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**NORTH WEST WATER LIMITED**

**DIRECTORS REPORT  
AND  
ACCOUNTS  
FOR THE YEAR ENDED  
31 MARCH 1990**

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COMPANY  
29 JAN 1990

NORTH WEST WATER LIMITED

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DIRECTORS' REPORT

Company formation

North West Water Limited was incorporated in England and Wales on 1 April 1989 under the Companies Act 1985. On 29 August 1989 it became a wholly owned subsidiary of North West Water Group PLC. On 1 September 1989 the property, rights and liabilities of North West Water Authority (other than those transferred to the National Rivers Authority) were vested in the Company. In November 1989 shares in North West Water Group PLC were the subject of an Offer for Sale by the Government and were subsequently listed on the International Stock Exchange in London.

Principal activities

The Company provides water and sewerage services in the North West region of England by virtue of an Instrument of Appointment dated 29 August 1989 made under the Water Act 1989, appointing the Company as water and sewerage undertakers.

Profit and dividend

Turnover for the year ended 31 March 1990 rose to £510.5 million, an increase of 11.5 per cent over the previous year. Profit for the year after tax and extraordinary items was £68.8 million. A dividend of £750 million was approved by the Company in General Meeting on 20 November 1989 and was paid during the year. The directors do not propose the payment of any further dividend. The excess of dividend over profit for the year has been transferred from reserves.

Review of activities

The year was dominated by the privatisation of our parent company, a rigorous, intensive and demanding process. As a consequence of privatisation, the Company now operates within a new legislative and regulatory framework.

The Company continued to provide water and waste water services to almost 7 million customers and industry in the region, round the clock, and to make improvements to those services.

**DIRECTORS' REPORT**

**Regulatory accounts:**

The regulatory accounts of the Company to 31 March 1990, prepared in accordance with the Appointment, will be filed with the Director General of Water Services on 16 July 1990 and thereafter will be available upon application to the Company Secretary at the registered office.

**Investment programme**

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

**During the year:**

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

**Improving the environment**

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

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

**DIRECTORS' REPORT**

**Improving the quality of services to our water customers**

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

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

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

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

Action as part of our substantial investment programme to maintain and improve drinking water quality has included the provision of automatic water quality monitoring equipment and treatment process controls at many water treatment works, linked to the regional telemetry system; the use of granular activated carbon to improve taste and odour control in supplies from the River Dee; the introduction of additional chlorination facilities to provide better control of disinfection within the distribution system; and further measures to reduce the take up of lead from customers' service pipes and plumbing.

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

**DIRECTORS' REPORT**

We will continue to ensure high quality recruitment and to invest in our employees through further training and development. Our planning for the future includes, in the current year, our largest ever graduate intake. There will also be over 80 summer projects on offer to sixth formers and undergraduates to help them learn about industry and attract potential young recruits.

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

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

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

**Fixed assets**

There are stringent provisions within the Water Act and the Appointments regarding the disposal of land and buildings, the majority of which are needed for continuing operations and are not yet readily adaptable for other uses. In these circumstances, the directors are of the opinion that the values shown in Accounts properly reflect the existing use value to the business and are not significantly different from their market values.

Changes in fixed assets during the year are shown in note 10 to the Accounts.

**NORTH WEST WATER LIMITED**

**AUDITORS' REPORT**

**Report of the Auditors to the members of North West Water Limited**

We have audited the financial statements on pages 12 to 24 in accordance with Auditing Standards.

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

**Price Waterhouse**

**Chartered Accountants**

**Manchester**

**2 July 1990**

BALANCE SHEET  
AT 31 MARCH 1990

	Note	£m	1990 £m	£m	1989* £m
<b>FIXED ASSETS</b>					
Tangible assets					
Infrastructure assets			821.0		745.5
Other assets			736.8		643.1
	10		<u>1557.8</u>		<u>1388.6</u>
Investments	11		0.4		0.1
			<u>1,558.2</u>		<u>1,388.7</u>
<b>CURRENT ASSETS</b>					
Stores		6.0		6.9	
Debtors	12	91.2		73.0	
Investments	13	247.6		-	
			<u>344.8</u>	<u>79.9</u>	
CREDITORS: Amounts falling due within one year	14	(195.8)		(332.4)	
			<u>149.0</u>	<u>(252.5)</u>	
<b>NET CURRENT ASSETS/(LIABILITIES)</b>					
			<u>1,707.2</u>		<u>1,136.2</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
CREDITORS: Amounts falling due after more than one year	15		(91.1)		(955.6)
			<u>1,616.1</u>		<u>180.6</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	17		431.9		-
Share premium account	18		647.8		-
Profit and loss account	18		536.4		180.6
			<u>1,616.1</u>		<u>180.6</u>

Approved by the board of directors on 2 July 1990 and signed on its behalf by

W D Grove

Chairman

R Ferguson

Finance Director

*W D Grove*  
*R Ferguson*

The notes on pages 15 to 24 form part of these accounts.

\* See note 1



NOTES TO THE ACCOUNTS

1. Accounting policies

(a) Basis of preparation of accounts

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

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

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

(b) Turnover

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

(c) Research and development

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

(d) Tangible fixed assets

Tangible fixed assets comprise infrastructure assets (mains, sewers, impounding and pumped raw water storage reservoirs, dams, 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 Company's investment programme. The timing of the investment programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations between actual and planned expenditure.

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

## DIRECTORS' REPORT

### Company formation

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### Principal activities

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### Profit and dividend

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### Review of activities

The year was dominated by the privatisation of our parent company, a rigorous, intensive and demanding process. As a consequence of privatisation, the Company now operates within a new legislative and regulatory framework.

The Company continued to provide water and waste water services to almost 7 million customers and industry in the region, round the clock, and to make improvements to those services.

## DIRECTORS' REPORT

Particular features of the year were:

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

### Regulation

Regulatory framework:

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

New regulators were established, principally the Director General of Water Services and the National Rivers Authority. The Director General is particularly concerned with customer service standards and economic regulation. This recognises the need for businesses to be properly financed, as well as for customers' interests to be protected, in particular by controlling charges. The National Rivers Authority's responsibilities include the prevention of water pollution.

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

Ring fencing:

As required by Condition K of the Appointment, the directors state that they are satisfied that as at 31 March 1990, if a special administration order had been made under Section 23 of the Water Act 1989 in respect of the Company, the Company would have had available to it sufficient rights and assets (not including financial resources) to have enabled the special administrator so to manage the affairs, business and property of the Company that the purposes of the order could have been achieved.

## DIRECTORS' REPORT

### Regulatory accounts:

The regulatory accounts of the Company to 31 March 1990, prepared in accordance with the Appointment, will be filed with the Director General of Water Services on 16 July 1990 and thereafter will be available upon application to the Company Secretary at the registered office.

### Investment programme

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

### During the year:

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

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

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

**DIRECTORS' REPORT**

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

We are currently licensed to dispose of some 1.96 million wet tonnes of sludge to sea, with a similar amount being disposed of mainly to agricultural land, or landfill, or by incineration. There are no insurmountable practical or technical difficulties in complying with the requirement to cease disposal to sea. Of course, this will not of itself solve the problem of sludge. We need sufficient time to complete our plans for, and to construct and bring into operation, alternative arrangements which are likely to involve additional investment and operating expenditure.

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

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

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

During the year we established the industry's first advisory committee of independent experts. CARAC, the Conservation, Access and Recreation Advisory Committee, enlists the knowledge, skills and expertise of environmental and recreational organisations and local authorities to assist us in these important areas.

## DIRECTORS' REPORT

### Improving the quality of services to our water customers

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

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Action as part of our substantial investment programme to maintain and improve drinking water quality has included the provision of automatic water quality monitoring equipment and treatment process controls at many water treatment works, linked to the regional telemetry system; the use of granular activated carbon to improve taste and odour control in supplies from the River Dee; the introduction of additional chlorination facilities to provide better control of disinfection within the distribution system; and further measures to reduce the take up of lead from customers' service pipes and plumbing.

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

## DIRECTORS' REPORT

### Continuity of water supplies

The summer of 1989 was one of the warmest and driest on record, but we were able to maintain supplies to our customers. This was achieved because of our integrated water supply networks which we continue to make more flexible and robust, our intensified programme for reducing leakage from our mains, the efforts of our operational staff and, not least, the conscientiousness of our customers in responding to appeals for economy in their use of water.

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

### Research, technology and innovation

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

Developments during the year have included the commissioning of further plants incorporating one of the world's most advanced combined heat and power (CHP) systems, increasing the number using that system in the region to 16. This brings to 22 the total number of waste water treatment works with CHP plants. CHP systems use methane gas from the treatment process to generate electricity. This is used to power the works, thus saving energy costs and the surplus generated is sold to electricity supply companies.

### Employees rising to the challenge

Our effectiveness as a Company depends substantially on the dedication and commitment of our employees. These qualities were amply demonstrated during the rigorous privatisation process. Collectively, our employees recognise that they have a major stake in the profitability of the business. Individually, the great majority are now also shareholders in our parent company. The success of the Company and their success are bound together. The company had established an extensive range of communication and consultative arrangements designed to ensure that employees are kept fully informed about the business.

**DIRECTORS' REPORT**

We will continue to ensure high quality recruitment and to invest in our employees through further training and development. Our planning for the future includes, in the current year, our largest ever graduate intake. There will also be over 80 summer projects on offer to sixth formers and undergraduates to help them learn about industry and attract potential young recruits.

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

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

**Fixed assets**

There are stringent provisions within the Water Act and the Appointments regarding the disposal of land and buildings, the majority of which are needed for continuing operations and are not yet readily adaptable for other uses. In these circumstances, the directors are of the opinion that the values shown in Accounts properly reflect the existing use value to the business and are not significantly different from their market values.

Changes in fixed assets during the year are shown in note 10 to the Accounts.



NORTH WEST WATER LIMITED

DIRECTORS' REPORT

Share capital

The Company has an authorised share capital of £650,000,000 divided into 650,000,000 ordinary shares of £1 each. The issued share capital, credited as fully paid, is £431,930,000. Further details are set out in note 17 to the Accounts.

Directors

The present directors of the Company are set out below. All were appointed on 1 September 1989 except Mr Thian, who was appointed on 1 January 1990.

- \* W D Grove, Chairman
- \* R P Thian, Deputy Chairman
- \* B Alexander, Managing Director
  - R D Armstrong, Personnel Director
  - M R Dyer, Operations Director
  - R J Ferguson, Finance Director
  - A G Fox, Engineering Director
  - I E Millar, Information Technology Director
- \* F Sanderson, non-executive
  
- \* Director, North West Water Group PLC

Messrs J A L Gunn and A D Whetnall were both appointed on 1 April 1989 and resigned with effect from 1 September 1989.

Details of directors' interests in ordinary shares of North West Water Group PLC are set out in note 4 to the Accounts.

Auditors

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

By order of the board  
J R Tetlow  
Secretary  
2 July 1990

**NORTH WEST WATER LIMITED**

**AUDITORS' REPORT**

**Report of the Auditors to the members of North West Water Limited**

We have audited the financial statements on pages 12 to 24 in accordance with Auditing Standards.

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

**Price Waterhouse**

**Chartered Accountants**

**Manchester**

**2 July 1990**

NORTH WEST WATER LIMITED

PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 MARCH 1990

	Note	1990 £m	1989* £m
Turnover	1(b)	510.5	457.7
Operating costs	2	(360.1)	(305.4)
Other income	3	4.2	3.8
		<hr/>	<hr/>
Operating Profit		154.6	156.1
Net interest payable	6	(79.1)	(111.8)
		<hr/>	<hr/>
Profit on ordinary activities before tax		75.5	44.3
Tax on profit on ordinary activities	7	-	-
		<hr/>	<hr/>
Profit on ordinary activities after tax		75.5	44.3
Extraordinary items	8	(6.7)	(1.2)
		<hr/>	<hr/>
Profit for financial year		68.8	43.1
Dividend paid	9	(750.0)	-
		<hr/>	<hr/>
Transfer (from); to reserves	18	(681.2)	43.1
		<hr/>	<hr/>

The notes on pages 15 to 24 form part of these accounts.

\* See note 1

NORTH WEST WATER LIMITED

BALANCE SHEET  
AT 31 MARCH 1990

	Note	£m	1990 £m	£m	1989* £m
<b>FIXED ASSETS</b>					
Tangible assets					
Infrastructure assets			821.0		745.5
Other assets			736.8		643.1
	10		<u>1557.8</u>		<u>1388.6</u>
Investments	11		0.4		0.1
			<u>1,558.2</u>		<u>1,388.7</u>
<b>CURRENT ASSETS</b>					
Stores		6.0		6.9	
Debtors	12	91.2		73.0	
Investments	13	247.6		-	
			<u>344.8</u>	<u>79.9</u>	
CREDITORS: Amounts falling due within one year	14	(195.8)		(332.4)	
			<u>149.0</u>	<u>(252.5)</u>	
<b>NET CURRENT ASSETS/(LIABILITIES)</b>					
			<u>1,707.2</u>	<u>1,136.2</u>	
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
CREDITORS: Amounts falling due after more than one year	15		(91.1)		(935.6)
			<u>1,616.1</u>	<u>180.6</u>	
<b>CAPITAL AND RESERVES</b>					
Called up share capital	17		431.9		-
Share premium account	18		647.8		-
Profit and loss account	18		536.4		180.6
			<u>1,616.1</u>	<u>180.6</u>	

Approved by the board of directors on 2 July 1990 and signed on its behalf by

W D Grove

Chairman

R Ferguson

Finance Director

*W D Grove*  
*R Ferguson*

The notes on pages 15 to 24 form part of these accounts.

\* See note 1

NORTH WEST WATER LIMITED

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

	1990 £m	1989* £m
<b>FUNDS GENERATED FROM TRADING</b>		
Profit on ordinary activities before tax	75.5	44.3
Depreciation	29.4	26.1
Extraordinary items	(6.7)	(1.2)
	<u>98.2</u>	<u>69.2</u>
<b>CHANGES IN FIXED ASSETS</b>		
Purchase of tangible fixed assets and investments	(205.9)	(148.7)
Disposal of tangible fixed assets	0.6	0.4
Grants and contributions	6.4	3.3
<b>CHANGES IN WORKING CAPITAL</b>		
Stores	0.9	1.0
Debtors	(18.2)	(3.3)
Creditors	38.3	21.0
	<u>(79.7)</u>	<u>(57.1)</u>
Cash absorbed by operations		
Issue of shares	1,079.7	-
Loans write off	1,037.0	-
Dividend paid	(750.0)	-
Net borrowings at beginning of year	(1,155.3)	(1,098.2)
	<u>131.7</u>	<u>(1,155.3)</u>
Net cash/(borrowings) at end of year		
<b>Comprising:</b>		
Gross borrowings	(63.0)	(1,093.7)
Finance leases	(52.9)	(61.6)
Current investments	247.6	-
	<u>131.7</u>	<u>(1,155.3)</u>

\* See note 1

NOTES TO THE ACCOUNTS

1. Accounting policies

(a) Basis of preparation of accounts

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(c) Research and development

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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 Company's investment programme. The timing of the investment programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations between actual and planned expenditure.

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

NOTES TO THE ACCOUNTS

(d) **Tangible fixed assets(continued)**

(ii) **Other assets**

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

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

Buildings	30 - 60 years
Operational structures	40 - 80 years
Fixtures, fittings, tools and equipment	4 - 40 years
Pre-1974 assets	22 - 27 years

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

(e) **Leased Assets**

Assets financed by leasing arrangements which substantially transfer 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.

(f) **Fixed asset investments**

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

(g) **Current asset investments**

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

(h) **Stores**

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

(i) **Pensions**

Most of the Company'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 19 to the accounts.

(j) **Deferred taxation**

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

## NOTES TO THE ACCOUNTS

## 2. Operating costs

	1990 £m	1989 £m
Staff costs		
Wages and salaries	85.6	84.7
Social security costs	6.9	6.4
Pension contributions (note 19)	9.7	6.1
	<u>102.2</u>	<u>97.2</u>
Capital schemes	(17.9)	(15.8)
Infrastructure renewals	(6.1)	(7.3)
Manpower costs	<u>78.2</u>	<u>74.1</u>
Depreciation		
Owned fixed assets	21.8	17.7
Fixed assets held under finance leases	7.6	8.4
	<u>29.4</u>	<u>26.1</u>
Infrastructure renewals expenditure	<u>78.2</u>	<u>67.7</u>
Other operating costs include:		
Energy, rates and other operating costs	129.7	113.7
Raw materials and consumables	21.2	18.8
Auditors' remuneration	0.1	0.1
Research and development	2.5	2.8
Operating leases		
- hire of plant and machinery	1.8	1.2
- land and buildings	1.2	0.9
Costs of restructuring	11.0	-
Awareness campaign and other costs	6.8	-
	<u>174.3</u>	<u>137.5</u>
Total operating costs	<u>360.1</u>	<u>305.4</u>

## 3. Other income

	1990 £m	1989 £m
Other income is analysed as follows:		
Profit on disposal of fixed assets	3.1	2.9
Net rents receivable	1.0	0.9
Other	0.1	-
	<u>4.2</u>	<u>3.8</u>



NOTES TO THE ACCOUNTS

4. Directors

The directors received no emoluments as directors of the Company. The emoluments of directors of North West Water Group PLC are dealt with in that company's accounts.

At 31 March 1990, the directors and their families had the following beneficial interests in the ordinary shares of North West Water Group PLC (details of the interests of directors of North West Water Group PLC are dealt with in that company's accounts):

	Share options(iii)		
	Ordinary shares(i) (ii)	Executive Option Scheme	Employee Sharesave Scheme
R D Armstrong	579	33,000	6,136
M R Dyer	1,260	37,500	2,045
R J Ferguson	1,291	37,500	6,136
A G Fox	1,778	33,250	2,386
I E Millar	1,062	-	2,045

- (i) In common with other eligible individual shareholders, the directors and their families may be entitled to a share bonus from HM Government in accordance with the provisions of the Offer for Sale.
- (ii) Beneficial interests include shares made available to eligible employees under special arrangements at the time of the Offer for Sale.
- (iii) Details of the Employee Sharesave Scheme and the Executive Share Option Scheme operated by North West Water Group PLC are given in that company's accounts.

5. Employees

	1990
Average number of persons employed	<u>6,958</u>

Emoluments of higher paid employees (excluding pension contributions):

£	1990 Number
30,001 - 35,000	31
35,001 - 40,000	10
40,001 - 45,000	1
45,001 - 50,000	2

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

## NOTES TO THE ACCOUNTS

## 6. Net interest payable

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

## 7. Taxation

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

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

	1990 £m
Accelerated tax allowances on buildings, plant and equipment	56.6
Other timing differences	(16.9)
Losses	(27.9)
	<hr/>
	11.8
	<hr/>

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

## 8. Extraordinary items

	1990 £m	1989 £m
Extraordinary charges:		
Privatisation costs	6.7	1.2
	<hr/>	<hr/>

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

## 9. Dividends

A dividend was paid in November 1989 in respect of the period from 1 September 1989 to 31 March 1990 of 250.0p net per ordinary share.

NORTH WEST WATER LIMITED

NOTES TO THE ACCOUNTS

10. Tangible fixed assets

	Land and buildings	Infrastructure assets	Operational structures	Fixtures, fittings, tools and equipment	Pre-1974 assets	Assets in course of construction	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
Transfer from predecessor Authority	41.0	745.5	280.8	208.4	177.4	121.1	1,572.2
Additions	2.1	62.2	13.8	26.5	-	101.0	205.6
Grants and contributions	-	(2.3)	(0.5)	(0.2)	-	(3.4)	(6.4)
Transfers	1.4	15.6	8.1	23.3	-	(48.4)	-
Disposals	(0.3)	-	-	(2.4)	-	-	(2.7)
At 31 March 1990	44.2	821.0	302.2	253.6	177.4	170.3	1,768.7
Depreciation:							
Transfer from predecessor Authority	5.9	-	28.8	65.8	83.1	-	183.6
Charge for the year	1.3	-	5.1	17.4	5.6	-	29.4
Disposals	(0.1)	-	-	(2.0)	-	-	(2.1)
At 31 March 1990	7.1	-	33.9	81.2	88.7	-	210.9
Net book value:							
At 31 March 1990	37.1	821.0	268.3	172.4	88.7	170.3	1,557.8
At 31 March 1989	35.1	745.5	252.0	140.6	94.3	121.1	1,388.6

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

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

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

## NOTES TO THE ACCOUNTS

## 10. Tangible fixed assets (continued)

	1990 £m	1989 £m
Capital commitments:		
Contracted but not provided for	328.0	203.5
Authorised but not yet contracted for	58.0	85.9

In addition to these commitments, at 31 March 1990, the Company has longer term investment expenditure plans which include expenditure to improve asset performance and condition and to provide for new demand and growth.

## 11. Fixed asset investments

	Other investments £m
Cost:	
At 1 April 1989	0.1
Additions	2.3
At 31 March 1990	0.4

Other investments include the following holdings in unlisted companies registered in England and Wales:

	Class of shares/securities issued	Proportion held
Water Research Centre(1989)Plc	'A' ordinary £1 'B' ordinary £1 5% convertible unsecured loan stock 2014	- 26.25% 26.25%
Water Pension Fund Holdings Limited	Ordinary £1	18.44%

## 12. Debtors

	1990 £m	1989 £m
Amounts falling due within one year:		
Trade debtors	49.9	31.2
Amounts owed by Group companies	4.7	-
Other debtors	7.2	6.7
Prepayments and accrued income	28.5	34.2
	<u>90.3</u>	<u>72.1</u>
Amounts falling due after more than one year:		
Amounts owed by related company	0.3	0.3
Other debtors	0.6	0.6
	<u>0.9</u>	<u>0.9</u>
Total debtors	<u>91.2</u>	<u>73.0</u>

## 13. Current asset investments

	1990 £m	1989 £m
Managed funds and short term deposits	<u>247.6</u>	<u>-</u>

NORTH WEST WATER LIMITED

NOTES TO THE ACCOUNTS

14. Creditors: Amounts falling due within one year

	1990 £m	1989 £m
Loans	0.7	168.0
Bank overdrafts and temporary borrowings	19.8	26.3
Trade creditors	14.9	14.3
Obligations under finance leases	8.0	8.2
Other creditors	1.6	0.1
Taxation and social security	1.3	0.3
Infrastructure renewals accrual	9.8	-
Accruals and deferred income	139.7	113.2
	<u>195.8</u>	<u>332.4</u>

15. Creditors: amounts falling due after more than one year

	1990 £m	1989 £m
Loans	42.5	899.4
Obligations under finance leases	44.9	53.4
Other creditors	3.7	2.8
	<u>91.1</u>	<u>955.6</u>

16. Borrowings

Loans and overdrafts

	Repayable by instalments partly after 5 years £m	Other £m	Finance leases £m	1990 Total £m	1989 Total £m
Within one year	0.7	19.8	8.0	28.5	202.5
Between one and two years	0.7	0.1	7.6	8.4	54.8
Between two and five years	2.5	-	16.8	19.3	165.6
After more than five years	39.2	-	20.5	59.7	732.4
	<u>43.1</u>	<u>19.9</u>	<u>52.9</u>	<u>115.9</u>	<u>1,155.3</u>

17. Called-up share capital

	Authorised £	Allotted and fully paid £
Ordinary shares of £1	<u>650,000,000</u>	<u>431,930,000</u>

The Company's authorised share capital on incorporation on 1 April 1989 was £100 divided into 100 shares of £1 each, of which two were subscribed at par by nominees of the Crown. On 29 August 1989, the authorised share capital was increased to £50,000, divided into 50,000 ordinary shares of £1 each; and on 1 September 1989, 49,998 ordinary shares were issued at par to North West Water Group PLC, credited as fully paid.

On 20 November 1989:

- the authorised share capital was further increased to £650 million by the creation of 649,950,000 ordinary shares;
- 300 million ordinary shares were allotted, fully paid for cash, to North West Water Group PLC, for a consideration of £750 million.

On 8 January 1990, 131,880,000 ordinary shares were allotted, fully paid for cash, to North West Water Group PLC, for a consideration of £329.7 million.

## NOTES TO THE ACCOUNTS

## 18. Reserves

	Profit and loss account £m	Share premium account £m
Transferred from North West Water Authority	180.6	-
Loss for the year	(681.2)	-
Loans written off (see below)	1,037.0	-
Arising on the issue of shares	-	647.8
At 31 March 1990	<u>536.4</u>	<u>647.8</u>

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

## 19. Pensions

The Company is a participant in the Group's two defined benefit final salary schemes, the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS).

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

With effect from 1 September 1989, actuarially determined transfer payments are due to be paid from the WASF to the WPS and WMIS in respect of members of WASF who have decided to transfer their past service rights into their new scheme. Although the first formal actuarial valuations have not been completed, the consulting actuary to both schemes, William M Mercer Fraser Limited, has confirmed that transfer values calculated on this basis will be sufficient to meet the accrued liabilities assumed for each scheme (including allowance for future salary increases and increases to pensions) in respect of service prior to 1 September 1989.

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

The pension cost for the period was £9.7million (1989 £6.1million.), which included £1.6million in respect of additional funding of statutory increases to pensions in payment and supplementary discretionary awards.

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

NORTH WEST WATER LIMITED

NOTES TO THE ACCOUNTS

20. Operating leases

The Company is committed at 31 March 1990 to making the following payments during the next twelve months:

	Land and buildings £m	Plant and machinery £m
Leases which expire:		
Within one year	-	0.1
Between two and five years	0.3	0.4
After five years	0.9	-
	1.2	0.5

21. Ultimate holding company

The ultimate holding company is North West Water Group PLC, a company registered in England and Wales.