

PLEASE NOTE THAT
DUE TO THE POOR
QUALITY OF THE
FICHE SOME OF THE
FOLLOWING IMAGES
ARE ALSO OF POOR
QUALITY.



**North
West
Water**

North West Water Group PLC
Registered in England and Wales
Registered No. 2200216
Registered Office: Dawson House,
Great Sankey, Warrington, WARS 3LW
VAT No. 463 7973 87

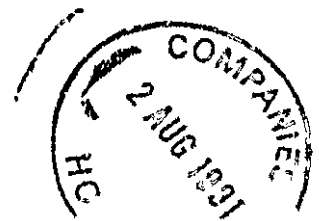
North West Water Group PLC
Registered in England and Wales
Registered No. 2200216
Registered Office: Dawson House,
Great Sankey, Warrington, WARS 3LW
VAT No. 463 7973 87

COMPANIES HOUSE

12 JUL 1991

M

76



*Focusing on
water and wastewater*

Contents

Financial Highlights	3
Chairman's Statement	4
The Group Board	5
Chief Executive's Review	6
Directors' Report	23
Consolidated Profit and Loss Account	26
Consolidated Balance Sheet	27
Consolidated Source and Application of Funds	28
Notes to the Accounts	29
Auditors' Report	43
Financial Calendar	43
Five Year Summary	44

Financial Highlights

	1991	1990
Turnover	£599m	£511m

Pre-tax profit	£215m	£177m*
----------------	-------	--------

Earnings per ordinary share	54.3p	44.6p*
-----------------------------	-------	--------

Dividends	18.0p	15.7p*
-----------	-------	--------

Dividend cover	2.5 times	2.4 times*
----------------	-----------	------------

Investment expenditure	£408m	£264m
------------------------	-------	-------

*stated on a pro forma basis

Chairman's Statement



The year's major achievements in respect of our investment programme in the North West of England and the strategic development of the Group confirm the business's strength and ability to meet our customers' and shareholders' expectations.

Continuing cost and efficiency improvements contributed to the year's strong financial performance. Group turnover rose to £599 million, an increase over the previous year of 17 per cent, with profit before tax of £215 million, up 21 per cent on the pro forma for 1990. We ploughed back £129 million, 67 per cent of the profits after tax, to contribute directly to the investment programme.

We achieved our substantially increased investment of £498 million, up 55 per cent on 1990. This has resulted in further improvements to the quality of water and wastewater services for our customers and the quality of their environment.

Our business is sharply focused on water and wastewater and our strategy for the

Group will proceed strongly forward with our first acquisitions - Enyrex in America, Water Engineering in the UK and Jones Engineering in Ireland - and their successful integration into the North West Water Group. We are extending and enhancing this development in the vital area of process engineering with the recent agreements to acquire Wallace & Tiernan in America and Edwards & Jones in the UK - also leaders in their respective fields. These subsidiaries combined with North West Water's direct experience, will make the Group one of the largest international water process engineering organisations.

The Group Board was strengthened with the appointments of Desmond Pitcher as a non executive director and Deputy Chairman and, more recently, of Alan Dean, Business Development Director.

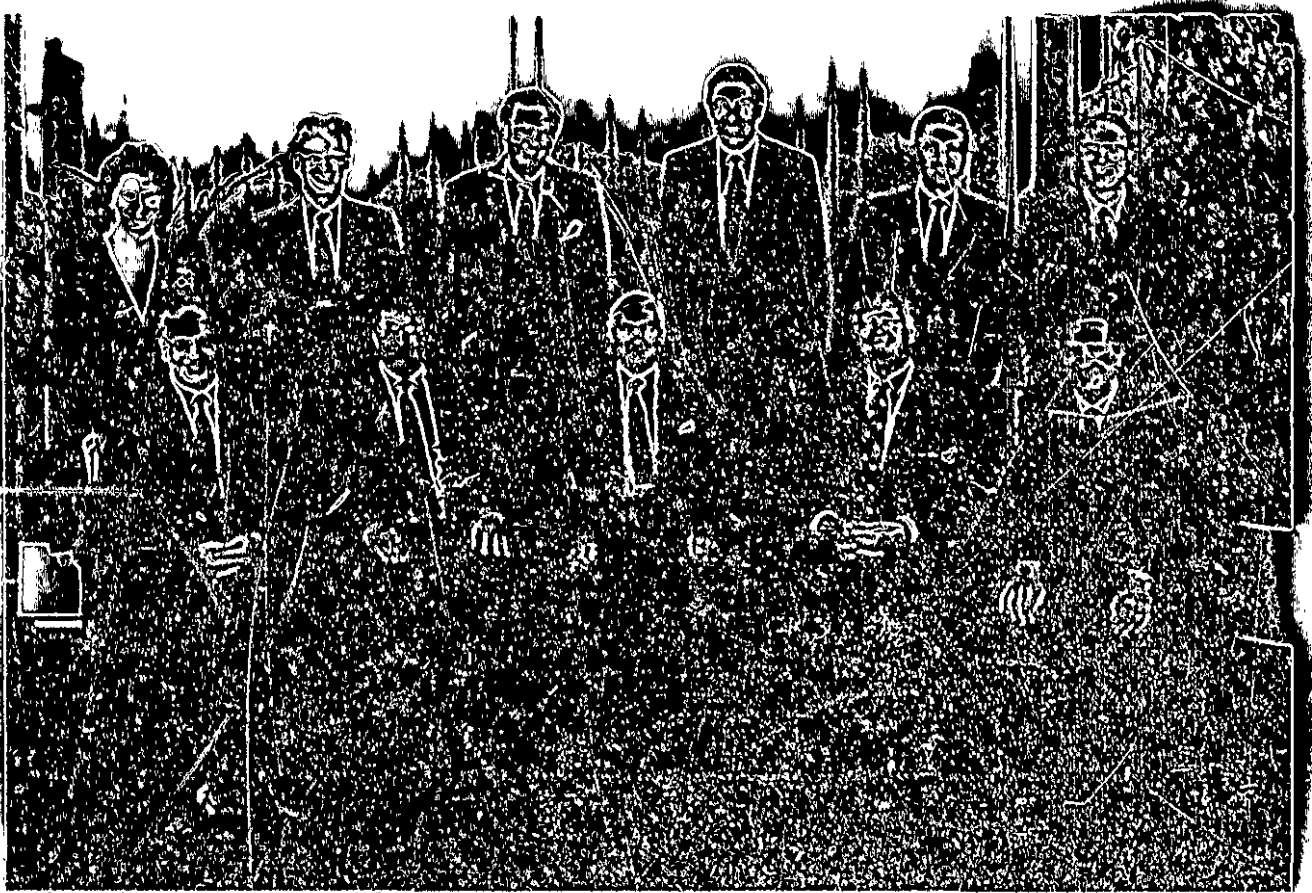
James Cropper retired from the Board. James made a great contribution to the development of the water industry in the North West of England as a founder member of the former Water Authority and as a director of North West Water Group PLC.

We have devoted considerable time and effort towards keeping our customers and shareholders informed about our activities and progress.

The full commitment of all our employees to strengthen the Group to maintain and improve services to our customers has contributed to a notable first full year in the private sector and I am grateful to them all. The year's achievements are a firm foundation for the continued development and further success of the business.

D. Dennis Grant

The Group Board



Standing: Clare Bolton, Rodney Leach, Frank Sanderson, Alan Pendleton, Alan Dean, John Tetlow
Seated: Brian Alexander, Robert Thian, Dennis Grove (Chairman), Desmond Pitcher, Archibald Ramsay

*Dennis Grove BSc (63), Chairman. Formerly a senior executive with the Dunlop Group, chairman and chief executive of Sonac Europe, and a vice president of Baxco International. Mr Grove was chairman of North West Water Authority from 1 October 1985.

Robert Thian Esq. (47) (Geneva) Barrister (47). Chief Executive. Formerly managing director, Glaxo Pharmaceuticals, Portugal. Former regional director, Albion International and a member of the Board of New Industries.

Brian Alexander CEng. FIEE. FIVEM (59). Managing Director of North West Water Limited. Formerly planning and engineering director of North West Water Authority.

Alan Dean MA (42). Technical Development Director. Formerly a director of Matthew Clark. Formerly chief executive of Brownrigg and editor of IEM Rothchild & Sons.

Archibald Ramsay BA (45) MA (53) MA (55) FRCI Group Chairman. Formerly group financial controller and head of group finance of the International Plant and Pipe Fabricators for Paper House Group.

Member of the Audit Committee

*Clare Bolton MA (44) BA (46) MSc (49). Chairman of the Audit Committee. A former director of Capgem & Partners. The office

*Rodney Leach PhD. CEng. FRSA, FIM, FCIM (59). Formerly a partner in McKinsey & Company, an executive director of P&O and chief executive and managing director of VSEL.

*Alan Pendleton MSc. Tech. Chem. FRSC, FRSA (62). Chairman of Kemutec Group and a non-executive director of the Hettain Group and of Nord Anglia Education. Formerly managing director of Westy Group International and a director of Tibury Group.

*Desmond Pitcher CEng. FIEE. FBCS, BIM, FIEE (56). Deputy Chairman, Group chief executive. The Citywide Organisation, chairman, Merseyside Development Corporation and the Mersey Barrage Company. Formerly managing director, Plessey Telecommunications and Office Systems and of British Inland Truck and Road Services.

*Frank Sanderson CEng. FIMechE. FIVEM (64). Chairman of the Remuneration Committee, Chairman of Acumen Techniques, Chairman of Communications and Wyatt Books and a director of British Water and Watlowater. Formerly regional managing director for water engineering business of Babcock International.

Member of the Audit Committee

Secretary
John Tetlow MA (46) BA (48)

Chief Executive's Review

Business focus



Robert Thain, Chief Executive

North West Water Group remains focused entirely on water and wastewater. Our long established expertise in that sector is founded in four areas of excellence, each with considerable development potential:

- environmental engineering – planning, design and engineering; and contract, project and programme management;
- infrastructure engineering – planning and design of water supply and distribution networks and wastewater disposal networks; diagnosing network problems and identifying engineering solutions; and specialist infrastructure engineering techniques;
- process engineering – planning and design of water and wastewater treatment processes; providing process solutions to the full range of water and wastewater quality problems; and developing, designing, manufacturing, installing and maintaining process plant and equipment;
- operations – managing water and wastewater systems. North West Water Limited, whose business is carrying out the functions of appointed water and sewerage undertaker for the North West of England, is and will remain our major operating

“flagship” company. Nothing will compromise our absolute commitment to outstanding performance by North West Water Limited.

These four business areas will work closely together. We will be making a substantial investment in research and development to improve efficiency and to enhance their skills and technology. North West Water International Limited will carry out international marketing and business development activities on their behalf. All areas of our business will live and work by the Group's essential shared values, emphasising:

- quality and efficiency, innovation and technology;
- environmental awareness in all we do;
- good communications with our stakeholders, our customers in the North West of England and elsewhere; our shareholders, many of whom are also our customers; the communities we serve directly and indirectly; and our employees, most of whom have dedicated their careers to improving water and wastewater standards;
- people, their training, development and appraisal: creating a high performance culture with the right people under the right management, who will sustain and grow North West Water Group's success.

Our goal is to be the most keenly focused water and wastewater company worldwide and to achieve skill and technology leadership. Significant steps have been taken during the year to develop and strengthen the business:

- we have added to the breadth and depth of our Group senior management with key appointments in the important areas of general management, business development, information systems, finance, personnel, procurement and engineering;
- every aspect of the business has been reviewed and we are fundamentally rethinking and restructuring the way we work;

Chief Executive's Review

Business focus

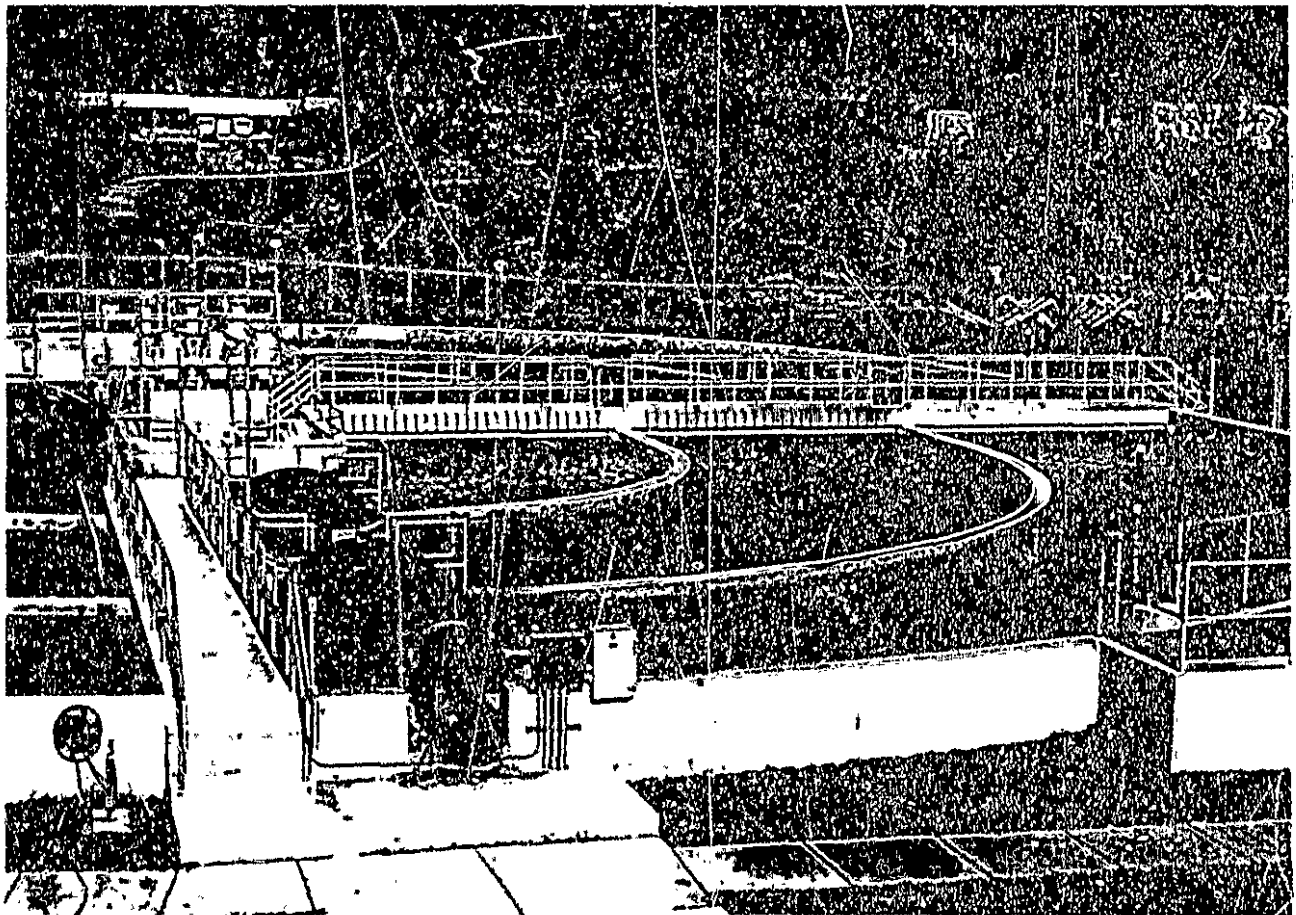
- we have focused above all on the operations of our main water and wastewater business, North West Water Limited, which has improved its productivity whilst reaching its highest ever service and output standards;
- we have achieved increasing economies by progressively concentrating our efforts on essential activities and by outsourcing where we can get better value from outside suppliers;
- we are extending objective and performance based management deeper into the organisation and have introduced a high quality graduate recruitment scheme.

Our first acquisitions, announced in November 1990, of Envirex in America, Water Engineering in the UK and Jones Environmental in Ireland, brought into the Group market leaders in the field of process engineering for the water and wastewater industry.

The new companies are being integrated constructively within the Group. The cross-fertilisation of ideas and technologies that we had anticipated, between these companies and with the engineers and operators of North West Water Limited, is progressing quickly and is benefiting both our investment programme in the North West of England and our wider business development.

Following our more recent acquisitions, the process engineering division will have aggregate sales of some £170 million, operating profits of over £16 million and operating affiliates in 10 countries.

Our acquisitions have brought into the Group new process skills and contracting expertise - here, an Envirex orbital aeration system



Chief Executive's Review

Environmental and infrastructure engineering

Our environmental and infrastructure engineering resources have been directed at meeting our substantial investment programme for continuing improvements to water and wastewater services in the North West of England.

The planned investment for the year of £408 million, a 55 per cent increase on last year, was achieved helping us meet the stringent water quality and environmental standards our customers expect:

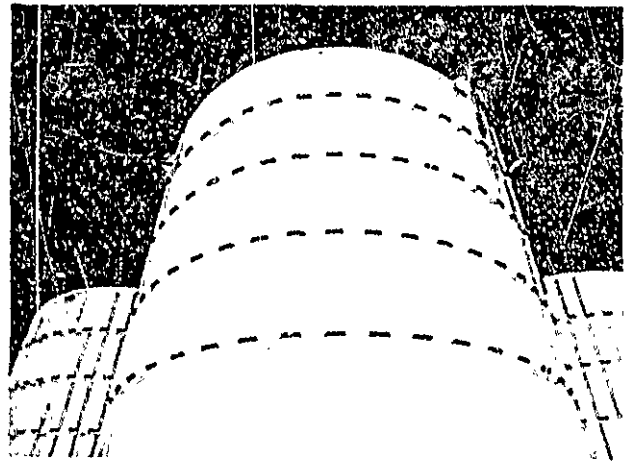
- 410 new projects were started, ranging in cost from £50,000 to £29 million, with a total value of around £430 million,
- 125 major projects for refurbished or extended water and wastewater treatment works were completed at a cost of around £171 million;
- 868 kilometres of water mains were laid, renewed or refurbished at a cost of some £59 million;
- 116 kilometres of sewers were laid, renewed or refurbished at a cost of around £113 million;

Investing £4.3 billion in the 1990s to improve services to customers - from water mains (below) to wastewater treatment works (right)



- there are currently 16 new water treatment works under construction, nine due for completion in 1991/92. Work on some 50 wastewater treatment works is due for completion in the same period.

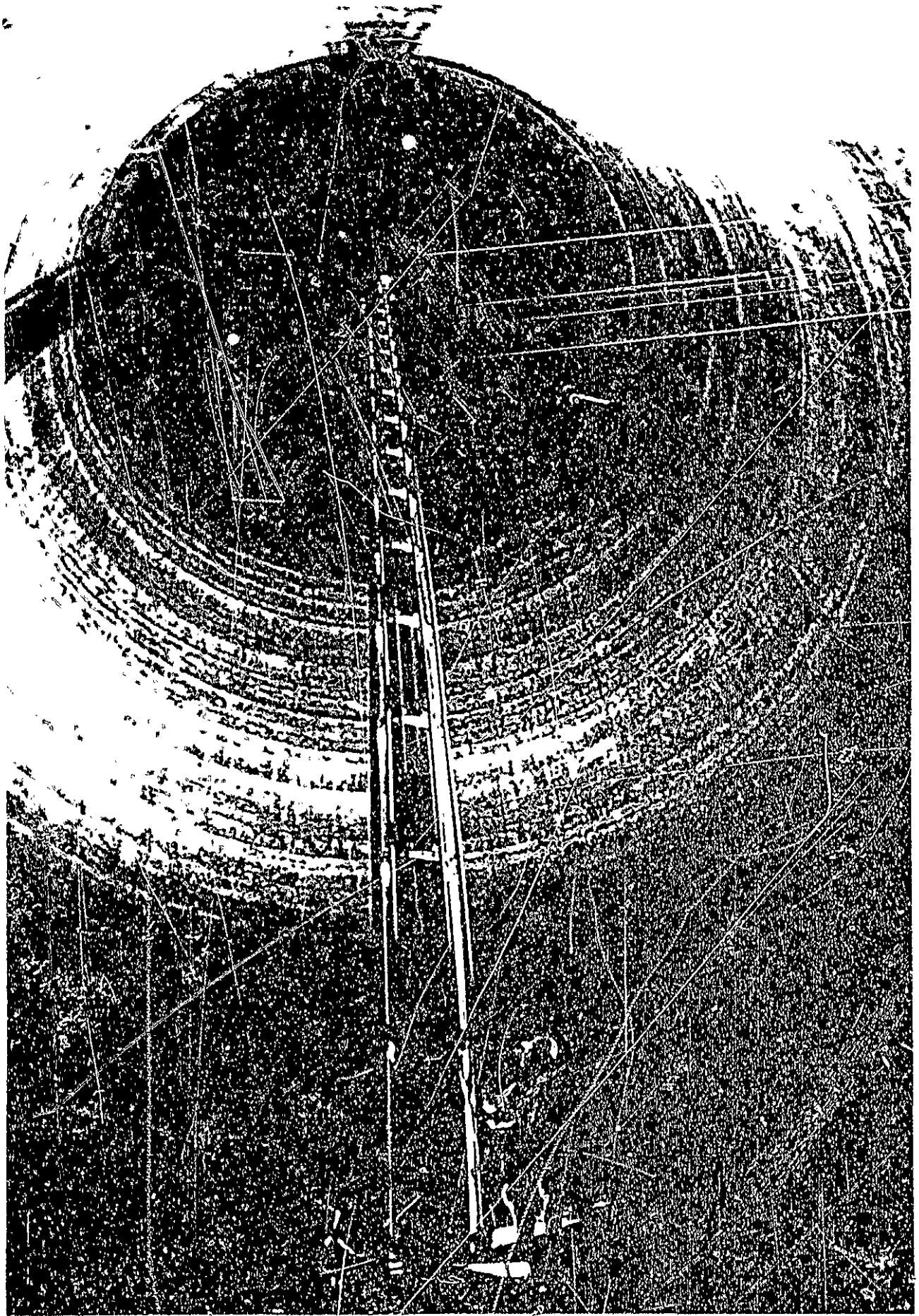
We have achieved our target despite local planning delays, by accelerating works planned for later years. The planned levels of service and outputs were achieved at a lower cost than previously envisaged. The savings have been utilised to deliver additional improvements for customers.



In this way, the customers and communities of North West Water Limited were able to benefit directly and immediately from the company's success: a real and immediate benefit of the company being in the private sector.

Our investment programme is presently providing work on site in the North West of England for more than 2,000 people in some 250 companies, in addition to our own and our sewerage agents' employees.

£150 million was spent on our continuing programme for the Mersey Basin clean-up, including the construction of 2.3 kilometres of interceptor sewers on the Liverpool and Wirral banks of the Mersey and the substantial completion of Liverpool's new wastewater treatment works at Sandon Dock.



Chief Executive's Review

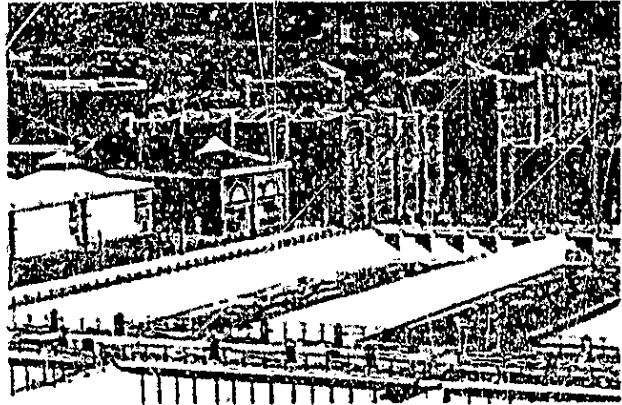
Environmental and infrastructure engineering

Important changes have been planned and implemented during the year to improve our engineering quality and productivity:

- our three former engineering offices have been centralised at Risley, near Warrington, into a single engineering unit;
- greater emphasis has been placed on the efficiency of design and on project management skills;
- extensive use has been made of the best available computer aided design and project management technology;
- a flexible approach to contracting has been adopted, further developing the fast-tracking techniques pioneered over the last few years by North West Water Limited.

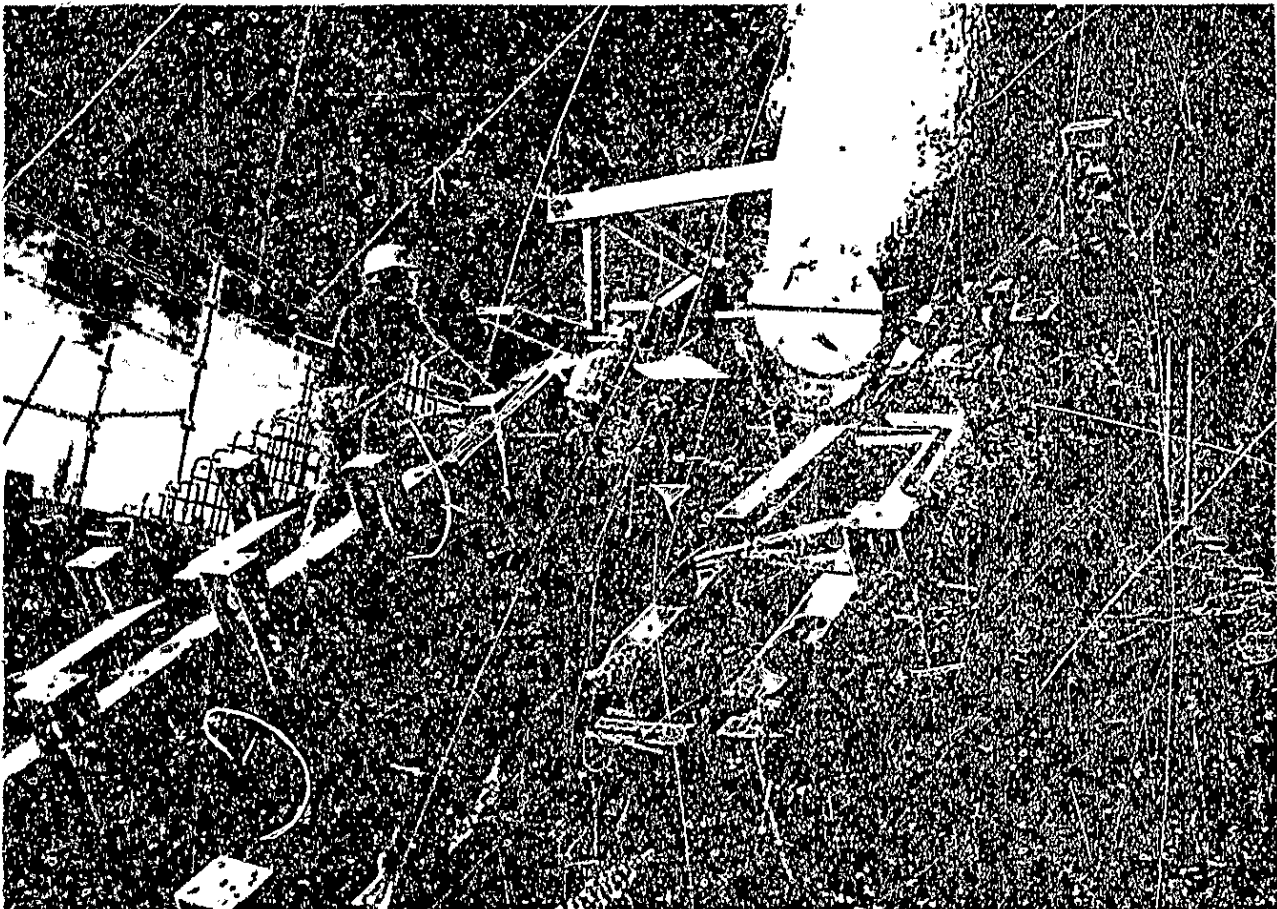
North West Water is already a benchmark for water and wastewater engineering excellence, but, as in other parts of our business, we continued to pay special attention to the

development of our people and the further upgrading of their skills. We have also raised the entrance standards and the size of our annual engineering graduate intake.



Above Sandon Dock wastewater treatment works, carefully designed to reflect the dockland architecture

Below some of the many tonnes of concrete that will be needed during the 1990s



Chief Executive's Review

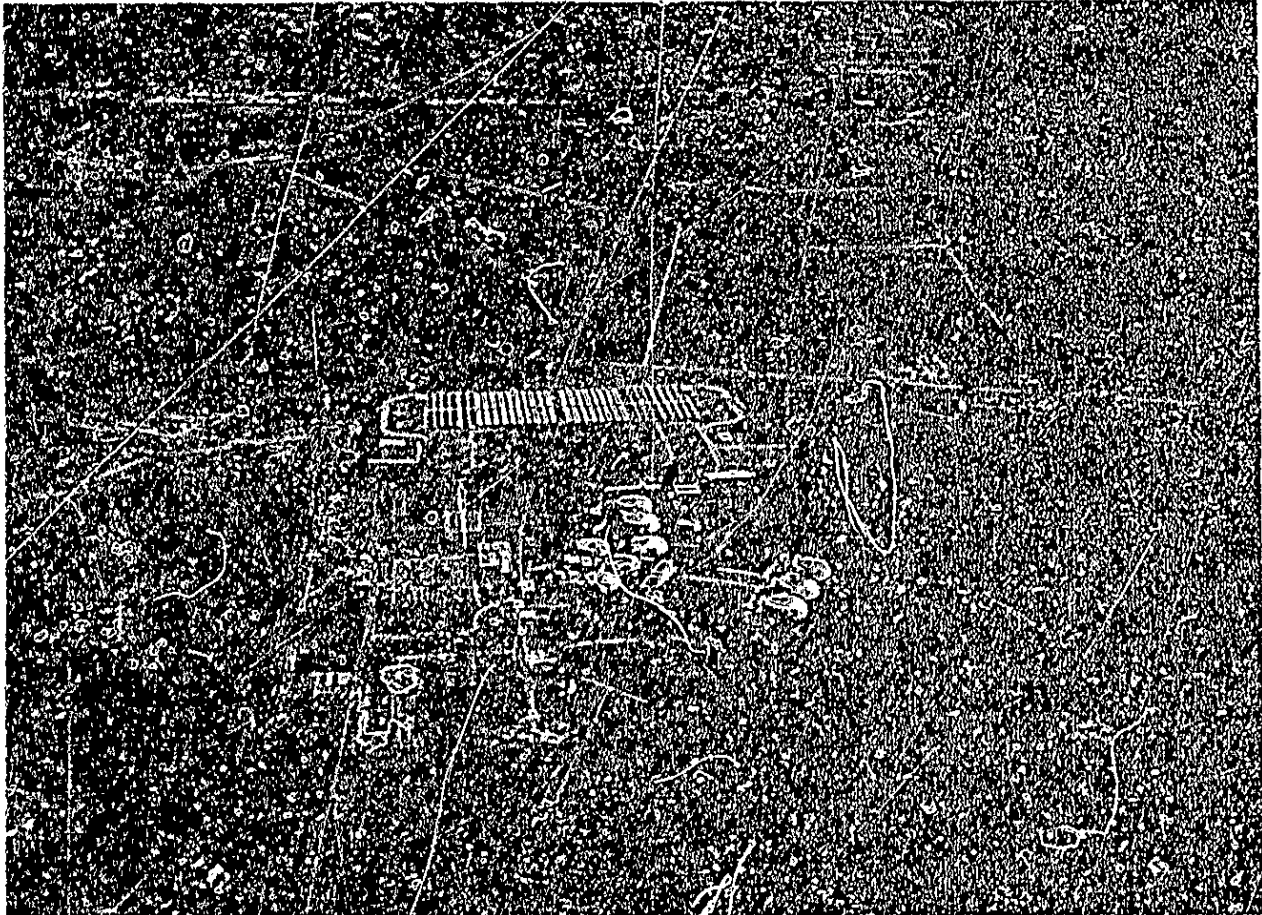
Process engineering

Process engineering is the heart of the water and wastewater business, it is what turns raw water into drinking water; it is what converts domestic and industrial wastewater into an effluent which does not pollute the environment. It is the vital process, equipment and systems which deliver safe drinking water and a high quality environment to our customers.

Process engineering is to water and wastewater what mainframes are to the mainstream computer industry. It is the key to a real competitive edge. That is why we have given a high priority to the development of our process engineering business.

Our acquisitions of process engineering companies have added a new dimension to the Group, complementing our existing expertise with new skills, experience and technology:

- Envirex is the market leader in the United States of America for the design, manufacture and supply of municipal wastewater treatment equipment and services. It is a leading supplier of similar services for drinking water and industrial effluent treatment;
- Jones Environmental is a leading company in the design and installation of wastewater and effluent treatment plants in Ireland,
- Water Engineering is a leader in the design, manufacture and installation of water and wastewater treatment plants in the UK and overseas. The company also has a joint venture with the research company, Water Research Centre (1989) plc. A particular achievement in the year was the award of a \$15 million contract to Envirex to supply sludge collector mechanisms



Extensive use of the Envirex range of water pollution control equipment has been made at this plant in San Jose, California

Chief Executive's Review

Process engineering

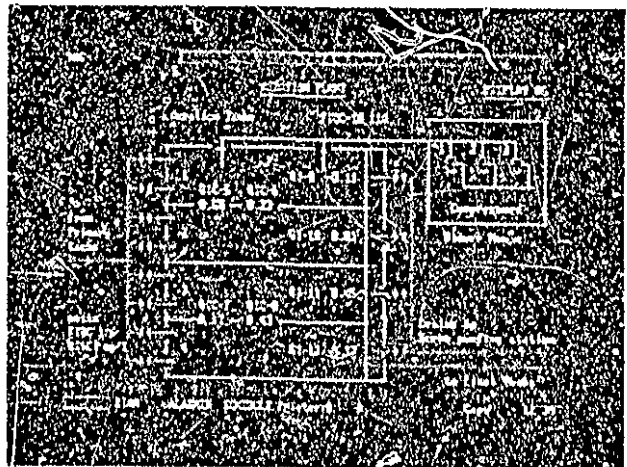
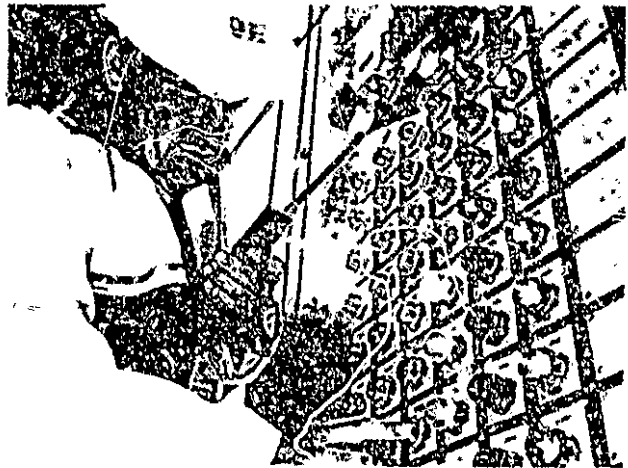
for the City of Boston as part of the Boston Harbour clean-up programme. Water Engineering completed a major wastewater treatment works at Camberley for Thames Water - a fast-track project costing more than £4 million. It won new contracts worth some £2.7 million for wastewater treatment schemes for other UK water service companies.

The technology from these process engineering companies has already started to benefit North West Water Limited. That advantage and the overall gain to the wider business prospects for North West Water will be enhanced and extended with our recent acquisitions, both leaders in their fields.

- Wallace & Tiernan, the world leader in water and wastewater disinfection and chemical feed, with principal operations in the USA, UK and Germany;
- Edwards & Jones, a leader in sludge dewatering and handling systems;

An important part of the challenge of meeting our investment programme in the North West of England will be achieved more

effectively with the technical process skills and know how and the contracting expertise of these new members of the Group. Our process businesses also provide us with a head start for our investment in research and development, and for becoming the skill and technology leader of the water and wastewater industry worldwide.

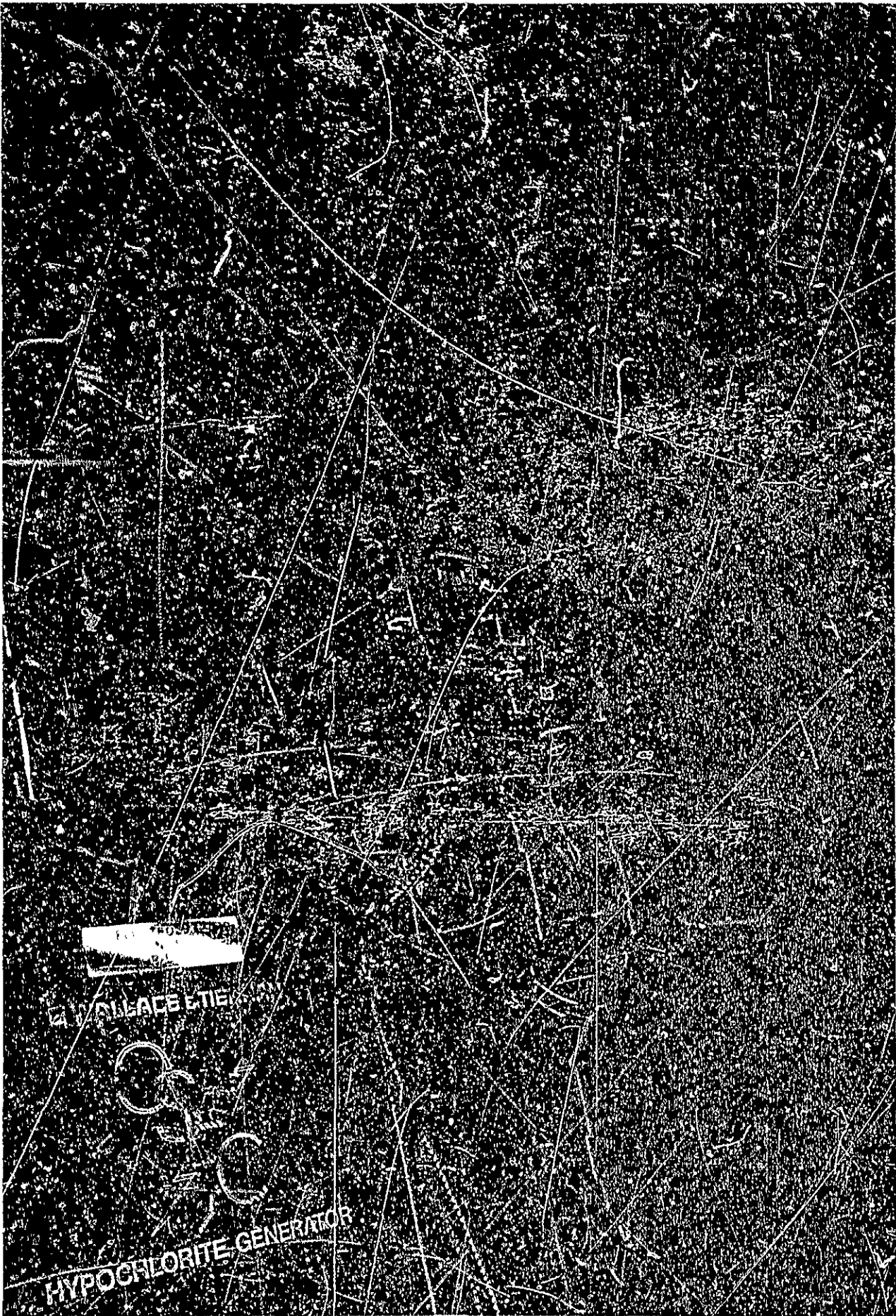


Modern and effective technology is at the heart of the treatment processes for water and wastewater in our new works

Top Sandon Dock

Left and above Hyde wastewater treatment works

Opposite Buckton Castle water treatment works



100-100-100

WALLACE ETIEN

HYPOCHLORITE GENERATOR

Chief Executive's Review

Operations

North West Water Limited, providing water and wastewater services to around 7 million people and industry in the North West of England, is our main operating subsidiary.

During a second successive long dry summer, we maintained water supplies to our customers, without restrictions, thanks to our integrated water supply networks and to our ongoing leakage reduction programme.

Drinking water quality standards have again been improved, measured against the 57 specified physical, microbiological and chemical characteristics. Results of analyses are kept on the water quality register, which is open to public inspection. Local authorities are also given data about drinking water quality in their respective areas.

Performance at wastewater treatment works is independently monitored by the National Rivers Authority. Our stricter controls of trade effluent discharges to sewer and the improved operation, refurbishment and renewal of wastewater treatment works ensured the continued improvement in our performance.

We are currently planning and designing projects for wastewater treatment and disposal covering almost the whole length of the Cumbria and Lancashire coastlines. Their completion, by 1996, will result in major improvements in coastal water quality and compliance with standards set by EC directives.

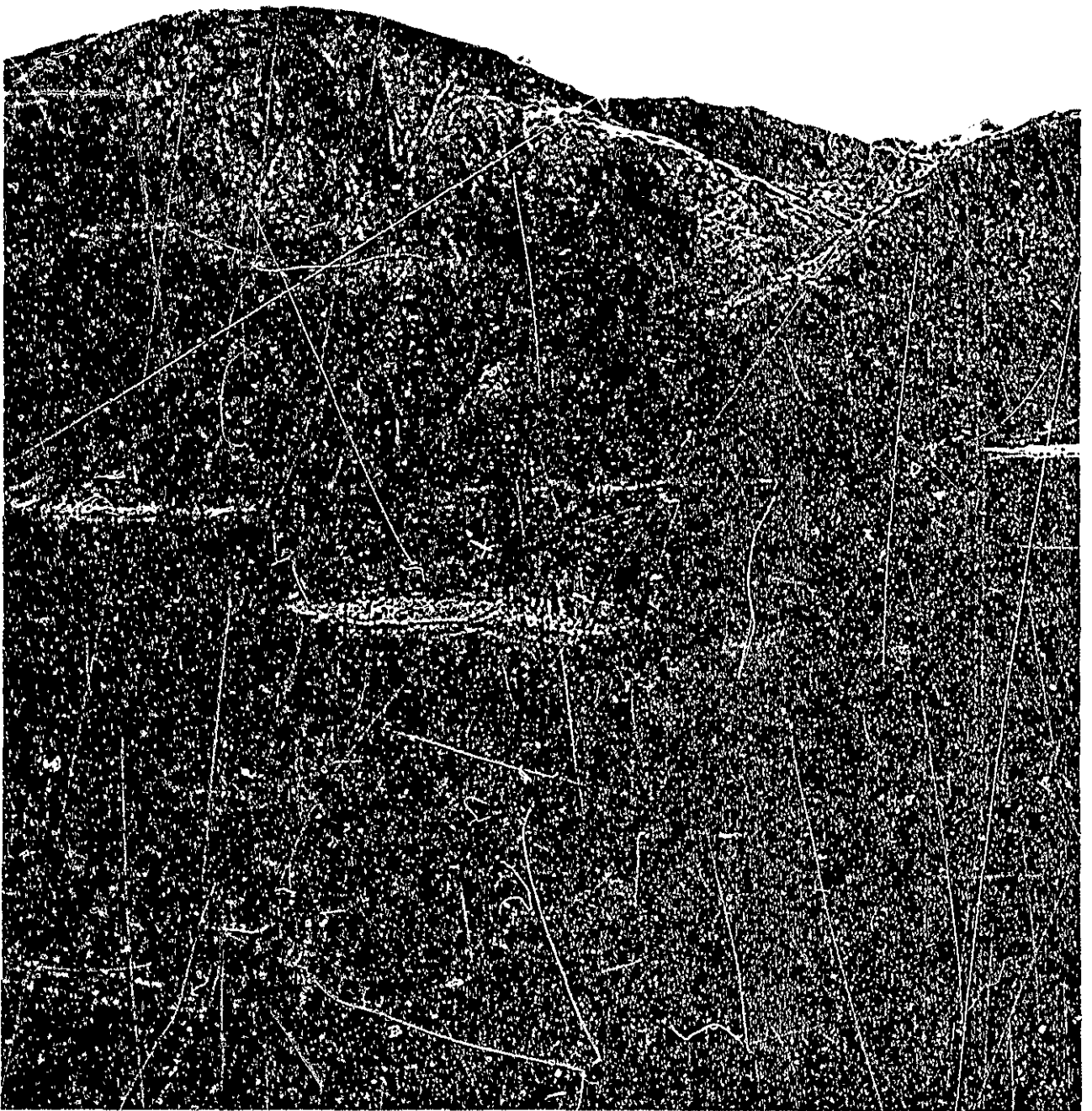
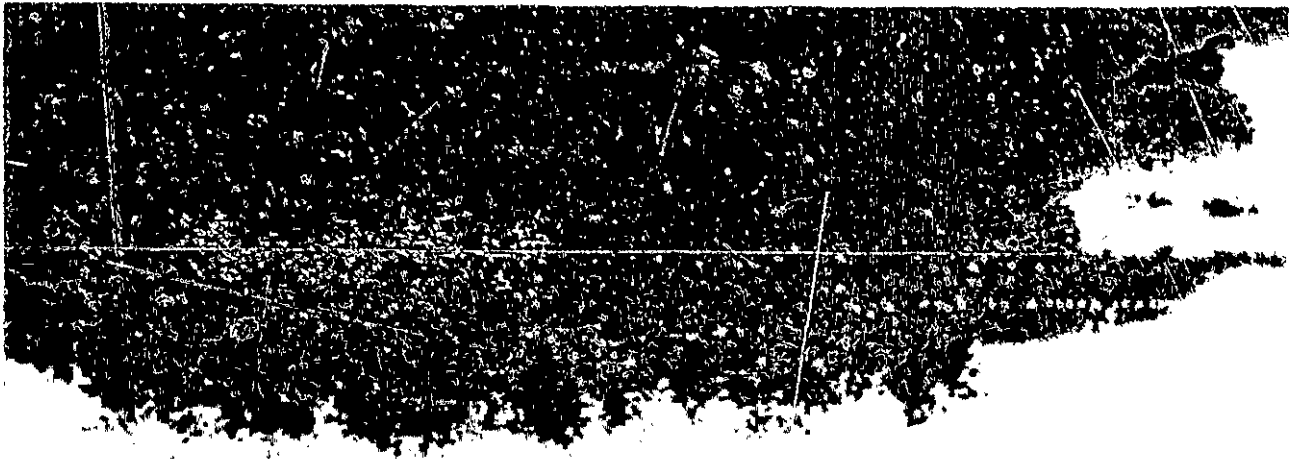
Major new works will be built at Silloth, Workington, Whitehaven and Barrow. An £86 million project is being developed for improving Southport's wastewater treatment works and linking to it a new three-mile interceptor sewer.

Following discussions with local planning authorities and extensive public consultation on possible solutions, we are proposing to proceed with a scheme, including secondary treatment, for treating wastewater from Blackpool, Fleetwood and surrounding areas, discharging via a long outfall.

Our current arrangements for disposing to sea of some 47 per cent of our wastewater sludge must end by 1998. We are evaluating options to provide an environmentally acceptable sludge disposal solution.



Left and above: from source to tap, North West Water is investing to improve the quality of water supplies to customers.



Chief Executive's Review

Operations

Our drive to improve efficiency and reduce costs has been gaining ground over the last year, with particular attention being paid to:

- reducing the number of layers of management and moving resources closer to the customer;
- concentrating our efforts on essential activities, to deliver the right quality at the lowest cost;
- improving procurement, especially for the large investment programme

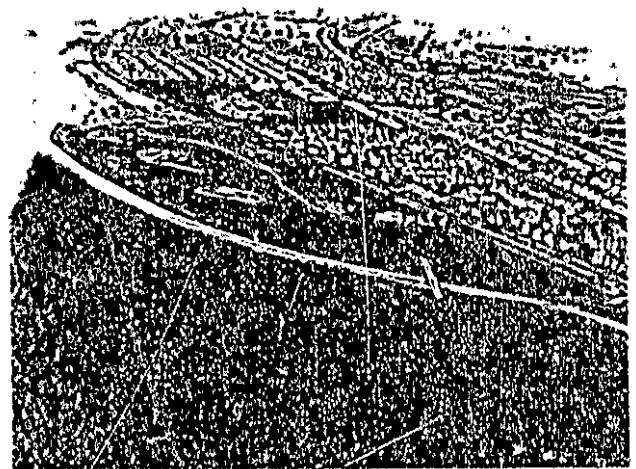
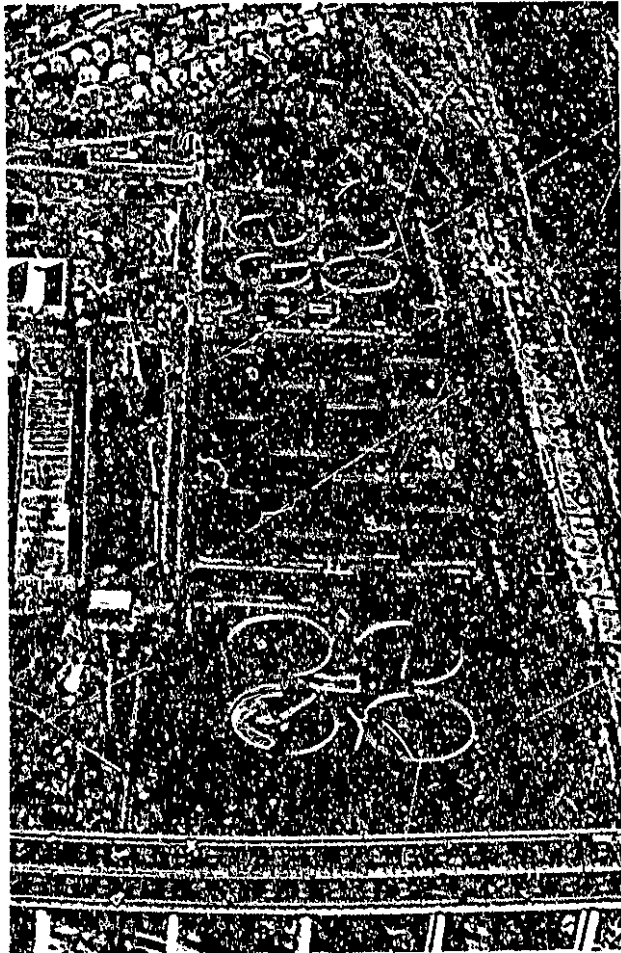
We continue to strive for energy efficiencies. A major new initiative to reduce energy costs over the next three years has been launched, including further in-house power generation, a pump efficiency programme, competitive purchasing of energy on the open market and energy audits.

Our efficiency will constantly be compared with that of other companies, not least by

our regulators. Hence the importance we give to North West Water Limited being convincingly the most cost efficient of the UK water and wastewater companies.

North West Water Limited is a heavily regulated business: for a monopoly supplier of an essential service, that is hardly surprising; nor is it a problem, provided the legitimate, long term interests of all our stakeholders are kept strictly in balance:

- customers must get the higher standards they expect, for a fair price. The industry's regulators have far reaching powers to make sure that we meet our customers' expectations. Meeting these expectations is essential and we have consistently done so;
- shareholders must get real growth in earnings per share and we must be able to support the raising of external finance for our investment programme. It is in no one's



Above substantial investment is planned to meet coastal water quality standards

Left improving performance by refurbishing and renewing wastewater treatment works

interest to jeopardise this position;

- employees must be fairly rewarded for the productivity gains and higher standards they achieve;
- communities must get a satisfactory renewal of the infrastructure and sufficient investment in research to ensure continued improvements in water and wastewater standards.





Chief Executive's Review

Operations



North West Water Limited met its investment obligations for the year and, in fact, was able to deliver extra benefits to customers and communities by the acceleration of some projects.

Efficiencies achieved during the year also enabled us to meet our obligations to shareholders, whilst ploughing back for investment £129 million of the profits for the year, again for the benefit of customers.

Following agreement with the Director General of Water Services, codes of practice on operating procedures have been implemented. We met all the service targets expected of us and exceeded them in several cases. We have attended all the meetings of the Customer Service Committee and made a number of presentations to it on aspects of the water and wastewater business.

We have actively pursued our programme of contacts with our customers, local councils and interest groups and political representatives of our region. It is intended to continue increasing such activities in the future.

Our commitment to conservation, access and recreation on our extensive operational

landholdings in the North West of England has been maintained. We are developing a programme to ensure that environmental awareness in all our activities extends beyond employees to contractors and agents as well. Notable developments during the year were:

- restoration and conversion of farm buildings at Hollingworth, in Longdendale, as a holiday, conference and visitor centre,
- creation of a classroom at our visitor centre at Worthington Lakes, Wigan, specially designed to provide children with facilities for environmental studies,
- planning, design and sponsorship of a water garden, conveying the sound and feel of water outdoors, at the Royal School for the Blind, Liverpool, opened by Her Majesty the Queen.

Throughout the year, we have had the advice and assistance of the independent experts on our Conservation, Access and Recreation Advisory Committee.

At Worthington Lakes, the quality of the water is maintained by the Biological

Filter which cleans off the farm buildings and



Chief Executive's Review

Key issues

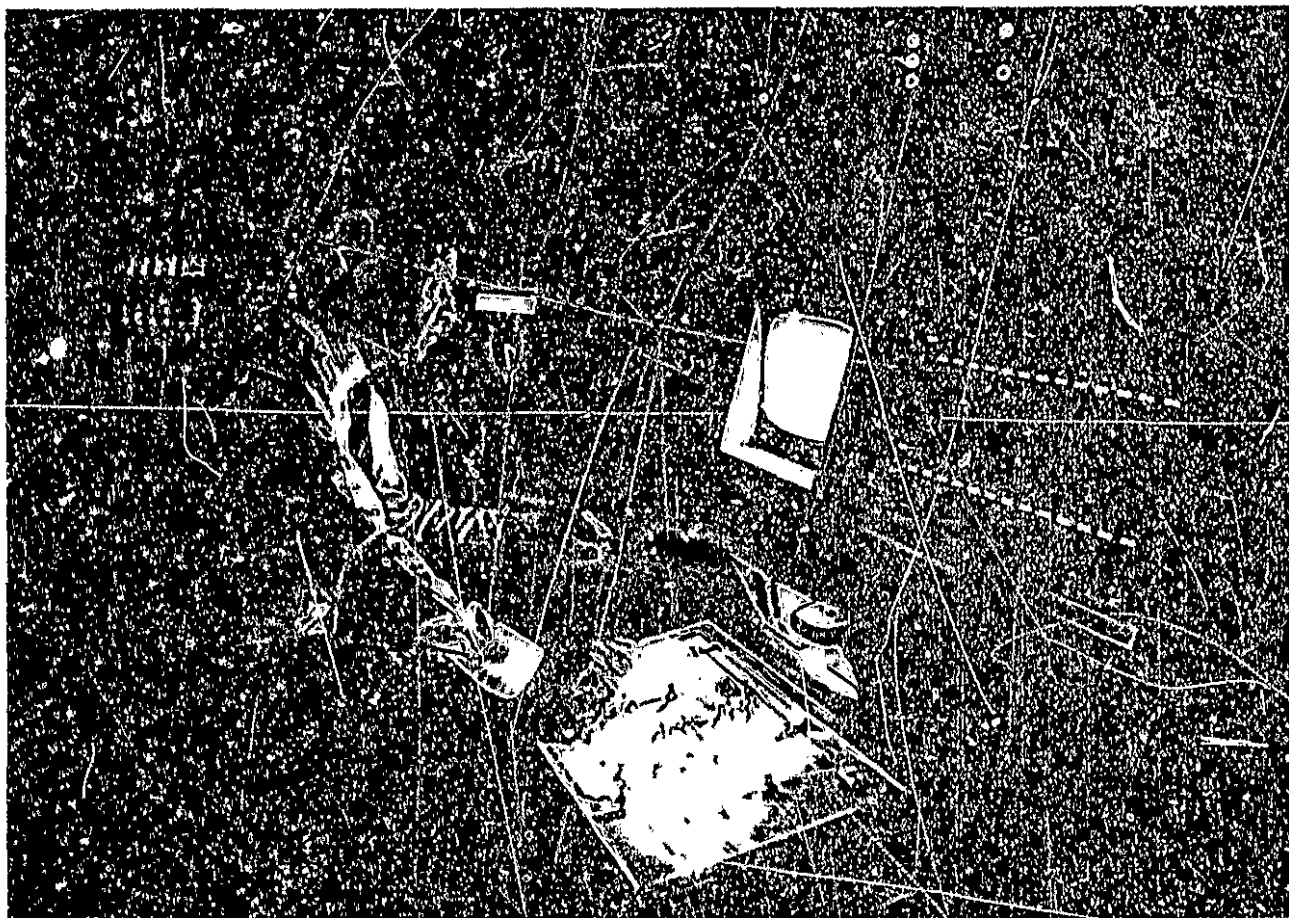
North West Water Group PLC was born out of the privatisation, in late 1989, of the water authorities of England and Wales, a political act. For that reason the water industry has remained in the public political arena.

Beneath the surface, however, there is thought to be a good understanding, by the three main political parties, of the key issues:

- Britain, whilst not as bad as portrayed in the media, does have some catching up to do on water and wastewater standards. In reality, for many decades, successive governments have perpetuated this problem by under-investing in this country's water and wastewater infrastructure. Today, we are able to plan, fund and then carry out our investment programme – and that is much better than the stop-go-stop of public sector borrowing limits;

- catching up takes time and money; realistic goals must be set and then met, and, before even higher standards are set account must be taken of the cost of meeting current EC directives in full – and proper thought given to how much the communities setting the standards want to or can actually afford to pay. In the 1970s, in the North West of England, around £0.4 million per working day was being invested in water and wastewater; this rose to about £0.9 million in the 1980s; and today stands at over £2.0 million, at constant prices.

Advanced monitoring and control of installations for greater efficiency and effectiveness – here, at Prescott water treatment works



Chief Executive's Review

Research and development

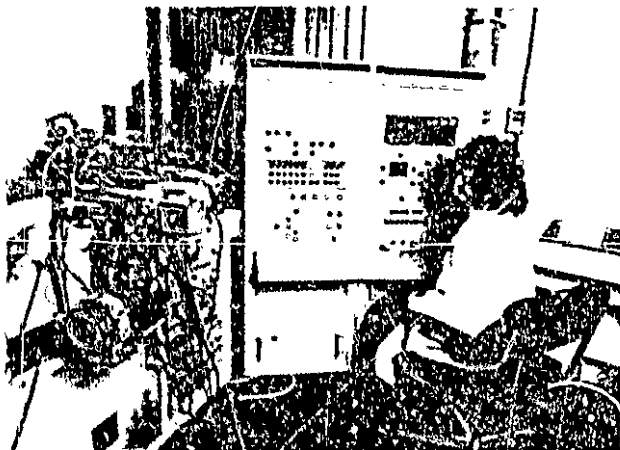
Drinking water and environmental standards are rising everywhere and the old, essentially civil engineering, solutions are being challenged by newer process, chemical and biotechnological solutions. The traditional water and wastewater treatment methods do work - at least enough to meet traditional standards - but they can be expensive and slow to build.

Research and development is needed not only to enable us to meet tomorrow's standards but, as importantly, to enable those standards to be met at an affordable cost.

As a major water and wastewater operator, North West Water feels both those needs acutely; and, as leading water and wastewater process engineers, North West Water is well placed to carry out the focused research and development programme most likely to get results.

North West Water Group will continue to step up its research and development programme. Each of our business areas is committed to seek skill and technology leadership:

- environmental engineering skills are in



people and systems. We have already begun to implement the most advanced CAD and project management systems; likewise, technical and managerial development programmes are being intensified to at least match best practice;

- infrastructure engineering uses the same

engineering skills, albeit somewhat specialised, plus a growing armoury of tunnelling and renovation technologies. North West Water has extensive experience, particularly in "no-dig" techniques and is generally recognised as a technology leader. We intend to build on that leadership;

- process engineering technologies are varied and numerous. We expect many improvements from our development projects, which have a reasonably fast payback; but the real technology and cost breakthrough will come from the more innovative research being undertaken by our process engineering division;
- operations, particularly North West Water Limited, is stepping up its investment in operating systems, instrumentation, control and automation, laboratory systems



Above CAD - computer aided design, improving efficiency and enhancing response times

Left sophisticated analysis of water samples with specialised gas chromatography mass spectrometry

and technologies, process operations and information systems. The results will be outstanding customer service, higher water and wastewater standards and improved productivity.

Chief Executive's Review

International activities

In many countries, there is an inadequate or contaminated water supply. Even where it has been traditionally safe to drink from the tap, the sources and distribution networks are subject to the increasing risk of pollution.

On the wastewater side, too, there is growing awareness of pollution and public opinion is challenging present standards. The environment is firmly on the political agenda, as politicians respond to the serious concerns of the communities they serve.

This is happening everywhere. Although different countries are at different stages in their development of satisfactory water and wastewater services, the challenge is the same: the urgent need to raise standards.

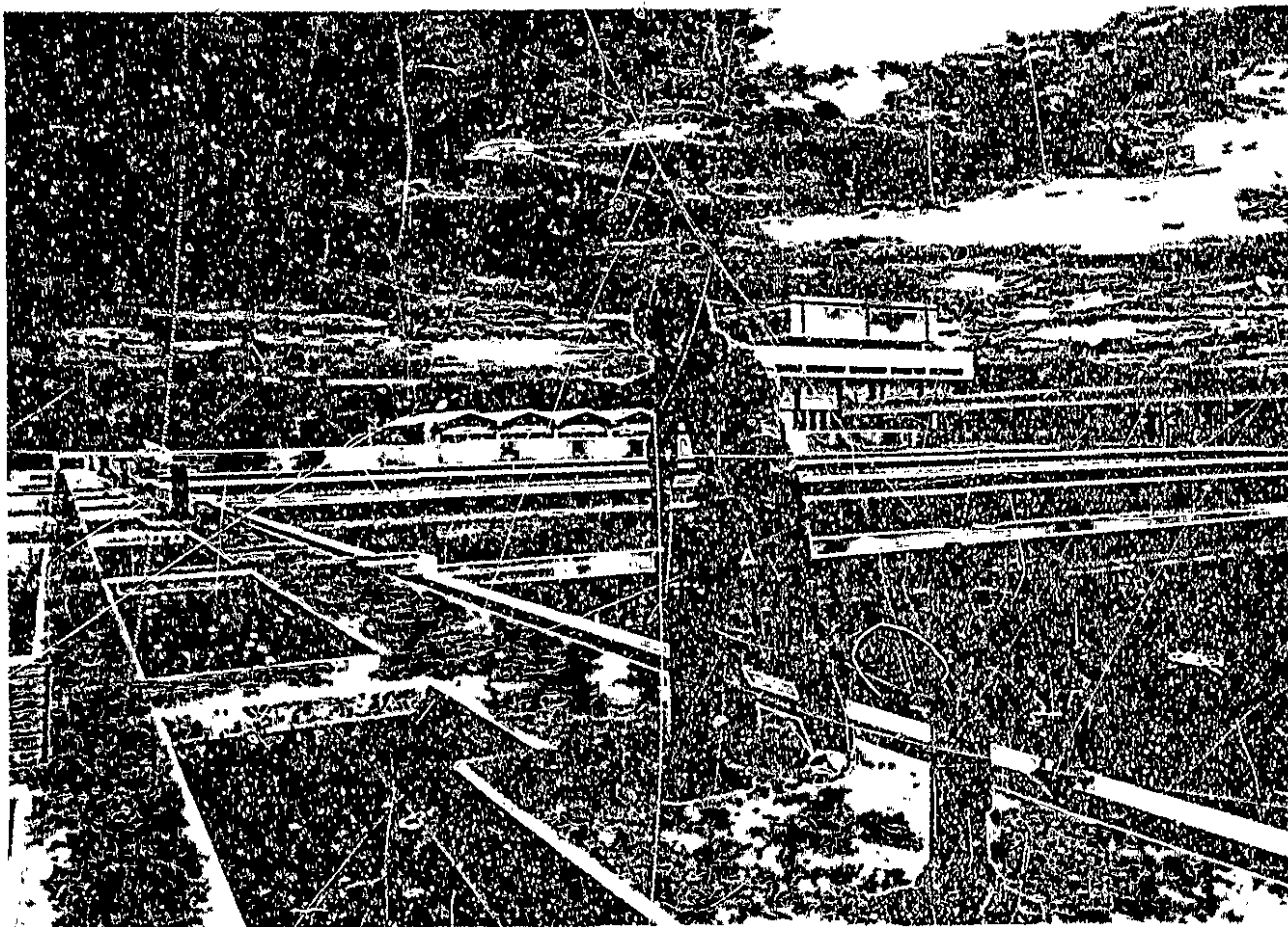
The fundamental economic issues are also the same: water and wastewater problems are expensive and slow to solve – and there is never enough public money to get the

job done as fast or as well as people would like.

There is no escaping these pressures which are leading to the privatisation of the water industry in an increasing number of countries. Governments and local authorities are faced with finding substantial extra finance for water and wastewater. This has to compete with health, transport and education, for public funds or public sector borrowing – a difficult contest.

The solution is private sector financing of these public utility services, and that is the real marketing opportunity we have. North West Water International is in pole position, backed by North West Water Group's expertise in operating major water and wastewater systems and in environmental, infrastructure and international process engineering.

Sultan Idris Shah II water treatment works, part of the successful joint venture in Greater Ipoh, Malaysia



Chief Executive's Review

Summary

A great deal was accomplished in the Group's first full year in the private sector

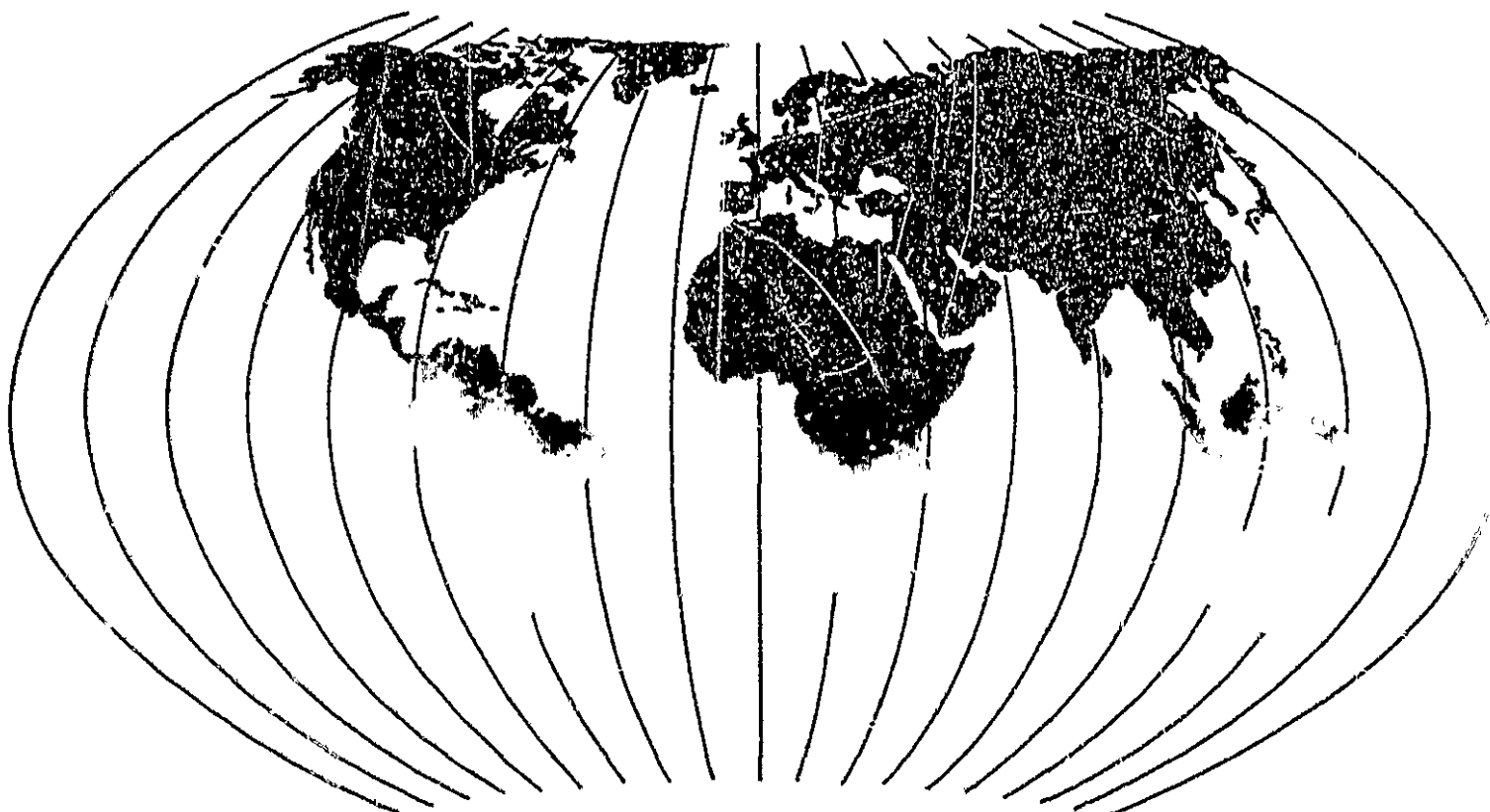
- North West Water Limited made a good start with its £4.3 billion investment programme for the decade, meeting its planned investment goal and exceeding the regulatory minimum. This has been instrumental in helping it further improve drinking water quality for its customers and make more progress in its crusade against the pollution backlog of the North West;
- North West Water Limited is undergoing considerable organisational change: focusing its resources closer to customers and the communities it serves; endeavouring to raise customer service standards ahead of regulatory requirements; and becoming more cost efficient;
- the process engineering division came into being during the year with the acquisition of Envirex, Water Engineering and Jones Environmental and is being strengthened

by our more recent acquisitions, Wallace & Tiernan and Edwards & Jones. These businesses form a strong grouping in the international water and wastewater market;

- the Group has strengthened its management team in key areas: general management, finance, business development, communications and personnel. Increased emphasis is being placed on development and training;
- the financial results for the year have enabled us to meet and in most cases exceed the expectations of our four stakeholders, but most particularly our customers.

The Group's strategic focus on water and wastewater, its commitment to skill and technology leadership, its human and financial resources, its experience and know-how, all augur well for its future prosperity.

Robert Thian
17 June 1991



Directors' Report

PRINCIPAL ACTIVITIES

North West Water Group is engaged in the planning, design, engineering, manufacturing, construction and operation of water and wastewater systems in the United Kingdom and overseas.

Its main operating subsidiary, North West Water Limited, holds Appointments as water and sewerage undertakers under the Water Act 1989 to provide water supply and sewerage services in the North West of England. It is this part of the Group's business which is regulated by the Secretary of State for the Environment, the Director General of Water Services and the National Rivers Authority.

The Group has process engineering subsidiary undertakings based in the United States of America, the United Kingdom and Ireland.

The Chief Executive's Review, to be read in conjunction with this Report, appears on pages 6 to 22.

PROFIT AND DIVIDEND

The results for the year set out in the consolidated profit and loss account on page 26 show a profit on ordinary activities before tax of £214.5 million (1990 - £75.3 million - £177.3 million on a pro forma basis), after making a restructuring charge of £32.0 million.

The profit for the year attributable to ordinary shareholders was £193.1 million and the retained profit of £129.0 million was transferred to reserves.

The directors recommend a final dividend on the ordinary shares of 12.0p per share for the year to 31 March 1991 for payment on 1 October 1991 to shareholders on the register at the close of business on 22 July 1991. This dividend together with the interim dividend of 6.0p per share paid on 4 March 1991 makes a total dividend for the year of 18.0p per share, an increase of 15 per cent over the pro forma dividend per ordinary share for 1990.

FIXED ASSETS

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

The assets of 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.

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 £355,831,227 divided into 355,831,226 ordinary shares and the special share, including 1,742 ordinary shares allotted on the exercise of options since 31 March 1991.

Further details of the Company's share capital are set out in note 23 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 118,606,774.

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 1992, 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. The directors

Directors' Report

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 the final instalment on the purchase price has been paid to HM Government.

At 1 June 1991, Norwich Union Life Insurance Society held 14,544,696 ordinary shares which represented 4.09 per cent of the nominal value of the issued ordinary share capital of the Company. The Company has not received notification of any other interest amounting to 3 per cent or more of the nominal value of the issued ordinary share capital.

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

ACQUISITIONS

During the year, the Group acquired the whole of the share capital of the Enviro Holding Company (principal businesses, Envirex Inc and General Filter Company Inc) based in the USA, and the whole of the share capital of Jones Group Holdings Limited (principal business, Water Engineering Limited) and Jones Environmental Limited, based in the UK and Ireland.

Details of the fair value of the net assets acquired and the consideration are set out in note 14 to the Accounts.

More recently, the Group has agreed to acquire the whole of the share capital of Wallace & Tiernan Group Inc, based in the USA, and the whole of the share capital of Edwards & Jones (Holdings) Limited, based in the UK.

DIRECTORS

The present directors are listed on page 5.

Mr B Alexander and Mr A G Pendleton,

who are the directors to retire by rotation, will offer themselves for re-election. Mr D H Pitcher and Mr A M Dean, who have been appointed to the board since the last Annual General Meeting, will also seek re-election.

Mr Alexander and Mr Dean have service contracts with the Company terminable by the Company, in Mr Alexander's case on three years' notice and in Mr Dean's case on two years' notice. As non-executive directors, Mr Pendleton and Mr Pitcher do not have service contracts.

Mr J A Cropper retired from the Board on 30 September 1990.

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 14 June 1991 no change took place in these interests, other than the acquisition of 2,000 shares on 12 June 1991 by Mrs M C Bolton following the removal of the restriction on such acquisition previously in force due to the nature of her employment during the privatisation of the former water authorities.

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.

During the year, a directors' and officers' liability insurance policy was in force.

EMPLOYEES

The Group maintains an extensive range of communication and consultative arrangements designed to ensure the participation and involvement of all employees in the development of the business, including its financial performance. Training in technical and management skills and employee development are given great emphasis by the Group.

Safety continues to be a high priority and the drive to improve safety performance has shown good results in the improved safety record for the year.

Policies and practices are operated to ensure that, as far as possible, no job applicant

Directors' Report

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 counselled, to determine their suitability for alternative work, for which re-training is afforded if appropriate.

A large number of employees were granted share options under the Employee Sharesave Scheme at the time of flotation. During the year many of these employees took the opportunity of increasing their share options and there was a good response from eligible employees applying to join the Scheme for the first time. Details are given in note 23 to the Accounts.

During the year, further options were granted to executive directors and certain senior managers under the Executive Share Option Scheme. Further details are set out in note 23 to the Accounts.

In this year's Budget the Chancellor of the Exchequer announced a change to Inland Revenue approved executive share option schemes which would, from 1 January 1992, allow the price of options granted to be fixed at a discount of up to 15 per cent of the market value of the underlying shares at the time of grant.

For the purpose of calculating the maximum number of shares over which options may be granted to an individual, the full market value at the date of grant of the shares subject to options will be taken into account ignoring any discount reflected in the option price.

An ordinary resolution will be proposed at the Annual General Meeting authorising the directors to alter the rules of the North West Water Executive Share Option Scheme to implement this change when enabling legislation comes into force. In implementing the change the directors will have regard to the relevant guidelines of the Association of British Insurers and other bodies representing institutional investors. The directors will make such alterations to the rules of the Executive Share Option Scheme as they consider necessary to implement the change.

The Chancellor also announced that the maximum amount a participant may save each month to fund the exercise of an option granted under an Inland Revenue approved savings related share option scheme is to be increased from £150 to £250, from a date to be announced. A participant would only be able to take advantage of the increased savings limits if invited to apply for a savings related share option after the new limit comes into effect.

An ordinary resolution will be proposed at the Annual General Meeting authorising the directors to alter the rules of the North West Water Sharesave Scheme to increase the monthly savings limit to £250 at the appropriate time.

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 Tetlow
Secretary
17 June 1991



Consolidated Profit and Loss Account

for the year ended 31 March 1997

	Note	1997	1996
		£m	£m
Turnover	1(b)	598.5	511.4
Operating costs	3	(418.5)	(361.2)
Other income	4	5.6	4.7
Operating profit		<u>186.6</u>	<u>154.4</u>
Net interest receivable/(payable)	7	27.9	(79.1)
Profit on ordinary activities before tax		214.5	75.3
Tax on profit on ordinary activities	8	(21.4)	(12.4)
Profit on ordinary activities after tax		<u>193.1</u>	<u>62.9</u>
Extraordinary items	9	-	(6.7)
Profit for financial year		193.1	56.2
Dividends	10	(64.1)	(37.3)
Transfer to reserves	24	<u>129.0</u>	<u>18.9</u>
Earnings per share - net basis	11	54.3p	44.6p
- nil basis	11	60.3p	49.8p

Pro
forma

The notes on pages 29 to 42 form part of these accounts

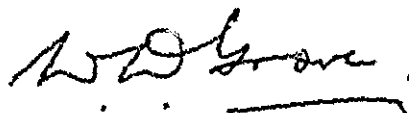
Consolidated Balance Sheet

At 31 March 1991

	Note	Group		Company	
		1991 £m	1990 £m	1991 £m	1990 £m
NET ASSETS					
Tangible assets	12	1,833.0	1,557.8	0.6	
Investments	13	0.9	0.4	1,103.7	1,079.9
		<u>1,833.9</u>	<u>1,558.2</u>	<u>1,104.3</u>	<u>1,079.9</u>
CURRENT ASSETS					
Stocks	15	15.8	6.0		
Debtors	16	130.4	87.3	68.1	4.6
Investments	17	298.0	252.2		
Cash at bank and in hand		29.3			
		<u>473.5</u>	<u>345.5</u>	<u>68.1</u>	<u>4.6</u>
CREDITORS Amounts falling due within one year	18	(349.8)	(232.8)	(97.2)	(54.7)
		<u>123.7</u>	<u>112.7</u>	<u>(29.1)</u>	<u>(50.1)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,957.6</u>	<u>1,670.9</u>	<u>1,075.2</u>	<u>1,029.8</u>
CREDITORS Amounts falling due after more than one year	19	(261.3)	(91.1)		
PROVISIONS FOR LIABILITIES AND CHARGES	20	(46.6)	(13.6)	(1.9)	
ACCRUALS AND DEFERRED INCOME	21	(1.5)	-		
		<u>1,648.2</u>	<u>1,566.2</u>	<u>1,073.3</u>	<u>1,029.8</u>
CAPITAL AND RESERVES					
Called up share capital	23	355.8	355.8	355.8	355.8
Profit and loss account	24	1,292.4	1,210.4	717.5	674.0
		<u>1,648.2</u>	<u>1,566.2</u>	<u>1,073.3</u>	<u>1,029.8</u>

Approved by the board of directors on 17 June 1991 and signed on its behalf by

W D Grove
Chairman



A M Ramsay
Group Financial Director



The notes on pages 29 to 42 form part of these accounts



Consolidated Source and Application of Funds Statement

For the year ended 31 March 1991

	1991 (m)	1990 1m
FUNDS GENERATED FROM TRADING		
Profit on ordinary activities before tax	214.5	75.3
Depreciation	35.2	29.4
Extraordinary items	-	(6.7)
	<u>249.7</u>	<u>98.0</u>
CHANGES IN FIXED ASSETS		
Purchase of tangible fixed assets and investments	(319.5)	(205.9)
Disposal of tangible fixed assets	1.4	0.6
Grants and contributions	16.0	6.4
CHANGES IN WORKING CAPITAL		
Stocks	(0.8)	0.9
Debtors	(2.7)	(14.3)
Creditors	56.6	38.9
Exchange adjustment	(3.7)	-
Cash absorbed by operations	<u>(3.0)</u>	<u>(75.4)</u>
Purchase of subsidiary undertakings	(56.0)	-
Net borrowings taken over on acquisition	(1.1)	-
Taxation paid	(12.4)	-
Dividends paid	(58.7)	-
Issue of shares	-	329.7
Loans write off	-	1,037.0
Net cash (borrowings) at beginning of year	136.0	(1,155.3)
Net cash at end of year	<u>4.8</u>	<u>136.0</u>
Comprising		
Loans and overdrafts	(272.0)	(63.3)
Finance leases	(50.5)	(52.9)
Current asset investments	298.0	252.2
Cash at bank and in hand	29.3	-
	<u>4.8</u>	<u>136.0</u>

Notes to the Accounts

1 Accounting policies

(a) Basis of preparation of accounts

The consolidated accounts set out on pages 26 to 28 incorporate the accounts of North West Water Group PLC and its subsidiary undertakings. The accounts of businesses acquired during the year are included from the date of acquisition. The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards.

(b) Turnover

Turnover represents the income receivable in the ordinary course of business for goods or services provided and excludes VAT and foreign sales tax.

(c) Research and development

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

(d) Goodwill

Goodwill arising on acquisitions is written off upon consolidation against Group reserves.

(e) Tangible fixed assets

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

(i) Infrastructure assets

Infrastructure assets comprise a network of 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.

(ii) Other assets

Additions are included at cost.

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

Buildings	30-60 years
Operational structures	40-80 years
Fixtures, fittings, tools and equipment	3-40 years
Pre-1974 assets	22-27 years

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

Notes to the Accounts

(f) Grants and contributions

Contributions receivable in respect of infrastructure assets are deducted from the cost of the assets.

Grants receivable in respect of other tangible fixed assets are treated as deferred income, which is credited to the profit and loss account over the estimated economic lives of the related assets. Previously, grants receivable were deducted from the cost of the assets.

(g) 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.

(h) Fixed asset investments

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

(i) Current asset investments

Current asset investments in externally managed interest bearing funds are stated at cost. Investment properties are stated at their open market value.

(j) Stocks

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

Long term contract work in progress is stated at cost, net of amounts transferred to cost of sales, after deducting payments received in advance and making provision for foreseeable losses.

(k) 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 25.

(l) Foreign currency

On consolidation, the balance sheets of overseas subsidiary undertakings are translated into sterling at exchange rates applicable at the year end. The profit and loss accounts are translated into sterling using the average rate. Differences arising from the application of the closing rate to opening net assets, together with differences between profits and losses translated at average rates and at closing rates, are recorded as a movement in reserves.

(m) Deferred taxation

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

(n) Associated undertakings

The results of associated undertakings are recognised in the consolidated accounts where the directors consider that the Group is in a position to exert significant influence over the associated undertaking.

7 Segmental information

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

Notes to the Accounts

	1991	1990
3 Operating costs	£m	£m
Staff costs		
Wages and salaries	100.9	87.9
Social security costs	8.5	7.1
Pension contributions (note 25)	11.3	10.0
	120.7	105.0
Capital schemes	(21.5)	(17.9)
Infrastructure renewals	(7.2)	(6.1)
	92.0	81.0
Depreciation		
Owned fixed assets	29.3	21.8
Fixed assets held under finance leases	5.9	7.6
	35.2	29.4
Infrastructure renewals expenditure	79.5	78.2
Other operating costs include		
Energy, rates and other operating costs	137.9	128.0
Raw materials and consumables	34.5	21.2
Auditors' remuneration	0.2	0.1
Research and development	3.3	2.5
Operating leases		
- hire of plant and machinery	2.5	1.8
- land and buildings	1.4	1.2
Restructuring charge	32.0	11.0
Awareness campaign and other costs	-	6.8
	211.8	172.6
Total operating costs	418.5	361.2
4 Other income	1991	1990
Other income is analysed as follows	£m	£m
Profit on disposal of fixed assets	2.1	3.1
Net rents receivable	1.2	1.0
Other	4.3	0.1
	6.6	4.2



Notes to the Accounts

5 Directors		1991	1990
		£m	£m
Directors' remuneration (excluding pension contributions and, in 1990, £0.2 million for funding of back service liabilities)		0.6	0.5
Remuneration (excluding pension contributions) of The Chairman (and highest paid director)		£'000	£'000
		144	97
Other directors		1991	1990
£		Number	Number
5,001 - 10,000		2	1
10,001 - 15,000		3	4
15,001 - 20,000		1	
25,001 - 50,000		-	1
75,001 - 80,000		-	1
80,001 - 85,000		-	1
95,001 - 100,000		1	
105,001 - 110,000		1	
140,001 - 145,000		1	

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

	1991			1990		
	Ordinary shares (i)	Executive Share options (ii) Option Scheme	Employee Sharesave Scheme	Ordinary shares (i)	Executive Share options (ii) Option Scheme	Employee Sharesave Scheme
W D Grove	8,362	171,700	6,136	8,362	122,250	6,136
R P Thart	4,200	157,000	4,455	4,200	143,750	-
A M Ramsay	6,258	105,250	6,136	6,258	50,000	6,136
B Alexander	5,295	116,000	6,136	5,295	90,000	6,136
Mrs M C Bolton (iii)	-	-	-	-	-	-
J A Cropper (iv)	-	-	-	7,000	-	-
R Leach	10,000	-	-	4,700	-	-
A G Pendleton	3,000	-	-	1,600	-	-
D H Pitcher (v)	5,000	-	-	-	-	-
F Sanderson	4,100	-	-	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) 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 23

(iii) Mrs Bolton acquired 2,000 ordinary shares in the Company on 12 June 1991

(iv) Mr Cropper retired from the Board on 30 September 1990

(v) Mr Pitcher held a beneficial interest in 5,000 ordinary shares in the Company on his appointment to the Board on 1 October 1990

Mr A M Dean was appointed to the Board on 1 June 1991. He has options on 57,250 shares granted under the terms of the Executive Share Option Scheme

Notes to the Accounts

6	Employees	1991	1990
	Average number of persons employed by the Group	7,290	7,101

The average for 1991 includes 310 in respect of employees in the subsidiary undertakings acquired in the year (full year equivalent - 920)

7	Net interest receivable/(payable)	1991	1990
		£m	£m
	Interest payable		
	On bank loans, overdrafts and other loans		
	Repayable within 5 years	(2.2)	(69.5)
	Repayable wholly or partly in more than 5 years	(11.1)	(10.9)
		(13.3)	(80.4)
	On finance leases	(4.8)	(9.0)
	Total interest payable	(18.1)	(89.4)
	Interest receivable	(6.0)	10.3
	Net interest receivable/(payable)	27.9	(79.1)

8	Taxation	1991	1990
		£m	£m
	UK Corporation tax at 34% (1990 - 35%)	-	-
	Overseas tax	0.1	-
	Irrecoverable advance corporation tax	21.3	12.4
		21.4	12.4

No UK tax liability or charge arises because of the tax allowances on the transfer of accumulated capital expenditure from the predecessor Authority and on expenditure incurred subsequently

The deferred tax asset included in debtors in the Group accounts is

	Group		
		1991	1990
		£m	£m
	Other timing differences	1.8	-
	The full potential deferred tax liability is		
	Accelerated tax allowances on buildings, plant and equipment	150.9	56.6
	Other timing differences	(28.2)	(16.9)
	Losses	(45.3)	(27.9)
		77.4	11.8
	Less: advance corporation tax	(34.0)	(8.4)
		43.4	3.4

No deferred tax liability arises in the Company's accounts



Notes to the Accounts

9	Extraordinary items	1991 £m	1990 £m
	Extraordinary charges		1.0
	Privatisation costs		6.7

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	Dividends	1991 £m	1990 £m
	Interim dividend of 6.0 pence (1990 - nil)	21.4	
	Final dividend of 12.0 pence recommended (1990 - 10.47 pence)	42.7	37.3
		64.1	37.3

11	Earnings per share	1991	Pro forma 1990
	Net basis		
	Profit for financial year attributable to ordinary shareholders	£193.1m	£158.7m
	Earnings per ordinary share	54.3p	44.6p
	Nil basis		
	Profit on ordinary activities after the elimination of the charge for irrecoverable advance corporation tax	£214.4m	£177.3m
	Earnings per ordinary share	60.3p	49.8p

Earnings per ordinary share on the net basis has been calculated by dividing profit for the financial year attributable to ordinary shareholders by the 355,829,484 shares in issue (1990 - 355,829,000).

Earnings per ordinary share on the nil basis is calculated by eliminating the taxation charge of £21.3 million (1990 - £18.6 million) in respect of irrecoverable advance corporation tax.

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

Notes to the Accounts

12 Tangible fixed assets GROUP	Land and buildings £m	infra- structure assets £m	Opera- tional structures £m	Fixtures, fittings, tools and equipment £m	Pre-1974 assets £m	Assets in course of con- struction £m	Total £m
Cost							
At 1 April 1990	44.2	821.0	302.2	253.6	172.4	170.3	1,768.7
Additions	5.0	103.2	15.9	28.1	-	166.2	319.4
Arising from acquisitions	3.2	-	-	3.1	-	-	6.3
Exchange adjustment	0.2	-	-	0.4	-	-	0.6
Grants and contributions	-	(14.5)	-	-	-	-	(14.5)
Transfers	0.8	3.3	16.4	12.1	-	(32.6)	-
Disposals	-	-	-	(11.8)	-	-	(11.8)
At 31 March 1991	54.4	913.0	334.5	285.5	172.4	303.9	2,068.7
Depreciation							
At 1 April 1990	7.1	-	33.9	81.2	88.7	-	210.9
Charge for the year	2.7	-	5.7	21.2	5.6	-	35.2
Disposals	-	-	-	(10.4)	-	-	(10.4)
At 31 March 1991	9.8	-	39.6	92.0	94.3	-	235.7
Net book value							
At 31 March 1991	44.6	913.0	294.9	193.5	83.1	303.9	1,833.0
At 31 March 1990	37.1	821.0	268.3	172.4	88.7	170.3	1,557.8

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence, the net book amount of fixed assets is £16.8 million (1990 = £2.3 million) lower than it would have been had this treatment not been adopted.

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

	1991 £m	1990 £m
Cost	77.3	81.0
Accumulated depreciation	(39.8)	(41.9)
Net book value	37.5	39.1

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1991. Pre-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.

	1991 £m	1990 £m
Capital commitments		
Contracted but not provided for	433.2	328.0
Authorised but not yet contracted for	35.4	58.0

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.

Notes to the Accounts

12 Tangible fixed assets (continued)

COMPANY

Net

At 1 April 1990

Additions

At 31 March 1991

Depreciation

At 1 April 1990

Charge for the year

At 31 March 1991

Net book value

At 31 March 1991

At 31 March 1990

Furniture,
fixtures,
tools and
equipment

£m

0.7

0.7

0.1

0.1

0.6

13 Fixed asset investments

GROUP

Cost

At 1 April 1990

Additions

Arising from acquisitions

At 31 March 1991

Other
investments
£m

0.4

0.1

0.4

0.9

COMPANY

Cost

At 1 April 1990

Additions

At 31 March 1991

Shares in
subsidiary undertakings
£m

1,079.8

23.7

1,103.5

Other
investments
£m

0.1

0.1

0.2

Total
£m

1,079.9

23.8

1,103.7

Notes to the Accounts

13 Fixed asset investments (continued)

Details of principal operating subsidiary and associated undertakings, all of which are unlisted, are as follows. All of the Company's principal subsidiary undertakings are included in the consolidation.

	Class of share capital held	Proportion of share capital owned	Nature of business
Subsidiary undertakings:			
Great Britain			
North West Water Limited	Ordinary	100%	Water supply and sewerage services
NWW Properties Limited	Ordinary	100%	Property management
North West Water International Limited	Ordinary	100%	Consulting services and project management
Water Engineering Limited	Ordinary	100%*	Design and installation of water and wastewater treatment plants
Republic of Ireland			
Jones Environmental (Ireland) Limited	Ordinary	100%*	Design and installation of water and wastewater treatment plants
USA			
North West Water Inc	Ordinary	100%*	Intermediate holding company
Envrex Inc	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Envrex Limited	Ordinary	100%*	
General Filter Company Inc	Ordinary	100%*	
Malaysia			
North West Water (Malaysia) SDN BHD	Ordinary	100%	Technical and management services
Netherlands			
North West Water BV	Ordinary	100%	Intermediate holding company
Associated undertakings:			
Great Britain			
Lakeland Smolt Limited	Ordinary	49%	Fish farming
WRE (Process Engineering) Limited	Ordinary	50%*	Design and construction of equipment for water and wastewater treatment processes
Spain			
CIDA Hydroquímica SA	Ordinary	39.7%*	Design and installation of equipment and systems for water and wastewater treatment

The country under which each undertaking appears is both the country of its incorporation and of its principal operations. All of the Great Britain undertakings are registered in England and Wales. Shares are held directly by North West Water Group PLC except where marked with an asterisk where they are held by subsidiary undertakings.



Notes to the Accounts

14 Acquisitions

The Company acquired the Enviro Holding Company and its subsidiary undertakings on 22 November 1990 and Water Engineering Limited and Jones Environmental (Ireland) Limited on 4 December 1990. The analysis of net assets acquired and the fair value to the Group is as follows:

	Book value £m	Accounting policy alignment £m	Other provisions £m	Fair value to Group £m
Fixed assets	7.6	(1.3)	-	6.3
Fixed asset investments	0.5	-	(0.1)	0.4
Stocks	8.3	0.3	(3.6)	8.0
Debtors	29.2	(0.1)	7.8	36.9
Cash at bank	0.6	-	-	0.6
Total assets	46.2	(1.1)	7.1	52.2
Creditors	(27.2)	(5.5)	(2.6)	(35.3)
Provisions	(0.1)	-	(5.6)	(5.7)
Total liabilities	(27.3)	(5.5)	(8.2)	(41.0)
Net assets	18.9	(6.6)	(1.1)	11.2
Goodwill arising on acquisitions				44.8
Consideration				56.0

The goodwill of £44.8 million has been set off against Group reserves.

Profit or loss before taxation of the acquired subsidiary undertakings for the periods prior to acquisition were:

- (i) The Enviro Holding Company and its subsidiary undertakings for the five months to 22 November 1990 - a loss of £0.4 million (year ended 30 June 1990 - a profit of £2.5 million)
- (ii) Water Engineering Limited and Jones Environmental (Ireland) Limited for the eleven months to 4 December 1990 - a profit of £0.3 million (year ended 31 December 1989 - a profit of £0.1 million)

15 Stocks

	Group	
	1991 £m	1990 £m
Stores	7.7	6.0
Work in progress	2.6	-
Finished goods and goods for resale	5.5	-
	15.8	6.0

Notes to the Accounts

16 Debtors	Group		Company	
	1991 £m	1990 £m	1991 £m	1990 £m
Amounts falling due within one year				
Trade debtors	63.0	50.6		
Amounts owed by Group undertakings			67.9	4.6
Other debtors	14.7	7.2		
Prepayments and accrued income	38.5	28.6	0.2	
Amounts recoverable under contracts	4.1			
Deferred tax	1.8			
	127.1	86.4	68.1	4.6
Amounts falling due after more than one year:				
Amounts owed by associated undertaking	0.3	0.3		
Other debtors	3.0	0.6		
	3.3	0.9		
Total debtors	130.4	87.3	68.1	4.6

17 Current asset investments	Group		Company	
	1991 £m	1990 £m	1991 £m	1990 £m
Managed funds and short term deposits	298.0	252.2		

Included in current investments is £7.4 million of investment properties (1990 - £4.6 million). This amount includes £0.7 million in respect of interest capitalised in the year (1990 - nil)

18 Creditors: amounts falling due within one year	Group		Company	
	1991 £m	1990 £m	1991 £m	1990 £m
Losses	0.8	0.7		
Bank overdrafts and temporary borrowings	55.0	20.1	27.5	
Trade creditors	38.2	14.9		
Amounts owed to Group undertakings			0.1	4.8
Obligations under finance leases	7.6	8.0		
Proposed dividend	42.7	37.3	42.7	37.3
Other creditors	5.2	1.7	1.0	0.2
Taxation and social security	1.7	1.4		
Infrastructure renewals accrual		9.8		
Accrual and deferred income	177.3	126.5	4.6	
Advance corporation tax payable	21.3	12.4	21.3	12.4
	349.8	232.8	97.2	54.7

Notes to the Accounts

23 Called-up share capital

The authorised share capital of the Company throughout the year ended 31 March 1991 was £475,000,001 divided into 475,000,000 ordinary shares of £1 each and one special rights redeemable preference share of £1

The allotted and fully paid share capital of the Company at 31 March was

	1991	1990
	£	£
Ordinary shares of £1	355,829,484	355,829,000
Special rights redeemable preference share of £1	1	1
	355,829,485	355,829,001

484 ordinary shares were allotted during the year ended 31 March 1991 following the exercise of options in accordance with the rules of the Employee Sharesave Scheme

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

The Company has two share option schemes – an Employee Sharesave 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 with options exercisable within a six month period from the conclusion of a five or seven year period as appropriate from the date of grant. Options under the latter scheme are exercisable in a period beginning no earlier than three years and ending no later than ten years from the date of grant. Options outstanding under the two share option schemes at 31 March, together with their exercise prices and dates were

	1991	1990	Option Price	Normal dates of exercise
Employee Sharesave	3,282,363	3,383,782	176p	1995 or 1997
	1,485,964	-	252 5p	1996 or 1998
Executive Share Option	897,500	946,500	378p	1993 to 2000
	36,800	-	286 5p	1993 to 2000
	297,400	-	315 5p	1993 to 2000
	6,000,027	4,330,282		

In the year ended 31 March 1991 options were granted under the two option schemes in respect of 1,821,411 ordinary shares, options for 484 shares were exercised and options for 151,182 shares lapsed

24 Reserves

	Profit and loss account	
	Group	Company
	£m	£m
At 1 April 1990	1,210.4	674.0
Profit for the year	129.0	43.5
Goodwill on acquisitions	(44.8)	-
Exchange adjustments	(2.2)	-
At 31 March 1991	1,292.4	717.5

As allowed by section 230 (1) of the Companies Act 1985, the Company has not presented its own profit and loss account. The amount of Group profit for the financial year dealt with in the Company's profit and loss account was £107.6 million

Notes to the Accounts

25 Pensions

The Company operates two defined benefit final salary schemes in the UK, the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS). Overseas, there are several pension arrangements including both defined contribution and defined benefit schemes in the USA.

For the UK schemes, the employer's contributions and the pension cost have been assessed in accordance with the advice of William Al Mercer Fraser Limited, using the projected unit method for the WPS and the attained age method for the WMIS. 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 WMIS 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 Prices Index (RPI). For the WPS, the corresponding assumption is 5.25 per cent per annum. This reflects increases which are guaranteed at 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.

For the USA schemes, the defined benefit arrangements have been reviewed on consistent assumptions and the balance of surplus spread forward to derive the pension cost for the post year period since the acquisition of the Enviro Holding Company and its subsidiary undertakings.

The total pension cost for the period was £11.3 million (1990 - £10.0 million)

The first actuarial valuation of the two UK schemes was carried out as at 31 March 1990, but is not yet finalised at 31 March 1991.

Both the WPS and WMIS comply with the anticipated requirements of the Social Security Act 1990 with regard to pension increases. Some changes may be required in the Schemes to comply with the ruling of the European Court in May 1990 concerning equality for men and women. However, these are unlikely to involve significant costs provided appropriate related changes are made to the contracting out requirements of the State arrangements.

26 Operating leases

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

	1991	
	Land and buildings £m	Plant and machinery £m
Leases which expire:		
With in one year	0.1	0.1
Between two and five years	1.2	0.5
After five years	0.9	-
	2.2	0.6

Auditors' Report

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

We have audited the accounts on pages 26 to 42 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 1991 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

Price Waterhouse
Chartered Accountants
Manchester
17 June 1991



Financial Calendar

Annual General Meeting	24 July 1991
Payment of final instalment on ordinary shares	30 July 1991
Final dividend for the year ended 31 March 1991 to be paid	1 October 1991
Interim results for the six months ending 30 September 1991 to be announced	November 1991
Interim dividend for the year ending 31 March 1992 to be paid	February 1992
Preliminary announcement of results for the year ending 31 March 1992	June 1992
1992 Report and Accounts circulated	June 1992



Five Year Summary

	1987	1988	1989	1990	1991
	£m	£m	£m	£m	£m
Profit and loss accounts					
Turnover	385	418	458	511	599
Operating costs	(265)	(286)	(306)	(361)	(419)
Other income	2	2	4	4	7
Operating profit	122	134	156	154	187
Net interest (payable)/receivable	(113)	(108)	(112)	(79)	28
Profit before tax	9	26	44	75	215
Tax on profit on ordinary activities	-	-	-	(12)	(22)
Profit on ordinary activities after tax	9	26	44	63	193
Extraordinary items	-	-	(1)	(7)	-
Profit for financial year	9	26	43	56	193
Dividends	-	-	-	(37)	(64)
Transfer to reserves	9	26	43	19	129
Balance sheets					
Fixed assets	1,169	1,270	1,389	1,558	1,834
Net current assets/(liabilities)	(107)	(195)	(252)	113	124
Creditors falling due after more than one year	(950)	(937)	(956)	(91)	(261)
Provisions for liabilities and charges	-	-	-	(14)	(47)
Accruals and deferred income	-	-	-	-	(2)
	112	138	181	1,566	1,648
Ordinary share capital	-	-	-	356	356
Reserves and retained profits	112	138	181	1,210	1,292
	112	138	181	1,566	1,648

The comparative financial information for the three 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 1991 and those for previous years. The changes which took place during 1990 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 1991, prepared in accordance with the Appointments, will be filed with the Director General of Water Services on 24 July 1991 and thereafter available upon application to the Company Secretary, Dawson House, Great Sankey, Warrington, Cheshire WA5 3LW.