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Corporate vision

North West Water Group will be the most highly focused, the most skilled and the most technologically advanced company in water and wastewater – worldwide. We will:

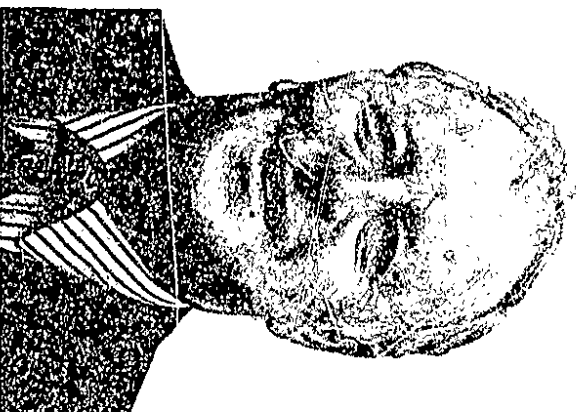
- provide the highest quality of products and services for customers
- deliver consistently good financial results for shareholders
- enable employees to realise their full potential
- ensure a positive impact on the communities we serve.



North West Water has grown into a worldwide organisation active across the five continents

Chairman's statement

We are committed to achieving cost and quality leadership in water and wastewater operations.



Sir Desmond Pitcher

I am very pleased to be reporting to you for the first time since my appointment as Chairman of the North West Water Group.

This has been a year of continuing good progress in our regulated utility, North West Water Limited, and of encouraging success by our non-regulated companies in winning a series of major international contracts.

Turnover increased to £878 million, up 11.3 per cent on 1992. Profit before tax was £247 million, an increase of 7.4 per cent. We are retaining £146 million in the business to contribute directly to our continuing investment in water and wastewater in the North West of England.

The directors are recommending a final dividend of 14.27p, giving a total dividend for the year of 21.4p. To support the expansion of our international operations, we are also offering our shareholders the opportunity of an enhanced scrip dividend.

These results reflect a sound performance in a trying economic climate. I am pleased that, despite operating in difficult world markets, our process companies have made a useful contribution to Group profits and that our international initiatives are now being rewarded with a series of major contracts. The knowledge and experience the Group has of tackling environmental problems in the North West of England, in particular, is evident in the contracts we are winning around the world.

I have always taken an active interest in the economy and the environment of the North West, and North West Water is an organisation dedicated to both. Many of our shareholders are also customers of the regulated utility and I am keen that we continue to give heavy emphasis to customer service and standards.

But it is more than a question of service. It is getting to know how customers feel and what they require. It is a tough task but it is very high on our list of objectives. We need customers to become enthusiastic supporters of their company. The wide consultation on the regulated utility's investment strategy to help prepare its Market Plan has given us good experience and has been a useful step forward in this important process.

At the end of the year, we said farewell to Dennis Grove who had steered North West Water and its predecessor water authority steadily forward since 1985. His contribution to the Group and all its stakeholders cannot be underestimated. He took the former public sector authority safely and effectively into the private sector, setting the firm focus and strong strategic direction that underpins the Group's subsequent success as a major world force in water and wastewater.

During the year, we welcomed to the Board Bob Ferguson, as our Group Finance Director. Eric Clark, chairman and managing director of BICC Cables, joined the Board as a non-executive director on 1 April 1993. Archie Ramsay will be retiring from the Board at the annual general meeting and we extend our best wishes to him for the future.

I would like to take this opportunity to thank and pay tribute to all our employees who under the leadership of Bob Thian, the Chief Executive, and his management team, have contributed so much and so well to the Group.

We are all committed to achieving cost and quality leadership in water and wastewater operations, both to attain and guarantee the product and service standards our customers expect and to underpin continuing international development.



Sir Desmond Pitcher Chairman

Financial highlights

	1993	1992
Turnover	£878m	£789m
Pre-tax profit	£247m	£250m
Earnings per ordinary share	62.5p	57.9p
Dividends	21.4p	19.67p
Dividend cover	2.5 times	2.5 times

Chief Executive's review

North West Water Group's business is water and wastewater worldwide. We make raw water safe to drink; and we clean wastewater – sewage and industrial effluent – to conserve the environment.



Bob Thian

As we drive for skill and technology leadership, we seek to make sure that we balance the needs and concerns of our four stakeholders – our customers, our shareholders, our employees and the communities we serve.

Our commitment to each is clear:

for our customers – the highest quality of products and services, for a fair price, paying close attention to their needs and concerns. Our goal is to satisfy our customers faster and more effectively;

for our shareholders – delivering consistently good financial results and long-term growth of their investment. We are achieving further efficiency and productivity gains and driving down operating costs; and making prudent acquisitions of related businesses;

for our employees – challenging opportunities for development and reward. Our goal is to give all our people the opportunity and help to exploit their own potential, achieving the highest standards of training and education. We are making progressive improvements in health and safety standards in all Group operations; and
for our communities – a cleaner and safer environment. We keep in close touch with all the interests of our communities – from local government and business, to recreation and conservation – and our goal is to be recognised as good corporate citizens by listening to, learning from and acting upon what they tell us.

The North West of England was the birthplace of the industrial revolution and a cradle of modern water and wastewater engineering. Building on that foundation, we have developed three complementary business activities:

Operations – managing water and wastewater systems, in the United Kingdom and internationally;

Engineering – the planning, design, contract and project management of water and wastewater projects, and

Process – the design of process solutions and the manufacture and supply of instrumentation, disinfection and treatment plant and equipment.

North West Water business activities

Nowhere better than in the North West of England can these broad capabilities be seen in action.

All of them are vital to tackle the old and dilapidated pipes, sewers and plants we inherited. Dealing with the heaviest workload of all water utilities in the United Kingdom gives us an unparalleled opportunity to sharpen our skills and establish a technological lead.

Each project we complete improves the quality of life and health of individuals and communities. We know that the more economically and efficiently we perform, the more can be done with the funds available.

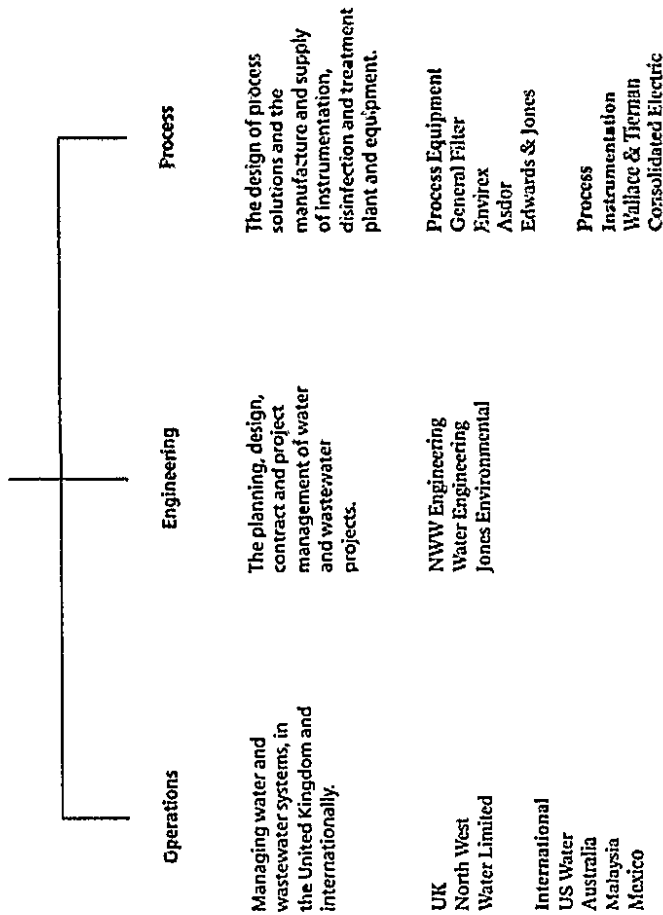
It is our emphasis on quality, on efficiency, on technology and on innovation which gives us our competitive edge.

It is these same values which are keeping us ahead of rising standards and expectations. We are investing to meet today's standards and planning for tomorrow's.

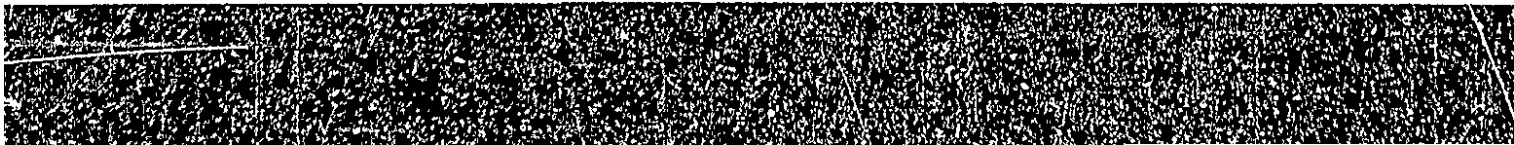
North West Water is building for the future. We are developing our skills, our technologies and our people. We are building a profitable, long-term business.

The pages that follow in my review highlight, and describe in greater detail in each business activity area, the achievements of the year.

North West Water Group PLC



Research and development



Highlights of the year The year has seen significant achievements at home and overseas.

This has been a challenging and rewarding year. North West Water Limited, our regulated utility in the North West of England, has continued to improve productivity and streamline its activities, while delivering higher quality standards than ever before.

It is now three years through its five year radical quality and efficiency strategy, which continues to provide the impetus and the milestones for its transformation into a model utility. Already, it has the lowest operating costs of water and wastewater services in the UK and, long term, that will be good for both customers and shareholders.

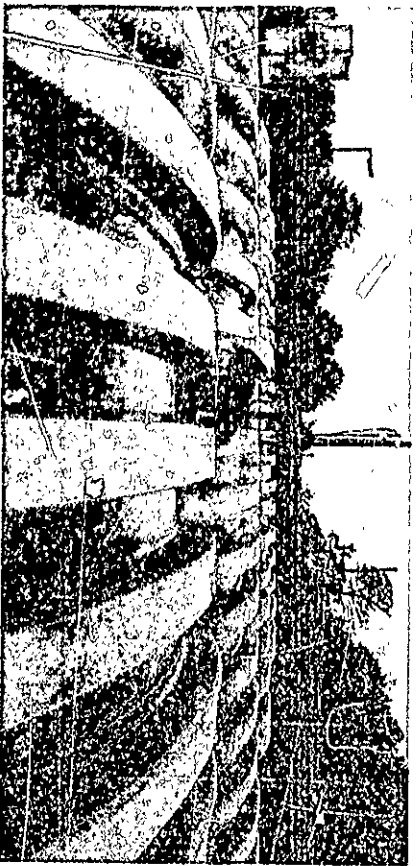
During the year we announced the first fruits of our last three years' efforts on the international operating front.

North West Water International won four major contracts: one, in Melbourne, Australia, is signed and underway and a further three, in Sydney, Australia, Mexico City and Malaysia, are under final contract negotiation.

Our engineering activities have been further strengthened by the addition of our contracting companies and their increasing focus on project management. As well as another excellent year delivering our major investment programme in the UK, our engineers won two overseas turnkey wastewater contracts: the first, in Macau, is signed and the second, in Bangkok, Thailand, is under final contract negotiation.

The impact of the recession on world markets afforded our process equipment and instrumentation groups the opportunity to prepare for the inevitable upturn in the US market. Both their product lines and manufacturing facilities are being rationalised and upgraded. The better margins resulting from these activities already began to show through in the year.

In research and development, a cornerstone of our quest for skill and technology leadership of the sector, we made further important steps towards assembling some of the key technologies of tomorrow, the most notable of which was our entry into membrane systems.



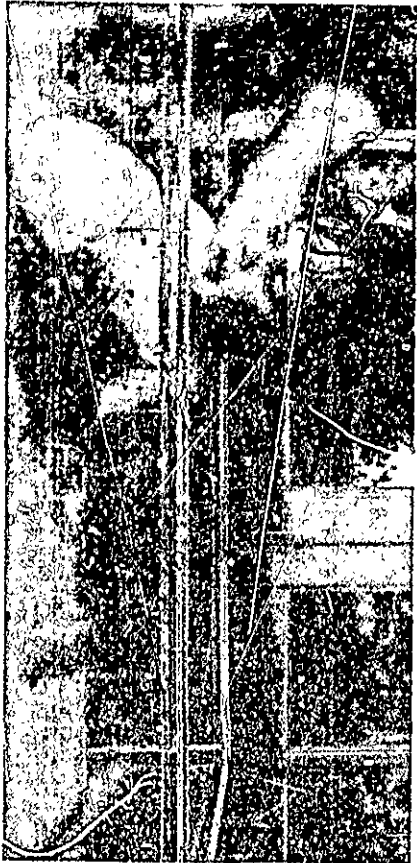
The Parlington wastewater treatment works in Greater Manchester is the first plant in the UK to use a more efficient and cost-effective treatment system from Envirex. The process is compact and simple to operate. Four green domes are all that remain visible.



Thailand, Bangkok: North West Water has won a £160 million contract to install a wastewater network and treatment facility for 700,000 people in central Bangkok, the first stage of a programme to tackle the city's pollution problems.

Operations in the North West of England

Further improvements in quality and customer service standards have been made as North West Water Limited continues its transformation into a model utility.



North West Water Limited serves seven million people every day of the year.

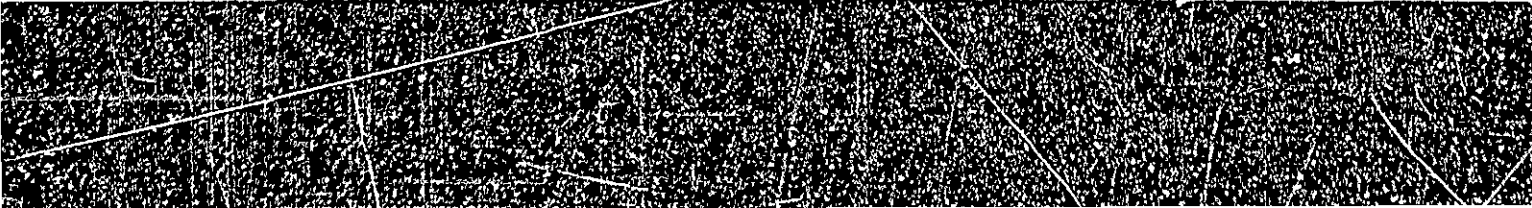
During the year North West Water Limited: successfully delivered its investment programme of improvements for customers; improved overall financial performance; increased productivity while further improving standards of quality and service; continued implementation of the quality and efficiency strategy; and consulted widely with customers and prepared its Market Plan.

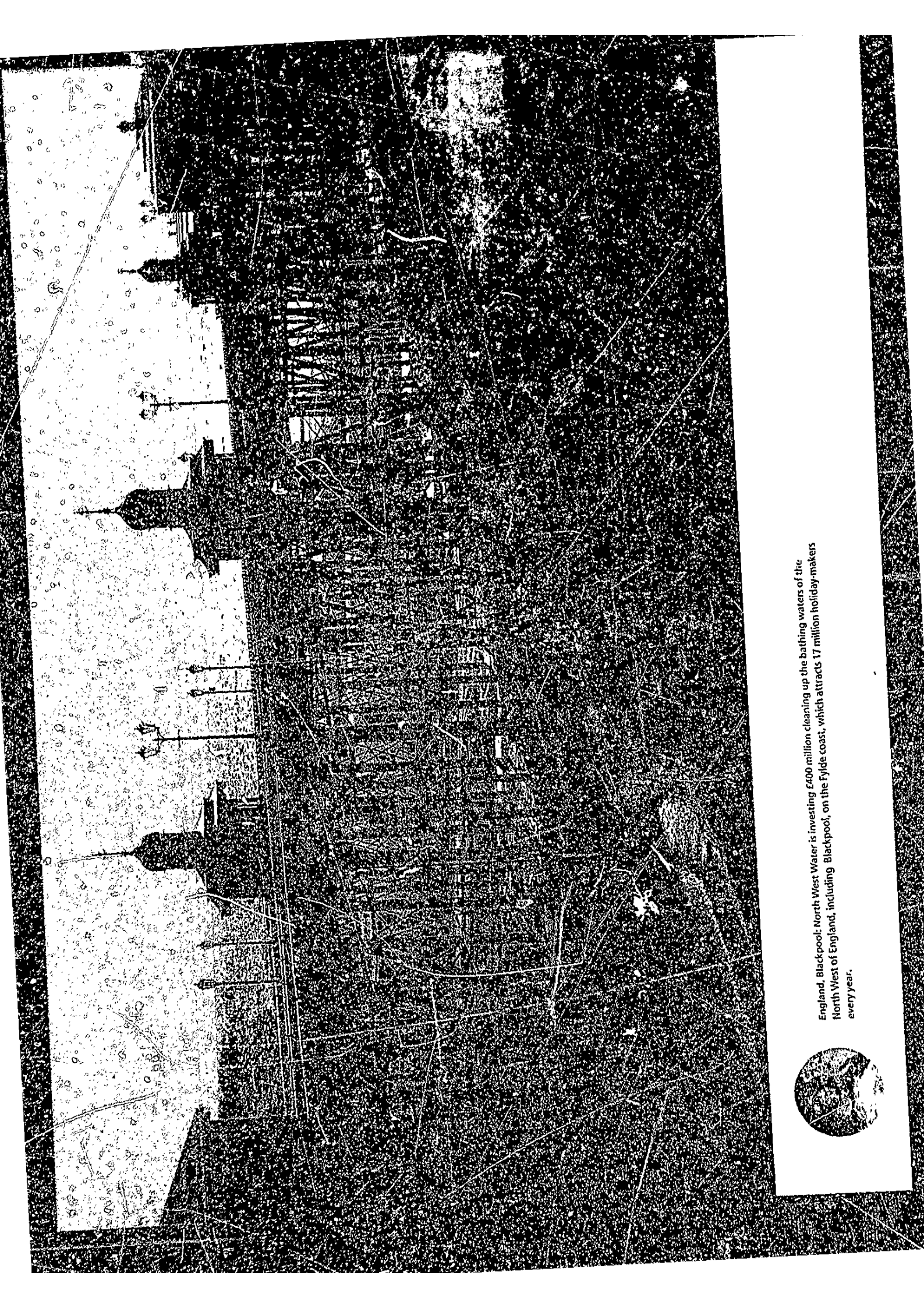
It continued to make inroads into the inherited backlog of repairs and renewals. Almost £500 million was spent in the year, part of the more than £1.5 billion invested since privatisation improving water and wastewater services in the North West. Planning approvals were given for the new £25 million Wybersley water treatment works and the Fylde wastewater treatment plant, key to the clean-up of the Blackpool and Fylde coasts costing more than £150 million, enabling us to proceed with these important projects.

At the same time, operating efficiencies were improved through the restructuring programme, the tight control of operating costs and the drive for efficiency gains. An independent survey of water companies' costs identified North West Water Limited as having the lowest operating costs for both water supplied and wastewater treated.

These efficiency improvements are reflected in the agreement we reached with the Director General of Water Services in December for customers to pay in 1993 and 1994 less than the maximum increase allowed under the privatisation price formula. The Director General has also agreed that we need to spend an additional £273 million in these two years to meet the new legal requirements on us to improve environmental standards, particularly to continue reducing pollution of the Mersey estuary and implementing the bathing water directive on the Fylde and Cumbrian coasts.

We consulted widely in the North West, including domestic customers, organisations representing business customers, the Customer Service Committee, local authorities and environmental associations, seeking their views on our future investment strategy and the balance between quality and cost. This was to help us prepare our Market Plan, which sets





England, Blackpool: North West Water is investing £400 million cleaning up the bathing waters of the North West of England, including Blackpool, on the Fylde coast, which attracts 17 million holiday-makers every year.





North West water is now being exported. The Packaged Ice Company of Fleetwood exports over 200 tonnes of ice cubes every year.

out our preferred strategy for the 10 years from 1995, which we have now submitted to the Director General.

Because we are tackling the country's most severe pollution problems and because environmental standards have been raised further, meeting even the minimum legal standards is especially expensive for the North West, involving capital expenditure about twice that envisaged when we were privatised.

Our consultations indicated there was only limited support for the option of meeting still higher standards more quickly but at greater cost. Most of our customers on lower incomes were reluctant to pay more than the minimum and we have had particular regard to their views. Our recommended strategy therefore is to maintain present progress to achieve the already high minimum legal standards we are required to meet and, in addition, to reduce the potential risk of cryptosporidium.

Substantial progress was made with the quality and efficiency strategy. New systems to improve customer service were introduced, including a customer contact system which will enable an improved, more flexible service to be offered. The benefits of the increasing investment in technology will only be fully achieved through new organisational arrangements and working practices. We have continued to refine the organisation and to increase training and development to enable employees to fulfil more demanding roles.

Each day we treat and supply around 550 million gallons of water to our domestic and business customers, with 99.3 per cent of all measurements at customers' taps having met stringent quality requirements. We remove this water after use and treat it for return to the environment. The quality of effluent being returned to rivers and coastal waters continues to improve and 98.5 per cent of all samples taken by the National Rivers Authority complied with discharge conditions.

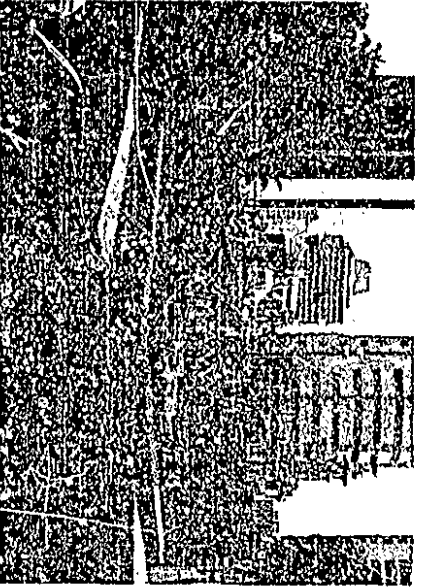
Through the largest investment programme in the UK water industry, we are meeting demanding water quality standards and gradually improving the quality of the environment for our communities.



England: Drinking water quality in the North West has never been higher – over 99 per cent of all measurements at customers' taps met stringent quality requirements.

International operations

Our sustained efforts are coming to fruition with success in winning a series of major overseas contracts.



North West Water has been active in Malaysia for a number of years and is now finalising a substantial wastewater contract.

There is a widespread need around the world for substantial improvements in water and wastewater services. North West Water has the skills, the experience and the technologies to help meet that need and to benefit from the opportunity it represents for our company. Long term international operating contracts offer the prospects of expanding revenues outside the UK regulated utility and the year saw the first real fruits of our sustained efforts overseas during the last three years.

We have strengthened our presence on the ground and our challenge in the international marketplace. Our reputation as the provider of high quality solutions to water and wastewater problems has been recognised with our success in winning a series of major contracts.

Construction is already underway in Melbourne on the £11 million Yan Yean water treatment plant, the second stage of a design, build and operate contract. The plant will supply up to 155 megalitres of water a day during the 25 year operating concession period.

Following successful bids, contracts are in the final stages of negotiation for:

• Sydney – the design, construction and operation of a £50 million capital project to supply up to 280 megalitres of water a day during the 25 year concession period;

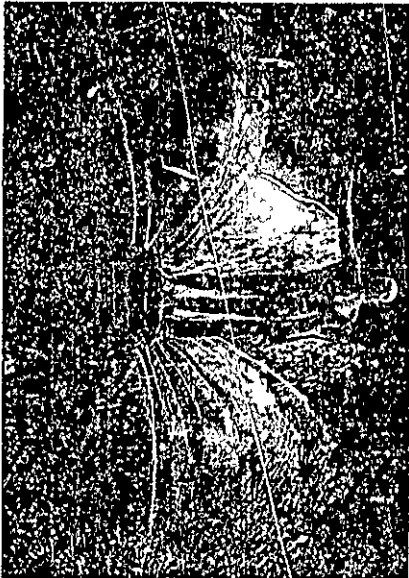
• Mexico City – a £285 million operating contract to provide water and wastewater services for two million people in the federal district of Mexico City. The ten year contract is part of a major drive to upgrade and expand the existing water and wastewater system and provide improved customer service. North West Water will operate in five of the city's 16 municipalities; and

• Malaysia – we are finalising with the Federal Government a substantial privatisation contract for the whole of that country's wastewater system. The 28 year contract to upgrade, extend and operate Malaysia's sewerage system will involve investment of £1.25 billion over the first 18 years.

These contracts form a significant foundation for the Group's continuing growth as a global water and wastewater business. We are actively building relationships around the



Malaysia: North West Water's skills and experience are bringing benefits to communities around the world. In Malaysia the 28 year contract is to upgrade, extend and operate the country's sewerage system.



The statue of Apollo in Spalney – at the touch of his rays trees and fields become green.

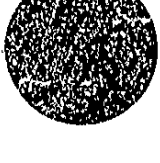
world, as governments review the options available to them for meeting water and wastewater investment needs and choose the way forward that is appropriate and acceptable in their own particular circumstances. Privatisations may be the answer for some: build, own, operate, transfer schemes are also becoming increasingly popular.

We believe we have the capabilities to satisfy these different approaches. But we must ensure too that the interests of the company and our shareholders are safeguarded. There is a large market of overseas work available: our aim must be to achieve an attractive return on our investment. Economic and political stability are critical, as is commercial realism – we need to be sure that we will be delivering services at a price the customers are willing to pay.

As the investments necessary can be very large, we need to be sure also that capital will be available and in appropriate form. Usually that will mean both local equity and non-recourse finance.

Our presence in the US through our process equipment and instrumentation companies has been reinforced with the acquisition during the year of US Water Inc. This is a small but important step into the US operations market. US Water, based in New Jersey, provides contract operations and maintenance services to 35 municipal and industrial water and wastewater facilities.

Our strong international development is built on the exceptional range of skills, expertise, technologies and process solutions the Group can bring to bear in dealing with water and wastewater problems. In developing our international business, we are also widening the markets and opportunities for our engineering and process equipment and instrumentation companies and giving employees throughout the Group increasing scope to display and develop their managerial and technical skills. Our aim is that our international operations will make us the leaders of the water and wastewater industry as we enter the next century.



Mexico, Mexico City: North West Water has successfully bid for a contract to improve water and wastewater services and systems in a large area of Mexico City.

Engineering

We are focusing on technology and innovation to add value to the investment programme in the North West of England and secure business in international markets.

The engineering group aims to achieve excellence in engineering and to be a leader in engineering and specialist contracting for water and wastewater projects. Its role is twofold:

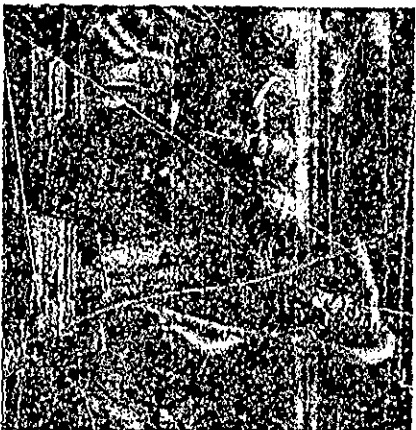
to implement effectively and add value to the regulated utility's demanding capital programme in the North West of England. During the year a programme of almost £500 million was completed, enabling required quality outputs to be achieved; and to support Group international activities and secure substantial business in external markets. Two overseas turkey wastewater projects were won in the year – a £160 million project in Bangkok and a £15 million plant in Macau.

We are driving down costs by using standard solutions for standard problems and automated design techniques. This saves time allowing our expert engineers to concentrate on the most difficult problems and improve process and product technology. The engineering group has a critical responsibility to integrate North West Water Group's total solutions capability – planning, controlling and managing the introduction of technology and innovation into plant and network design.

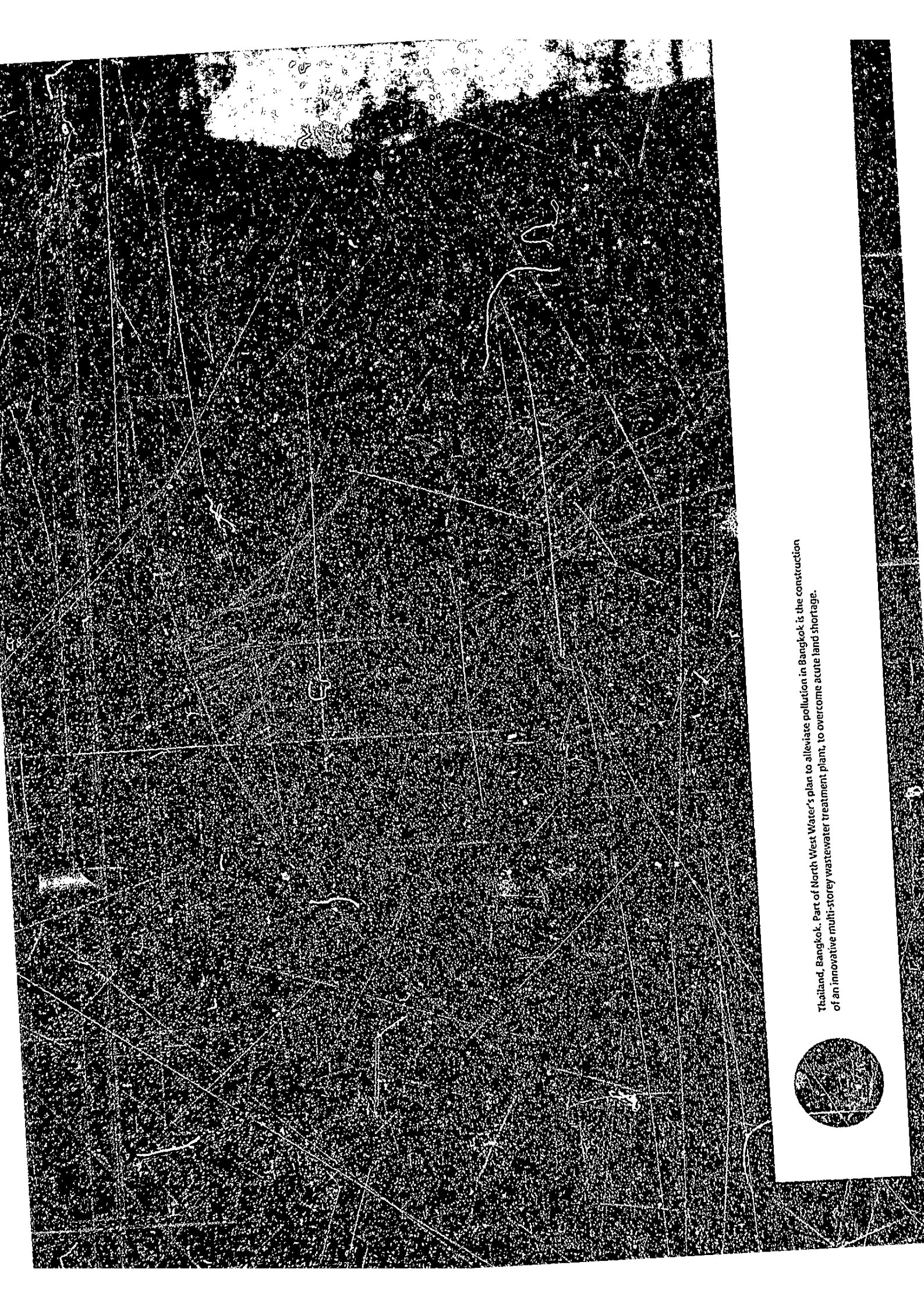
These examples show what can be achieved – two benefiting the capital programme in the North West of England and the third, the international business:

a novel engineering design approach to a detention tank, part of a storm water control project in Bolton, reduced the materials and labour needed, at the same time strengthening and lightening the whole structure. It reduced the cost of the project by £500,000 and will be used in other appropriate projects, with similar savings;

applying the Group's innovative process solutions, the new wastewater treatment works at Partington was designed around Envirex's submerged biological contactors enabling the higher treatment standards required to be met earlier; and the innovative design of pumping systems was a key factor differentiating North West Water International from competitors in Sydney, proving our ability to turn design into commercial reality and to compete in the toughest marketplaces.



Bangkok: By wringing her hair to provide water, the earth goddess, Mae Toramea, 47-year-old the forces of evil sent to tempt Buddha while he was sitting in meditation.

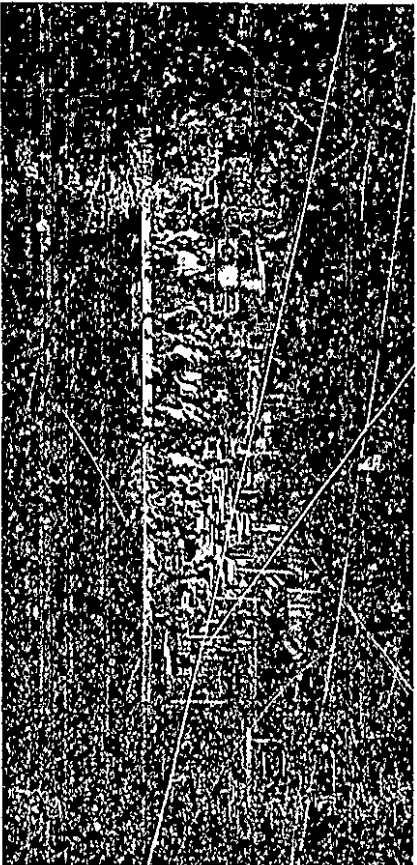


Thailand, Bangkok. Part of North West Water's plan to alleviate pollution in Bangkok is the construction of an innovative multi-storey wastewater treatment plant, to overcome acute land shortage.



Process

We are building a formidable armoury of process solutions to solve water and wastewater problems around the world.



North West Water is building a new water treatment plant in Melbourne, one of Australia's busiest cities – the first design, build and operate contract in the Australian water industry.

The two process groups made a useful contribution to Group profits in the year, despite operating in world markets hit hard by the recession.

They form an important strategic entry into the water and wastewater equipment and instrumentation markets and we are continuing their development by:

- rationalising and upgrading product lines;*
- restructuring and modernising manufacturing processes and plants; and*
- developing and acquiring new technologies.*

Through the resulting improvements in margins and by taking advantage of the further opportunities offered as markets recover, the process companies can be expected to contribute steadily and progressively to earnings per share growth.

In February we strengthened our process instrumentation capability with the acquisition of Consolidated Electric in the US.

That company, based in Minnesota, designs and manufactures automatic control devices, instrumentation and systems for water and wastewater facilities, adding new products to our portfolio.

The process companies are playing a growing part in the achievement of North West Water Limited's investment programme and in the development of the international business, expanding beyond their traditional markets.

Envirex's innovative submerged biological contactors, for example, and General Filter's unique underdrain system for water filters have been incorporated in new projects in the North West of England.

The General Filter system, together with chlorinators, chlorine analysers and metering pumps from Wallace & Tiernan, will also be incorporated in the Melbourne and Sydney projects.

The plant and processes being installed in North West Water Limited's facilities and overseas will provide important "showcases" for the process companies' technologies and process solutions.



Australia, Sydney. Our process equipment is an integral part of the water treatment projects in Sydney and Melbourne.



Research and development

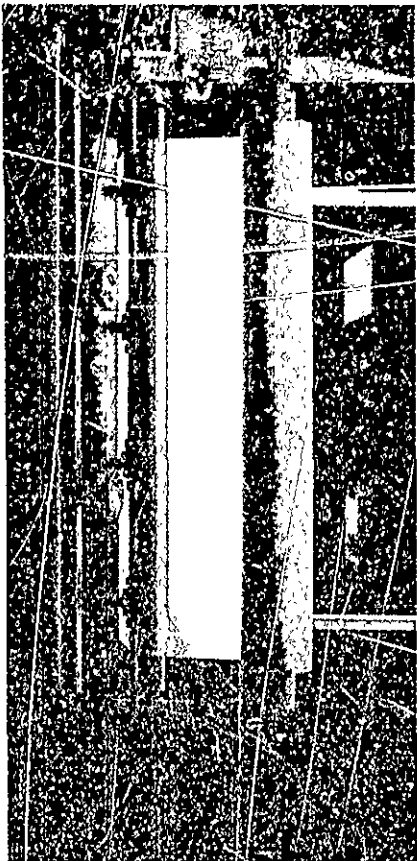
Our investment in research and development is key to our quest for skill and technology leadership.

Only by the expanding use of technology can we achieve the increasing quality requirements being demanded of us, control our operating costs and reduce environmental impact. New and radical solutions are beginning to emerge which will replace the traditional treatment processes. New materials will encourage new approaches to construction, and new water and wastewater processes are being developed which will be controlled and monitored by improved instrumentation and systems.

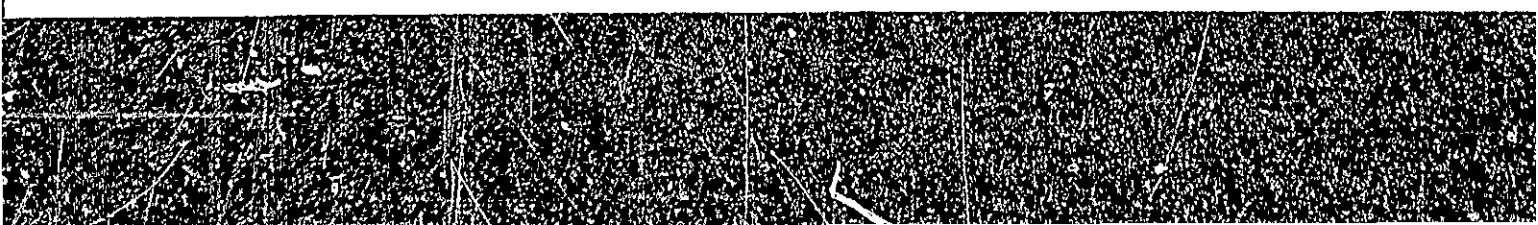
Continuing research and development to provide innovative technology solutions and bring them to practical applications, is a key feature of our strategy. We are focused on creating new and cost effective technical and commercial opportunities for all Group businesses.

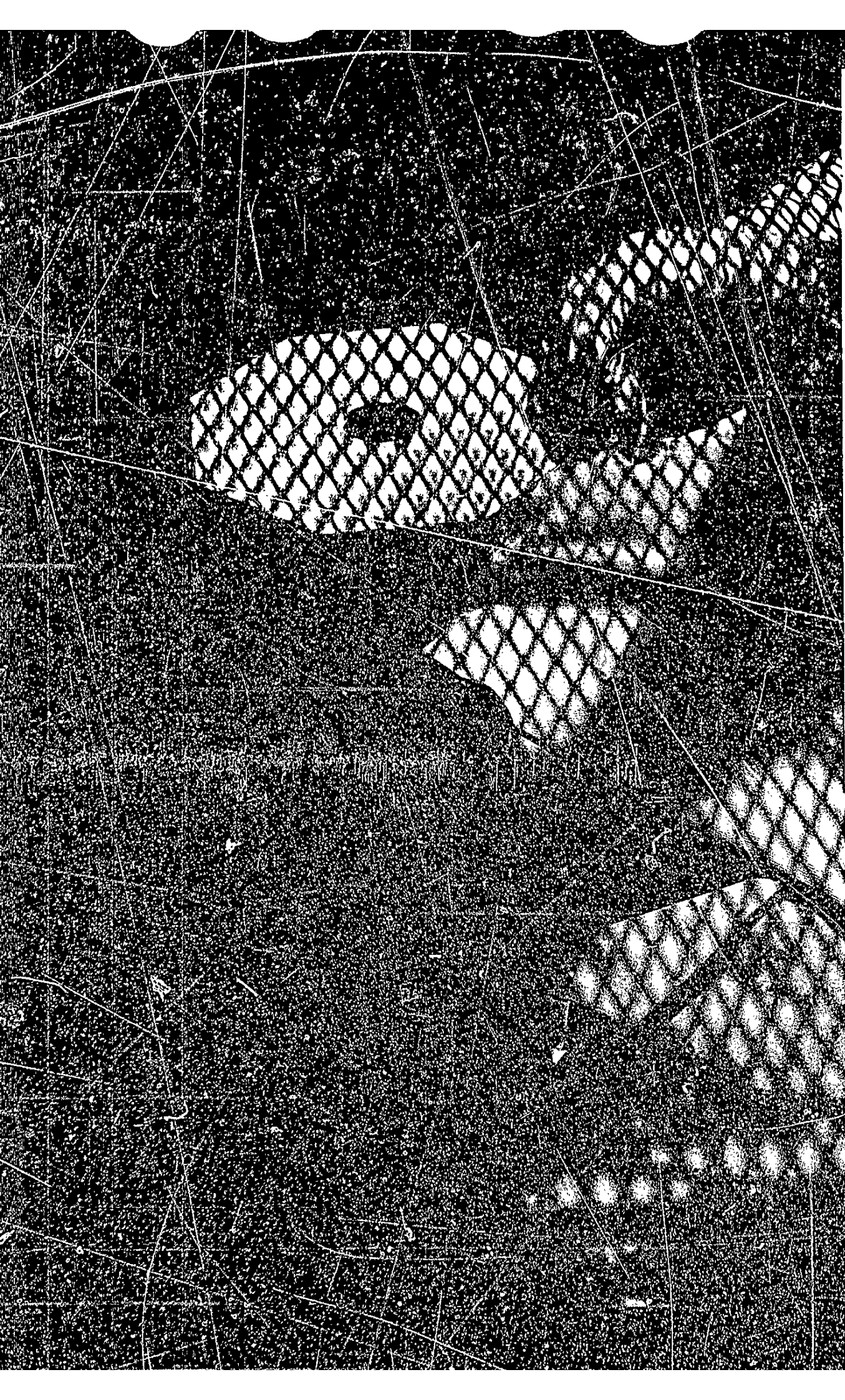
The acquisitions in March of Ceramesh and ICI Membranes strengthen our research and development capability and provide a range of products representing a significant technological breakthrough. Ceramesh has developed and manufactures a range of flexible ceramic membranes which can remove very small particles from water. The technology developed by the ICI Membrane business is founded on organic, aromatic polymers previously applied in advanced materials for the aerospace industry. Among their unique characteristics, these membranes are resistant to chemical breakdown, especially by chlorine. The two businesses have complementary products of increasing importance worldwide for water and wastewater treatment as demands for higher quality water and environmental standards continue.

Membrane technology is widely applied for desalination and is increasingly being used in water and wastewater treatment for the removal of a broad range of contaminants. Membranes can tackle cost effectively treatment problems that other processes cannot by removing particles and molecules in a single operation. These acquisitions have provided a leading edge portfolio of patented membranes and know-how ideally suited to meet the separation needs of the water and wastewater industry. This sets North West Water at the forefront of this vital technology field.



Key acquisitions of membrane technology were made during the year.





England: Membrane systems represent a significant technological breakthrough for water and wastewater treatment.

Board of directors

Sir Desmond Pitcher, Chairman. Chairman of the Merseyside Development Corporation and the Mersey Barrage Company. Formerly group chief executive of The Littlewoods Organisation; and managing director of Plessey Telecommunications and Office Systems and of British Leyland (truck and bus division).

Robert Thian, Chief Executive. Formerly managing director of Glaxo, Portugal; European regional director of Abbott International; and vice president of Novo Industries.

Alan Dean, Group Business Development Director. Formerly chief executive of N Brown Group; and a director of N M Rothschild & Sons.

Robert Ferguson, Group Finance Director. Formerly deputy managing director and previously finance director of North West Water Limited.

Derek Green, Managing Director of North West Water Limited. Formerly Aggregates Group chief executive of BTR. Previously with AMEC and Fairclough Building.

Non-executive directors

* **Clare Bolton, Chairman of the Audit Committee.** A tax partner in Coopers & Lybrand.

*† **Eric Clark, chairman and managing director of BICC Cables;** a director of the Merseyside Development Corporation; and a member of the European Advisory Board of the Dana Corporation. Formerly managing director of Plessey Telecommunications and Office Systems.

* **Dr Rodney Leach, formerly a partner in McKinsey & Company;** an executive director of P&O; and chief executive and managing director of VSEL.

*†† **Alan Pendleton, non-executive director of Chieftain Group, Northern Independent Hospitals and of Nord Anglia Education.** Formerly managing director of West's Group International; and a director of Tilbury Group.

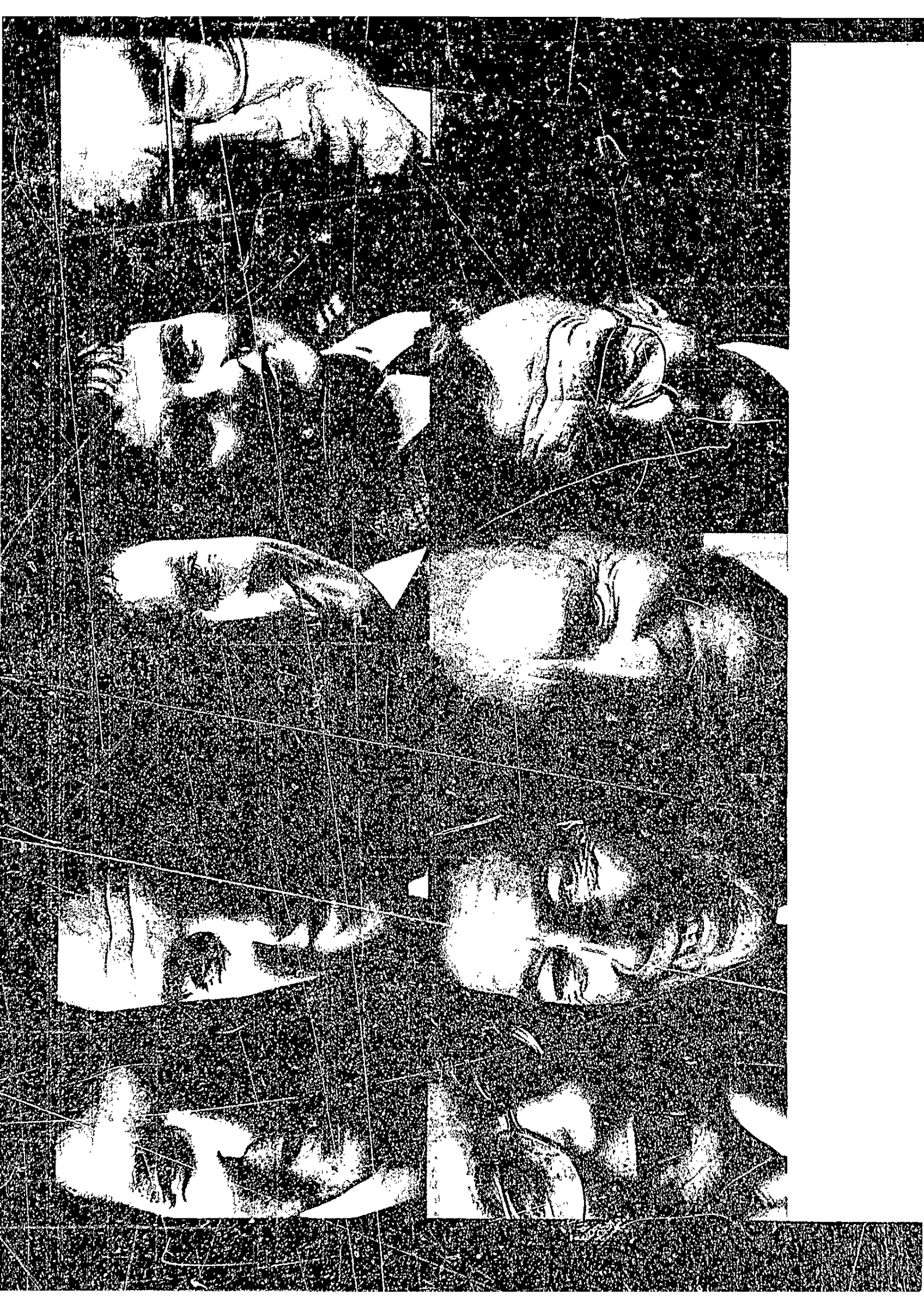
Archibald Ramsay, formerly group finance director of North West Water Group PLC. Previously group financial controller of Courtauld; group finance director of International Paint; and group finance director of Pilgrim House Group.

*†† **Frank Sanderson, Chairman of the Remuneration Committee.** Chairman of Acumen Technologies and a director of British Water and Wastewater. Formerly divisional managing director (water engineering division) of Babcock International.

* member of the Audit Committee

† member of the Remuneration Committee

John Tellow, Secretary



Directors' report

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

Its main operating subsidiary, North West Water Limited, holds Appointments as water and sewerage undertakers under the Water Industry Act 1991 to provide water supply and sewerage services in the North West of England. It is this part of the Group's business which is subject to formal quality and economic regulation under the provisions of the 1991 Act.

The Group has process equipment and instrumentation and contracting subsidiary undertakings based in North America, Germany, the United Kingdom and Ireland and with facilities in Australia, Brazil, Hong Kong, Malaysia, Mexico and Thailand.

The Chief Executive's review of activities to be read in conjunction with this report, appears on pages 4 to 21.

Directors The present directors are listed on page 22.

Mr E Clark and Mr R J Ferguson, who have been appointed to the Board since the last annual general meeting, are recommended by the Board for re-election. Mr Ferguson, formerly deputy managing director of North West Water Limited, was appointed Group Finance Director on the resignation of Mr S F McAdam. Mr Clark, a non-executive director, is chairman and managing director of BICC Cables Limited.

Dr R Leach, the director to retire by rotation, will on the recommendation of the Board offer himself for re-election.

Mr A M Ramsay, a non-executive director, is retiring from the Board.

Mr Ferguson has a service contract with the company terminable by the company on three years' notice. As non-executive directors, Mr Clark and Dr Leach do not have service contracts.

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 8 June 1993 no change took place in those 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.

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

Corporate governance The directors welcome the report of the Cadbury Committee on the financial aspects of corporate governance and the code of best practice issued in December 1992.

The company currently complies with almost all aspects of the code and will review the detailed requirements for full compliance during the next financial year. No company can comply fully with the code until guidelines on certain provisions are issued by the accountancy profession in the near future.

The directors are of the opinion that this report and accounts includes all the disclosures currently required by the code.

Profit and dividends The results for the year, set out in the consolidated profit and loss account on page 28, and prepared in accordance with Financial Reporting Standard No 3, show a profit on ordinary activities before tax of £247.1 million (1992 - £230.1 million), after making a restructuring charge of £36.0 million (1992 - £30.2 million). Interest charges have increased as expected, from £15.6 million to £41.1 million, arising from our continuing substantial investment in improving water and wastewater services in the North West of England. The profit for the year attributable to ordinary shareholders was £222.3 million and the retained profit of £145.8 million was transferred to reserves.

The directors recommend a final dividend on the ordinary shares of 14.27p per share for the year to 31 March 1993 for payment on 6 August 1993 to shareholders on the register at the close of business on 17 June 1993. This dividend together with the interim dividend

directors implemented the share dividend plan for the 1993 interim dividend. Some 40 per cent of shareholders elected to receive shares, with the number of continuing elections made increasing to around 32,500, and a total of 328,785 ordinary shares were allotted.

In view of the proposal to offer an enhanced scrip dividend as an alternative to cash for the 1993 final dividend, the share dividend plan will not be implemented in respect of the 1995 final dividend.

Share capital Details of the company's share capital are set out in note 22 to the accounts. Since 31 March 1993, 21,813 shares have been allotted on the exercise of options and the company has issued share capital, credited as fully paid, is £357,580,467 divided into 357,550,466 ordinary shares and the special share.

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 116,857,534.

A special resolution (resolution 8) 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 1994, 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 £17,879,000 being 5 per cent of the issued ordinary share capital. The directors believe it is in the interests of the shareholders that they should be given this limited authority, providing them with a prudent measure of flexibility to act in the company's interests.

At 8 June 1993 the company had been notified of one holding of 3 per cent or more of the nominal value of the issued ordinary share capital of the company, by Norwich Union Life Insurance Society (a holding of 12,540,886 shares).

of 7.15p per share paid on 26 February 1993 makes a total dividend for the year of 21.4p per share, an increase of 8.8 per cent over the dividend per ordinary share for 1992.

Enhanced scrip dividends The directors are proposing to shareholders, as an alternative to the final cash dividend, an enhanced scrip dividend equivalent to a dividend of 21.405p per ordinary share representing a 50 per cent increase over the cash dividend. Full details are set out in the circular dated 25 June 1993 sent to shareholders together with the offer letter from Swiss Bank Corporation to purchase shares from shareholders validly electing under the scheme, at an assured value equivalent to a dividend of 20.9769p inclusive of all commission and dealing costs. A special resolution (resolution 7) will be proposed at the annual general meeting seeking approval to implement the enhanced scrip dividend scheme.

This scheme will apply to the final dividend for the year ended 31 March 1993 and there is no present intention of extending it to future dividends. Assuming an acceptance level of 90 per cent for the enhanced scrip dividend, which is consistent with recent issues by other companies, the company would benefit from a cash saving of approximately £60 million, including advance corporation tax of £13.3 million which would otherwise be written off in the accounts. The retained cash will provide a significant injection of equity for our international business, building on our recent successes and accelerating the growth of our international operations.

Share dividend plan As authorised at the annual general meeting in 1992, directors offered shareholders in respect of the 1992 final dividend the alternative of taking dividends in the form of shares in the company instead of cash. The offer was well received with some 30 per cent of shareholders electing to receive shares instead of cash and a total of 528,090 ordinary shares of £1 each fully paid were allotted to them. Around 22,500 shareholders made continuing elections. In the light of the success of that offer, the

Directors' report continued

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

Fixed assets Changes in tangible fixed assets during the year are shown in note 11 to the accounts.

Acquisitions During the year, the Group acquired the whole of the share capital of Consolidated Electric Company based in the USA, designers and manufacturers of automatic control devices, instrumentation and systems used in the operation of water and wastewater installations, and of CFM Environmental Services (now known as US Water Inc) also based in the USA, which provides contract operations and maintenance services to municipal and industrial water and wastewater treatment facilities.

It also acquired two operations in the UK - Ceramash Limited and ICI's membrane business - dedicated to the research and development of membrane technology, which is of increasing importance for water and wastewater treatment.

Details of the fair value of the net assets acquired and the consideration are set out in note 13 to the accounts.

Conservation, access and recreation With substantial areas of operational land, North West Water is a major landowner in the North West of England. Through strong support and investment in conservation, access and recreation the Group is committed to increasing environmental benefits for the community and the quality of life for those living and working in or visiting the region. Developments during the year included:

Zongdendale Trail, opened by the Chairman of the Countryside Commission;
Cown Waterski Centre for the Disabled, inaugurated by the Duke of Westminster;
nature reserves at Leigh wastewater works and Strinesdale water works.

In addition, the annual sports day for the disabled was again held at Rivington and the

company sponsored the Waterforce Gallery at Quarry Bank Mill, Sneyd, opened by HRH the Princess Royal.

We have continued to benefit from the positive advice and assistance of North West Water's independent Conservation, Access and Recreation Advisory Committee.

Employees The Group's investment in the training and development of employees continues to be a key aspect in the creation of a world class company.

During the year over 700 operations employees in the regulated utility undertook comprehensive programmes leading to nationally accredited qualifications. Pioneering work was also done on the accreditation of prior learning to enable experienced managers to obtain either the certificate or diploma in management linked to the Management Charter Initiative.

New organisations are being created which reflect the Group's commitment to devolved responsibility. The focus is on high performing teams with employees having a large measure of control over how they carry out their work. These principles will be at the heart of the approach to customer service and operations management.

We are adapting our arrangements for recruitment, management development and communications and consultation to support the international development of the business. An increased recruitment programme is bringing graduates into the Group from North America, Eastern Europe and the Far East, as well as the UK. Employees are being moved between business units as part of our management development process. Conferences and seminars have brought together employees from across the Group to gain a shared understanding of Group strategy and to ensure the active participation of all employees in the development of the business.

Safety remains a high priority and there was a further reduction in accidents during 1992. There is still room for improvement and a new Group safety policy has been launched, linked to a comprehensive programme of auditing and physical inspection.

The Group has policies and practices to ensure that 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 counselled to determine their suitability for alternative work, for which retraining is offered if appropriate.

The employees sharesave scheme continued to be popular. A further opportunity to join the scheme was offered in December 1992 and there was a good response from first time applicants. A number of existing participants increased their commitments by taking out new savings contracts. Details are given in note 22 to the accounts.

Executive share option scheme During the year, further grants under the executive share option scheme were made to executive directors and certain senior managers, some at a discount of 15 per cent of the market value of the underlying shares at the time of grant as permitted by revised Inland Revenue arrangements and authorised at the annual general meeting in 1991. Details are set out in note 22 to the accounts.

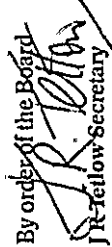
Under the provisions of the existing executive share option scheme, which is based on UK PAYE regulations, the company cannot treat overseas executives (who are not subject to PAYE) in the same way as executives who are subject to United Kingdom taxation. This is of increasing significance as the Group extends its overseas activities.

To enable overseas executives to be treated in exactly the same way as UK executives, it is proposed that the company establishes an overseas executive share option scheme under which options can be granted to eligible employees who are not subject to Schedule E taxation in the United Kingdom. This would be in the form of an appendix to the rules of the executive scheme.

An ordinary resolution (resolution 9) will be proposed at the annual general meeting to authorise the directors to establish the overseas scheme by adopting an appendix to the rules of the executive scheme. That appendix will be in a form which will be produced to the meeting and which will be available for inspection at the company's registered office during usual business hours prior to the annual general meeting and at the place of the annual general meeting from fifteen minutes prior to its commencement until its conclusion.

Charitable donations Donations during the year for charitable purposes, as defined by the Companies Act 1985, amounted to £60,000 (1992 - £17,000).

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
11 June 1993

Consolidated profit and loss account

For the year ended 31 March 1993	Note	1993 £m	1992 £m
Turnover:			
Continuing operations	1	875.2	789.1
Acquisitions		2.7	-
Total turnover		877.9	789.1
Operating costs			
Other income	3	(594.0)	(547.1)
	4	4.3	3.7
Operating profit:			
Continuing operations		288.2	245.7
Acquisitions		-	-
Total operating profit	2	288.2	245.7
Net interest payable	7	(41.1)	(15.6)
Profit on ordinary activities before taxation		247.1	230.1
Taxation on profit on ordinary activities	8	(24.8)	(24.0)
Profit for financial year		222.3	206.1
Dividends	9	(76.5)	(70.0)
Transfer to reserves		23	145.8
Earnings per share – net basis			
– full basis	10	62.3p	57.9p
	10	68.4p	64.5p

The notes on pages 31 to 43 form part of these accounts.

Balance sheets

At 31 March 1993	Note	Group		
		1993 £m	1992 £m	Company 1992 £m
Fixed assets				
Tangible assets	11	2,562.3	2,219.8	4.1
Investments	12	1.6	1.3	1,202.9
		2,563.9	2,221.1	1,207.0
				1,152.3
Current assets				
Stocks	14	38.1	38.3	-
Debtors	15	228.9	183.9	100.3
Investments	16	154.5	218.6	-
Cash at bank and in hand		29.7	21.8	14.5
		451.2	462.6	114.6
				105.3
Creditors: amounts falling due within one year	17	(432.9)	(424.1)	(191.0)
				(128.5)
Net current assets/(liabilities)		18.3	38.5	(76.4)
				(23.2)
Total assets less current liabilities		2,582.2	2,259.6	1,150.6
				1,129.1
Creditors: amounts falling due after more than one year	18	(674.2)	(498.9)	(62.6)
				(62.6)
Provisions for liabilities and charges	20	(73.7)	(63.1)	(5.2)
				(4.0)
		1,834.3	1,697.6	1,062.8
				1,062.5
Capital and reserves				
Called up share capital	22	357.6	355.9	357.6
Share premium account	22	1.1	0.1	1.1
Profit and loss account	23	1,475.6	1,341.6	704.1
		1,834.3	1,697.6	1,062.8
				1,062.5

Approved by the Board of directors on 11 June 1995 and signed on its behalf by

Sir Desmond Pitcher R J Ferguson
Chairman Group Finance Director

The notes on pages 31 to 43 form part of these accounts.

D. H. P. P.

R. J. Ferguson

Consolidated cash flow statement

	1993	1993	1992	1992
For the year ended 31 March 1993	£m	£m	£m	£m
Net cash inflow from operating activities	299.9	299.9	301.7	301.7
Return on investments and servicing of finance				
Interest received	19.8	28.8		
Interest paid	(51.0)	(38.4)		
Interest paid on finance leases	(4.8)	(4.1)		
Dividends paid	(68.4)	(66.0)		
Net cash outflow from return on investments and servicing of finance	(104.4)	(104.4)	(79.7)	(79.7)
Taxation				
Advance corporation tax paid	(22.4)	(21.3)		
Overseas tax paid	(3.6)	(0.1)		
Taxation paid	(26.0)	(26.0)	(21.4)	(21.4)
Investing activities				
Purchase of fixed asset investments	(0.1)	(0.1)		
Purchase of tangible fixed assets	(412.7)	(437.8)		
Grants and contributions received	19.5	21.2		
Sale of tangible fixed assets	3.1	2.5		
Acquisitions	(8.0)	(93.4)		
Net cash outflow from investing activities	(390.2)	(390.2)	(507.6)	(507.6)
Exchange adjustments	-	-	5.4	5.4
Net cash outflow before financing	(228.7)	(228.7)	(301.6)	(301.6)
Financing				
Issue of ordinary share capital	2.1	0.2		
Share issue costs	(0.3)	-		
New loans	117.2	212.8		
New finance leases	62.5	52.0		
Repayment of loans	(24.7)	(25.8)		
Capital element of finance leases repaid	(7.5)	(7.2)		
Net cash inflow from financing	149.1	149.1	232.0	232.0
Decrease in cash and cash equivalents	(79.6)	(79.6)	(69.6)	(69.6)

Notes to the cash flow statement

	1993	1992
For the year ended 31 March 1993	£m	£m
Reconciliation of operating profit to net cash inflow from operating activities	288.2	245.7
Operating profit	56.4	41.6
Depreciation	(2.7)	(1.7)
Profit on sale of tangible fixed assets	3.9	(2.6)
Movement in stocks	(39.1)	(22.8)
debtors	(6.8)	41.5
creditors		
Net cash inflow from operating activities	299.9	301.7
Analysis of changes in cash and cash equivalents		
At 1 April 1992	228.5	297.3
Transfer	-	0.6
Net cash outflow for the year	(79.6)	(69.6)
Exchange adjustments	0.2	-
At 31 March 1993	148.9	228.3
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	29.7	21.8
Bank overdrafts	(12.3)	(12.1)
Temporary borrowings repayable within 3 months	(23.0)	-
Current asset investments	154.5	218.6
	148.9	228.3
Share capital (including share premium)		
Loans and finance lease obligations		
Analysis of changes in financing during the year		
At 1 April 1992	356.0	524.7
Shares issued in lieu of cash dividends	0.9	-
Cash inflow from financing	1.8	147.5
Exchange adjustments	-	11.5
At 31 March 1993	358.7	683.5

Statement of total recognised gains and losses

For the year ended 31 March 1993	Group		Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Profit for the financial year	222.3	206.1	71.8	59.0
Exchange adjustments	(6.1)	5.5	0.9	-
Total recognised gains and losses for the financial year	216.2	211.6	72.7	59.0

Reconciliation of movements in shareholders' funds

For the year ended 31 March 1993	Group		Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Profit for the financial year	222.3	206.1	71.8	59.0
Dividends	(76.5)	(70.0)	(76.5)	(70.0)
Net share dividend adjustment	2.9	-	2.9	-
New share capital issued	2.7	0.2	2.7	0.2
Goodwill on acquisitions	(8.6)	(92.4)	(1.5)	-
Exchange adjustments	(6.1)	5.5	0.9	-
Net addition/(reduction) to shareholders' funds for the year	136.7	49.4	0.5	(10.8)
Shareholders' funds at 31 March 1992	1,697.6	1,648.2	1,062.5	1,073.3
Shareholders' funds at 31 March 1993	1,834.3	1,697.6	1,062.8	1,062.5

Notes to the accounts

1 Accounting policies

(a) Basis of preparation of accounts

The consolidated accounts set out on pages 28 to 43 incorporate the accounts of North West Water Group PLC and its subsidiary undertakings. The results 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 and, except for the treatment of certain grants and contributions, with the Companies Act 1985 ("the Act"). An explanation of this departure from the requirements of the Act is given in the "Grants and contributions" section below.

(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

The net assets of companies and businesses acquired are incorporated into the consolidated accounts at their fair value to the Group and after adjustments to bring the accounting policies of the companies and businesses acquired into alignment with those of the Group. Fair value adjustments include provisions for reorganisation and restructuring costs. If the estimates on which these provisions are based prove to be in excess of actual expenditure, the unutilised surplus provisions will not be taken to profit and loss, but will be credited to reserves as a recalculation of goodwill.

(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	39-60 years
Operational structures	40-80 years
Fixtures, fittings, tools and equipment	3-40 years
Pre-1974 assets	22-27 years

Capitalised computer software costs are depreciated over 3-10 years.

Assets in the course of construction with an estimated economic life of greater than 20 years are not depreciated until the year following commissioning.

(f) Grants and contributions

Grants and contributions relating to infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with schedule 4 to the Act, which requires fixed assets to be shown at their purchase price or production cost and hence grants and contributions would be presented as deferred income. This departure from the requirements of the Act is, in the opinion of the directors, necessary for the accounts to give a true and fair view as no provision is made for depreciation and any grants and contributions relating to such assets would not be taken to profit and loss account.

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.

(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.

Notes to the accounts continued

- (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 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.
Finished goods and goods for resale are stated at the lower of cost and net realisable value and include appropriate production overheads.
- (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 24.
- (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, offset by translation differences on foreign currency loans which finance investments in overseas subsidiary undertakings, 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 appropriate share of 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.

2 Segmental information

Turnover, operating profit and net operating assets for each class of business and by geographical origin is:

	Turnover		Operating profit		Net operating assets	
	1993 £m	1992 £m	1993 £m	1992 £m	1993 £m	1992 £m
By business area:						
North West Water Limited – water and wastewater operations	692.3	640.1	284.8	243.9	2,452.6	2,065.3
Process equipment and instrumentation	171.2	128.7	18.0	12.7	74.3	61.0
Other activities	29.5	25.5	(14.6)	(10.9)	–	(2.7)
Intra-group sales	892.8 (14.9)	794.3 (5.2)	288.2 –	245.7 –	2,526.9 –	2,123.6 –
By geographical origin:						
United Kingdom	738.0	679.3	281.6	235.0	2,463.1	2,073.6
Europe	25.0	16.9	3.9	1.9	4.7	4.2
The Americas	123.5	95.4	6.0	8.7	56.5	43.9
Rest of the world	6.3	2.7	(3.3)	0.1	2.6	1.9
Intra-group sales	892.8 (14.9)	794.3 (5.2)	288.2 –	245.7 –	2,526.9 –	2,123.6 –
	877.9	789.1	288.2	245.7	2,526.9	2,123.6

- (i) Intra-group sales are primarily within process equipment and instrumentation, and from that business area and other activities to water and wastewater.
- (ii) Net operating assets comprise fixed assets and net current assets excluding net borrowings, investments, taxation and dividends.
- (iii) The geographical destination of turnover does not differ materially from the geographical origin analysis above.

3 Operating costs		1995	1992
		£m	£m
Staff costs:			
Wages and salaries		137.6	141.0
Social security costs		17.0	10.6
Pension contributions (note 24)		12.2	12.0
Capital schemes		166.8	163.6
Infrastructure renewals		(25.4)	(26.1)
		(6.2)	(8.6)
		155.2	128.9
Depreciation:			
Owned fixed assets		50.3	56.8
Fixed assets held under finance leases		6.1	4.8
		56.4	41.6
Infrastructure renewals expenditure			
		65.0	72.8
Other operating costs:			
Energy, rates and other operating costs		189.7	164.4
Raw materials and consumables		102.1	97.1
Auditors' remuneration		0.4	0.4
Research and development		5.4	5.7
Operative leases			
-hire of plant and machinery		3.8	3.0
-land and buildings		2.0	3.0
Restructuring charge		36.0	30.2
		339.4	303.8
Total operating costs		594.0	547.1

Operating costs in 1993 include £2.7 million in respect of acquisitions.

Fees payable to Price Waterhouse for non-audit services in 1993 were £9.3 million, of which £9.1 million related to the United Kingdom.

4 Other income

	1995	1992
	£m	£m
Profit on disposal of fixed assets	2.7	1.7
Net rents receivable	1.2	1.2
Other	0.4	0.8
	4.3	3.7

5 Directors' emoluments

	1995	1992
	£000	£000
Salaries and taxable benefits	919	693
Fees	25	-
Performance related	194	162
Pension contributions	108	80
	1,244	935

The Chairman:

Salary and taxable benefits	183	128
Performance related	55	38
Pension contributions	29	20

Highest paid director:

Salary and taxable benefits	199	147
Performance related	56	42
Pension contributions	29	18

The criteria for the directors' performance related bonus scheme were the increase in profit before tax and the return on capital employed.

Upon the retirement of Messrs Dean, Green and Thian, the company has undertaken to pay the difference between their pension entitlements based upon the relevant portion of their final salaries and the maximum amount payable under the rules of the Water Pension Scheme.

Notes to the accounts continued

5 Directors' emoluments continued

Other directors (excluding pension contributions):

£	1993 Number	1992 Number
10,001 - 15,000	2	3
15,001 - 20,000	2	2
35,001 - 40,000	1	-
50,001 - 55,000	1	-
55,001 - 60,000	1	-
60,001 - 65,000	1	-
80,001 - 85,000	-	1
85,001 - 90,000	-	1
95,001 - 100,000	1	-
120,001 - 125,000	1	1
130,001 - 135,000	-	1
145,001 - 150,000	1	-

In addition, the company paid £90,000 as compensation for loss of office during the year to Mr S F McAdam, a former director of the company. It also purchased from him a property at the market value of £240,000 certified by an independent chartered surveyor.

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

	1993		1992 or on appointment	
	Ordinary shares	Executive option scheme	Ordinary shares	Executive option scheme
W D Grove (ii)	55,911	94,450	8,824	8,362
Sir Desmond Pitcher	5,228	-	5,000	216,700
R P Thian	4,200	235,499	7,143	8,824
A M Dean	5,000	57,250	6,720	5,000
R J Ferguson (iii)	17,240	54,999	8,824	57,250
D Green (iv)	1,000	147,750	4,744	31,750
Mrs M C Bolton	2,091	-	2,000	147,750
E Clark (v)	4,620	-	4,620	-
Dr R Leach	10,470	-	10,000	-
A G Pendleton	5,000	-	4,000	-
A M Ramsay	43,258	15,250	-	6,258
F Sanderson	4,702	-	4,100	105,250

(i) Non-executive directors are not eligible to be granted options to purchase fully paid ordinary shares under the employee share scheme or the executive option scheme described in note 22.

- (ii) Mr W D Grove retired as a director on 31 March 1993.
 (iii) Mr R J Ferguson was appointed to the Board on 14 October 1992.
 (iv) Mr D Green was appointed to the Board on 22 July 1992.
 (v) Mr E Clark was appointed to the Board on 1 April 1993.
 (vi) Mr B Alexander retired from the Board on 22 July 1992.
 (vii) Mr S F McAdam resigned from the Board on 12 October 1992.
 No change has occurred in these interests up to 8 June 1993.

6 Employees

	1993	1992
Average number of persons employed by the Group	8,061	8,201
By business area:		
North West Water Limited -		
water and wastewater operations	5,442	5,928
Process equipment and instrumentation	2,245	1,933
Other activities	374	340
	8,061	8,201

7 Net interest payable

	1993 £m	1992 £m
Interest payable:		
On bank loans, overdrafts and other loans:		
Repayable within 5 years	(6.9)	(8.4)
Repayable wholly or partly in more than 5 years	(44.1)	(31.5)
On finance leases	(51.0)	(39.7)
	(9.9)	(6.0)
Total interest payable	(60.9)	(45.7)
Interest receivable	19.8	30.1
Net interest payable	(41.1)	(15.6)

8 Taxation

	1993 £m	1992 £m
UK corporation tax at 33%	-	-
Overseas tax	2.9	0.7
Unrelieved advance corporation tax	21.9	23.3
	24.8	24.0

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 of £5.8 million (1992 - £10.9 million) included in debtors in the Group accounts (note 15) relates to fair value adjustments in respect of acquired overseas subsidiary undertakings.

The full potential deferred tax liability is:

Accelerated tax allowances on buildings, plant and equipment	277.9	249.6
Losses and other timing differences	(59.9)	(105.8)
Advance corporation tax recoverable	218.0	143.8
	(79.2)	(57.3)
	138.8	86.5

No deferred tax asset or liability arises in the company's accounts.

No provision is made for taxation in respect of liabilities which might arise on the distribution of earnings retained overseas.

9 Dividends

	1993 £m	1992 £m
Interim dividend of 7.13 pence (1992 - 6.54 pence)	25.5	23.3
Final dividend of 14.27 pence recommended (1992 - 13.13 pence)	51.0	46.7
	76.5	70.0

Provision is made for proposed final dividends and the related advance corporation tax payable on the basis that the dividends will be fully settled in cash. The adjustments required to reflect the take-up of dividends in the form of new shares are accounted for in the subsequent financial year.

10 Earnings per share

	1993	1992
Net basis:		
Profit for financial year attributable to ordinary shareholders	£222.3m	£206.1m
Earnings per ordinary share	62.3p	57.9p
Nil basis:		
Profit on ordinary activities after the elimination of the charge for unrelieved advance corporation tax	£244.2m	£229.4m
Earnings per ordinary share	68.4p	64.5p

Earnings per ordinary share on the net basis has been calculated by dividing profit for the financial year attributable to ordinary shareholders by 356.6 million, being the weighted average number of shares in issue during the year (1992 - 355.9 million).

Earnings per ordinary share on the nil basis is calculated by eliminating the taxation charge of £21.9 million (1992 - £23.3 million) in respect of unrelieved 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 continued

11 Tangible fixed assets

Group	Land and buildings	Infra-structure assets	Opera-tional structures	Fixtures, fittings, tools and equipment	Pre-1974 assets	Assets in course of construction	Total
	£m	£m	£m	£m	£m	£m	£m
Cost:							
At 1 April 1992	71.4	1,051.6	452.4	468.2	177.4	272.4	2,493.4
Exchange adjustments	0.8	-	-	1.5	-	-	2.3
Additions	14.0	83.6	32.4	68.8	-	213.9	412.7
Arising from acquisitions	0.4	-	-	0.7	-	-	1.1
Grants and contributions	-	(14.2)	-	-	-	(1.7)	(15.9)
Transfers	3.4	12.5	58.6	(7.8)	-	(66.7)	-
Disposals	(0.7)	-	-	(4.7)	-	-	(5.4)
At 31 March 1993	89.3	1,133.5	543.4	526.7	177.4	417.9	2,888.2
Depreciation:							
At 1 April 1992	11.4	-	45.9	116.5	100.0	-	273.6
Exchange adjustments	0.2	-	-	0.7	-	-	0.9
Change for the year	3.7	-	8.4	38.7	5.6	-	56.4
Disposals	(0.7)	-	-	(4.5)	-	-	(5.0)
At 31 March 1993	14.6	-	54.3	151.4	105.6	-	325.9
Net book value:							
At 31 March 1993	74.7	1,133.5	489.1	375.3	71.8	417.9	2,562.3
At 31 March 1992	60.0	1,051.6	406.5	351.9	77.4	272.4	2,219.8

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 value of fixed assets is £33.9 million (1992 - £38.0 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:

	1993	1992
	£m	£m
Cost	185.1	126.0
Accumulated depreciation	(47.5)	(41.4)
Net book value	137.6	84.6

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1993. 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.

	1993	1992
	£m	£m
Capital commitments:		
Contracted but not provided for	328.5	285.5
Authorised but not yet contracted for	37.4	110.6

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.

11 Tangible fixed assets continued

Company	Fixtures, fittings, tools and equipment £m
Cost:	
At 1 April 1992	3.0
Additions	2.0
At 31 March 1993	5.0
Depreciation:	
At 1 April 1992	0.5
Charge for the year	0.6
At 31 March 1993	0.9
Net book value:	
At 31 March 1993	4.1
At 31 March 1992	2.7

12 Fixed asset investments

Group	Other investments £m		
Cost:			
At 1 April 1992	1.3		
Additions	0.1		
Exchange adjustments	0.2		
At 31 March 1993	1.6		
Company	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Cost:			
At 1 April 1992	1,149.3	0.3	1,149.6
Additions	53.3	-	53.3
At 31 March 1993	1,202.6	0.3	1,202.9

In addition to the acquisitions referred to in note 15, the company increased its investment in, and acquired, several existing subsidiary undertakings as part of an ongoing Group legal restructuring programme.

Notes to the accounts continued

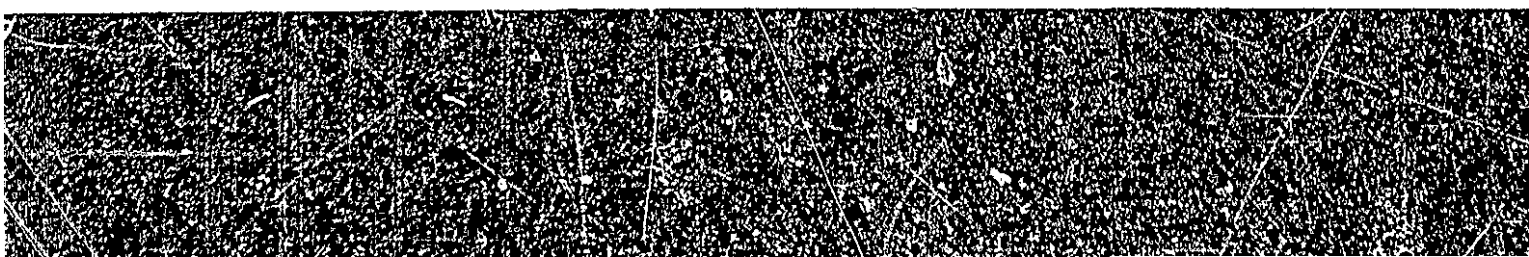
12 Fixed asset investments continued

Details of principal subsidiary and associated undertakings, all of which are unlisted, are detailed below. A full list of subsidiaries is attached to the annual return of the company.

	Class of share capital held	Proportion of share capital owned/voting rights	Nature of business
Subsidiary undertakings:			
Great Britain:			
North West Water Limited	Ordinary	100%	Water supply and sewerage services
Malaysia:			
NIWW 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
Associated undertakings:			
Wallace & Tiernan Limited†	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Birdwards and Jones Limited†	Ordinary	100%*	Treatment processes
Ceramesh Limited	Ordinary	100%	Development, production and marketing of flexible ceramic membranes
Spain:			
Republic of Ireland:			
Jones Environmental (Ireland) Limited	Ordinary	100%*	Design and installation of water and wastewater treatment plants
USA:			
Envivet Inc†	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
General Filter Company Inc†	Ordinary	100%*	
Wallace & Tiernan Inc†	Ordinary	100%*	
Consolidated Electric Company†	Ordinary	100%*	Contract operations and maintenance services
US Water Inc	Ordinary	100%*	
Australia:			
North West Water Australia Pty Ltd	Ordinary	100%*	Technical and management services
Canada:			
Asdor Limited†	Ordinary	100%*	Manufacture of equipment for water and waste water treatment processes
Germany:			
Wallace & Tiernan GmbH†	Ordinary	100%*	Manufacture of equipment for water and waste water treatment processes
Malaysia:			
North West Water (Malaysia) SDN BHD	Ordinary	100%	Technical and management services
Great Britain:			
Lakeland Smolt Limited	Ordinary	49%	Fish farming
WRc (Process Engineering) Limited	Ordinary	50%*	Design and construction of equipment for water and wastewater treatment processes
Spain:			
CIDA Hidroquinica 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.

† Process equipment and instrumentation company



13 Acquisitions

The Group acquired CFM Environmental Services Inc (now called US Water Inc) on 14 August 1992 and Consolidated Electric Company on 2 December 1992. The company acquired Ceramesh Limited on 11 March 1993 and the ICI Membranes business on 24 March 1993. The analysis of net assets acquired and the fair value to the Group is as follows:

	Book value £m	Fair value adjustments £m	Fair value to Group £m
Fixed assets	1.7	(0.6)	1.1
Stocks	1.0	-	1.0
Debtors	1.2	-	1.2
Total assets	3.9	(0.6)	3.3
Creditors	(1.2)	-	(1.2)
Provisions	-	(1.2)	(1.2)
Total liabilities	(1.2)	(1.2)	(2.4)
Net assets	2.7	(1.8)	0.9
Less: consideration - paid			8.0
- deferred			1.5
Total consideration			9.5
Goodwill arising on current year acquisitions			8.6

The goodwill of £8.6 million has been set off against Group reserves.

The results of the businesses in the periods prior to acquisition are not presented as the directors are of the opinion that the effects of the change of ownership render such information incomparable.

14 Stocks

	1993 £m	Group 1992 £m
Stocks	9.3	9.8
Work in progress	8.0	7.7
Finished goods and goods for resale	20.8	20.8
	38.1	38.3

15 Debtors

	Group		Company	
	1993 £m	1992 £m	1993 £m	1992 £m
Amounts falling due within one year:				
Trade debtors	143.2	103.7	-	-
Amounts owed by Group undertakings	-	-	99.7	90.3
Other debtors	18.1	17.9	-	-
Prepayments and accrued income	35.3	39.2	0.6	0.1
Infrastructure renewals prepayment	9.1	1.3	-	-
Amounts recoverable under contracts	6.3	5.8	-	-
Deferred tax (note 8)	1.1	4.6	-	-
	213.1	172.5	100.3	90.4
Amounts falling due after more than one year:				
Amounts owed by associated undertaking	0.3	0.3	-	-
Other debtors	10.8	4.8	-	-
Deferred tax (note 8)	4.7	6.3	-	-
	15.8	11.4	-	-
Total debtors	228.9	183.9	100.3	90.4