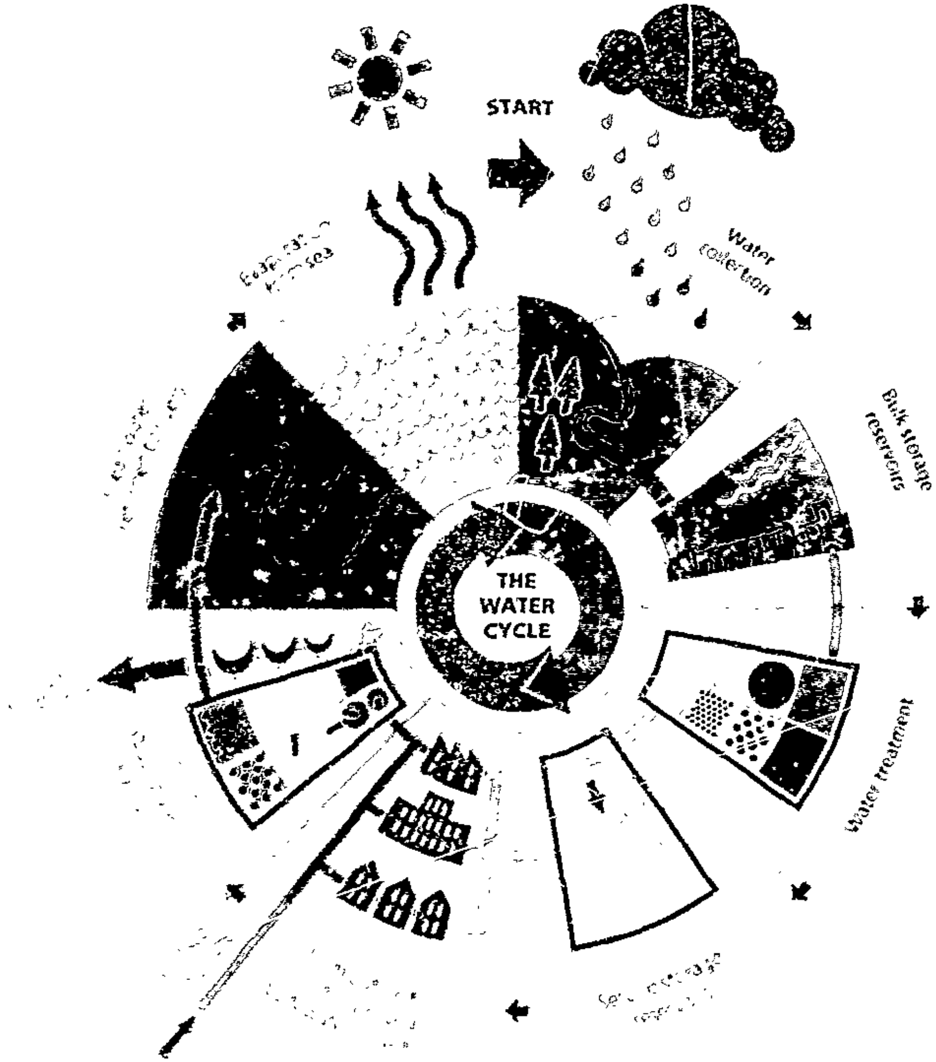
2366616

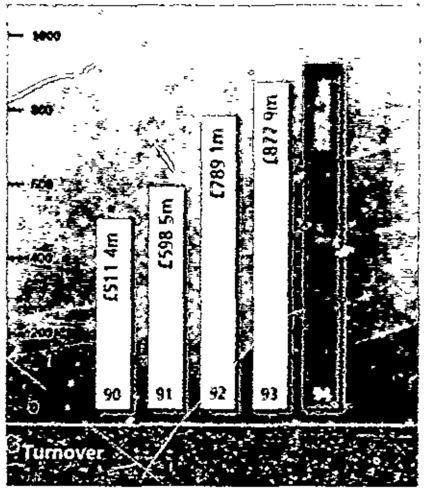
The North West Water Group



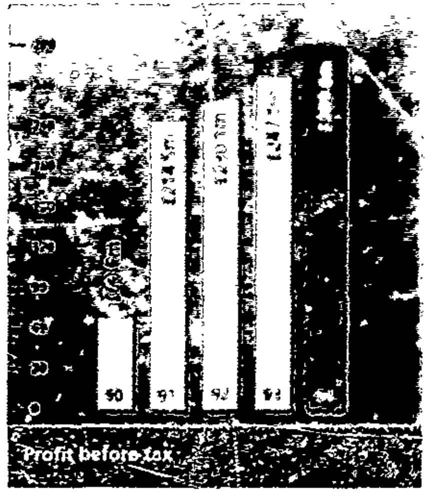
The water cycle: At each stage of the cycle we combine our skills and expertise with the most appropriate technology, to deliver water and treat wastewater efficiently

Financial highlights

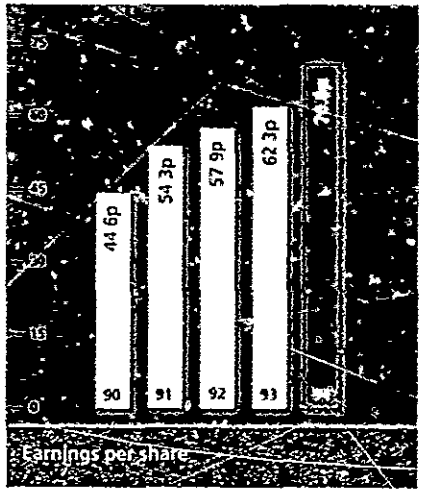
	1994	1993
Turnover	£924.2m	£877.9m
Profit before tax	£269.0m	£247.1m
Earnings per share	70.8p	62.3p
Dividends per share	23.07p	21.4p
Operating cash flow	£367.4m	£299.9m
Operating cash flow per share	99.9p	84.1p
Interest cover	6.1	7.0
Gearing	27.3%	29.1%



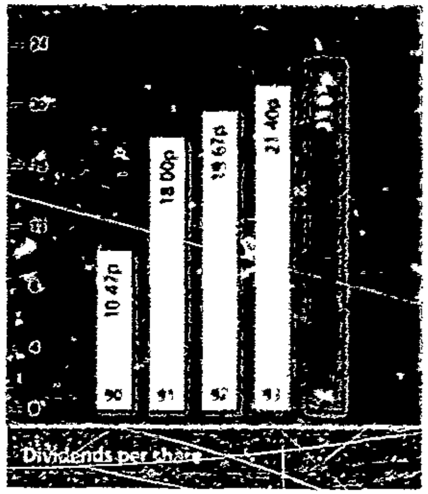
Turnover



Profit before tax



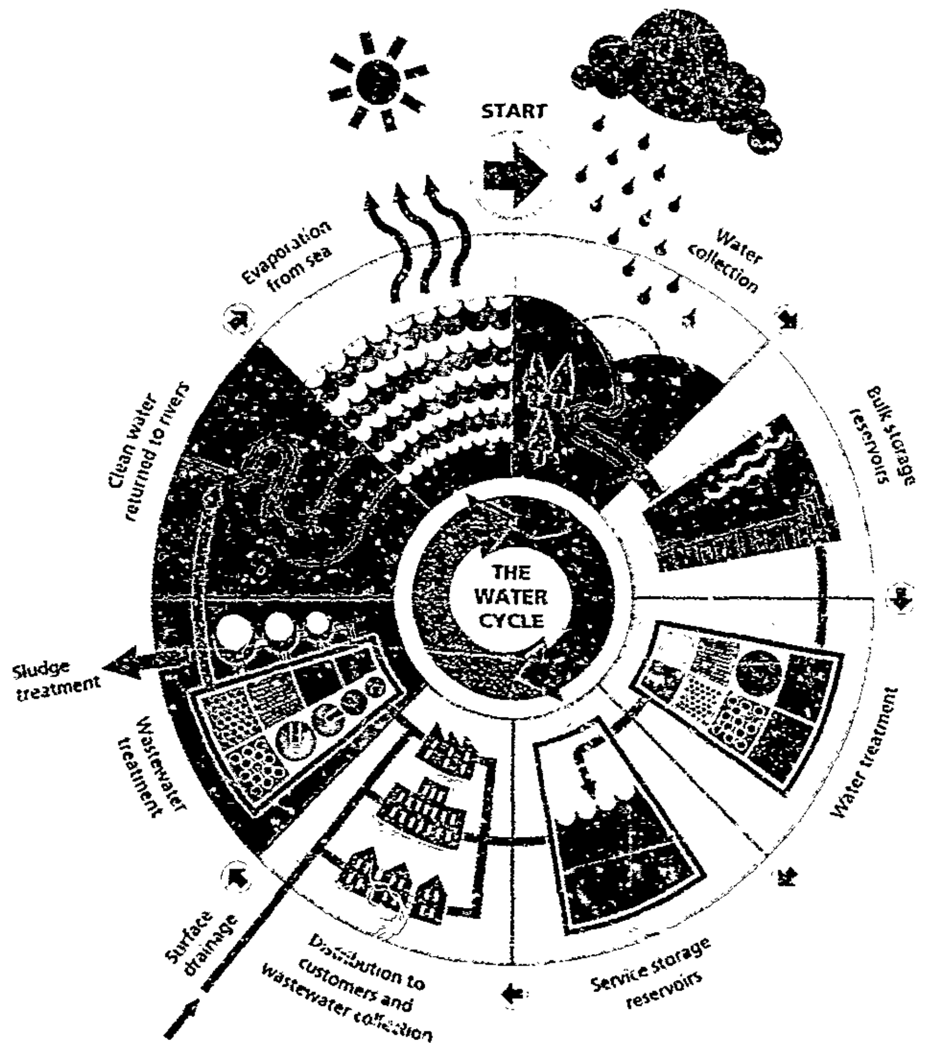
Earnings per share



Dividends per share

2366616

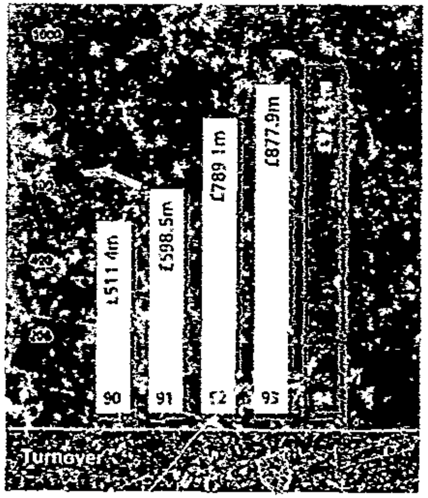
The North West Water Group

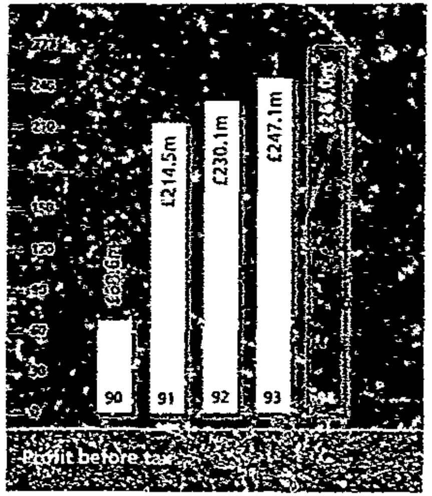


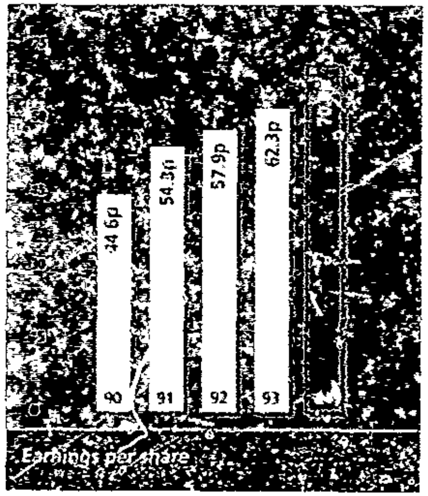
The water cycle: At each stage of the cycle we combine our skills and expertise with the most appropriate technology, to deliver water and treat wastewater efficiently.

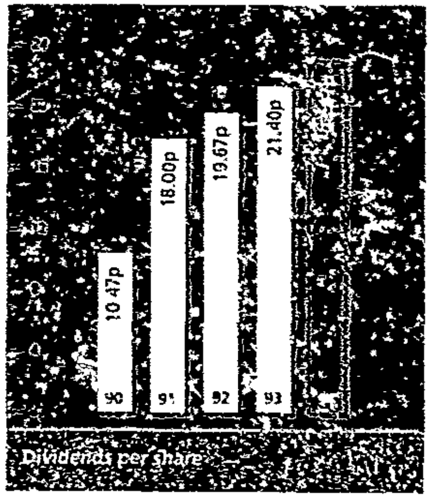
Financial highlights

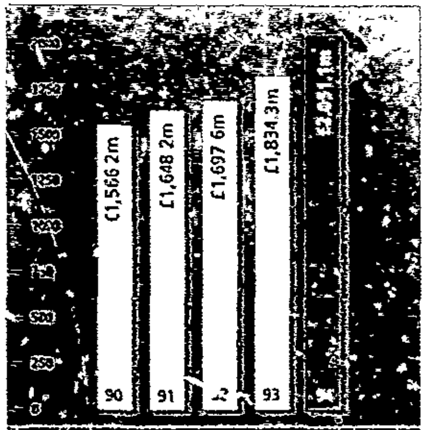
Turnover	£924.2m	£877.9m
Profit before tax	£269.0m	£247.1m
Earnings per share	70.8p	62.3p
Dividends per share	23.07p	21.4p
Operating cash flow	£367.4m	£299.9m
Operating cash flow per share	99.9p	84.1p
Interest cover	6.1	7.0
Gearing	27.3%	29.1%



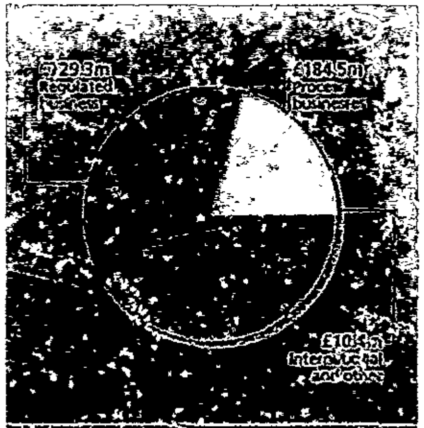




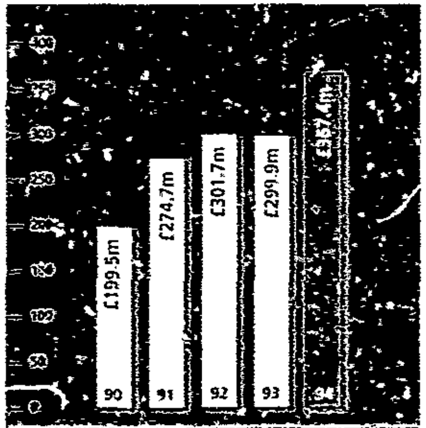




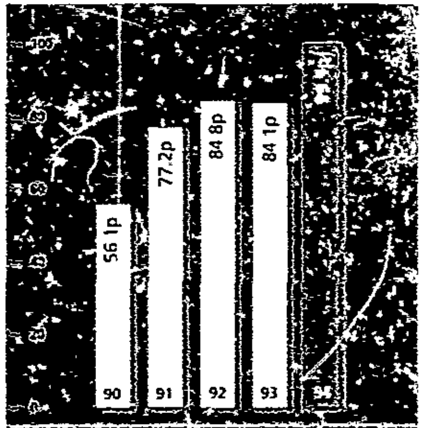
Shareholders' funds



Turnover 1994 (segmental)



Operating cash flow



Operating cash flow per share

North West Water business activities

Regulated business	International operations	Process businesses
Operating and improving our water and wastewater systems in the North West of England, including engineering and research and development.	Exporting the skills and experience derived from our operations in the North West of England to bring affordable solutions to customers and communities around the world.	Designing, manufacturing, supplying and installing process solutions for the water and wastewater markets internationally, including research and development
– North West Water Limited	– North West Water International: Australia, Malaysia, Mexico, Thailand, United States	– Asdor – Consolidated Electric – Edwards & Jones – Envirex – General Filter – Jones Environmental – Wallace & Tiernan – Water Engineering

Chairman's statement

I am pleased to report that the Group has made good progress in the year. The financial results reflect particularly the strong performance of our regulated water and wastewater business in the North West of England, which continues to benefit from our efforts to achieve greater efficiencies. Close control of both working capital and capital expenditure contributed to a substantial improvement in our cash position.

Turnover increased to £924.2 million from £877.9 million, up 5.3 per cent, and profit before tax to £269.0 million from £247.1 million, an increase of 8.9 per cent. We are retaining in the business £174.2 million, some two-thirds of the profit after tax, to contribute to our continuing investment in water and wastewater in the North West of England. Our expenditure in the year as part of that continuing investment was £423.6 million.

The year's sound financial performance maintains our record of year-on-year growth in earnings and dividends. The Board is recommending a final dividend of 15.40p which will make a total dividend for the year of 23.07p, an increase of 7.8 per cent and in line with our consistent and prudent dividend policy.

Management of the business We have entered the current financial year with a strengthened management team to continue the process of transition from public to private sector, to take the Group forward into the second five years of the regulatory environment and to meet the competitive challenge of the international market in which we now have a significant presence.

I was pleased to announce the appointment in April 1994 of Brian Staples as our Chief Executive. Brian was formerly chief executive of Tarmac Construction. In addition to his broad business experience, Brian brings with him a deep understanding of construction which will be of particular value to our business in the management of its capital investment programmes. His extensive overseas experience and involvement in joint ventures abroad will benefit our developing international business.

We have two senior appointments to make, managing directors of our process and international businesses. We will then have completed and have in place the right team to deliver continued financial growth through the sound management and development of the Group.

The regulated business Active management of our large investment programme in the North West of England enabled us to meet all our obligations in the year with a reduced spend. We also achieved further operating efficiencies. Since privatisation we have both reduced headcount and contained the growth in operating costs arising from the investment programme.

Recent independent reports sponsored by the Office of Water Services have shown that we lead the industry in terms of efficiency in delivering water and wastewater services, confirmation of the success of the hard work of our employees in this area.

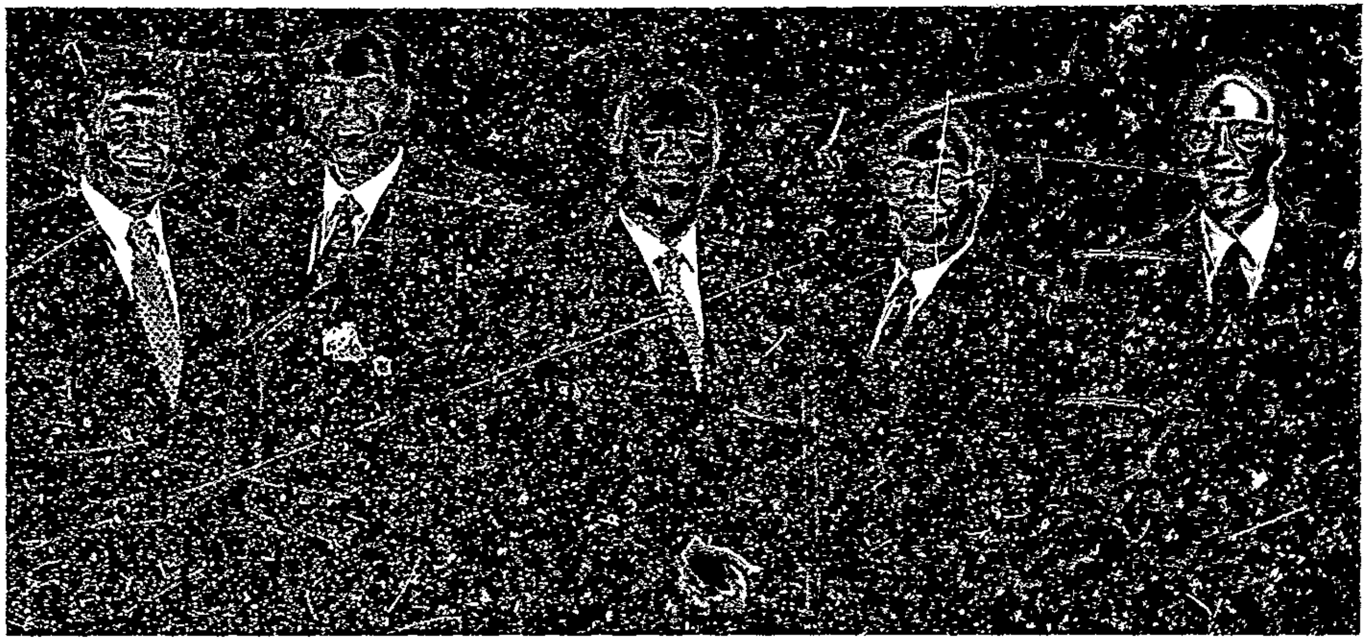
A major exercise has been the work leading to the periodic regulatory review which will set our prices for the ten years 1995/96 to 2004/5. Drawing on the conclusions of our earlier consultations with our customers through the market plan process, we have supported the emphasis on capital expenditure obligations being set at a level affordable by our customers and we have been working closely with our regulators in interpreting the capital requirements. The outcome of the periodic review will be known in late July when we intend to make a full public statement.

Non-regulated businesses Our international management team has opened up new markets for the Group's expertise in selected areas around the world. We have now signed all the contracts which a year ago we reported to be under negotiation

In particular, the major concession to upgrade and operate the Malaysian wastewater system has commenced operations in Kuala Lumpur despite the political uncertainties there during this period. The services contract signed by our Mexican consortium to upgrade the water and wastewater systems in part of Mexico City is also now underway.

The keys to success are our experience of privatisation and regulation, our technology and our operating expertise. Although the international business is still at an early stage of development, it will progressively contribute to earnings growth in future years.

Our process companies experienced a difficult year in North America but performed well in the United Kingdom and Germany. Nevertheless, overall results have not been satisfactory and positive action is being taken to ensure that returns are improved.



Left to right: Derek Green Managing Director of North West Water Limited Robert Ferguson Group Finance Director Sir Desmond Pitcher Chairman Brian Staples Chief Executive John Tetlow Secretary

Directors During the year, we welcomed to the Board, as a non-executive director, Sir Peter Middleton, Chairman of Barclays BZW division, deputy chairman of Barclays Bank and formerly Permanent Secretary to HM Treasury. Alan Dean, Group Business Development Director, stepped down from the Board at the end of the year.

Employees I would like to pay tribute to our employees who have contributed so much to the substantial progress made by the Group. They are, at every level, water professionals committed to our twin objectives of steadily increasing shareholder value and meeting effectively and efficiently the water and wastewater needs of customers and communities around the world. They have my grateful thanks and those of the Board

The future The conclusion of the periodic review will undoubtedly remove the current uncertainty for the industry That will soon be behind us and we look forward with confidence built on the knowledge that the Group is in good shape and well prepared to meet the challenges ahead

Sir Desmond Pitcher *Chairman*

Review of operations: the regulated business

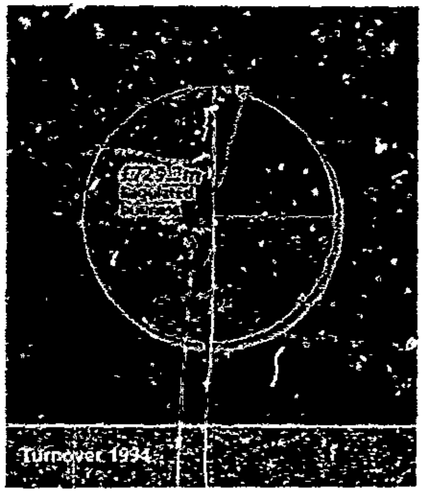
Reports confirm industry leadership in operating efficiencies

Capital programme targets met at reduced cost

Improving levels of customer service

Investing in our employees' skills

Creating a cleaner, safer environment



	1994	1993
Turnover	£729.3m	£688.7m
Profit before interest and tax	£326.1m	£283.5m
Average no. of employees	5,426	5,442

The regulated business undertakes the Group's water and wastewater operations in an area from Cheshire in the south to Cumbria in the north and from the Irish Sea to the Pennines, including the major conurbations of Liverpool and Manchester. Its objectives are to increase customer satisfaction and to improve profitability.

Business performance The business performed strongly in the year in all key financial areas – cash management, profitability and control of capital expenditure.

Turnover increased by 5.9 per cent to £729.3 million, despite a decline of 5 per cent in industrial and commercial measured consumption. Our charges to customers are set in accordance with the price formula agreed with the Director General of Water Services.

Profit before interest and tax increased by 15 per cent to £326.1 million, benefiting from our continued efficiency savings and a reduction in the restructuring charge to £12 million.

Close control of working capital, as well as improved operating profits, contributed to a substantial improvement in our operating cash flow. This, together with a reduction in investment expenditure (down to £423.6 million from £489.6 million in the previous year), has reduced the net cash outflow to £69.3 million from £189.1 million.

Increasing efficiency Since privatisation we have implemented restructuring initiatives that have reduced employee levels by around 25 per cent. During the year, we continued to take steps to improve efficiency further.

Independent analyses of the relative efficiency of the water companies in England and Wales, published by the Office of Water Services (Ofwat), highlighted our position as the industry leader in efficiency in delivering both water and wastewater services. For water, excluding one-off restructuring costs, we were first out of the 32 companies, with costs 17 per cent below the industry average. For wastewater, we were first out of the ten wastewater companies, with costs 18 per cent below the industry average.

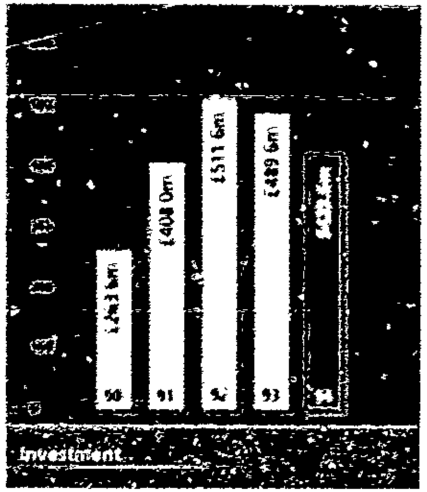
Our programme of investment in quality and efficiency is designed to bring benefits in improved service to customers and to improve productivity. Shareholders' interests are safeguarded by our agreement with Ofwat that the expenditure additional to that envisaged at privatisation will earn a 7 per cent real rate of return.

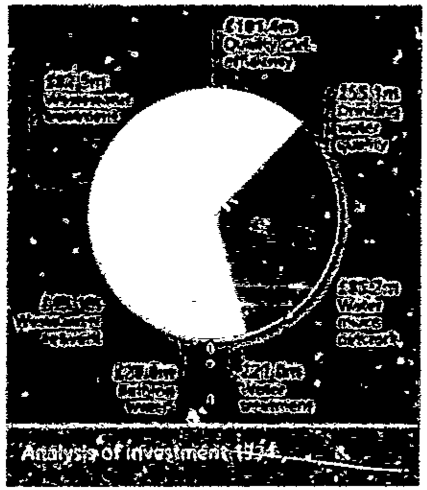
During the year, new investment programme management, procurement, human resources, financial and operational management systems were introduced. We have also completed the new facility for customer services, training, data processing and laboratory

1 2 3
4 5 6
7 8 9

Answering a customer's call: our quality and efficiency strategy has introduced information technology to help employees solve customers' problems quickly and effectively. Here's a typical example:
1 Customer reports low water pressure. 2 Call logged at customer service centre. 3 Work management system transmits details to mobile controller. 4 Controller checks pressure at customer's tap and 5 at mains with a leak noise correlator, to hear where problem lies and to restore pressure [illegible] 6 diagnosis fed back into the system which awards task a [illegible] and 7 [illegible] job to local team. 8 Source of problem resolved. 9 [illegible] restored.

This integrated approach [illegible] piloted in the [illegible] the whole region.





services at Lingley Mere, Warrington, which will bring customer service improvements and increased efficiencies. The first group of customer services employees is already operational in the new facility.

The new laboratory, designed to test more than three million samples per year, replaces eight smaller laboratories around the region. Most routine testing is automated using robotics, delivering a better service at lower costs. A small laboratory will be retained in Cumbria to provide microbiological services for the far north of our region.

Efficiency and quality improvements will be sustained by continuing to increase the skills of our employees, to streamline management and to devolve responsibility throughout the organisation.

Investing in the North West We have invested over £2 billion in the North West of England since 1989 in one of the water industry's largest investment programmes. We have achieved all our required quality outputs in the five years since privatisation. The programme has been managed to maximise efficiencies in design, procurement and implementation.

During the year, we completed improvements or extensions at six water treatment works, added 180 kilometres of new water mains, improved 625 kilometres of water mains, improved or extended 21 wastewater treatment works and added 209 kilometres of new sewers.

There is still much to be done. Our strategic business plan has been submitted to the Director General and will form the basis for our investment programme over the ten years from 1995/96. Throughout this process, we have taken full account of our consultations with customers, emphasising the need to deliver improvements aimed at meeting regulatory and legislative standards at an affordable price. Following the Director General's price determination in late July this year, we will be publishing a document explaining our plans and their implications for customers' charges.

We recently launched our Sea Change initiative, focusing on our major programme to clean-up the North West of England's bathing waters. This includes an interceptor tunnel and wastewater treatment plant on Lancashire's Fylde coast, costing £150 million, on which work commenced during the year. This project will considerably improve the discharges to bathing waters between Blackpool and Fleetwood. In addition, £100 million is being invested to clean up the bathing waters off the Cumbrian coast, involving more than 12 new wastewater network and treatment schemes.

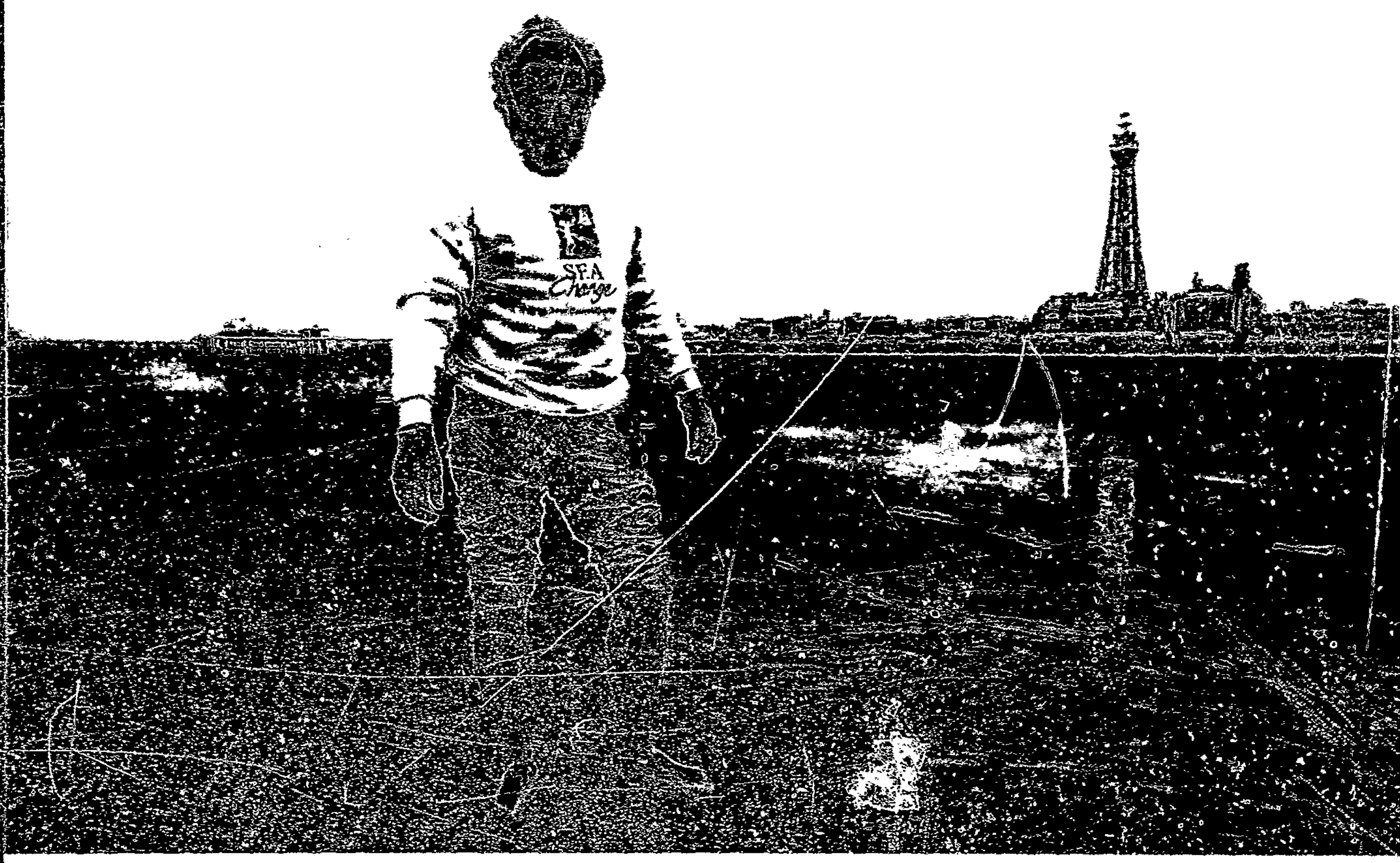
Other projects started included a new water treatment plant, service reservoir and mains at Wybersley, at a cost of £39 million, which will improve water quality to 300,000 people in the Stockport area. Our £200 million investment in the Mersey Estuary improvement programme continued during the year, with the completion of four more stages in the construction of the 23 kilometre sewer from Crosby to Speke, intercepting the outfalls which previously discharged untreated wastewater into the river.

We also completed the new water treatment plant at Rivington, improving the water supply to 200,000 people in the Wigan area, at a cost of £39 million.

Considerable progress has therefore been made with our investment programme, contributing to the environmental improvement of our region.

Meeting standards In delivering these improvements, we measure our performance against specific regulatory and legislative standards. In 1993, we made more than 680,000 measurements of water quality at customers' taps and in the system.

Over 99 per cent of all measurements made on water samples continued to exceed quality standards. The quality of drinking water continues to be very good. Whilst 100 per cent compliance for all standards is an ideal, the cost of eliminating the infrequent failures to meet non health related standards would be out of all proportion to the benefit.



Sea Change: our £500 million programme to clean up the North West of England's bathing waters is backed by environmental campaigner Dr David Bellamy. Sea Change focuses on our investment along our 400 mile coastline from the Scottish Border to Cheshire. It includes £150 million being spent on the Fylde Coast; Blackpool's will be among the bathing waters to benefit. At present only 13 of the region's 33 bathing waters achieve European Union standards. Sea Change is designed to ensure that progressively all meet those standards.

The quality of effluent being returned to rivers and coastal waters continued to improve. Over 98 per cent of all samples taken by the National Rivers Authority complied with discharge conditions.

The results of quality testing, together with other detailed information, is supplied to the Drinking Water Inspectorate, the National Rivers Authority and local authorities and is published in our annual drinking water quality and environmental reports. Our registers of drinking water quality are open to public inspection.

Our customers Every day, we deliver drinking water to and treat and dispose of wastewater from 2.6 million domestic households and 200,000 businesses.

Our current average annual charge for unmetered households for this service is £182, the third lowest of all water and wastewater companies. The average annual charge for England and Wales is £199.

To meet customers' differing circumstances, we have developed a range of options to assist them in settling their bills.

Domestic disconnections have continued to fall to a total of 363 in the year, well below the industry average. This has been achieved whilst reducing outstanding customer accounts at the year end. There are rigorous procedures to ensure that customers in genuine financial difficulties, or who are in special categories such as the elderly, the sick or the disabled, are not disconnected.

Positive initiatives have improved customer service performance as measured by the Director General's standards for responding to billing queries, written complaints and interruptions to supply. This is an area, largely due to our specific circumstances at privatisation, where we have been below industry average standards and we are devoting significant attention to rectifying this position. For example, we have begun the phased transfer of customer services from numerous outlying offices to our new customer services facility. This follows a successful pilot scheme dealing with operational enquiries for 800,000 customers in the Stockport area.

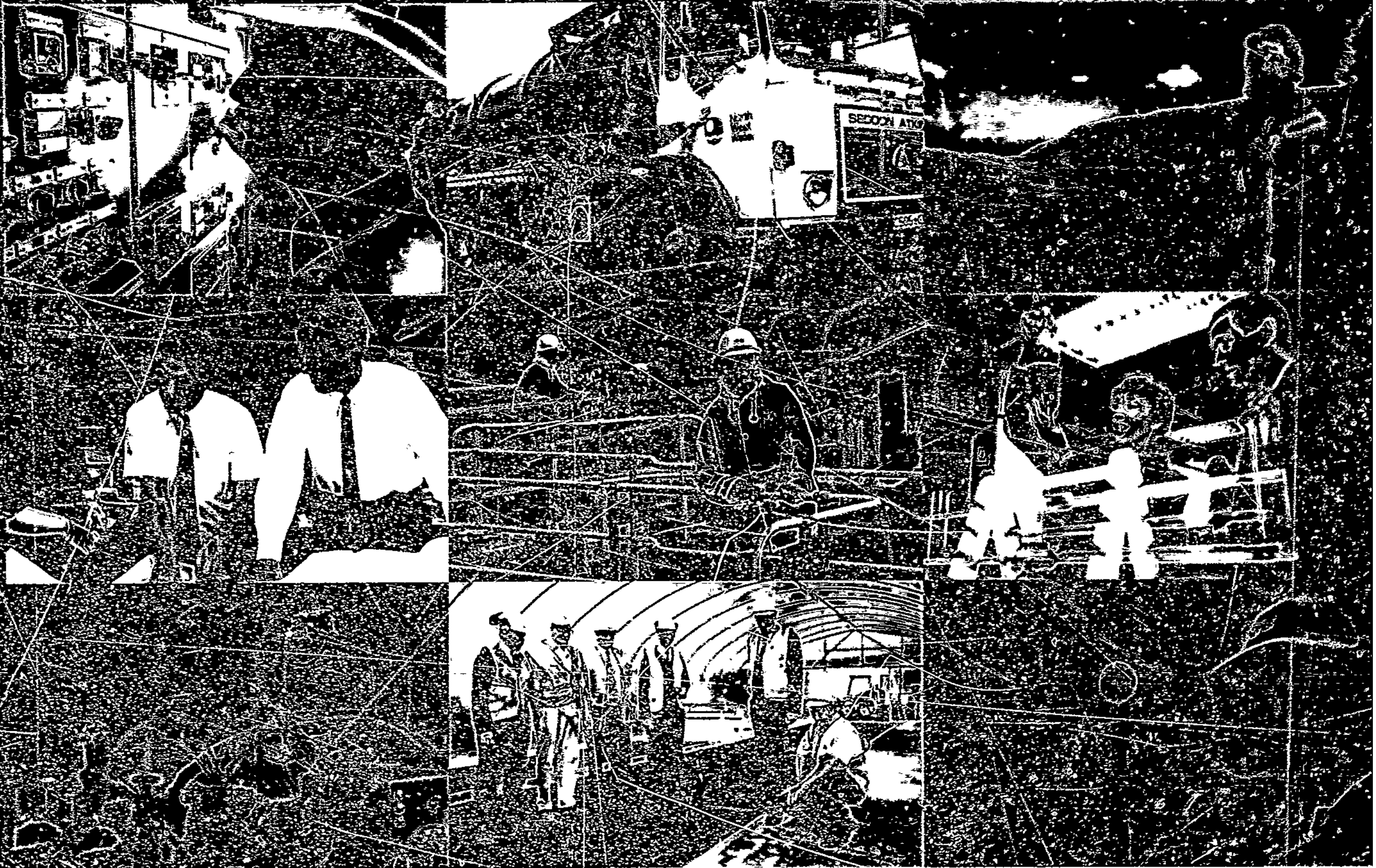
Our employees The successes we have achieved relate directly to the hard work and commitment of our employees. Key to this success are our extensive training programmes. We have continued to place great emphasis on the importance of all aspects of training across all levels of the business.

This commitment was recognised in a national training award for our programme to retrain 350 operations controllers with appropriate engineering, scientific and process skills geared to create greater self-reliance and efficiency. At our invitation, Bolton College developed a national certificate in water engineering, which provides us with a nationally recognised standard for controller training.

A restructuring of our operational management is currently underway to create positions of greater management responsibility based on geographical areas throughout our region. This management structure will draw together, under the control of territorial managers, water and wastewater responsibilities, hitherto managed separately.

They will be supported by improved information systems and will have the specific responsibility for getting close to the local needs and concerns of the communities they serve. We will be bringing together centrally our capital project and operational planning, monitoring and management of maintenance activities. Overall, this will result in fewer layers of management and more devolved responsibility.

Over the year, considerable effort has been devoted at all levels to improving safety and conditions at work. Over the last five years, we have achieved a large reduction in the number of accidents recorded and the number of days lost as a result, leading to a Gold Award from the Royal Society for the Prevention of Accidents. The health and safety of our employees and of all those who are affected by our operations continues to be a top priority.



1	2	3
4	5	6
7	8	9

The water professionals: we employ 5,400 people in the North West of England who maintain our round-the-clock service. Their tasks include 1: managing 191 water treatment works 2. processing 125,000 tonnes of sludge each year 25 per cent for agriculture 3. protecting wildlife on our landholdings 4. designing capital investment projects 5. managing 620 wastewater treatment works 6. monitoring industrial customers' trade effluent 7. conducting annually 3 million laboratory tests on water and wastewater samples 8. training at our all weather training facility for safe road digging 9. using best available technology, here a laser to ensure precision in tunnel construction

Review of operations: non-regulated businesses

Strong foundation of UK experience

Major contracts now signed

Portfolio of contracts confirms potential

Building a long-term earnings stream

Malaysia Whole country
Privatisation – to operate, extend and upgrade wastewater systems
Concession agreement signed
[illegible] December 1993

Mexico Mexico City
Services – to upgrade water and wastewater and customer billing systems
General service agreement signed
4 October 1993

Australia Sydney
Build, own, operate and transfer project – to design and operate a water treatment plant
Contract signed 16 September 1993

Long-term operating contracts signed in the year

Profit before interest and tax	£0.6m	£0.9m
Development costs	£8.0m	£9.6m
Average no. of employees	102	51

North West Water Group is recognised as one of the major private sector water and wastewater enterprises in the world. Our particular strengths are based on first hand experience of privatisation and regulation and on our efficient operations in the North West of England, safely delivering water and wastewater services to seven million people and industry.

Building on this reputation, North West Water International markets our operational capabilities, aiming to expand the Group's overseas water and wastewater operations and thereby secure a long-term, non-regulated earnings stream.

Our main opportunities are the increasing infrastructure requirements around the world, stimulated by the growth of urban populations and the pressures for higher environmental standards.

Business performance Building up the international business is a long-term process. Developing, bidding for and winning a contract can itself take up to three years.

Being in its early development stage, the business is not yet a net contributor to Group earnings, after taking account of development costs which are prudently charged to, or provided for in, the profit and loss account (£8.0 million during the year).

Our business plan is to initiate and develop opportunities and to establish a presence in key overseas territories, measuring success by securing long-term operating contracts, which can be for up to 30 years.

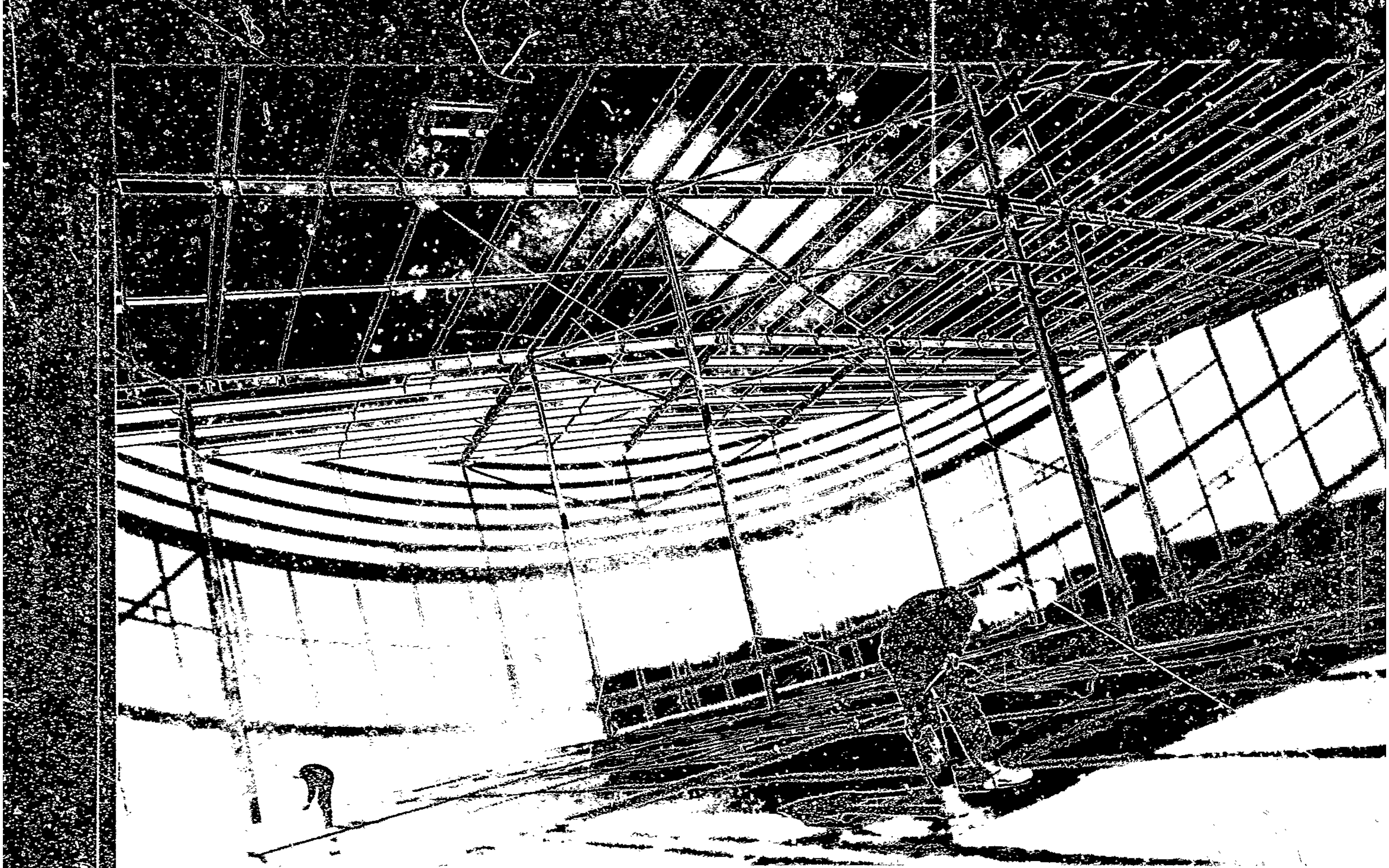
Good progress has been made since privatisation in winning such contracts and in the year we finalised negotiations and signed contracts for three long-term opportunities in Sydney (Australia), Mexico City and Malaysia.

The portfolio of contracts already secured represents a considerable achievement and reflects the growing international reputation of the North West Water Group.

These contracts will progressively contribute to earnings, with the first impact in 1994/95 following commencement of operations in Melbourne (Australia), in Mexico City and in Malaysia.

Approach A fundamental feature of our international development is a disciplined approach to risk. We seek to take a long-term interest in operating contracts, which is where our particular skills of design, management and engineering lie, and to enter into partnerships with appropriate overseas enterprises.

North West Water International has its own team, with the necessary mix of engineering, operational, financial and commercial skills drawn from both within and outside the water and wastewater industry. It can also call on the substantial



Melbourne, Australia: this enclosed reservoir at Yan Yean, to hold 40 megalitres of treated water, is the largest of its kind designed by North West Water. It is being built using the welded steel plate technology and construction know-how of our partners, Transfield. Once the new treatment works is completed later in 1994, we will operate it on a 25 year contract, supplying clean water to 300,000 people in Melbourne.

and varied resources within the Group. Our ability to draw on the experience of our UK operations is, in particular, a competitive advantage.

Our process companies also work closely with the international business, both assisting in design as well as providing equipment and technology.

Consultancy work and shorter-term contracts, where our returns are derived from management and engineering services (such as the two £15 million contracts won by Water Engineering in Macau and the four year £160 million contract in Bangkok), enable us to explore longer-term opportunities in appropriate territories.

US Water, which forms part of our international operations, has 25 contracts for the operation of 55 municipal and industrial water and wastewater facilities. This is a valuable platform to develop other long-term opportunities in the North American market.

Types of projects Projects currently in hand are of three different types: build, own, operate and transfer (BOOT); services; and privatisations.

The water treatment plants at Melbourne and Sydney, Australia, are examples of BOOT projects. We have formed separate joint ventures with an overseas construction partner, Transfield, to develop these new infrastructure projects. The cost of the infrastructure is predominantly borne through non-recourse project finance secured by the joint ventures. Our partner brings construction sector experience and takes that responsibility. Once the plants have been built to our specification, we will operate them for the next 25 years. Operational returns from Melbourne will be starting in late 1994/95 and from Sydney in 1995/96.

A services project involves the provision of a variety of water and wastewater related services, either alone or as part of a joint venture. An example is the Mexico City project where, together with our partners Grupo Gutsa, we will be providing services to 2.5 million people in Mexico City, a quarter of its population, over the next ten years. Work has commenced there and returns from Mexico will start in 1994/95.

Privatisation projects involve taking over an existing system from public ownership into a form of private enterprise. In this case, we will always be part of a consortium. An example of this is the Indah Water Konsortium, in Malaysia, which was awarded the contract to take over, improve and run the country's wastewater systems. We have a substantial interest as exclusive operators over the next 28 years. Operations commenced there in April this year in Kuala Lumpur, with five further areas to be taken over in June, covering at that stage two million people. Returns from Malaysia will start in 1994/95.

1 2 3
4 5 6
7 8 9

The water professionals: our skills and expertise are being used in overseas communities where we work with local partners with complementary capabilities. In Malaysia 1, 2 and 8 Indah Water Konsortium has commenced a 28 year contract to improve and run the country's wastewater systems; and 4 Metropolitan Utilities Corporation is undertaking a 20 year contract to improve and manage water facilities for the city of Ipoh; in Australia our partner Transfield [illegible] and we will operate water treatment plants in Sydney 3 and Melbourne 7; in Mexico City 6 with our partners Grupo Gutsa, we have a ten year contract to upgrade water and wastewater and customer billing systems; in America US Water 5 and 9 are operating facilities for municipal and industrial clients.

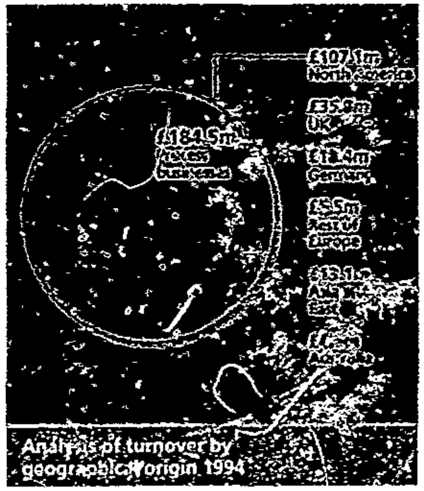
Review of operations: non-regulated businesses

Difficult market conditions in North America

Good performance in the UK and Germany

Product lines and manufacturing being rationalised

Boston Harbour clean-up heads new projects



Analysis of turnover by geographical origin 1994

Turnover	£184.5m	£182.7m
Profit before interest and tax	£8.8m	£19.7m
Average no. of employees	2,277	2,384

Our process companies, acquired over the last four years, all operate as market leaders in their fields. The technologies they have brought to the Group are fundamental to efficient water and wastewater solutions.

They include chemical feed and disinfection systems (Wallace & Tiernan), wastewater treatment equipment (Envirex), water treatment technology (General Filter) and sludge dewatering and handling systems (Edwards & Jones). Water Engineering and Jones Environmental operate in the process contracting field. Asdor supplies specialist pumping and dewatering equipment to the North American market; and Consolidated Electric designs and manufactures automatic control instrumentation.

These solutions and products are increasingly being used in our operations in the UK, as well as contributing to the designs and specifications offered by North West Water International. The process companies benefit from this close contact with our operational activities, in particular in product development. Equally, the regulated business and international operations benefit from the direct access within the Group to innovative process expertise.

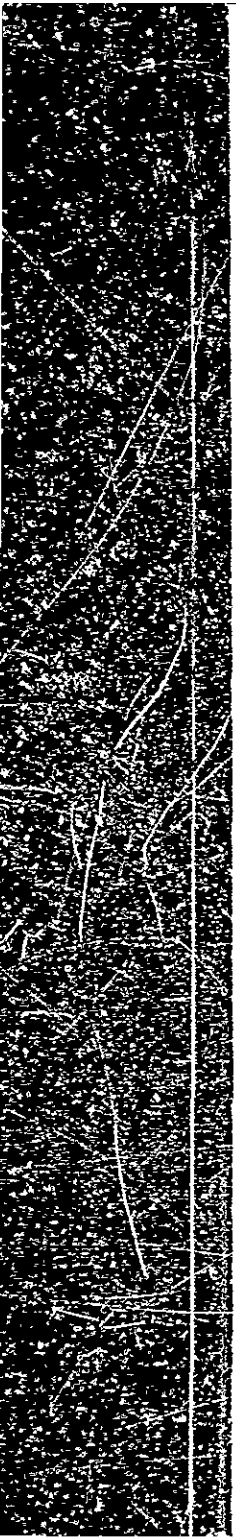
The process companies, principally based in North America, the UK and Germany and serving municipal, industrial and privatised water and wastewater markets, now represent internationally one of the largest single groups supplying those markets.

Business performance The process businesses contributed £8.8 million to profit before interest and tax, substantially down on the previous year's £19.7 million. Whilst the results overall were not satisfactory, there were some strong performances amongst the individual companies, particularly from Wallace & Tiernan and Edwards & Jones in the UK and Germany and from General Filter and Consolidated Electric in the US.

Envirex and Wallace & Tiernan encountered difficult market conditions in North America, where the industry generally has suffered from postponement of municipal orders and the delay in the US budget approval. Their reduced contribution to profit before interest and tax has substantially affected the overall process results.

The process businesses have entered 1994/95 with a lower cost base and with an improved order position, up from £96 million to £112 million, and we believe the outlook for this year to be more encouraging.

Manufacturing efficiencies and new projects During the year, good progress was made towards our objective of achieving increased manufacturing and



Process solutions: Edwards & Jones are market leaders in the design and manufacture of systems and equipment for removing water from sludge. These filter presses can exert 600 tonnes of pressure on the diaphragm plates from which the water is then discharged. They are used in our operations in the North West of England and exported to Europe, North America and the Far East.

operating efficiencies [illegible] Wallace & Tiernan new products are being developed whilst product lines are being reduced. Manufacturing facilities are being upgraded and rationalised within the three main plants at Belleville (US), Günzburg (Germany) and Tonbridge (UK).

At Envirex, manufacturing has been rationalised and our facility at Madison (US) has been enhanced with investment of $[illegible] million. This will assist in the production of the patented submerged biological contactors used in secondary wastewater treatment.

This successful technology will be employed at our Fleetwood treatment plant in the North West of England, part of the Sea Change initiative.

Edwards & Jones continues to develop its market-leading filter presses with a new pilot plant in Warrington employing for the first time a fully automated system to dewater sludge.

Teamwork and innovative thinking helped Envirex secure a $30 million share of the US's biggest wastewater treatment project – the Boston Harbour pollution alleviation scheme.

Envirex has won three contracts to supply equipment for the new treatment plant which is being built on the Harbour peninsula. When completed, the plant will treat 1.3 billion gallons of wastewater a day from 43 cities and towns in the state of Massachusetts.

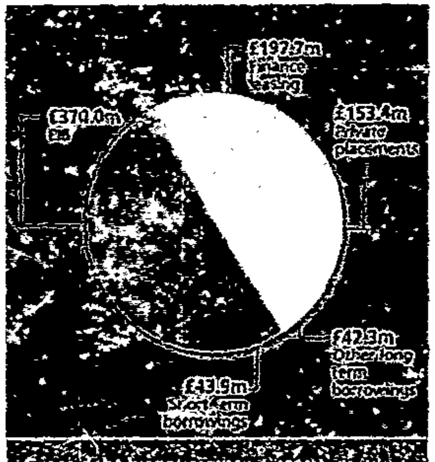
Financial review

Group turnover rose by 5.3 per cent to £924.2 million and profit before interest and tax increased by 11.7 per cent to £321.8 million. A full operational review of each main business segment is contained in the preceding pages. This demonstrates the strong performance from our regulated business, whose profit before interest and tax rose by [illegible] per cent. The contribution from our process businesses declined to £8.8 million from £19.7 million in the previous year.

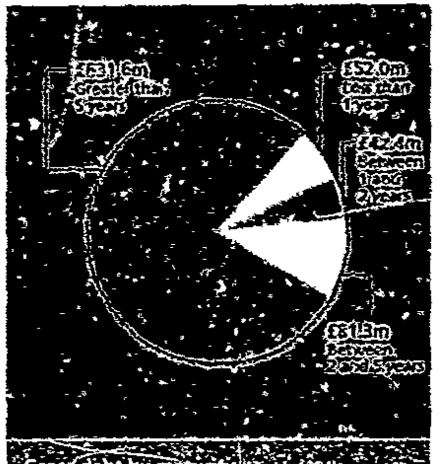
International operations do not yet contribute to profit in net terms after taking into account development costs. Our policy is to disclose the development costs of the international business separately: £8.0 million compared with £4.6 million last year, and prudently to charge them to, or provide for them in, the profit and loss account. These costs will only be released in the future once successful projects are operational.

Accounting for infrastructure assets, which the water industry are required to be held in perpetuity and therefore are not depreciated, is a concept unique to the water industry. The infrastructure renewals charge to maintain these assets (£62.8 million compared with £63.0 million in the previous year) has a material effect on profitability. Our approach, which we believe to be prudent, results in the annual charge to the profit and loss account being broadly equivalent to the cash spent.

Treasury management and cash position Effective management of the debt arising from the regulated business' investment programme is a central feature of the Group's financial position. We will have a requirement over the coming years to raise a substantial amount of debt, which inevitably will lead to higher gearing. The Director General of Water Services has primary duty to ensure that our charges to customers enable the regulated business to finance its functions. We therefore view our growing debt position as sustainable especially when set against our operating cash flow.



Gross debt by source (March 1994)



Gross debt by maturity (March 1994)

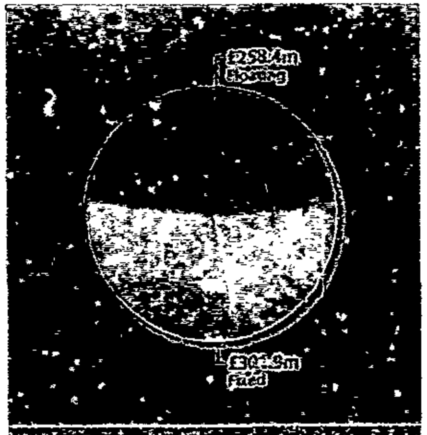
Funding sources and maturity The Group has continued to benefit from its long standing relationship with the European Investment Bank (EIB). During the year, EIB provided £50.0 million of new long-term loans bringing its total financing up to £370.0 million.

Long-term finance leases provide another source of attractive funding under which our lenders benefit from tax allowances and in return provide us with cost effective finance: £58.1 million *additional lease finance* was raised during the year bringing the total to *£197.7 million*.

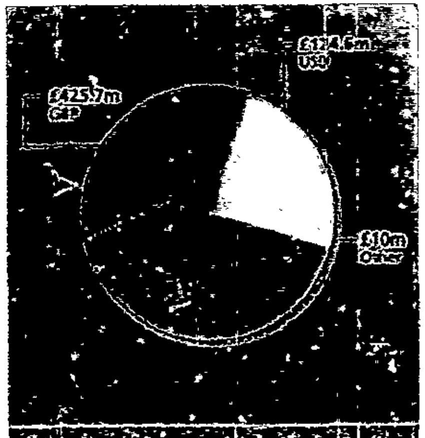
The majority of the Group's funding matures after more than five years, reflecting the long life of assets in the regulated business. Subject to availability and cost, the Group will continue to match, as much as possible, the maturity *of its funding with the underlying assets.*

Interest rate *management and foreign* exchange The Group's net interest charge rose during the year by £11.7 million to £52.8 million. This resulted mainly from the full year impact of the previous year's borrowings, with net debt at the year end having increased by only £25.7 million (to £560.3 million).

As borrowings for the regulated business increase, management of the Group's interest rate exposure becomes *increasingly important*. Our policy is to remove the impact of interest rate



Net debt fixed vs floating (March 1994)



Net debt by currency (March 1994)

movements by hedging against them as far as is necessary. This is achieved by maintaining an appropriate mix of variable rate and fixed rate debt and by the use of rate management products. All major hedging programmes involving the use of such products are reviewed and approved by the Board or an appropriate authorised committee of the Board.

The Group's balance sheet includes borrowings raised in foreign currency in overseas markets, equivalent to £134.6 million at year end exchange rates. These borrowings, primarily raised to acquire our process businesses over the last four years, diversify our sources of finance and match the currency of the Group's debt service costs with that of the underlying overseas earnings, particularly those in US dollars.

Liquidity and operating cash flow The Group finished the year with a strong cash position, having £247.0 million of cash and short-term deposits (£184.2 million at the previous year's end). It is our policy to maintain a strong liquidity position, by either maintaining surplus cash balances through pre-funding in anticipation of known capital commitments or by maintaining committed stand-by facilities.

We have continued our focus on working capital management which, together with the increase in operating profits, resulted in an increase in net cash inflow from operations of 22.5 per cent to £367.4 million. Operating cash flow is of critical importance to our financial management and at 99.9p per share in the year was very satisfactory. This compares with 70.8p earnings per share for the year and covers net interest 8.9 times on a cash basis.

Taxation The level of capital investment in the regulated business creates excess UK tax allowances resulting in no UK mainstream corporation tax currently being payable. The normal tax charge comprises unrelieved advance corporation tax written off, together with tax on overseas income. However, the tax charge this year of £8.7 million benefited from one-off advance corporation tax savings of £13.4 million from the enhanced scrip dividend. This amount was written off in the previous year.

Enhanced scrip dividend and gearing Acceptances in respect of more than 90 per cent of the company's issued share capital were received for the enhanced scrip dividend alternative to cash for the 1993 final dividend, resulting in cash savings of £59.6 million, including the saving of associated advance corporation tax. This, together with our close control of both working capital and investment expenditure and the timing of the 1994 interim dividend, contributed to a reduction in gearing (net debt to shareholders' funds) from 29.1 per cent to 27.5 per cent, a very [illegible] position at this stage. [illegible] has further strengthened the [illegible] balance sheet.

We have no plans to repeat the enhanced scrip dividend scheme, although our normal share dividend plan remains a useful option for shareholders to increase their shareholdings while benefiting the Group through the retention of cash.

Funding international operations The development of our international business often involves significant infrastructure projects with partners around the world. This is structured using separate joint ventures or consortia in which our equity commitment is generally low. The substantial part of the required funding derives from non-recourse project finance made available to these separate ventures. Any financial guarantees given are for operational matters only and are capped and modest.

Summary Following another year of sound performance, the Group's financial position is very strong, based on prudent treasury policies and close financial controls.

The environment and the community

Our business is recognised as an integral part of the community. During the year, we launched in the North West of England a new community relations policy to focus on four key areas of support to the community: education, environmental improvement, community leadership and conservation, access and recreation.

Education We extended the range of literature and visual aids available to schools and during the year 45 teachers spent a week with North West Water on placement. We completed at Pex Hill near Widnes a second classroom dedicated to environmental education, building on the success of our first facility at Worthington Lakes, near Wigan. The lessons are integrated into the national curriculum.

Employees from our specially trained speakers' panel gave talks to some 2,500 people from many different local groups and organisations. We have selected a range of recreational sites across the North West of England which will be open for organised visits between April and October each year.

Environmental improvement Our water and wastewater operations are a vital element in the continued well-being of the *communities in which we work*.

In our day to day operations, we continued to work to safeguard public health through the quality of our water, to play our part to safeguard the environment from pollution, to operate all our facilities to high standards and to minimise nuisance to our neighbours.

Through our substantial investment programme in the North West of England, and increasingly elsewhere in the world as we develop our international operations, we are working to improve the personal and general environments of our customers by improving drinking water quality, *improving the infrastructure* and cleaning up watercourses and coastal waters.

This programme is bringing both environmental benefits and employment to the North West of England. We consult communities from the outset about their particular local schemes, involving the local authorities, residents' groups, environmental organisations and other interested parties.

Concern for the local environment is an integral part of our design and construction processes. In the Lake District, for example, we have completed a water treatment works at Ennerdale, sympathetically built to look like a traditional lakeland farmhouse.

Community leadership We support and promote community development and good citizenship through the active and extensive involvement of our employees in community action and through our membership of Business in the Community (for whom we provide a regional base), the Community Development Foundation, the North West Business Leadership Team, Inward, the North West Chambers of Commerce Association and the Duke of Edinburgh's Award Scheme Charter for Business.

In 1993, we sponsored the UK government's Partnerships for Change conference in Manchester, the successor to the Earth Summit in Rio de Janeiro.

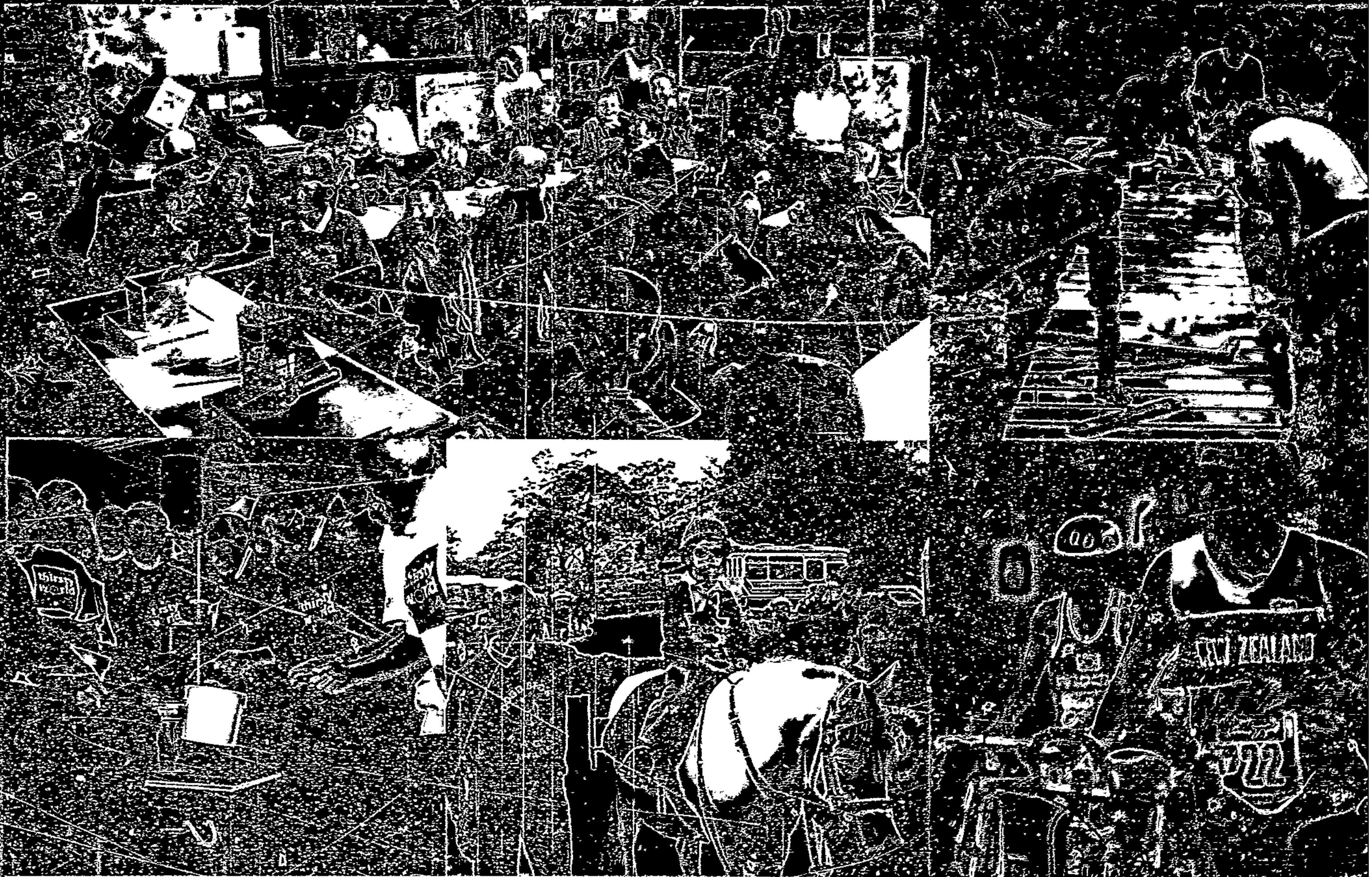
Conservation, access and recreation Our substantial operational landholdings in the North West of England also bring particular benefits for the community and the quality of life for those living and working in or visiting the region. We are members of the Corporate Forum for National Parks and have strong links with the Groundwork Trusts, the British Trust for Conservation Volunteers (BTCV) and the Wildlife Trusts for Cheshire, Cumbria, Derbyshire and Lancashire. We are advised by an independent committee of experts in conservation, access and recreation.

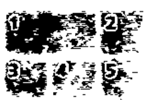
A wide range of activities takes place on our waters, including angling, sailing and waterskiing. Our land is used for jogging, fell-running, cycling, orienteering, horse riding and many other forms of organised and casual recreation. Two-thirds of our 168 supply reservoirs are used for watersports.

We continue to provide and improve facilities for people with disabilities, such as *the trail for the visually impaired* at Worthington Lakes and the trail for disabled horse riders at Hurstwood, near Burnley.

We provide sites for nature reserves, managed by such bodies as the Royal Society for the Protection of Birds, and have sponsored important wildlife research projects.

We continue to fund BTCV, who provide us with some 6,000 work-days each year on such projects as the creation and restoration of footpaths, fences, hedges and drystone walls, and work on ponds and woodlands.





Working together: our support for the environment and the community takes many forms. 1. Our educational classroom at Worthington Lakes helps children in the study of water in the environment. 2. We are the North West of England's biggest supporter of the British Trust for Conservation Volunteers, who carry out many environmental improvement projects on our land. 3. Employees are [illegible] the Thirsty World campaign to raise £500 000 for [illegible] Ethiopia. 4. Many of our reservoirs are used for recreation [illegible] Sports Spectacular for the Disabled and also 5. the World [illegible]

Board of directors

Executive directors

Sir Desmond Pitcher (age 59)
Chairman
Chairman of the Merseyside Development Corporation and a non-executive director of National Westminster Bank. 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).

Brian Staples (age 49)
Chief Executive
Formerly chief executive of Tarmac Construction and previously managing director of Tarmac Construction.

Robert Ferguson (age 51)
Group Finance Director
Formerly deputy managing director and previously finance director of North West Water Limited.

Derek Green (age 54)
Managing Director of North West Water Limited
A non executive director of Graham Group. Formerly Aggregates Group chief executive of BTR. Previously with AMEC and Fairclough Building.

Non-executive directors

Clare Bolton (age 42)
A tax partner in Coopers & Lybrand.

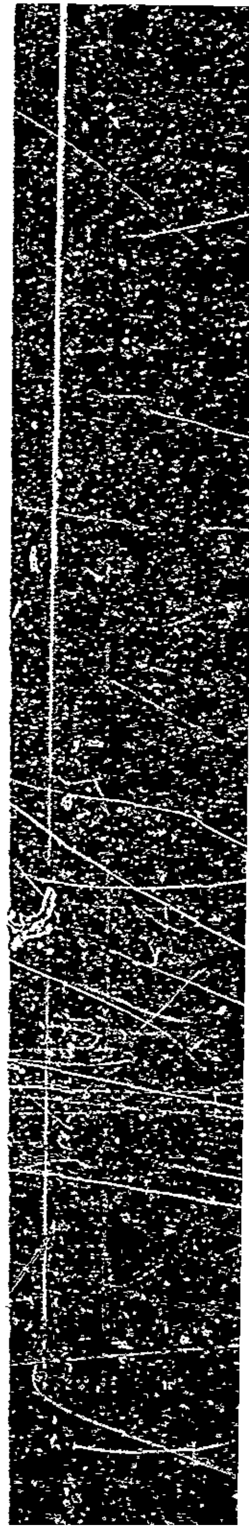
Eric Clark (age 59)
Chairman and managing director of BICC Cables, a director of the Merseyside Development Corporation and a non-executive director of the Dana Corporation. Formerly managing director of Plessey Telecommunications and Office Systems.

Dr Rodney Leach (age 62)
Chairman of the Audit Committee
Formerly a partner in McKinsey & Company, an executive director of P&O, and chief executive and managing director of VSEL.

Sir Peter Middleton (age 60)
Chairman of Barclays BZW division, deputy chairman of Barclays Bank, a non-executive director of Bass and of General Accident and a member of the UK Advisory Board of the National Economic Research Associates. Formerly Permanent Secretary to HM Treasury.

Alan Pendleton (age 65)
A non-executive director of Independent British Healthcare and of Nord Anglia Education. Formerly managing director of West's Group International and a director of Tilbury Group.

Frank Sanderson (age 67)
Chairman of the Remuneration Committee
Chairman of Acumen Technologies. Formerly divisional managing director (water engineering division) of Babcock International.



1 2 3
4 5 6

1 Clare Bolton 2 Eric Clark
3 Dr Rodney Leach 4 Sir Peter Middleton
5 Alan Pendleton 6 Frank Sanderson

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.

The main operating subsidiary in the Group, 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 other subsidiary undertakings based in Australia, Canada, Germany, Ireland, Malaysia, Mexico, The Netherlands, the United Kingdom and the United States of America and facilities in Brazil, Hong Kong and Thailand.

Operations and finance The review of operations and financial performance to be read in conjunction with this report, appears on pages 6 to 19.

Profit and dividends 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 £269.0 million (1993 – £247.1 million), after making a restructuring charge of £12.0 million (1993 – £36.0 million). After a taxation charge of £8.7 million (1993 – £24.8 million), the profit for the year attributable to ordinary shareholders was £260.3 million and the retained profit of £174.2 million was transferred to reserves.

The directors recommend a final dividend on the ordinary shares of 15.40p per share for the year to 31 March 1994 for payment on 3 October 1994 to shareholders on the register at the close of business on 16 June 1994. This dividend, together with the interim dividend of 7.67p per share paid on 6 April 1994, makes a total dividend for the year of 23.07p per share, an increase of 7.8 per cent over the dividend per ordinary share for 1993.

Share dividend plan The directors have agreed to implement the share dividend plan for the 1994 final dividend.

Under the plan, the directors offered shareholders in respect of the 1994 interim dividend the alternative of taking dividends in the form of shares in the company instead of cash. The offer was well received with some 52 per cent of shareholders electing to receive shares instead of cash and a total of 444,627 ordinary shares of £1 each fully paid were allotted to them. Some 41,900 shareholders have now made continuing elections.

Enhanced scrip dividend As authorised at the 1993 annual general meeting, the directors offered shareholders, as an alternative to the 1993 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. Acceptances in respect of more than 90 per cent of the company's issued share capital were received and some £59.6 million cash retained to support the Group's business. A total of 14,889,650 ordinary shares of £1 each fully paid were allotted to the shareholders who elected to receive shares instead of cash.

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

Share capital Details of the company's share capital are set out in note 21 to the accounts. Since 31 March 1994, 16,595 shares have been allotted on the exercise of options and 444,627 shares were issued on 6 April 1994 arising from the operation of the share dividend plan for the 1994 interim dividend. At 9 June 1994, the company's issued share capital, credited as fully paid, was £373,357,699 divided into 373,357,698 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. An ordinary resolution (resolution 8) will be proposed at the annual general meeting to renew that authority for a further five years, expiring on 21 July 1999. This resolution would give the directors authority to allot a total of 101,642,302 ordinary shares of £1 each, which represents 27.22 per cent of the issued ordinary share capital of the company. Save for the allotment of ordinary shares in connection with the share dividend plan and the valid exercise of options granted under the terms of the company's share option schemes, the directors have no present intention of exercising this authority.

A special resolution (resolution 9) will be proposed at the annual general meeting to renew for a period of 15 months or, if earlier, until the conclusion of the 1995 annual general meeting the directors' power to allot shares for cash other than *pro rata* to existing shareholdings. If passed at the meeting, the resolution will facilitate the making of any rights or other issue of shares and will also empower the directors to issue shares, for cash, up to 18,667,000 ordinary shares being 5 per cent of the issued ordinary share capital. The directors believe it is in the interests of shareholders that the directors should be given this limited authority, providing them with a prudent measure of flexibility to act in the company's interests.

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

Research and development Using the skills and expertise developed within the regulated and process businesses, the Group, through its research and development teams and facilities, is seeking ways to improve existing and to develop new cost effective and practical water and wastewater processes and products, which will benefit customers and the communities in which the Group works around the world.

Directors The present directors are listed on page 22.

Sir Peter Middleton and Mr B L Staples, who have been appointed to the Board since the last annual general meeting, are recommended by the Board for re-election. Sir Peter, a non-executive director, is chairman of Barclays BZW division and deputy chairman of Barclays Bank PLC. Mr Staples was appointed Chief Executive with effect from 1 April 1994 and was formerly chief executive of Tarmac Construction Limited, the largest division of Tarmac plc.

Mr A G Pendleton and Mr F Sanderson, the directors to retire by rotation, will on the recommendation of the Board offer themselves for re-election.

Mr Staples has a service contract with the company, which at the date of his appointment was terminable by the company on three years' notice. The period of notice required declines evenly over time to a period of one year's notice on the second anniversary of his appointment. Thereafter, one year's notice will apply. As non-executive directors, Sir Peter Middleton, Mr Pendleton and Mr Sanderson do not have service contracts.

Mr R P Thian, formerly Chief Executive, left the company on 19 November 1993.

Mr A M Dean, Business Development Director, stepped down from the Board on 31 March 1994.

Full details of directors' interests in ordinary shares are set out in note 5 to the accounts. Changes in those interests subsequent to the end of the financial year and prior to 9 June 1994 are also shown in that note.

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 continued effective training and development of the Group's employees is a cornerstone of the success of the overall business strategy and details of developments during the year are included in the review of operations.

North West Water is committed to effective communications with employees through, for example, newspapers and briefings. The formal briefing arrangements have been improved and extended to enhance the active participation of all employees in the development of the business.

North West Water is also committed to equal opportunities in employment irrespective of gender, marital status, race, creed or disability.

Health and safety has an equal priority with all other business priorities.

The employee sharesave scheme continued to be popular and a further opportunity to join was offered in December 1993. There was a good response from first time applicants and a number of existing participants increased their commitments. Further details are given in note 21 to the accounts.

During the year, further options were granted to executive directors and certain senior executives and senior managers under the executive share option scheme. In addition options were granted to some overseas executives in accordance with the overseas executive share option scheme authorised at the 1993 annual general meeting. Further details concerning options granted under these schemes are set out in note 21 to the accounts.

Charitable donations Donations during the year for charitable purposes, as defined by the Companies Act 1985, amounted to £75,232 (1993 – £60,000).

Auditors The notice of meeting contains an ordinary resolution (resolution 7) to appoint KPMG Peat Marwick as auditors to the company in place of the retiring auditors whose period of office expires at the annual general meeting.

By order of the Board

J R Tetlow
Secretary
10 June 1994

Consolidated profit and loss account

For the year ended 31 March 1994	Note	1994 £m	1993 £m
Turnover	2	924.2	877.9
Net operating costs	3	(600.5)	(589.7)
Operating profit	2	323.7	288.2
Share of losses of associated undertaking	2	(1.9)	–
Net interest payable	7	(52.8)	(41.1)
Profit on ordinary activities before taxation		269.0	247.1
Taxation on profit on ordinary activities	8	(8.7)	(24.8)
Profit for financial year		260.3	222.3
Dividends	9	(86.1)	(76.5)
Transfer to reserves	22	174.2	145.8
Earnings per share net basis	10	70.8	62.3p
nil basis	10	72.8	68.4p

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

Balance sheets

		Group		Company	
At 31 March 1994	Note	1994 £m	1993 £m	1994 £m	1993 £m
Fixed assets					
Tangible assets	11	2,854.8	2,562.3	2.1	4.1
Investments	12	5.0	1.6	1,214.3	1,202.9
		2,859.8	2,563.9	1,216.4	1,207.0
Current assets					
Stocks	13	38.0	38.1	–	–
Debtors	14	219.6	228.9	175.0	100.3
Investments	15	232.3	154.5	2.7	–
Cash at bank and in hand		17.4	29.7	-	14.3
		507.3	451.2	177.7	114.6
Creditors: amounts falling due within one year	16	(467.6)	(432.9)	(219.8)	(191.0)
Net current assets/(liabilities)		39.7	18.3	(42.1)	(76.4)
Total assets less current liabilities		2,899.5	2,582.2	1,174.3	1,130.6
Creditors: amounts falling due after more than one year	17	(787.7)	(674.2)	(62.6)	(62.6)
Provisions for liabilities and charges	19	(60.7)	(73.7)	(3.9)	(5.2)
		2,051.1	1,834.3	1,107.8	1,062.8
Capital and reserves					
Called up share capital	21	372.9	357.6	372.9	357.6
Share premium account	21	0.5	1.1	0.5	1.1
Profit and loss account	22	1,677.7	1,475.6	734.4	704.1
		2,051.1	1,834.3	1,107.8	1,062.8

Approved by the Board of directors on 10 June 1994 and signed on its behalf by

D H Pitcher

Sir Desmond Pitcher
Chairman

R J Ferguson
Group Finance Director

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

Consolidated cash flow statement

For the year ended 31 March 1994	1994 £m	1994 £m	1993 £m	1993 £m
Net cash inflow from operating activities		367.4		299.9
Return on investments and servicing of finance				
Interest received	9.7		19.8	
Interest paid	(43.5)		(51.0)	
Interest paid on finance leases	(7.6)		(4.8)	
Dividends paid	(5.2)		(68.4)	
Net cash outflow from returns on investments and servicing of finance		(46.6)		(104.4)
Taxation				
Advance corporation tax paid	(8.2)		(22.4)	
Overseas tax paid	(1.8)		(3.6)	
Taxation paid		(10.0)		(26.0)
Investing activities				
Purchase of fixed asset investments	(5.1)		(6.1)	
Purchase of tangible fixed assets	(344.0)		(412.7)	
Grants and contributions received	15.1		19.5	
Sale of tangible fixed assets	3.8		3.1	
Acquisitions	(0.3)		(8.0)	
Net cash outflow from investing activities		(330.5)		(398.2)
Net cash outflow before financing		(19.7)		(228.7)
Financing				
Issue of ordinary share capital	1.1		2.1	
Share issue costs	(1.3)		(0.3)	
New loans	192.0		117.2	
New finance leases	53.8		62.3	
Repayment of loans	(141.0)		(24.7)	
Capital element of finance leases repaid	(10.8)		(7.5)	
Net cash inflow from financing		93.8		149.1
Increase/(decrease) in cash and cash equivalents		74.1		(79.6)

Notes to the cash flow statement

For the year ended 31 March 1994	1994 £m	1993 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	325.7	266.2
Depreciation	67.3	56.4
Profit on sale of tangible fixed assets	(3.7)	(2.7)
Movement in stocks	0.4	3.9
debtors	0.3	(50.1)
creditors	(20.6)	[illegible]
Net cash inflow from operating activities	367.4	299.9
Analysis of changes in cash and cash equivalents		
At 1 April 1993	148.9	228.3
Net cash inflow/(outflow) for the year	74.1	(79.6)
Exchange adjustments	0.2	0.2
At 31 March 1994	223.2	148.9
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	17.4	49.7
Bank overdrafts	(2.8)	(12.3)
Temporary borrowings repayable within 3 months	(21.0)	(23.0)
Current asset investments	229.6	154.5
	223.2	148.9

	Share capital including share premium £m	Loans and finance lease obligations £m
Analysis of changes in financing during the year		
At 1 April 1993	358.7	683.5
Shares issued in lieu of cash dividends	14.9	
Cash inflow from financing	(0.2)	94.8
Non-cash finance leasing movement	–	4.5
Exchange adjustments	–	1.7
At 31 March 1994	373.4	786.5

Statement of total recognised gains and losses

	Group		Company	
For the year ended 31 March 1994	1994 £m	1993 £m	1994 £m	1993 £m
Profit for the financial year	260.3	222.3	85.5	71.8
Exchange adjustments	(1.1)	(6.1)	(0.4)	0.9
Total recognised gains and losses for the financial year	259.2	216.2	85.1	72.7

Reconciliation of movements in shareholders' funds

		Group		Company	
For the year ended 31 March 1994	Note	1994 £m	1993 £m	1994 £m	1993 £m
Profit for the financial year		260.3	222.3	85.5	71.8
Dividends		(86.1)	(76.5)	(86.1)	(76.5)
Net enhanced scrip dividend adjustment		31.3	–	31.3	–
Net share dividend adjustment		–	2.9	–	2.9
New share capital issued		14.7	2.7	14.7	2.7
Goodwill on acquisitions	22	(2.3)	(8.6)	–	(1.5)
Exchange adjustments		(1.1)	(6.1)	(0.4)	0.9
Net addition to shareholders' funds for the year		216.8	136.7	45.0	0.3
Shareholders' funds at 31 March 1993		1,834.3	1,697.6	1,062.8	1,062.5
Shareholders' funds at 31 March 1994		2,051.1	1,834.3	1,107.8	1,062.8

Notes to the accounts

1 Accounting policies

(a) Basis of preparation of accounts
The consolidated accounts set out on pages 26 to 42 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) International development costs
Costs incurred in the development of international activities are either written off or, where appropriate, capitalised and fully provided against until their recovery is considered to be secured by profitable contracts.

(e) 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.

(f) 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	10–80 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.

(g) 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 the 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.

(h) 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

(i) Fixed asset investments
Investments held as fixed assets are stated at cost less amounts written off.

(j) Current asset investments
Current asset investments in externally managed interest bearing funds are stated at market value

(k) Stocks
Stocks 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.

(l) 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 23.

(m) 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.

(n) Deferred taxation
Provision is made for deferred taxation where a liability is considered likely to arise in the foreseeable future

(o) 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 profit before interest and tax and net operating assets for each class of business and by geographical origin are:

	Turnover 1994 £m	Turnover 1993 £m	Profit before interest and tax 1994 £m	Profit before interest and tax 1993 £m	Net operating assets 1994 £m	Net operating assets 1993 £m
By business area:						
Regulated business	729.3	688.7	326.1	283.5	2,704.7	2,452.6
Process businesses	184.5	182.7	8.8	19.7	71.2	78.1
International operations	3.5	3.3	0.6	0.9	1.8	0.2
Other activities	5.9	3.2	(5.7)	(6.3)	(3.3)	(2.5)
Non-regulated activities	194.9	189.2	3.7	14.3	69.7	75.8
International development costs	–	–	(8.0)	(9.6)	(2.3)	(1.5)
Group total	924.2	877.9	321.8	288.2	2,772.1	2,526.9
By geographical origin:						
United Kingdom	771.6	724.7	318.0	281.6	2,709.5	2,463.1
Europe	23.9	24.3	3.3	3.9	3.8	4.7
The Americas	110.6	122.6	(0.9)	6.0	48.8	56.5
Rest of the world	18.1	6.3	1.4	(3.3)	10.0	2.6
Group total	924.2	877.9	321.8	288.2	2,772.1	2,526.9

(i) The segmental analysis by business area has changed in 1994 to reflect the current management of business activities. The 1993 analysis has been re-stated accordingly.

(ii) Profit before interest and tax comprises operating profit amounting to £323.7 million (1993 – £288.2 million) and share of losses of associated undertaking £1.9 million (1993 – nil). The £1.9 million represents the Group's share of international development costs charged in Agua de Mexico SA de CV.

(iii) Intra-Group sales amounting to £13.2 million (1993 – £14.9 million) have been eliminated in arriving at the segmental analysis of turnover. These sales are primarily within the process businesses and from that business area to the regulated business.

(iv) The geographical destination of turnover does not differ materially from the geographical origin analysis above.

(v) Net operating assets comprise fixed assets and net current assets excluding net borrowings, investments, taxation and dividends.

3 Net operating costs

	1994 £m	1993 £m
Employee costs:		
Wages and salaries	160.6	148.3
Social security costs	18.3	18.0
Pension contributions (note 23)	13.8	12.2
	192.7	178.5
Capital schemes	(36.4)	(35.1)
Infrastructure renewals	(9.3)	(8.2)
	147.0	135.2
Depreciation:		
Owned fixed assets	60.3	50.3
Fixed assets held under finance leases	7.0	6.1
	67.3	56.4
Infrastructure renewals expenditure	62.8	63.0
Other operating costs:		
Energy, rates and other operating costs	195.0	189.7
Raw materials and consumables	107.2	102.1
Auditors' remuneration	0.3	0.4
Research and development	7.8	5.4
Operating leases		
–hire of plant and machinery	4.3	3.8
–land and buildings	2.2	2.0
Restructuring charge	12.0	36.0
Other income (note 4)	(5.4)	(4.3)
	323.4	335.1
Total operating costs	600.5	589.7

Fees payable to Price Waterhouse for non-audit services in 1994 were £1.1 million (1993 – £9.3 million), of which £1.0 million (1993 – £9.1 million) related to the United Kingdom.

The analysis of employee costs for 1993 has been re-stated to a basis consistent with 1994 in order to state more clearly gross costs before recharges to capital schemes and infrastructure renewals. The net charge to profit and loss account remains unchanged.

4 Other income

	1994 £m	1993 £m
Profit on disposal of fixed assets	3.7	[illegible]
Net rents receivable	1.5	1.2
Other	0.2	0.4
	5.4	4.3

5 Directors' emoluments

	1994 £000	1993 £000
Salaries and taxable benefits	938	919
Fees	29	25
Performance related	155	194
Pension contributions	81	106
	1,203	1,244
The Chairman (and, in 1994, the highest paid director):		
Salary and taxable benefits	263	163
Performance related	75	95

In 1993, the emoluments of the highest paid director amounted to £199,000 for salary and taxable benefits, £56,000 for the performance related element and £29,000 for pension contributions.

The Remuneration Committee (comprising non-executive directors and an independent specialist adviser in personnel management) deals with the terms and conditions of employment of executive directors including salary, bonus, share options and pension entitlements. The criteria set by the Remuneration Committee for the executive directors performance related bonus scheme were the increase in profit before tax and the return on capital employed. The non-executive directors do not participate in the bonus scheme.

The contributions to the pension fund in respect of the Chairman amounted to £22,500 (1993 – £28,500).

Further details of the executive directors' pension arrangements are set out in note 23.

Notes to the accounts continued

5 Directors' emoluments continued

Emoluments (excluding pension contributions) of directors of the company were within the following bands:

£	1994 Number	1993 Number
5,001 – 10,000	2	–
10,001 – 15,000	–	2
15,001 – 20,000	2	2
20,001 – 25,000	1	–
25,001 – 30,000	1	–
35,001 – 40,000	–	1
50,001 – 55,000	1	1
55,001 – 60,000	–	1
60,001 – 65,000	–	1
95,001 – 100,000	–	1
110,001 – 115,000	1	–
120,001 – 125,000	–	1
140,001 – 145,000	1	–
145,001 – 150,000	–	1
150,001 – 155,000	1	–
220,001 – 225,000	1	–
235,001 – 240,000	–	1
250,001 – 255,000	–	1
335,001 – 340,000	1	–

During the year Mr R P Thian, the previous chief executive, left the company. Mr Thian had a service contract with the company terminable by the company on three years' notice. The company has agreed to pay to Mr Thian as compensation for loss of office an amount approximately equivalent to one year's salary and other benefits. This amount was £[illegible], which is subject to deduction of tax, and includes a sum of £60,000 in respect of Mr Thian's pension arrangements.

Following the termination of Mr Thian's employment with the company, the directors agreed to him retaining options to subscribe for 157,000 ordinary shares which had been granted to him in 1990 under the executive option scheme as follows:

Date of grant of options	Number of ordinary shares	Exercise price per share
30 January 1990	143,750	278.0p
3 December 1990	13,250	315.5p

Options to subscribe for ordinary shares granted subsequently under the executive option scheme and options granted under the employee sharesave scheme to Mr Thian lapsed on termination of his employment with the company.

At 31 March, the directors and their immediate families had the following interests, all of which were beneficial interests, in the company's ordinary shares and options to subscribe for ordinary shares. The 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 21).

	1994 Ordinary shares	1994 Share options Executive option scheme	1994 Share options Employee sharesave scheme	1993 or on appointment Ordinary shares	1993 or on appointment Share options Executive option scheme	1993 or on appointment Share options Employee sharesave scheme
Sir Desmond Pitcher	5,469	216,450	3,787	5,228	–	–
A M Dean (i)	5,000	57,250	6,720	5,000	57,250	6,720
R J Ferguson	13,240	79,999	8,824	17,240	54,999	8,824
D Green	1,046	165,250	4,744	1,000	147,750	4,744
Mrs M C Bolton	2,187	–	–	2,091	–	–
E Clark	4,832	–	–	4,620	–	–
Dr R Leach	10,951	–	–	10,470	–	–
Sir Peter Middleton (ii)	–	–	–	–	–	–
A G Pendleton	5,250	–	–	5,000	–	–
F Sanderson	4,918	–	–	4,702	–	–

Further details of directors' options to subscribe for ordinary shares, including details of options granted to and exercised by directors during the year, are as follows:

	Share options as at 31 March 1993	Options granted during the year	Exercise price per share	First date exercisable	Last date exercisable (iii)	Options exercised during the year
Employee sharesave scheme						
Sir Desmond Pitcher	–	3,787	455.5p	1 March 1999	31 August 1999	–
A M Dean (i)	6,720	–	279.0p	1 February 1997	31 July 1997	–
R J Ferguson	6,136	–	176.0p	1 March 1995	31 August 1995	–
	2,688	–	279.0p	1 February 1997	31 July 1997	–
D Green	4,744	–	382.0p	1 February 1998	31 July 1998	–

5 Directors' emoluments continued

	Share options as at 31 March 1993	Options granted during the year	Exercise price per share	First date exercisable	Last date exercisable	Options exercised during the year
Executive option scheme						
Sir Desmond Pitcher	–	162,338	462.0p	5 July 1996	5 July 2003	–
	–	54,112	393.0p	5 July 1998	5 July 2003	–
A M Dean (i)	57,250	–	315.5p	30 January 1993	30 January 2000	–
R J Ferguson	2,750	–	315.5p	3 December 1993	3 December 2000	–
	21,750	–	335.0p	8 January 1995	8 January 2002	–
	7,250	–	285.0p	8 January 1997	8 January 2002	–
	17,437	–	479.0p	6 January 1996	6 January 2003	–
	5,812	–	407.5p	6 January 1998	6 January 2003	–
	–	18,750	586.0p	20 January 1997	20 January 2004	–
	–	6,250	498.5p	20 January 1999	20 January 2004	–
D Green	110,813	–	406.0p	18 June 1995	18 June 2002	–
	36,937	–	345.5p	18 June 1997	18 June 2002	–
	–	13,125	586.0p	20 January 1997	20 January 2004	–
	–	4,375	498.5p	20 January 1999	20 January 2004	–

(i) Mr A M Dean ceased to be a director on 31 March 1994.

(ii) Sir Peter Middleton was appointed a director with effect from 1 January 1994.

(iii) *Under the terms and conditions of the employee sharesave scheme, for every month* (up to no more than six months) savings are behind, the last date exercisable will be delayed by one month.

Mr A M Ramsay and Mr Thian ceased to be directors on 21 July 1993 and 19 November 1993 respectively.

Mr B L Staples was appointed a director with effect from 1 April 1994.

As shareholders, Sir Desmond Pitcher, Mrs Bolton, Mr Green and Mr Sanderson took up their full entitlement to shares under the terms of the share dividend plan for the 1994 interim dividend, which were issued on 6 April 1994.

No director had any interest in any share capital of any other Group company or in any debenture of any Group company.

6 Employees

	1994	1993
Average number of persons employed by the Group	8,013	8,061
By business area:		
Regulated business	5,426	5,442
Process businesses	2,277	2,384
International operations	102	51
Other activities	208	184
Non regulated activities	2,587	2,619
Group total	8,013	8,061

7 Net interest payable

	1994 £m	1993 £m
Interest payable:		
On bank loans, overdrafts and other loans,		
Repayable within 5 years	5.4	6.9
Repayable wholly or partly in more than 5 years	40.3	44.1
	45.7	51.0
On finance leases	16.7	9.9
Total interest payable	62.4	60.9
Interest receivable	(9.6)	(19.8)
Net interest payable	52.8	41.1

Notes to the accounts continued

8 Taxation

	1994 £m	1993 £m
UK corporation tax at 33%	–	–
Overseas tax	1.4	2.9
Unrelieved advance corporation tax	20.7	21.9
	22.1	24.8
Reduction in prior year advance corporation tax arising from the enhanced scrip dividend	(13.4)	–
	8.7	24.8

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 £0.2 million (1993 – £5.8 million) included in debtors in the Group accounts (note 14) comprises £1.1 million (1993 – £6.8 million) relating to fair value adjustments in respect of acquired overseas subsidiary undertakings, offset by £0.9 million (1993 – £1.0 million) of deferred tax liabilities.

The full potential deferred tax liability is:		
Accelerated tax allowances on buildings, plant and equipment	392.4	277.9
Losses and other timing differences	(104.3)	(59.9)
	288.1	218.0
Advance corporation tax recoverable	(86.5)	(79.2)
	201.6	138.8

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

	1994 £m	1993 £m
Interim dividend of 7.67 pence (1993 – 7.13 pence)	28.6	25.5
Final dividend of 15.40 pence recommended (1993 – 14.27 pence)	57.5	51.0
	86.1	76.5

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

	1994	1993
Net basis:		
Profit for financial year attributable to ordinary shareholders	£260.3m	£222.3m
Earnings per ordinary share	70.8p	62.3p
Nil basis:		
Profit on ordinary activities after the elimination of the charge for unrelieved advance corporation tax	£267.6m	£244.2m
Earnings per ordinary share	72.8p	68.4p

Earnings per ordinary share on the net basis has been calculated by dividing profit for the financial year attributable to ordinary shareholders by 367.7 million, being the weighted average number of shares in issue during the year (1993 – 356.6 million).

Earnings per ordinary share on the nil basis is calculated by eliminating the taxation charge of £7.3 million (1993 – £21.9 million) in respect of unrelieved advance corporation tax net of the adjustment arising from the enhanced scrip dividend.

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

11 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 1993	89.3	1,133.5	543.4	526.7	177.4	417.9	2,888.2
Additions	11.9	37.8	55.4	31.9	–	231.2	368.2
Grants and contributions	–	(5.2)	–	–	–	(0.6)	(5.8)
Transfers	27.6	77.8	114.0	50.7	–	(272.8)	(2.7)
Reclassifications	–	–	277.8	(277.8)	–	–	–
Disposals	(1.0)	–	(0.6)	(7.1)	–	(0.4)	(9.1)
At 31 March 1994	127.8	1,245.9	990.0	324.4	177.4	375.3	3,238.8
Depreciation:							
At 1 April 1993	14.6	–	54.3	151.4	105.6	–	325.9
Charge for the year	4.1	–	21.8	35.9	5.5	–	67.3
Transfers	(1.4)	–	–	(0.7)	–	–	(2.1)
Reclassifications	–	–	58.0	(58.0)	–	–	–
Disposals	(0.3)	–	(0.1)	(6.7)	–	–	(7.1)
At 31 March 1994	17.0	–	134.0	121.9	111.1	–	384.0
Net book value:							
At 31 March 1994	110.8	1,243.9	856.0	202.5	66.3	375.3	2,854.8
At 31 March 1993	74.7	1,133.5	489.1	375.3	71.8	417.9	2,562.3

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 £59.7 million (1993 – £53.9 million) lower than it would have been had this treatment not been adopted.

A reclassification of fixed assets from fixtures, fittings, tools and equipment to operational structures took place during the year. This related to mechanical, electrical and instrumentation plant which form an integral part of water and wastewater treatment works and pumping stations and, therefore, are better described as operational structures.

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

	1994 £m	1993 £m
Cost	241.4	185.1
Accumulated depreciation	(49.3)	(47.5)
Net book value	192.1	137.6

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1994. 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 out of proportion to the benefit it would provide to shareholders.

	1994 £m	1993 £m
Capital commitments:		
Contracted but not provided for	536.1	328.3
Authorised but not yet contracted for	69.0	37.4

Notes to the accounts continued

11 Tangible fixed assets continued

Company	Fixtures, fittings, tools and equipment £m
Cost:	
At 1 April 1993	5.0
Intra-group transfers	(4.2)
Additions	1.6
At 31 March 1994	2.4
Depreciation:	
At 1 April 1993	0.9
Inter-group transfers	(0.8)
Charge for the year	0.2
At 31 March 1994	0.3
Net book value:	
At 31 March 1994	2.1
At 31 March 1993	4.1

12 Fixed asset investments

Group	Investments in associated undertakings £m	Other investments £m	Total £m
Cost:			
At 1 April 1993	0.5	1.1	1.6
Additions	5.1	0.2	5.3
Share of losses	(1.9)	–	(1.9)
At 31 March 1994	3.7	1.3	5.0

The investments in associated undertakings represent the Group's share of net assets and relate principally to international operations.

Company	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Cost:			
At 1 April 1993	1,202.6	0.3	1,202.9
Additions	11.4	–	11.4
At 31 March 1994	1,214.0	0.3	1,214.3

The company increased its investment in, and acquired, several existing subsidiary undertakings as part of an ongoing Group legal restructuring programme.

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
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
Wallace & Tiernan Limited	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Edwards and Jones Limited	Ordinary	100%*	
Republic of Ireland:			
Jones Environmental (Ireland) Limited	Ordinary	100%*	Design and installation of water and wastewater treatment plants
The Netherlands:			
North West Water Finance BV	Ordinary	100%	Intermediate holding company
USA:			
Envirex 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%*	
US Water Inc	Ordinary	100%*	Contract operations and maintenance services
Mexico:			
Wallace & Tiernan de Mexico SA de CV	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Australia:			
North West Water Australia Pty Limited	Ordinary	100%*	Technical and management services
Wallace & Tiernan Pacific Pty Limited	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Canada:			
Asdor Limited	Ordinary	100%*	Suppliers of equipment for water and wastewater treatment processes
Wallace & Tiernan Canada Inc	Ordinary	100%*	
Germany:			
Wallace & Tiernan GmbH	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Malaysia:			
North West Water (Malaysia) SDN BHD	Ordinary	100%	Technical and management services
Associated undertakings:			
Great Britain:			
WRc (Process Engineering) Limited	Ordinary	50%*	Design and construction of equipment for water and wastewater treatment processes
Australia:			
Yan Yean Water Pty Limited	Ordinary	50%*	Water treatment operations
NWT Water Pty Limited	Ordinary	50%*	
Mexico:			
Agua de Mexico SA de CV	Ordinary	49%*	Technical and management services
Spain:			
CIDA Hidroquimica 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 continued

13 Stocks

	Group 1994 £m	Group 1993 £m
Stores	10.1	9.3
Work in progress	8.1	8.0
Finished goods and goods for resale	19.8	20.8
	38.0	38.1

14 Debtors

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Amounts falling due within one year:				
Trade debtors	139.1	143.2	–	–
Amounts owed by Group undertakings	–	–	174.1	99.7
Other debtors	13.5	16.1	–	–
Prepayments and accrued income	53.0	35.3	0.9	0.6
Infrastructure renewals prepayment	3.4	9.1	–	–
Amounts recoverable under contracts	2.0	6.3	–	–
Deferred tax (note 8)	0.2	1.1	–	–
	211.2	213.1	175.0	100.3
Amounts falling due after more than one year:				
Amounts owed by associated undertaking	–	0.3	–	–
Other debtors	8.4	10.8	–	–
Deferred tax (note 8)	–	4.7	–	–
	8.4	15.8	–	–
Total debtors	219.6	228.9	175.0	100.3

15 Current asset investments

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Managed funds and short term deposits	229.6	154.5	–	–
Other current asset investments	2.7	–	2.7	–
	232.3	154.5	2.7	–

16 Creditors: amounts falling due within one year

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Loans	0.9	1.7	–	–
Bank overdrafts and temporary borrowings	43.9	52.8	–	13.0
Trade creditors	45.8	44.5	–	–
Amounts owed to Group undertakings	–	–	104.0	90.0
Obligations under finance leases	7.2	7.6	–	–
Dividends proposed and payable	86.1	51.0	86.1	51.0
Other creditors	3.0	6.0	–	–
Taxation and social security	6.0	6.3	–	–
Accruals and deferred income	254.0	240.2	9.0	15.0
Advance corporation tax payable	20.7	22.8	20.7	22.0
	467.6	432.9	219.8	191.0

17 Creditors: amounts falling due after more than one year

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Loans	564.8	513.8	62.6	62.6
Obligations under finance leases	190.5	142.9	–	–
Other creditors	9.6	10.4	–	–
Deferred grants and contributions (note 18)	22.8	7.1	–	–
	787.7	674.2	62.6	62.6

18 Deferred grants and contributions

Group	£m
At 1 April 1993	7.1
Received in the year	16.2
Credit to profit and loss account for the year	(0.5)
At 31 March 1994	22.8

19 Provisions for liabilities and charges

	Group Restructuring £m	Group Other £m	Group Total £m	Company Other £m
At 1 April 1993	58.5	15.2	73.7	5.2
Utilised	(22.9)	(2.3)	(25.2)	(1.0)
Profit and loss account	12.0	0.1	12.1	(0.3)
Exchange adjustments	0.1	–	0.1	–
At 31 March 1994	47.7	13.0	60.7	3.9

20 Borrowings

Group	Loans and overdrafts: Repayable by instalments partly after 5 years £m	Loans and overdrafts: Wholly repayable after more than 5 years £m	Loans and overdrafts: Wholly repayable within 5 years £m	Finance leases £m	1994 Total £m	1993 Total £m
Within one year	0.9	–	43.9	7.2	52.0	62.1
Between one and two years	7.5	–	26.8	8.1	42.4	7.9
Between two and five years	63.1	–	–	18.2	81.3	88.2
After more than five years	271.0	196.4		164.2	631.6	560.6
	342.5	196.4	70.7	197.7	807.3	718.8

Loans repayable by instalments partly after five years and loans wholly repayable after more than 5 years comprise bank and other loans repayable between 1999 and 2052. Interest rates range from 6.65 per cent to 14.83 per cent on £292.9 million and are at floating rates on £246.0 million.

Company

The company has loans totalling £154.8 million (1993 – £165.3 million) of which £92.2 million is owed to Group undertakings and falls due within one year. The remaining loans are wholly repayable in 2001. Interest rates are 11.625 per cent on £20.0 million and at floating rates on £42.6 million.

21 Called up share capital and share premium accounts

The authorised share capital of the company throughout the year ended 31 March 1994 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:

	1994 £	1993 £
Ordinary shares of £1	372,896,476	357,598,653
Special rights redeemable preference share of £1	1	1
	372,896,477	357,598,654

Notes to the accounts continued

21 Called up share capital and share premium accounts continued
The movements on the allotted and fully paid share capital and the share premium accounts were:

	Share capital Shares million	£m	Share premium £m
At 1 April 1993	357.6	357.6	1.1
Issued under share option schemes	0.4	0.4	0.7
Issued in lieu of cash dividends	14.9	14.9	–
Share issue costs	–	–	(1.3)
At 31 March 1994	372.9	372.9	0.5

448,173 ordinary shares were allotted during the year ended 31 March 1994 following the exercise of options in accordance with the rules of the employee sharesave scheme and the executive share option scheme for a total consideration of £1.1 million.

On 4 August 1993, 14,889,650 ordinary shares were issued to ordinary shareholders who elected to receive shares in lieu of cash for the 1993 final dividend.

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 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 (five years for discounted options) 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:

	1994	1993	Option Price	Normal dates of exercise
Employee sharesave	2,534,610	2,667,38[illegible]	176.0p	1995 or 1997
	1,128,421	1,216,6[illegible]	252.5p	1996 or 1998
	1,542,000	1,634,253	279.0p	1997 or 1999
	949,642	980,035	382.0p	1998 or 2000
	914,075	–	455.5p	1999 or 2001
Executive share option	66,090	223,500	278.0p	1993 to 2000
	36,800	36,800	286.5p	1993 to 2000
	159,150	295,400	315.5p	1993 to 2000
	54,500	54,500	330.0p	1994 to 2001
	1,149,462	1,167,648	335.0p	1995 to 2002
	370,963	425,586	285.0p	1997 to 2002
	296,245	299,245	406.0p	1995 to 2002
	98,744	99,744	345.5p	1997 to 2002
	512,937	549,311	479.0p	1996 to 2003
	170,962	183,086	407.5p	1998 to 2003
	347,577	–	462.0p	1996 to 2003
	115,853	–	393.0p	1998 to 2003
	830,418	–	586.0p	1997 to 2004
	276,416	–	498.5p	1999 to 2004
	11,554,775	9,833,158		

In the year ended 31 March 1994, options were granted under the two option schemes in respect of 2,484,339 ordinary shares, options for 448,173 shares were exercised and options for 314,549 shares lapsed.

22 Profit and loss account

	Group £m	Company £m
At 1 April 1993	1,475.6	704.1
Profit/(loss) for the year	174.2	(0.6)
Goodwill on acquisitions	(2.3)	-
Enhanced scrip dividend adjustment	46.2	46.2
Shares issued in lieu of cash dividends	(14.9)	(14.9)
Exchange adjustments	(1.1)	(0.4)
At 31 March 1994	1,677.7	734.4

The goodwill written off to the profit and loss account in the year of £2.3 million relates to deferred consideration payments on prior year acquisitions of subsidiary undertakings.

Cumulative goodwill arising on the acquisition of subsidiary undertakings written off to the profit and loss account amounts to £148.1 million (1993 – £145.8 million).

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 £85.5 million.

23 Pensions

The Group operates a number of pension schemes in the UK, the USA, Europe, Australia and Canada. The major schemes are of the defined benefit type in the UK – the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS). The assets of these schemes are held in trust funds independent of Group finances.

For the major UK schemes, the employer's contributions and the pensions cost under the accounting standard SSAP24 have been assessed in accordance with the advice of William M Mercer Limited, using the projected unit method for the WPS and the attained age method for the WMIS. For this purpose, the main actuarial assumptions adopted are based upon investment growth of 9 per cent per annum, pay growth of 7 per cent per annum and increases to pensions in payment and deferred pensions of 5 per cent per annum.

The last actuarial valuation of the two schemes was carried out as at 31 March 1993. The total market value of the assets at the valuation date was £31[illegible].4 million. The combined actuarial value of the assets represented 98 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24, the deficiency in the schemes is being spread over the future working lifetime of the existing members.

For the overseas schemes, the defined benefit arrangements have been reviewed on consistent assumptions and any balance of surplus spread forward to derive the pension cost.

The total pension cost for the period was £13.8 million (1993 – £12.2 million).

The Group has two overseas subsidiary undertakings which offer post retirement medical and life insurance benefits. The benefits payable under these schemes have now been capped and are no longer offered to new employees. The liability in respect of all future benefit obligations of £2.0 million has been actuarially determined and was fully provided for on acquisition of the subsidiary undertakings.

As a consequence of changes made by the Finance Act 1989, the Group is unable to provide pensions from the WPS for its most senior executives, including executive directors, who have joined the Group since 1989, on the same basis as pensions for executives who joined the Group before that date. In line with many other companies, the Group has established therefore separate arrangements for this category of executive.

Accordingly, on the retirement of these senior executives, the Group has undertaken to pay the difference between their pension entitlements based upon the relevant proportion of their final salaries and the maximum amount payable under the rules of the WPS.

This undertaking will not result in any greater or additional benefits for those executives than would have been payable had it been possible for their pensions to be provided fully within the WPS on the same basis as for executives in the same category who joined the Group prior to 1989.

24 Operating leases

Subsidiary undertakings are committed to making the following payments during the year ending 31 March 1995:

	Land and buildings £m	Plant and machinery £m
Leases which expire:		
Within one year	0.2	0.9
Between two and five years	1.9	2.6
After five years	1.0	-
	[illegible]1	3.5

Notes to the accounts continued

25 Contingent liabilities

The company and certain of its subsidiary undertakings have, in the ordinary course of business, entered into performance bonds relating to the Group's own contracts.

The company also guaranteed certain loans and overdrafts of Group undertakings up to a maximum amount of £596.7 million, including £370.0 million relating to North West Water Limited's loans from the European Investment Bank.

In accordance with Irish companies legislation, the company has guaranteed the liabilities (as defined in section 5(c)(ii) of the Companies (Amendment) Act, 1986) of Jones Environmental Limited and Jones Environmental (Ireland) Limited availing of the exemption under section 17(1)(c) of that Act. The amount covered by the guarantees at the year end was £2.7 million.

Directors' responsibilities

in respect of the preparation of financial statements

The directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group and of the profit for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors' responsibility includes the maintenance of adequate accounting records. The directors also have a general responsibility at law for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Auditors' report

to the members of North West Water Group PLC

We have audited the financial statements on pages 26 to 42 which have been prepared under the historical cost convention and the accounting policies set out on pages 29 and 30.

Respective responsibilities of directors and auditors

As described under 'Directors' responsibilities' the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and of the Group as at 31 March 1994 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants
and Registered Auditors
Manchester
10 June 1994

Corporate governance

In our last annual report to shareholders, we welcomed the report and recommendations of the Committee on the Financial Aspects of Corporate Governance, better known as the Cadbury Committee. Since then the Board has reviewed the detailed requirements for compliance with the Code of Best Practice published by the Cadbury Committee and taken the opportunity to formalise its arrangements in some respects to demonstrate more clearly compliance with the code.

The Board believes that the company has complied in the year with the provisions of the code of best practice to the extent that those provisions are fully in place. Guidance from the accountancy profession on the reporting by directors on internal control and going concern is still awaited and the Board will review those two aspects further when that guidance has been issued.

In particular, the Board has well established Audit and Remuneration Committees with defined terms of reference. The Audit Committee is made up entirely of non-executive directors and its membership is currently Dr R Leach (Chairman), Mr E Clark, Mr A G Pendleton and Mr F Sanderson. It reviews the internal and external audit activities, monitors compliance with statutory requirements for financial reporting and reviews the half year and annual financial statements before they are presented to the Board for approval.

The Remuneration Committee is also made up of non-executive directors, its current membership being Mr Sanderson (Chairman), Mr Clark and Mr Pendleton. In addition, the Board has appointed to the Committee Mr P Rogers, an independent specialist adviser on personnel management. The Committee deals with the terms and conditions of employment of executive directors and other senior executives including salary, bonus, share options and pension entitlements.

The Board meets regularly during the year and is responsible for the overall strategy and direction of the Group and for approving business acquisitions and disposals, management performance, major capital expenditure and significant financing matters. It reviews regularly the financial performance of the company and the Group's business units and has approved formal delegation arrangements for effective management of the Group's business.

The Group's auditors, Price Waterhouse, have reviewed compliance with the specific matters in the code which the London Stock Exchange requires that the auditors should review. They have reported to the Board that, to the extent of their review, they are of the opinion that it is appropriate for the directors to make the above statement.

Shareholder information

Financial calendar The 1994 annual general meeting will be held on 22 July 1994 at 10.30 am at the G-Mex Centre, Manchester. The notice of meeting is enclosed with this report.

Other forthcoming key events are:

- payment of the 1994 final dividend, on 3 October 1994;
- announcement of the half-year results, in December 1994;
- payment of the 1995 interim dividend, in February 1995;
- preliminary announcement of the full-year results, in May 1995;
- publication of the annual report and accounts, in June 1995; and
- the annual general meeting, in July 1995

Information about shareholdings If you wish to enquire about or need any information about your shareholding in the company, please contact the company's registrar, Lloyds Bank Registrars, 54 Pershore Road South, Kings Norton, Birmingham B30 3EP (telephone: 021 433 8000).

Publications In addition to this annual report describing the Group's activities overall, we produce other reports, leaflets and factsheets which describe particular areas of activity or aspects of our business in greater detail.

These are outlined in our information resources catalogue 'Take a closer look' and include:

- North West Water Limited's report and regulatory accounts 1994;
- drinking water quality 1993;
- environmental performance 1993, and
- conservation, access and recreation report 1994.

If you would like a copy of any of these publications or of 'Take a closer look', the comprehensive information resources brochure, please contact the company's Corporate Communications Director at Dawson House, Great Sankey, Warrington, Cheshire WA5 3LW (telephone: 0925 234000).

Five year summary

	1990 £m	1991 £m	1992 £m	1993 £m	1994 £m
Profit and loss accounts					
Turnover	511	599	789	878	924
Operating costs	(357)	(412)	(543)	(590)	(600)
Operating profit	154	187	246	288	324
Share of losses of associated undertaking	-	-	-	-	(2)
Privatisation costs	(7)	-	-	-	-
Net interest (payable)/receivable	(79)	28	(16)	(41)	(53)
Profit before tax	68	215	230	247	269
Tax on profit on ordinary activities	(12)	(22)	(24)	(25)	(9)
Profit for financial year	56	193	206	222	260
Dividends	(37)	(64)	(70)	(76)	(86)
Transfer to reserves	19	129	136	146	174
Balance sheets					
Fixed assets	1,558	1,834	2,221	2,564	2,860
Net current assets	113	124	39	18	40
Creditors falling due after more than one year	(91)	(263)	(499)	(674)	(788)
Provisions for liabilities and charges	(14)	(47)	(63)	(74)	(61)
	1,566	1,648	1,698	1,834	2,051
Ordinary share capital and share premium	356	356	356	358	373
Reserves and retained profits	1,210	1,292	1,342	1,476	1,678
	1,566	1,648	1,698	1,834	2,051

The directors believe that care should be taken in drawing conclusions from a comparison between the results for 1990 and those for 1991 to 1994. The changes which took place during 1990 in capital structure, regulatory expenditure and other costs associated with PLC status render comparisons potentially misleading.

[illegible] by [illegible] Typeset and printed by [illegible] Limited Bradford and London

SCAN UPON DEMAND

We apologise that due

to the poor quality of the fiche,

some of the images scanned

were also of poor quality