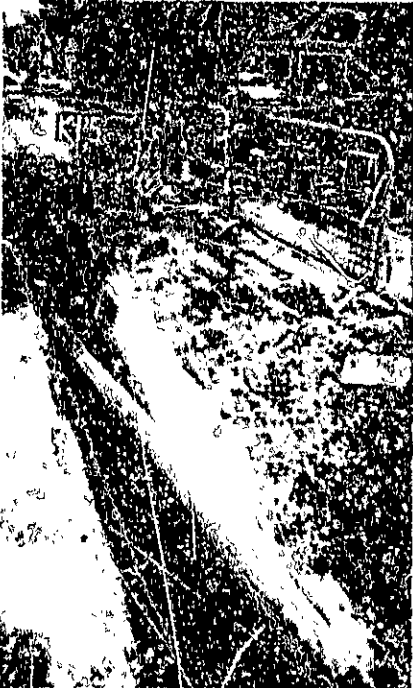
We must ensure value for money from our investment. An example is

REVIEW OF ACTIVITIES

providing additional capacity at some waste water treatment works to enable the transfer of flows from other inadequate or unsatisfactory works, which can then be closed and their sites made available for other uses. Another example is the increased use of plastic for new pipework, which means a big saving in future maintenance costs.

Improving the environment

A major part of our investment programme is directed towards continuing the improvement of the environment, particularly by the refurbishment of the sewerage system and of waste water treatment works to improve the quality of discharges to watercourses and tidal waters.



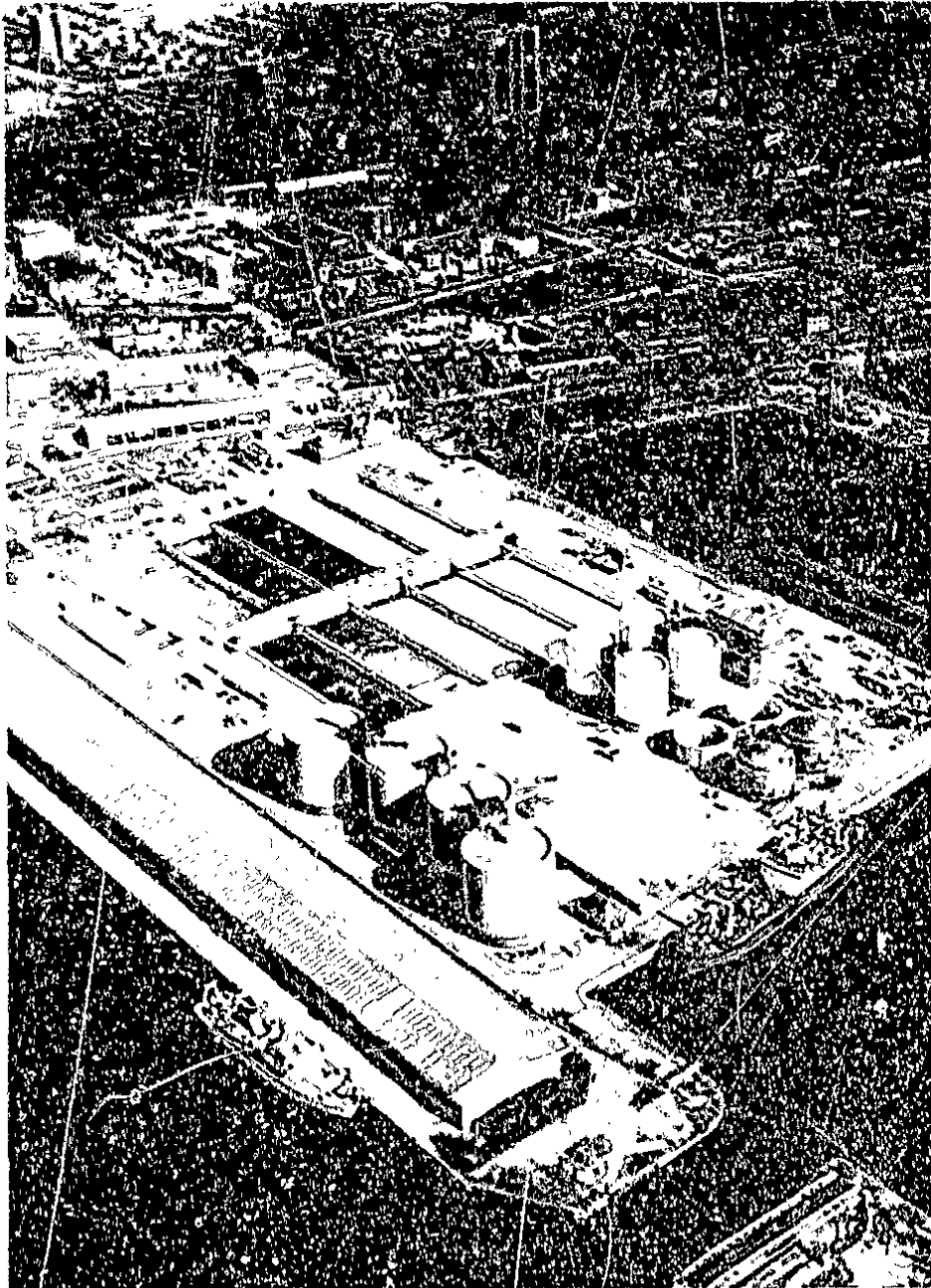
Laying a new plastic water main

As part of our extensive programme for the Mersey Basin clean-up, we have already spent more than £400 million over the last five years. During the year, the £8 million Wallasey Interceptor sewer was completed, some £5 million was spent on the Liverpool Interceptor sewer, and a start was made on the £5 million Green Lane Interceptor sewer. We continued to take a positive role in persuading other industries to improve their discharge arrangements by taking suitable wastes into the sewerage system.

We welcomed the Government's initiatives, announced towards the end of the year, concerning the ending of disposal of waste water sludge at sea and additional treatment for discharges to estuarial and coastal waters.

We are currently licensed to dispose of some 1.96 million wet tonnes of sludge to sea, with a similar amount being disposed of mainly to agricultural land, or landfill, or by incineration. There are no insurmountable

REVIEW OF ACTIVITIES



PHOTOGRAPH OF THE INDUSTRIAL FACILITY

REVIEW OF ACTIVITIES

practical or technical difficulties in complying with the requirement to cease disposal to 577. Of course, this will not of itself solve the problem of sludge. We need sufficient time to complete our plans for, and to construct and bring into operation, alternative arrangements which are likely to involve additional investment and operating expenditure.

The announcement that all significant waste water discharges should receive treatment was followed in May 1990 by the Secretary of State for the Environment's decision to reject our long sea outfall solution for waste water disposal on the Fylde Coast as it did not include treatment. Our original technical assessment and recommendation was designed to ensure that the Fylde bathing waters would meet the European bathing waters standards using the self-purification capacity of the sea, which would have resulted in the lowest cost to the community.

We are confident we can present environmentally acceptable alternative proposals for consultation before the end of 1990. Extra treatment facilities will clearly improve standards, but will also add significantly to the costs of the Fylde Coast clean-up.

Our commitment to the environment has other facets. As a major landowner in the North West, we will continue to respect the special character of the countryside in our care and take our environmental responsibilities seriously. The new national code of practice on conservation, access and recreation issued by the Secretary of State reflects our policies, practices and procedures. We are ensuring that all our activities are undertaken with best environmental practices at the forefront.

During the year we established the industry's first advisory committee of independent experts. CARAC, the Conservation, Access and Recreation



CARAC visit to Lever Park - Howard Hammersley, chairman, Rob Brier, secretary, Ian Brodie, deputy chairman, and Bill Foster, recreation and conservation manager

REVIEW OF ACTIVITIES

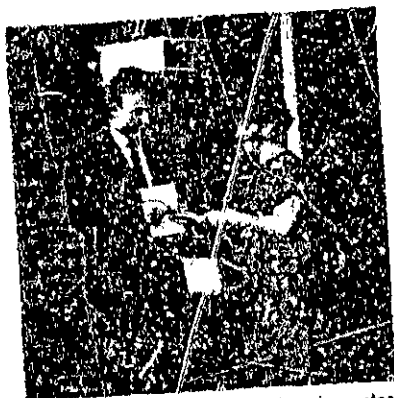
Advisory Committee, enlists the knowledge, skills and expertise of environmental and recreational organisations and local authorities to assist us in these important areas.

Improving the quality of services to our water customers

We are introducing new codes of practice relating to standards of service and for the protection of customers' interests. A general code for domestic customers describes our services, charges, complaints and emergency arrangements, and gives information about payment arrangements, meters, and the role of the Director General's Customer Service Committee for the North West. There are also codes relating to disconnections of supply to domestic customers and leakage from metered supplies to domestic customers.

A scheme has also been introduced which guarantees specified standards for resuming water supplies after interruptions; for responses to billing enquiries, requests for different payment arrangements and written complaints about water services; and keeping written appointments.

A great deal of effort has been directed to improving our procedures for notifying customers of our works programmes and of planned interruptions to their water supplies. Training programmes are continuing, to improve our approach to customer care and the way in which we respond to customers when they contact us.



Jeffrey Navler, customer services inspector, with customer Mrs Evelyn Austin - an efficient and courteous service is a top priority

Agreed arrangements are in place to ensure that complaints referred to us by the Customer Service Committee are dealt with efficiently and thoroughly. We were represented at the Committee's inaugural meeting in May 1990 and look forward to developing a positive and constructive relationship with the Committee to the benefit of our customers.

REVIEW OF ACTIVITIES

Action as part of our substantial investment programme to maintain and improve drinking water quality has included:

- provision of automatic water quality monitoring equipment and treatment process controls at many water treatment works, linked to the regional telemetry system
- use of granular activated carbon at the Huntington and Sutton Hall water treatment works to improve taste and odour control in supplies from the River Dee
- introduction of additional chlorination facilities at service reservoirs and elsewhere in the distribution system to provide better control of disinfection within the system
- further measures to reduce the take-up of lead from customers' service pipes and plumbing

The results of analyses of water samples taken are now recorded on the new water quality register, open to inspection by the public at 21 of our offices throughout the region.



Ullswater - a Lakeland source

Our programme for replacement and maintenance of water mains has continued to reduce the loss of water through leakage, contributing to cost savings and to maintaining water supplies to our customers. Where bursts cause loss of supply to customers, over 99 per cent of supplies are restored within 12 hours.

Continuity of water supplies

The summer of 1989 was one of the warmest and driest on record, but we were able to maintain supplies to our customers. This was achieved because of our integrated water supply networks which we continue

REVIEW OF ACTIVITIES

Water Services Facts

| | |
|-------------------------------------|--------------|
| Area (water supply) | 14,415 sq km |
| Area (waste water) | 14,445 sq km |
| Population (water supply) | 6,782,000 |
| Population (waste water) | 6,845,000 |
| Direct supply reservoirs | 168 |
| River, stream and lake intakes | 55 |
| Boreholes | 240 |
| Water treatment works | 68 |
| Service reservoirs and water towers | |
| Length of water mains (estimated) | 38,000 km |
| Length of sewers (estimated) | 34,000 km |
| Waste water pumping stations | 1,170 |
| Waste water treatment works | 644 |
| Sea and estuarial outfalls | 102 |

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REVIEW OF ACTIVITIES

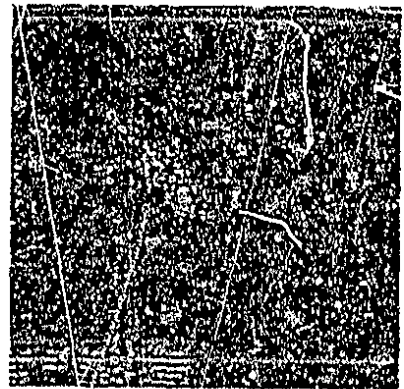
to make more flexible and robust, our intensified programme for reducing leakage from our mains, the efforts of our operational staff and, not least, the conscientiousness of our customers in responding to appeals for economy in their use of water.

Our reservoirs were fully restored by the exceptionally heavy rainfall in January and February 1990 and we are confident we can continue to meet the demands of our customers.

Research, technology and innovation

We are giving increasing attention to our vigorous R&D programme, to innovation and to the extensive use of new technology. We see real benefits accruing in financial, service and environmental terms, from the rapid adoption of new ideas and processes.

We have also introduced a major new computer system to help in the vital task of monitoring our investment programme. The customer service system for logging, progressing and monitoring maintenance and repair work to the water distribution system was enhanced and improved. Hand held computers are now used for speedier reading of meters and more cost effective preparation of bills.



Extensive use of new technology

Other developments include:

- a new regional telemetry system. Initially, over 1,100 operational sites will have remote monitoring and control facilities, making operational data available immediately at district and regional control centres. Most new capital projects include telemetry links and the system will be extended to more than 3,000 sites in the next few years to provide comprehensive integration and control of water and waste water systems

REVIEW OF ACTIVITIES

- computerised optimisation of complex water source systems including the Lake District and Lancashire conjunctive use systems, to minimise energy consumption
- fast track construction systems to reduce substantially the time taken to build new works
- increasing use of new techniques for water mains refurbishment, including die-drawing of pipes, reducing costly excavation works and disturbance to road users
- microtunnelling – pilot trials undertaken at sites in Northwich,



CHP plant inaugurated by David Trippier, Environment Minister, with Denis Gove

Whaley Bridge and Accrington to assess the various systems available for laying sewers, similarly reducing excavation costs and disturbance

- process design for ammonia removal from waste water, based on pilot and full scale plant studies at works at Davyhulme, Rochdale and Burnley. This is of particular importance for the improvement of discharges and therefore for the quality of watercourses

We make extensive use of the expertise of the Water Research Centre (1989) plc, of which we are the largest shareholder. We have played a leading role in work co-ordinated by the Centre on the design and management of sewerage systems to minimise the environmental impact of storm waste water discharges on watercourses. We are pioneering with Salford University the use of radar in managing urban drainage systems.

During the year further plants incorporating one of the world's most advanced combined heat and power (CHP) systems were commissioned, increasing the number using that system in the region to 16. This brings to 22 the total number of waste water treatment works with

REVIEW OF ACTIVITIES

CHP plants. CHP systems use methane gas from the treatment process to generate electricity. This is used to power the works, thus saving energy costs and the surplus generated is sold to electricity supply companies.

Other business activities

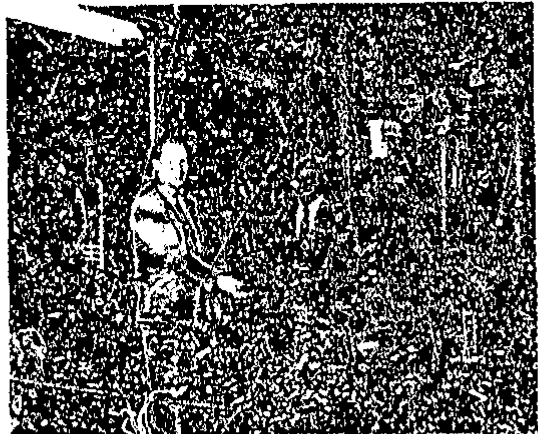
The development of other business activities at home and abroad continues to be a key element in North West Water's business strategy for the future.

Our joint venture in the City of Ipoh, in Malaysia, is into its second year. We are now managing the existing water treatment facilities and achieving significant improvements and cost savings. At the same time construction work is underway on the new £75 million upgrading and extension of treatment and distribution facilities, where we are responsible for the process design and future operation.

This contract has created further opportunities for North West Water in South East Asia and a memorandum of understanding for a similar project has been signed with the Government of East Java.

During the year, we secured one of the largest consultancies ever awarded by the Overseas Development Administration, to provide management expertise over a five year period to the City of Lahore, in Pakistan, to assist in the improvement of its water supply and distribution, and treatment of waste water. We now have similar contracts in 16 other countries including India, the Bahamas and Egypt.

We are continuing to develop our property portfolio in the North West particularly as property becomes available through changes in the operating requirements of the main water business. A joint housing



Business Development Director, Ian Ritchie, welcoming Alimata Oshinubi, a Nigerian visitor

REVIEW OF ACTIVITIES

development in Blackburn with Beazer Homes (Northern) Limited is well underway and is proving successful. A planning application will be made shortly to develop jointly with the same company a 19 acre site, north of Manchester. We are also planning several major commercial property development schemes in the North West, including a prestigious business park in Tameside, Greater Manchester.

Employees rising to the challenge

Our effectiveness as a company depends substantially on the dedication and commitment of our employees. These qualities were amply demonstrated during the rigorous privatisation process and in the other developments and activities during the year which are described in this Report. Collectively, our employees recognise that they have a major stake in the profitability of the business. Individually, the great majority are now also shareholders. The success of the Company and their success are bound together.

We will continue to ensure high quality recruitment and to invest in our employees through further training and development.



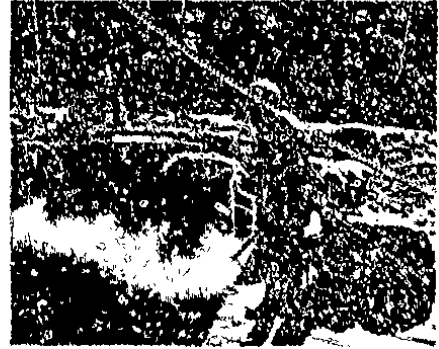
Executive Course, pipelayers, training with Mike Freegate, instructor at Sweetforges Centre Bolton

During the year:

- our new Open and Distance Learning Centre was opened enabling employees to undertake training at the time and pace best suited to their requirements
- over 5,000 course places were taken up by employees at all levels
- a major programme of modular training for all first line managers was undertaken. For some, this involved regular attendance at the Management Centre at Wigan College of Technology to undertake a tailor-made programme, culminating in the award of the National Examination Board Supervisory Management Certificate

REVIEW OF ACTIVITIES

- with a number of other major North West companies, North West Water was a founder member of the consortium MBA programme organised by the Management School at Lancaster University
- our links with education and the community developed significantly, including co-operation with local schools and the provision of help to the North West Regional Teacher Placement Service



Learning about nature at Worthington Lakes - Shevington Library Countryside Club with ranger, Ann Cockram

Our planning for the future includes, in the current year, our largest ever graduate intake. There will also be over 80 summer projects on offer to sixth formers and undergraduates to help them learn about industry and attract potential young recruits.

Our safety record continued the improving trend of the previous two years - resulting in an annual incident rate for the year which is the lowest ever achieved by North West Water. A further drive to improve safety performance is underway in the current year.

June 1990

DIRECTORS' REPORT

Company formation

North West Water Group PLC was incorporated in England and Wales on 1 April 1989 under the Companies Act 1985 as a public limited company and on 1 September 1989 was granted a certificate to do business under section 117 of that Act. On 1 September 1989 the property, rights and liabilities of North West Water Authority (other than those transferred to the National Rivers Authority) were vested in North West Water Limited, a wholly owned subsidiary of North West Water Group PLC.

Principal activities

The main business of the Group is the provision of water supply and sewerage services in the north west of England, through its principal subsidiary, North West Water Limited, which holds the Appointments as water and sewerage undertakers under the Water Act 1989. It is this part of the Group's business which is subject to regulation by the Secretary of State for the Environment, the Director General of Water Services and the National Rivers Authority.

The Group is also engaged in commercial activities in the UK, such as forestry, fish rearing and management and development of Group properties; and in project management and technical consultancy overseas.

The Chief Executive's Review and the Review of Activities, to be read in conjunction with this Report, appear on pages 9 to 29.

Profit and dividend

The results for the year set out in the consolidated profit and loss account on page 34 show a profit on ordinary activities before tax of £75.3 million (£177.3 million on a pro forma basis). This exceeds the profit forecast of £70 million (£172 million on a pro forma basis) set out in the Prospectus and has been declared after charging costs of £11 million for restructuring.

The profit for the year attributable to ordinary shareholders amounted to £56.2 million and the retained profit of £18.9 million was transferred to reserves.

The directors recommend a dividend on the ordinary shares of 10.47p per

DIRECTORS' REPORT

share for the year to 31 March 1990 for payment on 1 October 1990 to shareholders on the register at the close of business on 23 July 1990.

Fixed assets

The assets of North West Water Authority vested in North West Water Limited comprise substantially all of the Group's fixed assets. There are stringent provisions within the Water Act and the Appointments regarding the disposal of land and buildings, the majority of which are needed for continuing operations and are not readily adaptable for other uses. In these circumstances, the directors are of the opinion that the values shown in the Accounts properly reflect the existing use value to the business and are not significantly different from their market values.

Changes in fixed assets during the year are shown in note 12 to the Accounts.

Share capital

The Company has an authorised share capital of £475,000,001 divided into 475,000,000 ordinary shares of £1 each and one special rights redeemable preference share of £1. The issued share capital, credited as fully paid, is £355,829,001 divided into 355,829,000 ordinary shares and the special share.

Further details of the Company's share capital are set out in note 19 to the Accounts.

The directors have a general authority to allot shares given by special resolution passed on 20 November 1989 and valid until 19 November 1994. The number of shares authorised to be allotted which remain unissued is 118,609,000.

A special resolution will be proposed at the Annual General Meeting to renew for a period of 15 months or, if earlier, until the conclusion of the Annual General Meeting in 1991, the Company's general powers to disapply statutory pre-emption rights under section 95 of the Companies Act 1985 to allow shares to be issued for cash other than pro rata. If passed at the meeting, the resolution will give to the directors the power to issue shares in connection with a rights issue and shares for cash up to an aggregate nominal value of £17,791,000 being 5 per cent of the issued ordinary share capital.

DIRECTORS' REPORT

The directors believe it is important in the interests of the shareholders that they should be given this limited authority to allot shares for cash, which will give directors some flexibility in financing business opportunities as they arise.

All shares in the Company sold on an instalment basis under the Offer for Sale were registered in the name of Lloyds Bank Plc and will remain so until all of the instalments on the purchase price have been paid to HM Government. Except for this arrangement, the directors have not been notified of any interest amounting to 3 per cent or more of the nominal value of the issued ordinary share capital of the Company.

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988.

Directors

The present directors are listed on page 7. With the exception of Mr Thian, whose appointment was effective from 1 January 1990, all the directors listed were members of North West Water Authority before privatisation and were appointed directors of the Company with effect from 1 September 1989.

Mr Ramsay and Mr Sanderson, who are the directors to retire by rotation, will offer themselves for re-election. Mr Thian, who was appointed to the board under the provisions of Article 89, will also seek re-election.

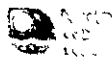
Mr Thian and Mr Ramsay have service contracts with the Company terminable by the Company on three years' notice. As a non-executive director, Mr Sanderson does not have a service contract.

Full details of directors' interests in ordinary shares are set out in note 5 to the Accounts. From the end of the financial year until 5 June 1990, no change took place in these interests.

At no time in the year did any director have a material interest in any contract or arrangement which was significant in relation to the Group's business.

Employees

The Group has established an extensive range of communication and consultative arrangements designed to ensure that employees are kept



DIRECTORS' REPORT

fully informed about developments in the business, including its financial performance. The Group also places great importance on training in technical and management skills and on employee development.

On flotation, employees were given the opportunity to participate in the ownership and performance of the Company by purchasing shares and more than 94 per cent became shareholders. Many were also granted share options under the Employee Sharesave Scheme, details of which are given in note 19 to the Accounts.

Following flotation, options were granted to executive directors and certain senior managers under the Executive Share Option Scheme. Further details are set out in note 19 to the Accounts.

The Group is pursuing its responsibilities as an equal opportunity employer. Policies and practices are established to ensure that, as far as possible, no job applicant or employee receives less favourable treatment on either racial grounds or on grounds of sex or marital status, or is disadvantaged by unjustifiable conditions or requirements.

In considering applications for employment from disabled people, the Group seeks to ensure that full and fair consideration is given to the abilities and aptitudes of the applicant in relation to the requirements of the job applied for. Employees who become unable to carry out the job for which they were employed are given individual consideration. Depending on the nature, severity and duration of the disability, individuals may be considered for alternative work, including re-training if necessary.

Auditors

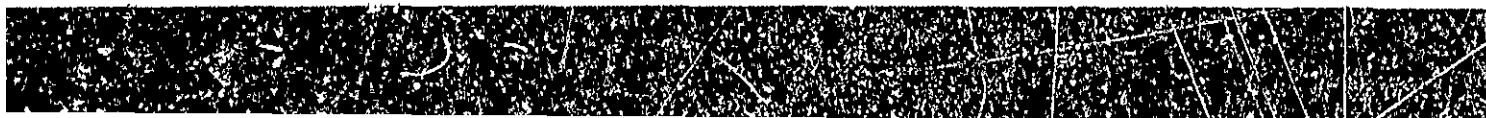
A resolution to re-appoint the auditors, Price Waterhouse, will be proposed at the Annual General Meeting.

By order of the board

J R Fellow

Secretary

19 June 1990



CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 1990

| | Note | 1990 | 1989 ^a |
|--|------|---------|-------------------|
| | | £m | £m |
| Turnover | 1,61 | 511.4 | 457.7 |
| Operating costs | 3 | (261.2) | (305.4) |
| Other income | 4 | 4.2 | 3.8 |
| | | <hr/> | <hr/> |
| Operating profit | | 244.4 | 156.1 |
| Net interest payable | 7 | (79.1) | (111.8) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before tax | | 165.3 | 44.3 |
| Tax on profit on ordinary activities | 8 | (12.4) | - |
| | | <hr/> | <hr/> |
| Profit on ordinary activities after tax | | 62.9 | 44.3 |
| Extraordinary items | 9 | (6.7) | (1.2) |
| | | <hr/> | <hr/> |
| Profit for financial year | | 56.2 | 43.1 |
| Dividend proposed | 10 | (37.3) | - |
| | | <hr/> | <hr/> |
| Transfer to reserves | 20 | 18.9 | 43.1 |
| | | <hr/> | <hr/> |
| Pre forma earnings per share - net basis | 11 | 44.6p | |
| - nil basis | 11 | 49.8p | |

The notes on pages 37 to 48 form part of these accounts.

^aSee note 1.



CONSOLIDATED BALANCE SHEET
AT 31 MARCH 1990

| | Note | (Group) | | Company |
|--|------|------------|-------------|------------|
| | | 1990 £m | 1989* £m | 1990 £m |
| FIXED ASSETS | | | | |
| Tangible assets | 12 | 1,557.8 | 1,368.6 | — |
| Investments | 13 | 0.4 | 0.1 | 1,079.9 |
| | | 1,558.2 | 1,388.7 | 1,079.9 |
| CURRENT ASSETS | | | | |
| Stores | | 6.0 | 6.9 | |
| Debtors | 14 | 87.3 | 73.0 | 4.6 |
| Investments | 15 | 252.2 | — | — |
| | | 345.5 | 79.9 | 4.6 |
| CREDITORS: Amounts falling due within one year | 16 | (246.4) | (332.4) | (54.7) |
| NET CURRENT ASSETS (LIABILITIES) | | 99.1 | (252.5) | (50.1) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,657.3 | 1,136.2 | 1,029.8 |
| CREDITORS: Amounts falling due after more than one year | 17 | (93.1) | (955.6) | — |
| | | 1,566.2 | 180.6 | 1,029.8 |
| CAPITAL AND RESERVES | | | | |
| Called up share capital | 19 | 355.8 | — | 355.8 |
| Profit and loss account | 20 | 1,210.4 | 180.6 | 674.0 |
| | | 1,566.2 | 180.6 | 1,029.8 |

Approved by the board of directors on 19 June 1990 and signed on its behalf by

W D Grove
Chairman

A M Ramsay
Group Financial Director

The notes on pages 37 to 48 form part of these accounts.

*See note 1.

**CONSOLIDATED SOURCE AND APPLICATION
OF FUNDS STATEMENT
FOR THE YEAR ENDED 31 MARCH 1990**

| | 1990 | 1989* |
|---|---------|-----------|
| | \$m | \$m |
| FUNDS GENERATED FROM TRADING | | |
| Profit on ordinary activities before tax | 75.3 | 44.3 |
| Depreciation | 29.4 | 26.1 |
| Extraordinary items | 0.0 | (1.2) |
| | 98.0 | 69.2 |
| CHANGES IN FIXED ASSETS | | |
| Purchase of tangible fixed assets and investments | 205.9 | (148.7) |
| Disposal of tangible fixed assets | 0.6 | 0.4 |
| Grants and contributions | 6.4 | 3.3 |
| CHANGES IN WORKING CAPITAL | | |
| Stores | 0.9 | 1.0 |
| Debtors | (14.3) | (3.3) |
| Creditors | 38.9 | 21.0 |
| Cash absorbed by operations | (75.4) | (57.1) |
| Iss. of shares | 319.7 | - |
| Loans written off | 1,037.6 | - |
| Net borrowings at beginning of year | 1,155.3 | (1,098.2) |
| Net cash (borrowings) at end of year | 136.0 | (1,155.3) |
| Comprising | | |
| Gross borrowings | 1,663.3 | (1,093.7) |
| Finance leases | 52.9 | (61.6) |
| Current investments | 252.2 | - |
| | 136.0 | (1,155.3) |

*See note 7

NOTES TO THE ACCOUNTS

1 Accounting policies

(a) Basis of preparation of accounts

The consolidated accounts set out on pages 34 to 36 incorporate the accounts of North West Water Group PLC and its subsidiaries. North West Water Group PLC was incorporated on 1 April 1989.

In accordance with the Water Act 1989, the consolidated accounts incorporate from 1 April 1989 the results of the activities of North West Water Authority which were vested in North West Water Limited on 1 September 1989.

The comparative financial information for the Group for the year ended 31 March 1989 has been extracted from the listing particulars in the Prospectus dated 22 November 1989, issued in connection with the Offer for Sale of shares in North West Water Group PLC. That information was based on the accounts of North West Water Authority, adjusted to eliminate the results and net assets of activities which have been transferred to the National Rivers Authority and reflecting accounting policies now being used by the Group.

The directors believe that care should be taken in drawing conclusions from a comparison between the results for the years ended 31 March 1990 and 31 March 1989. The changes which have taken place during the year in capital structure, regulatory expenditure and other costs associated with PLC status render comparisons potentially misleading.

(b) Turnover

Turnover represents the income receivable in the ordinary course of business for services provided and excludes VAT.

(c) Research and development

Expenditure on research and development is written off against profits in the year in which it is incurred.

(d) Tangible fixed assets

Tangible fixed assets comprise infrastructure assets (mains, sewers, impounding and pumped raw water storage reservoirs, dams, sudge pipelines and sea outfalls) and other assets (including properties, overground plant and equipment).

(i) Infrastructure assets

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

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

Charges for infrastructure renewals expenditure take account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying the Group's investment programme. The timing of the investment programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations between actual and planned expenditure.

It has not been possible or appropriate to adjust the profit and loss account charge for infrastructure renewals expenditure for the year ended 31 March 1989, as the Group did not have an investment programme in the current form during that period. Consequently, the level of charge for infrastructure renewals expenditure in the year ended 31 March 1990 is not directly comparable with the charge for the previous year.

(ii) Other assets

Other assets are shown at the values attributed by North West Water Authority prior to their being vested in North West Water Limited on 1 September 1989, less depreciation charged to 31 March 1990. Additions are included at cost after deducting related grants and contributions.

NOTES TO THE ACCOUNTS

3) Tangible fixed assets (continued)

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives which are prescribed as follows:

| | |
|--|-------------|
| Buildings | 30-60 years |
| Operational structures | 40-80 years |
| Furniture, fittings, tools and equipment | 4-10 years |
| The 1974 assets | 22-27 years |

Assets in the course of construction are not depreciated until commissioning.

a) Leased assets

Assets financed by leasing arrangements which transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in the balance sheet and the corresponding capital cost is shown as an obligation to the lessor. Leasing repayments comprise both a capital and a finance element. The finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease.

Operating lease rentals are charged to the profit and loss account as incurred.

b) Fixed asset investments

Investments held as fixed assets are stated at cost less amounts written off.

(g) Current asset investments

Current asset investments in externally managed interest bearing funds are stated at market value. Other investments are stated at the lower of cost and estimated net realisable value.

(h) Stores

Stores are stated at cost less any provisos necessary to recognise damage and obsolescence.

(i) Pensions

Most of the Group's employees belong to pension schemes which provide for defined benefits based on final pensionable pay. Pension costs are charged against profits over the estimated remaining service lives of employees.

Details of pension arrangements and funding are set out in note 21.

(j) Foreign currency

On consolidation, the results, assets and liabilities of North West Water (Malaysia) SDN BHD are translated into sterling at year end exchange rates.

(k) Deferred taxation

Provision is made for deferred taxation where a liability is considered likely to arise in the foreseeable future.

(l) Related companies

The results of related companies are recognised in the consolidated accounts where the directors consider that the Group is in a position to exert significant influence over the related company.

2 Segmental information

The directors consider that the Group operates substantially in the UK in one class of business. No analysis of Group turnover and profit before taxation by geographical area and by service provided is appropriate.



NOTES TO THE ACCOUNTS

| | | |
|---|--------------|--------------|
| 3 Operating costs | 1990 | 1989 |
| Staff costs | £m | £m |
| Wages and salaries | 879 | 847 |
| Social security costs | 71 | 64 |
| Pension contributions (note 21) | 100 | 61 |
| | <u>1050</u> | <u>972</u> |
| Capital schemes | 179 | (15.8) |
| Infrastructure renewals | 61 | (7.3) |
| | <u>1290</u> | <u>949</u> |
| Manpower costs | 810 | 741 |
| | <u>1100</u> | <u>1090</u> |
| Depreciation | | |
| Owned fixed assets | 218 | 177 |
| Fixed assets held under finance leases | 76 | 8.4 |
| | <u>294</u> | <u>26.1</u> |
| Infrastructure renewals expenditure | 782 | 67.7 |
| | <u>1076</u> | <u>93.8</u> |
| Other operating costs include: | | |
| Energy, rates and other operating costs | 128.0 | 113.7 |
| Raw materials and consumables | 21.2 | 18.8 |
| Auditors' remuneration | 0.1 | 0.1 |
| Research and development | 2.5 | 2.8 |
| Operating leases | | |
| -hire of plant and machinery | 1.8 | 1.2 |
| -land and buildings | 1.2 | 0.9 |
| Costs of restructuring | 11.0 | - |
| Awareness campaign and other costs | 6.8 | - |
| | <u>172.6</u> | <u>137.5</u> |
| Total operating costs | <u>1612</u> | <u>305.4</u> |
| 4. Other income | 1990 | 1989 |
| Other income is analysed as follows: | £m | £m |
| Profit on disposal of fixed assets | 3.1 | 2.9 |
| Net rents receivable | 1.0 | 0.9 |
| Other | 0.1 | - |
| | <u>4.2</u> | <u>3.8</u> |

NOTES TO THE ACCOUNTS

| | | |
|---|--|----------------|
| 5 | Directors | 1990 £m |
| | Directors' remuneration (including pension contributions and £0.2 million for funding of back service liabilities) | 0.5 |
| | Remuneration (excluding pension contributions) of The Chairman (and highest paid director) | £100 9* |
| | Other directors | 1990 Number |
| | £ | |
| | 5,001-10,000 | 1 |
| | 10,001-15,000 | 4 |
| | 45,001-50,000 | 1 |
| | 75,001-80,000 | 1 |
| | 80,001-85,000 | 1 |

The information set out above in respect of the year ended 31 March 1990 includes emoluments of the directors whilst they were members of the predecessor Authority in the period from 1 April 1989 to 31 August 1989. Comparative information has not been included because the directors consider this would be misleading, due to the significant changes in the composition and structure of the board.

At 31 March 1990, the directors and their families had the following beneficial interests in the Company's ordinary shares:

| | Ordinary shares (i) | Share options (iii) | |
|----------------|------------------------|-------------------------------|---------------------------------|
| | | Executive Option Scheme | Employee Sharesave Scheme |
| W D Grove | 8,362 (ii) | 22,250 | 6,136 |
| R P Thron | 4,200 | 143,750 | - |
| A M Ramsay | 6,258 (iii) | 90,000 | 6,136 |
| B Alexander | 5,295 (iv) | 90,000 | 6,136 |
| Mrs M C Bolton | - | - | - |
| J A Cropper | 7,000 | - | - |
| R Leach | 4,700 | - | - |
| A C Pendleton | 1,600 | - | - |
| F Sanderson | 4,100 | - | - |

- (i) In common with other eligible individual shareholders, the directors and their families may be entitled to a share bonus from HM Government in accordance with the provisions of the Offer for Sale.
- (ii) Beneficial interests include shares made available to eligible employees under special arrangements at the time of the Offer for Sale.
- (iii) Non-executive directors are not eligible to be granted options to purchase fully paid ordinary shares under the Employee Sharesave Scheme or the Executive Option Scheme described in note 19. Mr Thron's appointment was effective from 1 January 1990 and, therefore, he was not eligible to be granted options under the Employee Scheme.
- (iv) Mrs M C Bolton is a partner in a firm of Chartered Accountants which, with others, was involved in the privatisation of the ten water authorities.

NOTES TO THE ACCOUNTS

| | |
|---|-------|
| e. <i>Employees</i> | 1990 |
| Average number of persons employed by the Group | 7,100 |

Emoluments of higher paid employees of the Company (excluding pension contributions):

| £ | 1990 Number |
|-----------------|----------------|
| 30,001 - 35,000 | 5 |
| 35,001 - 40,000 | 1 |
| 40,001 - 45,000 | 3 |
| 45,001 - 50,000 | 1 |
| 50,001 - 55,000 | 2 |
| 55,001 - 60,000 | 2 |
| 60,001 - 65,000 | 3 |

Comparative information has not been included because the directors consider this would be misleading in view of the significant changes in the organisation of the business.

| | | |
|---|--------|-------|
| 7 Net interest payable | 1990 | 1989 |
| | £m | £m |
| Interest payable: | | |
| On bank loans, overdrafts and other loans: | | |
| Repayable within 5 years | 69.5 | 24.9 |
| Repayable wholly or partly in more than 5 years | 10.9 | 83.8 |
| | 80.4 | 108.7 |
| On finance lease: | 9.0 | 5.7 |
| | 89.4 | 114.4 |
| Total interest payable | 89.4 | 114.4 |
| Interest receivable | (10.3) | (2.6) |
| Net interest payable | 79.1 | 111.8 |

| | |
|---------------------------------------|------|
| 8 Taxation | 1990 |
| | £m |
| Corporation tax at 35% | - |
| Deferred tax | - |
| Irrecoverable advance corporation tax | 12.4 |
| | 12.4 |

No tax liability or charge arises because of the tax allowances on the transfer of accumulated capital expenditure from the predecessor Authority.

NOTES TO THE ACCOUNTS

8. Taxation (continued)

The full potential deferred tax liability, none of which is provided in the accounts, is:

| | Group | Company |
|--|--------|---------|
| | 1990 | 1990 |
| | £m | £m |
| Accelerated tax allowances on buildings, plant and equipment | 56.6 | |
| Other timing differences | 16.9 | |
| Losses | 27.9 | |
| | 101.4 | |
| Less: advance corporation tax | (18.4) | |
| | 83.0 | |

No comparatives are shown since the predecessor Authority was not liable to corporation tax.

9. Extraordinary Items

| | 1990 | 1989 |
|------------------------|------|------|
| | £m | £m |
| Extraordinary charges: | | |
| Privatisation costs | 6.7 | 1.2 |

Privatisation costs include expenditure relating to preparation for the vesting of North West Water Authority's assets and liabilities in successor bodies, which took place on 1 September 1989 under the provisions of the Water Act 1989 and to the Offer for Sale of the Company's shares.

10. Dividend

Proposed final dividend in respect of the period 1 September 1989 to 31 March 1990 of 10.47p net per ordinary share payable on 1 October 1990.

11. Pro forma earnings per share

| | 1990 |
|--|---------|
| Net basis | |
| Pro forma profit on ordinary activities after taxation | £158.7m |
| Pro forma earnings per ordinary share | 44.6p |
| Nil basis | |
| Pro forma profit on ordinary activities after taxation | £177.3m |
| Pro forma earnings per ordinary share | 49.8p |

Pro forma earnings per ordinary share on the net basis has been calculated by dividing pro forma profit on ordinary activities after taxation by the 355,829,000 shares in issue. Pro forma profit on ordinary activities after taxation has been calculated by reducing net interest payable by £102.0 million to reflect the net interest saving that would have arisen if the new capital structure had been in place from 1 April 1989, and by including a pro forma taxation charge of £18.6 million. The pro forma taxation charge comprises advance corporation tax on a national dividend of £56.0 million, being the pro forma forecast dividend contained in the listing particulars.

Pro forma earnings per ordinary share on the nil basis is calculated by eliminating the pro forma taxation charge of £18.6 million in respect of irrecoverable advance corporation tax.



NOTES TO THE ACCOUNTS

11 Pro forma earnings per share (continued)

There would be no significant dilution of earnings per ordinary share if the outstanding share options were exercised.

Actual earnings per ordinary share has not been presented as the information is not regarded as meaningful given the changes in the Group's capital structure, regulatory environment and taxation position which have taken place during the year. Earnings per ordinary share for 1989 has not been presented as the Company had no ordinary shares in issue during the year and the application of pro forma adjustments to that period would, in the directors' view, be subjective and inappropriate.

12 Tangible fixed assets

| | Land and buildings £m | Infra structure assets £m | Operational structures £m | Fixtures, fittings, tools and equipment £m | Pre 1974 assets £m | Assets in course of construction £m | Total £m |
|-------------------------------------|--------------------------|------------------------------|------------------------------|---|-----------------------|--|----------------|
| Cost | | | | | | | |
| Transfer from predecessor Authority | 41.0 | 745.5 | 280.8 | 206.4 | 177.4 | 121.1 | 1,572.2 |
| Additions | 2.1 | 62.2 | 13.8 | 26.5 | - | 101.0 | 205.6 |
| Grants and contributions | - | (2.3) | (0.5) | (0.2) | - | (3.4) | (6.4) |
| Transfers | 1.4 | 15.6 | 8.1 | 23.3 | - | (48.4) | - |
| Disposals | (0.3) | - | - | (2.4) | - | - | (2.7) |
| At 31 March 1990 | 44.2 | 821.0 | 302.2 | 253.6 | 177.4 | 170.3 | 1,768.7 |
| Depreciation | | | | | | | |
| Transfer from predecessor Authority | 5.9 | - | 28.8 | 65.8 | 83.1 | - | 183.6 |
| Charge for the year | 1.3 | - | 5.1 | 17.4 | 5.6 | - | 29.4 |
| Disposals | (0.1) | - | - | (2.0) | - | - | (2.1) |
| At 31 March 1990 | 7.1 | - | 33.9 | 81.2 | 88.7 | - | 210.9 |
| Net book value | | | | | | | |
| At 31 March 1990 | 37.1 | 821.0 | 268.3 | 172.4 | 88.7 | 170.3 | 1,557.8 |
| At 31 March 1989 | 35.1 | 745.5 | 252.0 | 140.6 | 94.3 | 121.1 | 1,388.6 |

Within tangible fixed assets are assets held under finance leases at the following amounts:

| | 1990 £m | 1989 £m |
|--------------------------|-------------|-------------|
| Cost | 81.0 | 85.4 |
| Accumulated depreciation | 41.9 | (34.3) |
| Net book value | 39.1 | 51.1 |

NOTES TO THE ACCOUNTS

12 Tangible fixed assets (continued)

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1990. The 1974 assets comprise a pool of assets which was transferred to the Group from North West Water Authority, which it acquired in 1974 from its predecessors. No analysis by asset category is available. The directors consider that the provision of the above information would incur expense and delay out of proportion to the benefit it would provide to shareholders.

| | 1990 | 1989 |
|---------------------------------------|-------|-------|
| | £m | £m |
| Capital commitments | | |
| Contracted but not provided for | 420.0 | 203.5 |
| Authorised but not yet contracted for | 58.0 | 85.9 |

In addition to these commitments, the Group has longer term investment expenditure plans which include expenditure to improve asset performance and condition and to provide for new demand and growth.

13 Fixed asset investments

| | Other investments £m |
|------------------|-------------------------|
| GROUP | |
| Cost | |
| At 1 April 1989 | 0.1 |
| Additions | 0.3 |
| | 0.4 |
| At 31 March 1990 | 0.4 |

| | Shares in subsidiary companies £m | Other investments £m | Total £m |
|--------------------------------|--------------------------------------|-------------------------|-------------|
| COMPANY | | | |
| Cost | | | |
| Additions and at 31 March 1990 | 1,079.8 | 0.1 | 1,079.9 |

Details of operating subsidiary and related companies, all of which are unlisted, are as follows:

| | Class of share capital held | Proportion of share capital owned | Nature of business |
|--|-----------------------------|-----------------------------------|---|
| Subsidiary companies: | | | |
| North West Water Limited | Ordinary | 100% | Water supply and sewerage services |
| NWW Properties Limited | Ordinary | 100% | Property management |
| NWW Engineering Limited | Ordinary | 100% | Engineering services |
| North West Water International Limited | Ordinary | 100% | Consulting services and project management overseas |
| North West Water (Malaysia) SDN BHD | Ordinary | 100% | Technical and management services |
| North West Water Share Scheme Trustees Limited | Ordinary | 100% | Trustee of employee share scheme |
| Related companies: | | | |
| Lakeland Smolt Limited | Ordinary | 49% | Fish Farming |

The subsidiary and related companies referred to above are all registered in England and Wales with the exception of North West Water (Malaysia) SDN BHD, which is incorporated in Malaysia.



NOTES TO THE ACCOUNTS

| 14 Debtors | Group | | Company |
|--|--------------|--------------|-------------|
| | 1990 | 1989 | 1990 |
| | £m | £m | £m |
| Amounts falling due within one year | | | |
| Trade debtors | 50.6 | 31.2 | - |
| Amounts owed by Group companies | - | - | 4.6 |
| Other debtors | 2.2 | 6.7 | - |
| Prepayments and accrued income | 28.6 | 34.2 | - |
| | <u>86.4</u> | <u>72.1</u> | <u>4.6</u> |
| Amounts falling due after more than one year: | | | |
| Amounts owed by related company | 0.1 | 0.3 | - |
| Other debtors | 0.6 | 0.6 | - |
| | <u>0.9</u> | <u>0.9</u> | <u>-</u> |
| Total debtors | <u>87.3</u> | <u>73.0</u> | <u>4.6</u> |
| | | | |
| 15 Current asset investments | Group | | Company |
| | 1990 | 1989 | 1990 |
| | £m | £m | £m |
| Managed funds and short term deposits | 252.2 | - | - |
| | <u>252.2</u> | <u>-</u> | <u>-</u> |
| | | | |
| 16 Creditors: amounts falling due within one year | Group | | Company |
| | 1990 | 1989 | 1990 |
| | £m | £m | £m |
| Loans | 0.7 | 168.0 | - |
| Bank overdrafts and temporary borrowings | 20.1 | 26.3 | - |
| Trade creditors | 14.9 | 14.3 | - |
| Amounts owed to Group companies | - | - | 4.8 |
| Obligations under finance leases | 8.0 | 8.2 | - |
| Proposed dividend | 37.3 | - | 37.3 |
| Other creditors | 1.7 | 0.1 | 0.2 |
| Taxation and social security | 1.4 | 0.3 | - |
| Infrastructure renewals accrual | 9.8 | - | - |
| Accruals and deferred income | 140.1 | 115.2 | - |
| Advance corporation tax payable | 12.4 | - | 12.4 |
| | <u>246.4</u> | <u>332.4</u> | <u>54.7</u> |
| | | | |
| 17 Creditors: amounts falling due after more than one year | Group | | Company |
| | 1990 | 1989 | 1990 |
| | £m | £m | £m |
| Loans | 42.5 | 899.4 | - |
| Obligations under finance leases | 44.9 | 53.4 | - |
| Other creditors | 3.7 | 2.8 | - |
| | <u>91.1</u> | <u>955.6</u> | <u>-</u> |

NOTES TO THE ACCOUNTS

18. Borrowings

| | Loans and overdrafts | | | 1990 Total £m | 1989 Total £m |
|----------------------------|-----------------------------|-------------|-------------------------|---------------------|---------------------|
| | Repayable by instalments | | Finance leases £m | | |
| | partly after | | | | |
| | 5 years £m | Other £m | | | |
| Within one year | 07 | 201 | 80 | 288 | 202.5 |
| Between one and five years | 07 | 01 | 76 | 84 | 54.8 |
| Between five and ten years | 25 | - | 168 | 193 | 165.6 |
| After more than ten years | 392 | - | 205 | 597 | 732.4 |
| | <u>431</u> | <u>202</u> | <u>529</u> | <u>1162</u> | <u>1,155.3</u> |

19 Called-up share capital

| | Authorised £ | Allotted and fully paid £ |
|--|--------------------|------------------------------------|
| The share capital of the Company comprises: | | |
| Ordinary shares of £1 | 475,000,000 | 355,829,000 |
| Special rights redeemable preference share of £1 | 1 | 1 |
| | <u>475,000,001</u> | <u>355,829,001</u> |

The Company's authorised share capital on incorporation on 1 April 1989 was £50,000 divided into 50,000 shares of £1 each, of which two were subscribed at par by nominees of the Crown. On 29 August 1989, the authorised share capital was increased to £50,001 by the creation of one special rights redeemable preference share of £1 and the 50,000 shares of £1 each were redesignated as ordinary shares of £1 each. On 1 September 1989, 49,998 ordinary shares were issued at par to the Secretary of State for the Environment, credited as fully paid.

On 20 November 1989:

- (a) the authorised share capital was further increased to £2,216,001 by the creation of 2,166,000 ordinary shares;
- (b) in accordance with a direction made by the Secretary of State under the Water Act 1989, 2,166,000 ordinary shares were issued at par, credited as fully paid, to the Secretary of State;
- (c) the authorised share capital was further increased to £475,000,001 by the creation of 472,784,000 ordinary shares;
- (d) 327,442,887 ordinary shares were allotted, credited as fully paid, to the Secretary of State in consideration of an undertaking to pay in cash £329.7 million; and
- (e) in accordance with a direction made by the Secretary of State under the Water Act 1989:
 - (i) 26,170,113 ordinary shares were allotted at par, credited as fully paid, to the Secretary of State; and
 - (ii) the special rights redeemable preference share was allotted at par, credited as fully paid, to the Secretary of State.

The special rights redeemable preference share is redeemable at par at the request of the holder at any time prior to 31 December 1994, and, unless so redeemed, will be redeemed by the Company at that date.

NOTES TO THE ACCOUNTS

19 Called-up share capital (continued)

The Company has established two employee share schemes - an Employee Shareave Scheme available to all eligible employees and an Executive Share Option Scheme for executive directors and certain senior managers. The former is based on SAYE contracts and the first offer under it was made at the time of the Offer for Sale. Options were granted on 12 December 1989 for five or seven year periods in respect of 3,190,736 fully paid ordinary shares at a price of 176p, exercisable within a six month period from the conclusion of the five or seven year period as appropriate. Under the Executive Share Option Scheme, options were granted on 30 January 1990 in respect of 946,000 fully paid ordinary shares at a price of 278p, exercisable in a period beginning no earlier than three years from the date of grant and ending no later than ten years from the date of grant.

20 Reserves

| | Profit and loss account | Share premium account |
|--|-------------------------------|-----------------------------|
| Group | £m | £m |
| Transferred from North West Water Authority | 180.6 | - |
| Profit for the year | 18.9 | - |
| Loans written off (see below) | 1,037.0 | - |
| Arising on the issue of shares | - | 2.3 |
| Utilised in respect of shares credited as fully paid | (26.1) | (2.3) |
| As at 31 March 1990 | 1,210.4 | |
| Company | | |
| Profit for the year | 700.1 | - |
| Arising on the issue of shares | - | 2.3 |
| Utilised in respect of shares credited as fully paid | (26.1) | (2.3) |
| As at 31 March 1990 | 674.0 | |

On 15 November 1989 the Group's indebtedness in respect of loans from the Secretary of State for the Environment and the Public Works Loans Commissioners was written off.

As allowed by section 228(7) of the Companies Act 1985, the Company has not presented its own profit and loss account. The amount of Group profit for the year dealt with in the Company's profit and loss account was £700.1 million.

21 Pensions

The Group operates two defined benefit final salary schemes, the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS).

Prior to 1 September 1989, employees were members of either the Water Authorities Superannuation Fund (WASF) or the WPS, which was established in 1988 as an optional alternative to the WASF. As part of the reorganisation of pension arrangements effective from 1 September 1989, the WASF was no longer available and employees who were members of WASF at that time were transferred to WMIS, which was established on that date to replicate the existing arrangements of the WASF for members' contributions and benefits.

With effect from 1 September 1989, actuarially determined transfer payments are due to be paid from the WASF to the WPS and WMIS in respect of members of WASF who have decided to transfer their past service rights into their new scheme. Although the first formal actuarial valuations have not been completed, the consulting actuary to both schemes, William M. Mercer Fraser Limited, has confirmed that

NOTES TO THE ACCOUNTS

21 Pensions (continued)

Member values calculated on this basis will be sufficient to meet the accrued liabilities assumed for each scheme including provision for future salary increases and interests to pensions in respect of service prior to September 1989.

The employer's contributions and the pension cost have been assessed in accordance with the advice of Acton & Mercer Fraser Limited using the projected unit method for the WPS and the attained age method for the WMS. For this purpose the main actuarial assumptions used are based upon investment growth of 9 per cent per annum and pay growth of 7 per cent per annum. Pensions in payment and deferred pensions under the WMS have been assumed to increase by 6 per cent per annum. This assumption has been chosen to reflect the increases under the scheme which are guaranteed to be in line with the Retail Price Index (RPI). For the WPS, the corresponding assumption used is 5.25 per cent per annum. This reflects increases which are guaranteed of 5 per cent per annum, or the increase in the RPI if less, with the intention to pay more up to the level of the RPI if the resources of the scheme so permit.

The pension cost for the period was £100 million (1989 £61 million), which included £16 million in respect of additional funding of statutory increases to pensions in payment and supplementary discretionary awards.

The pension cost in respect of the WPS and the WMS is the annual regular cost of providing benefits. In respect of the WAF, the pension cost has been taken as the contribution paid including both normal contributions based on members' pay and recharges of supplementary pensions and pension increases. Although these actual contributions would have been insufficient to fund pension increases and supplementary discretionary benefits, no unfunded liability for these now remains with the Group or its schemes. With effect from 1 September 1989 these liabilities and the liability for supplementary pensions payable under the WPS and WMS at that date were transferred to the National Rivers Authority. For other benefits, the full liability relating to service up to the date of each member's transfer to the WPS or WMS, including the liability for future pension increases, is intended to be met within the transfers from the WAF (as detailed here above).

22 Operating leases

Subsidiary companies were committed to making the following payments during the next twelve months:

| | 1992 | |
|----------------------------|-----------|-----------|
| | £ million | £ million |
| Leases which expire | | |
| With more than one year | 1.0 | 1.0 |
| With more than one year | | 0.1 |
| Between two and five years | 0.1 | 0.4 |
| After five years | 0.2 | 0.3 |
| | 1.3 | 1.8 |



AUDITORS' REPORT

Report of the Auditors to the members of North West Water Group PLC

We have audited the accounts on pages 34 to 48 in accordance with Auditing Standards.

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 March 1990, and of the profit and source and application of funds of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985

Price Waterhouse
Chartered Accountants
Manchester
19 June 1990



FINANCIAL CALENDAR

| | |
|--|----------------|
| Annual General Meeting | 25 July 1990 |
| Dividend for the year ended 31 March 1990 to be paid | 1 October 1990 |
| Interim results for the six months ending 30 September 1990 to be announced | November 1990 |
| Interim dividend for the year ending 31 March 1991 to be paid | 4 March 1991 |
| Preliminary announcement of results for the year ending 31 March 1991 | June 1991 |

FIVE YEAR SUMMARY

| | 1984 | 1987 | 1988 | 1989 | 1990 |
|---|------------|------------|------------|------------|--------------|
| | £m | £m | £m | £m | £m |
| Profit and loss accounts | | | | | |
| Turnover | 347 | 365 | 418 | 458 | 511 |
| Operating costs | (249) | (265) | (286) | (306) | 361 |
| Other income | 4 | 2 | 2 | 4 | 4 |
| Operating profit | 102 | 122 | 134 | 156 | 154 |
| Net interest payable | (109) | (113) | (108) | (112) | 19 |
| Profit (loss) before tax | (7) | 9 | 26 | 44 | 75 |
| Tax on profit on ordinary activities | - | - | - | - | (12) |
| Profit (loss) on ordinary activities after tax | (7) | 9 | 26 | 44 | 63 |
| Extraordinary items | - | - | - | (1) | 7 |
| Profit (loss) for financial year | (7) | 9 | 26 | 43 | 56 |
| Dividends | - | - | - | - | (37) |
| Transfer to (from) reserves | (7) | 9 | 26 | 43 | 19 |
| Balance sheets | | | | | |
| Fixed assets | 1,086 | 1,169 | 1,270 | 1,389 | 1,548 |
| Net current assets (liabilities) | (162) | (107) | (195) | (252) | 99 |
| Creditors falling due after more than one year | (821) | (950) | (937) | (956) | (91) |
| | 103 | 112 | 138 | 181 | 1,566 |
| Ordinary share capital | - | - | - | - | 356 |
| Reserves and retained profit | 103 | 112 | 138 | 181 | 1,210 |
| | 103 | 112 | 138 | 181 | 1,566 |

The comparative financial information for the four years ended 31 March 1989 has been extracted from the listing particulars in the Prospectus dated 22 November 1989, issued in connection with the Offer for Sale of shares in North West Water Group PLC. That information was based on the accounts of North West Water Authority, adjusted to eliminate the results and net assets of activities which have been transferred to the National Rivers Authority, and reflecting accounting policies now being used by the Group.

The directors believe that care should be taken in drawing conclusions from a comparison between the results for the year ended 31 March 1990 and those for previous years. The changes which have taken place during the year in capital structure, regulatory expenditure and other costs associated with PLC status render comparisons potentially misleading.

Note

The regulatory accounts of North West Water Limited to 31 March 1990, prepared in accordance with the Appointments, will be filed with the Director General of Water Services on 16 July 1990 and thereafter available upon application to the Company Secretary, Dawson House, Great Sankey, Warrington, Cheshire WA5 3LW.



NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the first Annual General Meeting of North West Water Group PLC will be held at the G-Mex Centre, Manchester, at 10.30 am on Wednesday, 25 July 1990 for the following purposes:

Ordinary business

1. To receive the Report of the directors and the Accounts for the financial year ended 31 March 1990.
2. To declare a dividend.
3. To re-elect Mr R P Thian as a director of the Company.
4. To re-elect Mr A M Ramsay as a director of the Company.
5. To re-elect Mr F Sanderson as a director of the Company.
6. To re-appoint Price Waterhouse as auditors and to authorise the directors to fix their remuneration.

Special business

7. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:

That the directors shall be empowered, pursuant to section 95 of the Companies Act 1985, for a period expiring 15 months following the passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 1991, to allot equity securities (within the meaning of section 94(2) of the Companies Act 1985) of the Company pursuant to the general authority conferred by a special resolution of the Company passed on 20 November 1989, as if section 89(1) of that Act did not apply to such allotment and the directors shall be entitled to make at any time prior to the expiry of the power hereby conferred any offer or agreement which would or might require equity securities to be allotted after the expiry of such power provided that such power shall be limited:

- (i) to the allotment of equity securities in connection with a rights issue in favour of the holders of ordinary shares where the equity securities respectively attributable to the interests of the ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held or deemed to be held by them, subject only to

N O T I C E A B O U T M A T T E R G R O U P P L C

NOTICE OF ANNUAL GENERAL MEETING

such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements, legal or practical problems arising in any overseas territory or by virtue of shares being represented by depository receipts, the requirements of any regulatory body or stock exchange, or any other matter whatsoever; and

- (ii) to the allotment (otherwise than pursuant to sub-paragraph (i) above) of equity securities up to an aggregate nominal value of £17,791,000.

Registered Office
Dawson House
Great Sankey
Warrington
Cheshire WA5 3LW

By order of the board
J R Telford
Secretary

19 June 1990

Notes

1. This notice of Annual General Meeting is being sent to registered holders of interim rights (including rights acquired in respect of Package U units comprising shares in each water holding company including the Company) in accordance with the instalment agreement dated 22 November 1989. The instalment agreement provides that until shortly after the final instalment of the purchase price is paid on 30 July 1991 shares in the Company on which instalments are payable will be held by Lloyds Bank Plc. However, arrangements have been made for persons in respect of whom shares are held by Lloyds Bank Plc to attend, speak at, and exercise the voting rights attached to those shares by attending the Annual General Meeting as representatives of Lloyds Bank Plc. The acclamation form enclosed is the form of representation and should be brought to the meeting.
2. A member or other person entitled to attend and vote is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. A proxy form is enclosed.
3. Proxy forms must be deposited at the office of the Registrar, Lloyds Bank Plc, PO Box 1669, Quayside Tower, Broad Street, Birmingham B1 1BR not less than 48 hours before the time for holding the meeting.
4. Shares acquired by employees under the Free and Matching Offers are held by trustees until December 1991 and employees holding only shares acquired under the Free and Matching Offers will be able to attend general meetings thereafter when the shares are registered in their own names in December 1991. Such employees can, however, in the meantime instruct the trustees how to vote on their behalf on any particular resolution if it is to be put to a formal vote of the meeting on a poll. A voting direction form is enclosed for employees concerned.
5. Copies of directors' service contracts are available for inspection at the registered office during business hours and at the place of the Annual General Meeting from 15 minutes prior to its commencement until its conclusion.