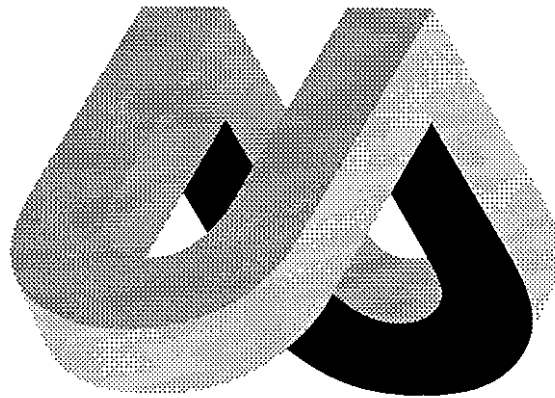


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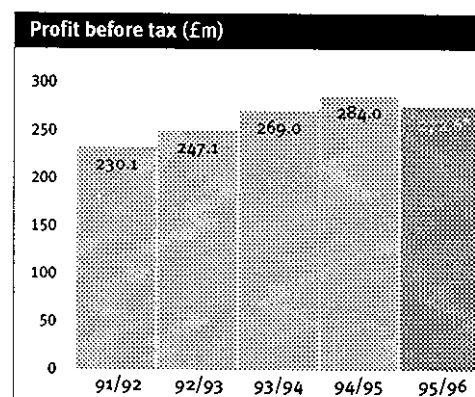
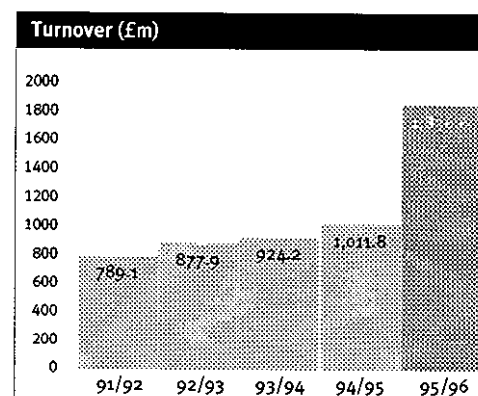
United Utilities

United Utilities is a leading provider of utility services to meet the needs of communities worldwide, safeguard public health and improve the quality of life. Our principal focus is on water and wastewater, and electricity distribution and supply. We aim to provide value for money services to our customers, through the efforts of highly motivated employees, and thereby enhance the investment of our shareholders.



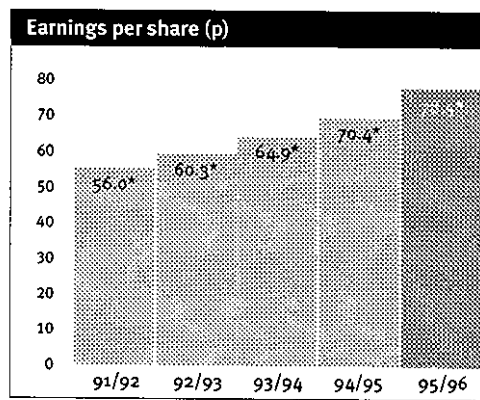
- United Utilities established as the UK's first multi-utility.
- Integration of Norweb adds greater value than envisaged.
- Strategic repositioning of the Group to be a focused utility service provider.
- Planned disposal of non-core business activities.

	1996	1995
Turnover	£1,838.6m	£1,011.8m
Profit before exceptional restructuring costs	£464.2m	£344.4m
Profit before tax	£272.6m	£284.0m
Adjusted earnings per share	78.5p	70.4p
Ordinary dividends per share	32.66p	25.55p
Operating cash flow	£356.3m	£421.7m
Operating cash flow per share	82.0p	108.9p
Interest cover	4.5	7.3
Gearing	88.9%	27.4%

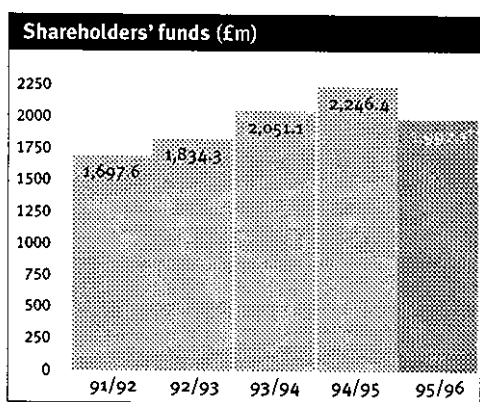
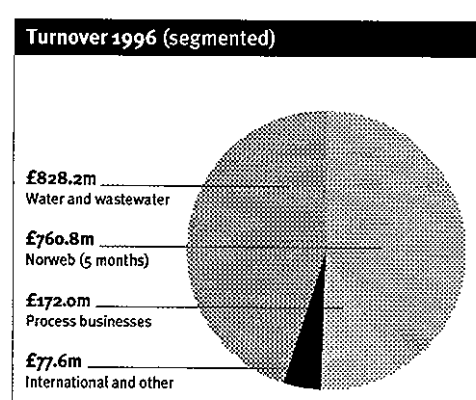
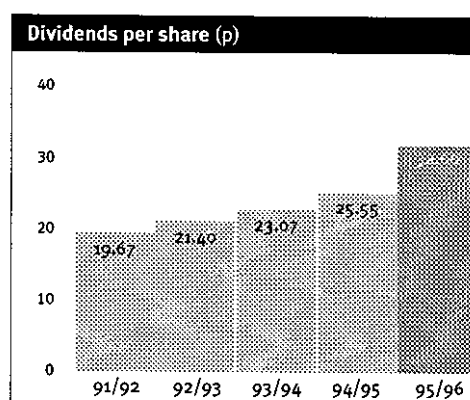


*After exceptional business restructuring costs of £123.8m

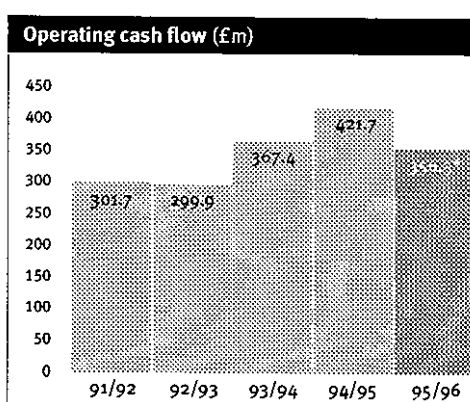
- Adjusted earnings per share up by 11.5 per cent to 78.5 pence.
- Ordinary dividend for the year increased by 13 per cent to 28.86 pence.
- Total dividend, including the 3.8 pence special dividend, increased by 27.8 per cent to 32.66 pence.
- Progress with Responsibility initiative extended.



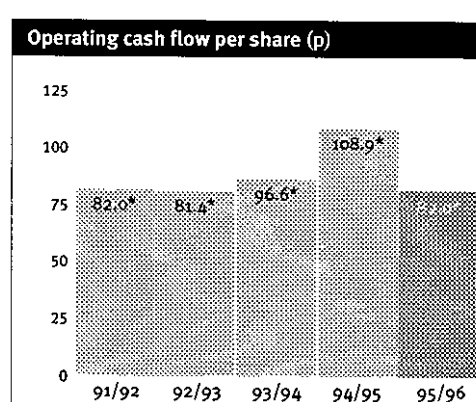
*Adjusted and 1994/95 and prior years restated for the bonus element of the rights issue



*After £1,076.9m goodwill written off on Norweb acquisition



*After impact of £77.3m for Norweb customer rebates



*Restated for the bonus element of the rights issue

United Utilities will be distinguished as a focused provider of high quality utility services in the UK and around the world. Our multi-utility concept is built on the firm belief that success depends on achieving excellence in all our relationships with our customers.

A momentous year

I am pleased to report to you for the first time as shareholders in United Utilities PLC.

Our company has made substantial progress during a momentous year. The acquisition of NORWEB plc, with its electricity, gas and telecommunications interests, fundamentally changed the Group and the benefits that are already being achieved have exceeded our expectations.

The integration process has been progressed quickly and efficiently and the new organisational structure for the Group was in place at the beginning of the current financial year.

That structure reflects the outcome of the comprehensive review we have conducted of strategy and of each of our operations. United Utilities will be distinguished as a focused provider of high quality utility services in the United Kingdom and around the world.

Our multi-utility concept is built on the firm belief that success depends on achieving excellence in all our relationships with our customers: they should be able to take for granted that we will achieve technical excellence and high efficiency.

The strategic review reaffirmed our view on the importance of non-regulated earnings to protect and enhance shareholder value in the future. However, to sharpen our focus as a high quality, international utility service provider, we have taken the decision to divest, over a period of time, Norweb retail, Norweb contracting and Norweb's investments in electricity generation, and North West Water's process equipment business.

This will enable management to concentrate strongly on our four new core divisions, Regulated Utility, Energy and Telecommunications, Facilities Management and International.

Financial results

The results we are reporting include five months' figures for the Norweb businesses, that is, from the time our further revised offer for Norweb was declared wholly unconditional.

The results confirm a strong financial performance, with adjusted earnings per share increased by 11.5 per cent to 78.5 pence per share. Prior to the acquisition of Norweb we had indicated our capacity to grow dividends by 7 per cent real per annum. In reporting in March on progress with integration, we said that our capacity to grow dividends in the future would be enhanced; and we remain confident that with the addition of the benefits of the merger, real dividend growth in the future in excess of 11 per cent per annum is possible.

We are recommending therefore a final dividend for the year of 19.59 pence, which represents a real growth of 10 per cent in total ordinary dividends. Taking into account the good progress on improving efficiency in the delivery of North West Water's capital programme, the special dividend of 3.8 pence paid for the first time in 1995/96 (and giving a total dividend payment for that year of 32.66 pence) will be consolidated into, and will rank for growth with, the ordinary dividend from 1996/97.



Sir Desmond Pitcher



The world of United Utilities: technical excellence, high efficiency – serving 28 million people.

Progress with Responsibility

Our Progress with Responsibility initiative has continued with the second £6.50 rebate off water customers' bills. In 1995/96, £27 million of discretionary expenditure was spent on resolving customer problems relating to low water pressure, lead pipes, sewer flooding and odours; and we started our £85 million programme of works to enhance our ability to maintain water supplies to our customers following a sustained period of abnormal weather conditions.

We also extended the initiative to our electricity customers, with a special £10 cold weather rebate off bills for senior citizens with off-peak supplies, in response to the exceptional winter conditions.

The impact of adverse weather

Both the electricity distribution and more particularly the water operations in the North West of England have faced tough challenges from adverse weather conditions during the year; and we say more about that later in the report. We are grateful to our customers for their co-operation in such times. For our part, we are working hard on the systems to ensure that we can maintain essential supplies to our customers this year, and to meet their expectations that such problems should be largely eliminated in the future.

People

Without the hard work and commitment of all the people working in the Group, we could not have achieved all that we have during the year, in our day-to-day operations, the

continuing development of the businesses and the substantial challenges of the acquisition of Norweb and the creation of United Utilities. I thank every one of them for their efforts.

I appreciate well that particular uncertainties have faced many employees as the conclusions of the strategic review and the new organisational structure have been implemented. Whilst the new organisation starts life with a reduced number of employees, we firmly believe that the opportunities for growth will provide better prospects for very many of our current employees and, over time, new jobs.

We have welcomed to the Board John Seed, as a non-executive director, and Malcolm Faulkner, Managing Director of the Energy and Telecommunications Division, both of whom bring to us extensive experience of the electricity industry.

Alan Pendleton will be retiring from the Board at the conclusion of the annual general meeting, after nine years' service. We have been most grateful for the benefit of his advice and expertise and for his contribution to the company's development.

The challenges ahead

Our fundamental belief in the vital importance of serving our customers well and of balancing the interests of shareholders and customers, as demonstrated in the distribution of gains the company makes by outperforming efficiency targets, is encapsulated in our Progress with Responsibility initiative. We have now committed ourselves to the development of United Utilities into a world class company,

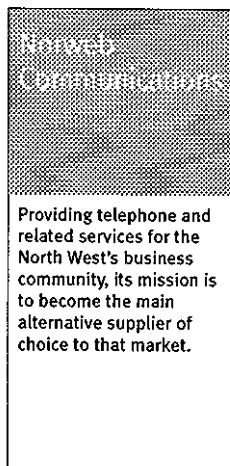
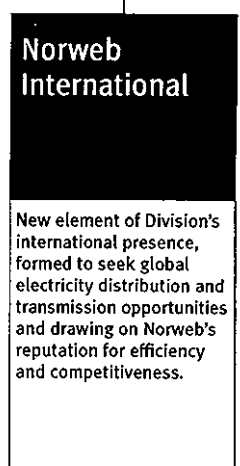
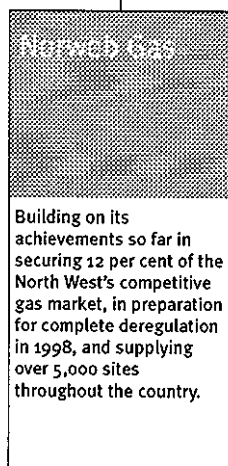
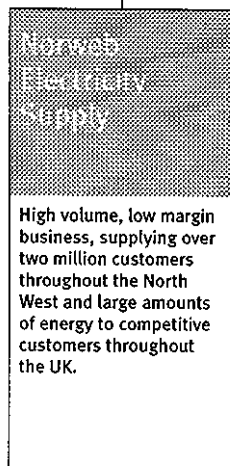
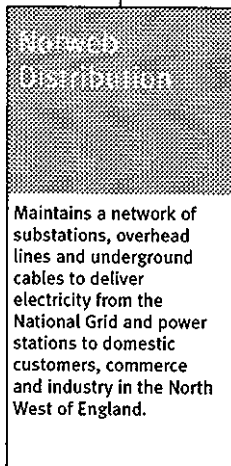
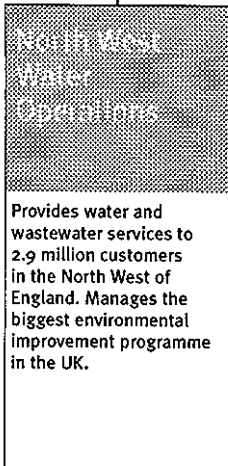
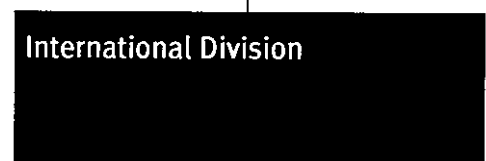
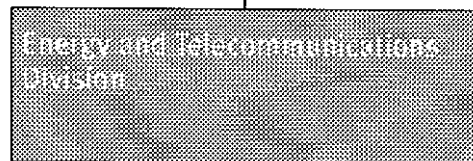
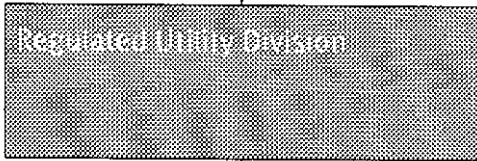
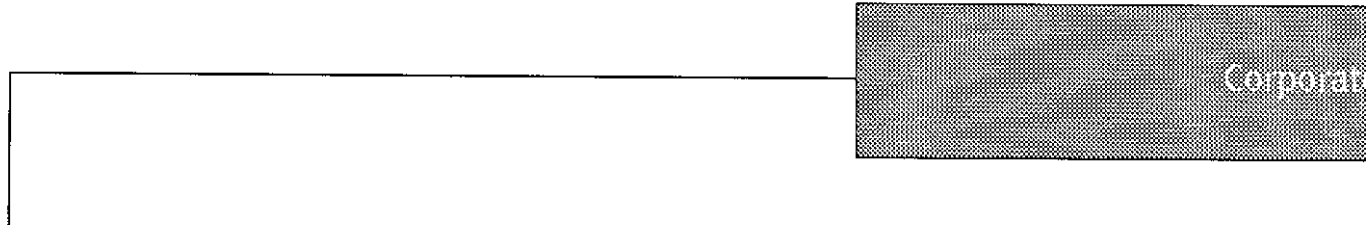
which balances the interests of the many parties who are affected by its activities and its conduct.

We have started the new year with a new name and a new impetus. The multi-utility concept opens up wide-ranging opportunities which our new Group structure is designed to exploit. The four new core divisions are positioned for growth from their current strong base.

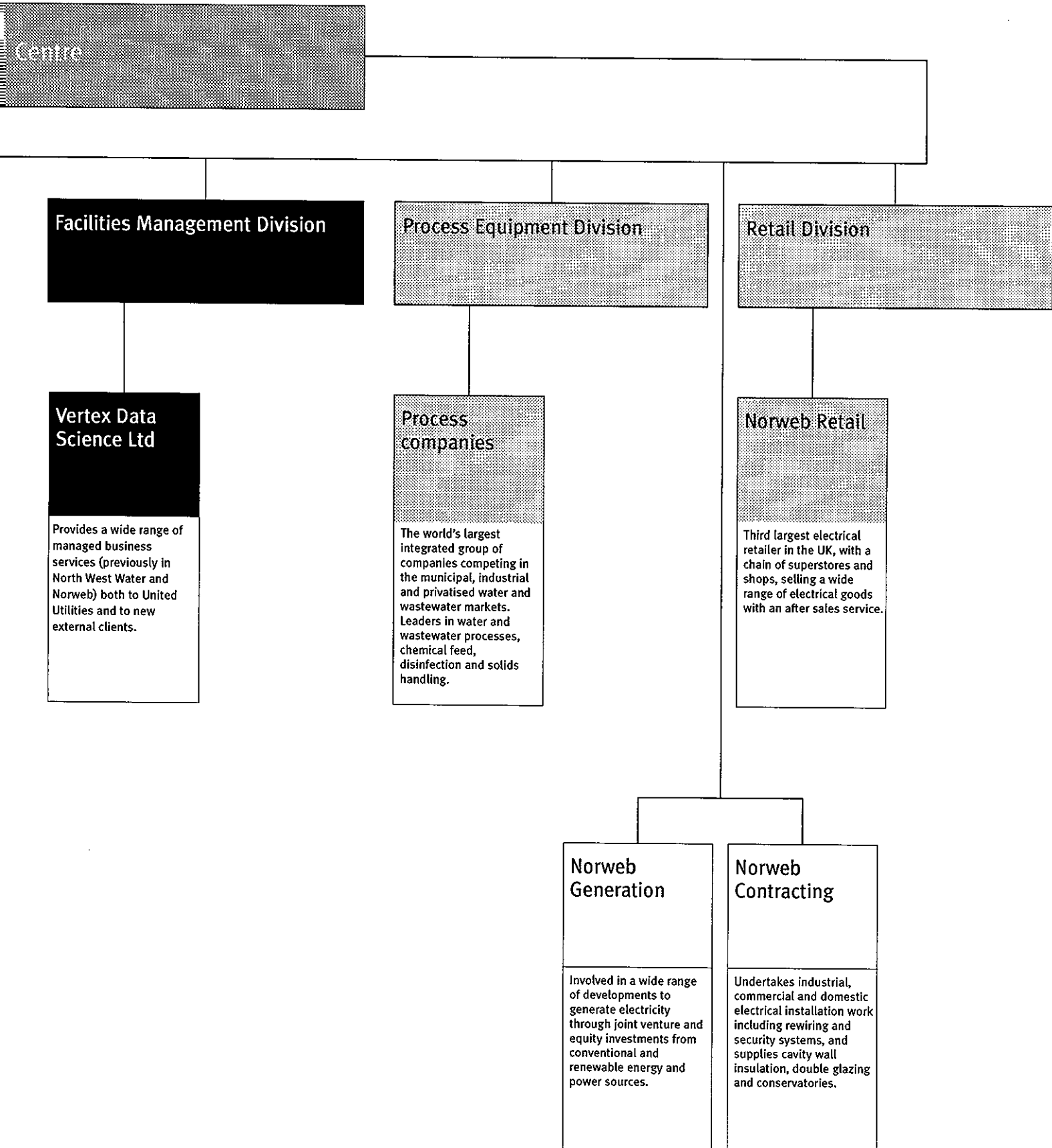
The next year will bring a General Election, which can only add to the political and regulatory uncertainty facing the utility companies. I believe that United Utilities has the strategic approach and the management team to continue to deliver first class returns to shareholders.

Sir Desmond Pitcher *Chairman*

United



Utilities



The benefits of the acquisition of Norweb are already being secured to a greater level than anticipated and we have clearly defined strategies in place to continue the development of United Utilities to become a world class utility service provider.

A year of intense activity

The year 1995/96 will stand as a major landmark in the development of our company. The single most important feature was our successful acquisition of NORWEB plc, which marks our transition from single to multi-utility service provider. Our new name, United Utilities PLC, delineates our new ground.

However, that change of name is only the tip of the iceberg – underlying it are the more fundamental changes we have made in the Group.

The acquisition was a catalyst for a comprehensive review of our strategy and operations. We have set our future direction clearly as a focused provider of utility services, both in the UK and around the world. And to support that strategy, we have extensively redesigned and restructured our organisation and operations. Consequentially, on 28 March 1996, we announced our decision to divest the Group of the businesses which are not within our main utility focus.

During these processes of acquisition, review, reorganisation and integration, we have kept our eye firmly on the underlying financial performance and continuing day-to-day operations of the Group.

I am pleased that we can report financial results for the year which demonstrate continuing strong progress and which reflect the quality and vigour throughout the Group's management and their determination to succeed.

The area of our operations which has had the most public attention has been North West Water's battle with what is now generally

recognised as the most severe drought in the North West of England this century. Our people have acquitted themselves well in tackling the challenges they have faced in maintaining supplies to our customers. We describe the drought and our action programme in more detail on pages 18 and 19.

So 1995/96 has been a year of intense activity and change. We emerged from it with a clearer, stronger strategic direction and a new structure. Our company is equipped to deliver substantial benefits to all its stakeholders as we go forward.

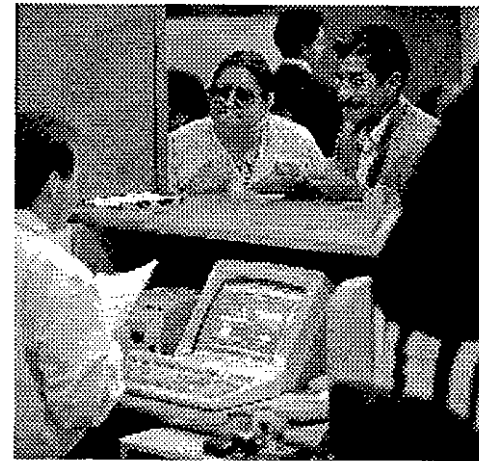
The acquisition of NORWEB plc

The powerful benefits of the shared geography and customer base which existed between North West Water and Norweb had been recognised by both management teams for some years. There had been discussions to explore whether those benefits could be gained by cooperation. In early 1995, Norweb's chief executive and I concluded that the impediments to that course of action were too great, and we moved to the concept of merging. Those discussions continued up to the point at which we announced, on 8 September 1995, the terms of our offer for NORWEB plc.

We envisaged the creation of a multi-utility sharing common services and, therefore, with a significantly lower cost base. Added to those cost benefits would be cash flow advantages and tax synergies. Our pre-acquisition business planning indicated clearly the potential strength of both the earnings enhancement that could be achieved and also the improved



Brian Staples



Customer service is a prime objective, wherever in the world we operate – from maintaining electricity supplies to remote rural communities in the North

West of England (left) to dealing with queries from water services customers in Mexico City (above).

prospects for growth. It provided as well a clear guide to the price we would be willing to pay to acquire Norweb.

Despite the intervention of a counterbidder from the USA, we persevered and, on 8 November 1995, our then current offer was declared wholly unconditional and we took management control.

It is well worth noting just what we acquired. Norweb was one of the most highly regarded of the regional electricity companies. Its balance sheet was strong and, whilst it had made strides forward in improving efficiency, there was substantial potential for further improvement. Importantly, for a future in which domestic electricity supplies will be open to competition, Norweb is one of the lowest cost electricity suppliers as well as one of the best for quality of service.

We are satisfied that we acquired a first class company at a fair price.

Integrating Norweb and North West Water

On taking management control, we set ourselves some demanding targets:

- the integration should not merely be the addition of one group of companies to another: it should be far more fundamental;
- the integration process should be completed as quickly as possible and United Utilities should be in its new shape on 1 April 1996;
- the financial benefits on which the acquisition was based should be achieved and, wherever possible, exceeded;

– we should strive to deliver the earnings benefits faster, both for the benefit of our shareholders and also to minimise the period of uncertainty for our people as the combined organisation was inevitably reduced in size;

– we would comprehensively review the Group's direction and activities to assess their appropriateness in the widened world of United Utilities; and

– we would inform our shareholders, customers, employees and the communities within which we operate of the results of our work on 28 March 1996.

I am pleased to confirm that we met each and every one of those targets. On 28 March, we announced United Utilities' strategy for growth, its new operational structure and the financial benefits integration was bringing, which significantly exceeded our pre-acquisition assumptions.

The new Group

United Utilities PLC is a substantially different company to North West Water Group PLC, formed by the comprehensive integration of the two groups of companies. We have critically examined each area of activity and been open-minded in accepting change where we believe it is for the better. We have retained the strong cultural values which have characterised the success of North West Water and Norweb. In many areas, we have strengthened those values.

That process of examination and

fundamental redesign of the organisation has been a powerful catalyst in achieving even greater benefits than we had originally thought attainable.

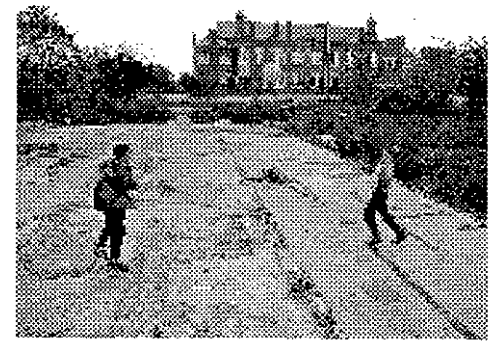
On 28 March, we stated the following objectives:

– United Utilities will become a highly focused provider of utility services in the UK and overseas. In the UK, we are a mainstream provider of water and wastewater services and distributor and supplier of electricity. We are a growing recent entrant in the gas supply and telecommunications markets;

– we believe that the interface with our customers is the single most important area of our business, and we will continue to work hard to improve the quality of our performance in order to reach the highest possible level of customer satisfaction. The fact that United Utilities can develop one customer interface for four utility services is a key competitive advantage. And our target is simple – nothing short of excellence will be satisfactory;

– around that crucial central customer interface, our customers should be able to, and do, expect excellence in the technical provision of our services. We accept that as an obligation; and

– we are committed to the continuous improvement of the company. United Utilities will strive to become measurably a world class company.



A power of good: whilst we maintain our position as one of the UK's lowest cost suppliers of electricity (the Norweb transmission control centre is pictured, left), we also commit to do more for the communities we serve. We are one of five teams from major North West companies taking up the challenge to build community projects: this derelict site (above) in Miles Platting, Manchester, will be transformed into a £2.7 million sports centre.

To enable management to concentrate on those strategic goals, we have decided to divest a number of non-core business activities. Those activities are Norweb's retail and contracting businesses and its investments in generation and North West Water's process equipment businesses. We are confident they will go forward as successful entities in new ownerships. We anticipate that the disposals will be completed during 1996/97 and that they will realise a value around £350 million. On that basis, the disposals will enhance future earnings.

Our subsequent detailed budgetary work and business planning has confirmed that the financial benefits of the acquisition are significantly higher than our pre-acquisition assumptions and will be delivered more rapidly. In particular:

- £94 million of operating and other savings will be achieved in 1996/97. Of these, some £73 million, or 78 per cent, are already confirmed;
- earnings enhancement in the first full year (1996/97) is substantially ahead of previous expectations; and
- earnings benefits are projected to increase to £140 million per annum by the year 1999/2000, which is 40 per cent better than indicated in our pre-acquisition planning.

As a consequence, real earnings growth after 1996/97 to the year 2000 is significantly enhanced as is the capacity to grow dividends. We remain confident that, subject only to as

yet unknown political or regulatory changes, growth in dividends in excess of 11 per cent real per annum is possible.

The improved efficiency of the combined Group inevitably leads to the loss of some jobs which are no longer required. The total number of such jobs is expected to be 2,500 of which 800 were already planned prior to the merger. We know that our people would prefer the uncertainty which that brings to be removed as quickly as possible and we are, therefore, moving forward with all speed. The job losses will be met in the main by voluntary redundancy, supplemented by the natural process of people leaving the Group.

We have deliberately not pursued job reductions to the extreme because of our objective of providing high quality services – customer service ranks ahead of absolute efficiency – and our belief in the capacity for the Group to grow.

The new shape of the Group is four core divisions with a lean corporate centre.

The four core divisions

The Regulated Utility Division brings together the regulated water and wastewater and electricity distribution businesses in the North West of England. It has the potential to achieve significant synergistic benefits and the ability to exploit its skills, through competition, in non-regulated utility activities elsewhere in the UK.

The Energy and Telecommunications Division brings together the Group's utility services that either are, or will by 1998 become, open to competition – electricity

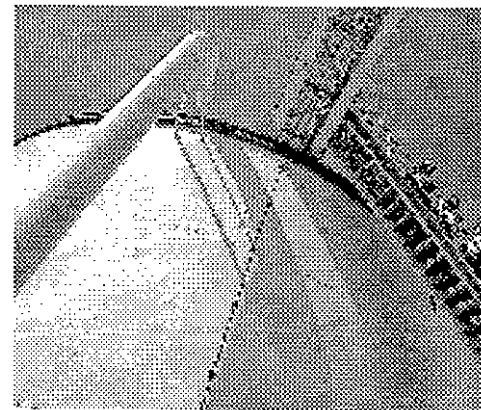
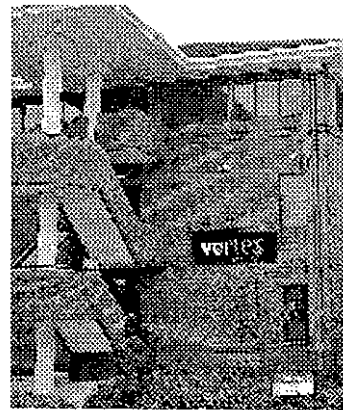
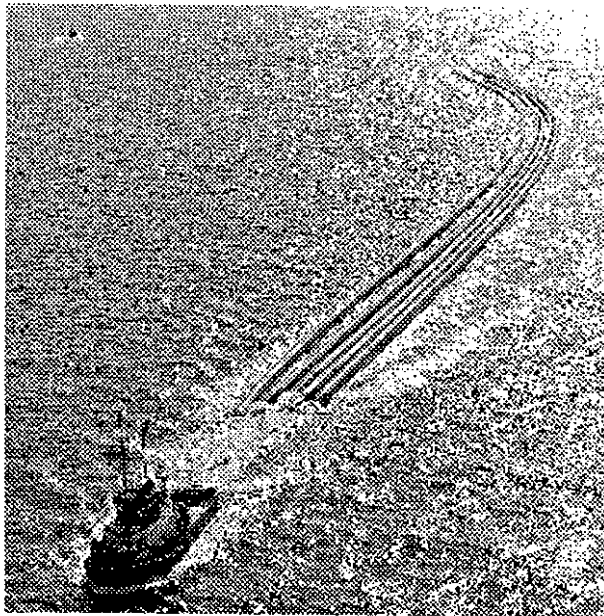
supply, gas supply and telecommunications. In this Division, we can concentrate the development of the commercial skills needed to win in the opening competitive markets.

The International Division has continued the successful development of our international water and wastewater activities, whilst adding Norweb's skills of electricity distribution and supply to the portfolio of services it can offer. The cost of entry into the international electricity markets is, therefore, very greatly reduced.

The Facilities Management Division brings together and consolidates many common services previously separately provided in both North West Water and Norweb, achieving in the process cost reductions which flow through to non-regulated profitability. We believe that the skills and the quality of service that Division provides are highly saleable in the UK to other companies and municipalities. We have established, therefore, Vertex Data Science Limited which was launched on 1 April 1996 as one of the largest participants in the UK outsourcing market, providing customer services, information technology, accounting, procurement and training services. We are confident that Vertex and the new Division will be a potent growth engine for the Group.

Our culture

It is not enough in today's world merely to concentrate on financial measures and outputs. We recognise the groundswell of opinion which expects us to have an agenda which successfully balances the interests of the many parties who are affected by our activities and conduct.



Left: Morecambe's new 2.5 kilometre outfall arrives by sea. The five pipe strands were floated 800 miles from Norway. The sea outfall is part of North West Water's £30 million project to provide Morecambe and

Heysham with wastewater treatment for the first time.

Centre: Vertex Data Science, launched on 1 April 1996, takes us into the extensive facilities management market.

Above: US Water secured the first major competitive long term concession in the United States, to operate the water and wastewater systems for North Brunswick, New Jersey.

Last year, I reported on North West Water's Progress with Responsibility initiative, which set out to balance our responsibilities to shareholders and customers. Since then, your Board has committed itself to the development of United Utilities into a world class company. We have widened the original concept of Progress with Responsibility to embrace the principles outlined in the report of an inquiry by the Royal Society for the encouragement of Arts, Manufactures and Commerce into the characteristics of a company which aspires to be world class.

The report described a Tomorrow's Company as one which takes an inclusive approach to business leadership, people, investment needs and society. Most significantly, Tomorrow's Company:

- clearly defines its purpose and values, and communicates them in a consistent manner to all those important to the company's success;
- uses its stated purpose and values, and its understanding of the importance of each relationship, to develop its own success model from which it can generate a meaningful framework for performance measurement;
- values reciprocal relationships, understanding that by focusing on and learning from all those who contribute to the business, it will best be able to improve returns to shareholders;
- works actively to build reciprocal relationships with customers, suppliers and

other key stakeholders; and

- expects its relationships to overlap and acts, with others where necessary, to maintain a strong social licence to operate.

In all those areas, United Utilities is already part way along the road. The challenge is for us to accelerate our rate of progress to set ourselves firmly amongst the best of tomorrow's companies. This is an important development for the Group since it will considerably enhance our ability to develop and grow in the years ahead.

The 1995/96 financial results

I am very pleased that the results show a strong underlying financial performance. Bob Ferguson comments on the results in more detail in his financial review on pages 12 and 13; and each division's performance is described in its part of this annual report.

Making further progress

United Utilities started work in its new organisational shape from 1 April 1996. It is in the right shape but the task of integration is not yet complete.

Much was achieved in 1995/96 and much remains to be done. The executive team recognises that the process of change is ongoing, and in 1996/97 we need to deliver the merger benefits that we planned. We are well down that path in the first few months of the year.

We also need to make progress towards our objective of being a world class company. Our

executive team is strong and our people continue to be the force that makes the difference. The blending of North West Water and Norweb people has gone very well, and I am delighted that we have gained a formidable team of equally skilled and committed people. There are challenges ahead but undoubtedly we have the agenda and the clearly defined strategies which will enable United Utilities to succeed.

Brian Staples *Chief Executive*

Strong underlying financial performance and cash management combined with the benefits of the acquisition of Norweb ensure that we are well placed to deliver excellent returns to shareholders.

Financial results

The year's results are materially affected by two main factors. First, by the acquisition of Norweb which has been consolidated from the date we took management control. Second, by the exceptional business restructuring costs of £123.8 million, which includes a £103.8 million provision for integration expenditure.

Excluding the results of Norweb and the business restructuring, profit before exceptional items, interest and tax rose by 6.1 per cent from £344.4 million to £365.3 million. This increase has been achieved after absorbing £23.4 million on discretionary customer initiatives and £24.4 million on increased costs relating to the drought. The underlying profit rose by 19.9 per cent. Trading results excluding the results for Norweb are therefore very strong.

Including the results of Norweb for five months adds £98.9 million to profit, and as a result profit before exceptional business restructuring costs, interest and tax rose by 34.8 per cent to £464.2 million.

Earnings per share fell by 22.7 per cent to 51.7 pence due to the impact of the exceptional business restructuring costs. Excluding those costs and other exceptional items, adjusted earnings per share rose by 11.5 per cent to 78.5 pence.

Dividends and share capital

Following the acquisition of Norweb, issued share capital increased by 108 million shares as a result of the rights issue and by 34 million under the terms of the offer for Norweb. This total increase of 142 million shares qualified for both the interim and the final dividend for 1995/96. The issued share capital now totals

523 million shares. The weighted average during the year was 434 million, an increase of 12 per cent over the previous year.

Sir Desmond and Brian Staples have commented earlier on our dividend policy prior to the acquisition of Norweb, and our view on the rate of dividend growth we now believe can be sustained going forward.

That will be based on the Group's strong earnings performance, including both the synergistic benefits of the merger and our continuing efforts to outperform in capital and operating expenditure efficiency, coupled with a managed decline in dividend cover.

Sir Desmond also commented on the consolidation of the special dividend of 3.8 pence we had previously indicated would be paid annually, subject to review after five years. Hence, in 1996/97 dividend growth will be based on the 1995/96 total dividend of 32.66 pence. The consolidation will be implemented by splitting the 1995/96 total dividend plus growth on broadly a $\frac{1}{3}$ interim, $\frac{2}{3}$ final dividend basis.

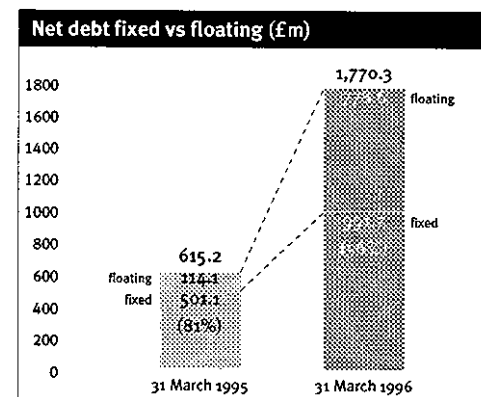
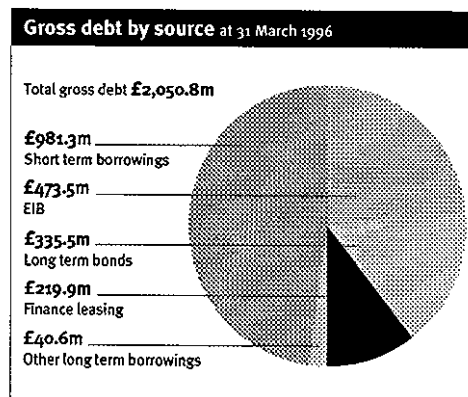
Acquisition of Norweb

We acquired the entire issued share capital of NORWEB plc for a total consideration of £1,826 million, which includes the Norweb special dividend amounting to £195.6 million. Acquisition costs amounted to £29.8 million and share option obligations to £22.7 million.

The consideration was financed with approximately 60 per cent of debt, with the balance being raised through the rights issue and shares issued under the terms of the offer. As a result, gearing has risen from 27.4 per cent to 88.9 per cent. Interest cover remains a healthy 4.5 times. The consideration was offset by the realisation of £300 million of cash on



Bob Ferguson, Group Finance Director



the disposal of Norweb's investments in the National Grid and the Pumped Storage Business. These proceeds exceeded our expectations at the time of the acquisition.

Norweb's net assets acquired, excluding the special dividend and associated advance corporation tax, amounted to £801.6 million. This was after a net increase of £146.3 million for provisional fair value adjustments.

The **distribution network** was revalued upward on the basis of the return being earned on those assets increasing the net book value by £248 million.

The **investments** in the National Grid and Pumped Storage Business were revalued upward by £199.6 million, net of £48.0 million tax provisions, reflecting the net proceeds received on disposal.

Provision was made for **gas and electricity contracts** of £173.2 million mainly in relation to long term power purchase agreements, where the recent collapse in gas prices and reduced capacity costs resulted in onerous conditions compared to prices available in November 1995, the date the fair valuation was made. The provisions are of a long term nature and, in any event, will not be utilised prior to 1998. Also included is a small element relating to short term take or pay gas purchase contracts.

Other adjustments are given in note 12 to the accounts.

The fair value adjustments will be reviewed again during the course of 1996/97 and amended as necessary in the light of subsequent knowledge or events.

The acquisition method of accounting has been adopted and the goodwill arising on the purchase of £1,076.9 million has been written off to reserves.

Treasury management

Treasury policies are aimed at the prudent management of interest rates whilst ensuring optimum funding is secured. Strategy is set and all major implementation programmes are authorised by the Board. The Treasury Department does not act as a profit centre.

Interest rate management

The interest charge for the year increased by £28.1 million to £75.0 million, largely as a result of the acquisition of Norweb. The weighted average interest rate was 7.7 per cent, compared to 8.0 per cent the previous year.

At 31 March 1996, approximately 56 per cent of net debt was at rates fixed for more than one year, compared to 81 per cent the previous year. A programme to hedge the Norweb acquisition debt has continued after the year end. Our policy is to use a combination of interest rate swaps and funding instruments to hedge exposure to interest rates.

Foreign exchange

The majority of debt is denominated in sterling. The earnings exposure on continuing businesses is negligible.

Liquidity and operating cash flow

Almost 50 per cent of our funding matures within one year. However, at 31 March 1996, we had more than £1.5 billion in medium term bank facilities, the majority of which were arranged to finance the acquisition of Norweb. Refinancing of these facilities is well underway, with the programme of asset disposals including Norweb's interest in the National Grid and the divestment of businesses not within our main utility focus. In addition,

longer term loans and facilities will be arranged during the current year to refinance the acquisition debt.

Our underlying cash generation remains strong and is enhanced following the acquisition of Norweb. However, as a result of the cash impact of Norweb's £90.6 million customer discount related to the flotation of the National Grid Group plc, North West Water's customer initiatives and drought costs, operating cash flow per share fell by 24.7 per cent to 82.0 pence.

Taxation

The effective tax rate for 1995/96 was relatively high at 17.7 per cent due to the exceptional restructuring provision. The charge for the year of £48.2 million is principally advance corporation tax on dividends surplus to the amounts that can be utilised against UK mainstream corporation tax. Historically, we have not paid UK mainstream tax due to tax allowances on the water utility's significant capital investment.

Following the acquisition of Norweb, which will continue to be UK tax paying, otherwise surplus advance corporation tax will be available to set off against future mainstream tax. The combination of North West Water and Norweb results in a more efficient tax structure. The benefits are expected to be significant and will be apparent in the current year, leading to a much reduced effective tax rate compared to 1995/96.



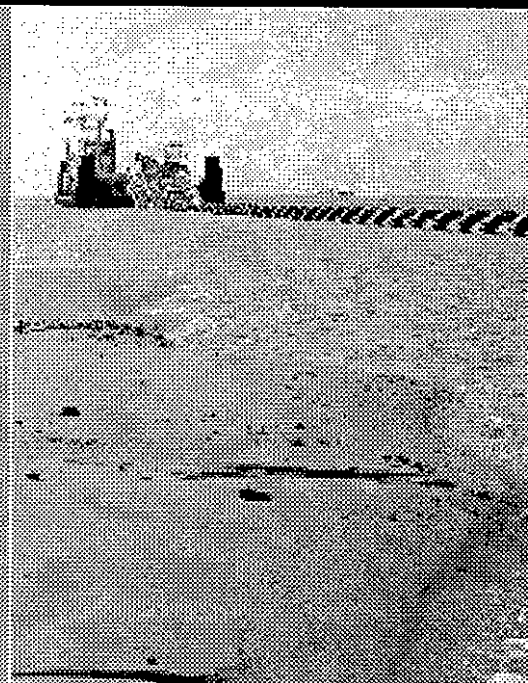
Improving the quality of rivers and coastal waters is achieving significant environmental benefits in the North West of England.

Above: Dave Fazakerley, assistant site manager, inspecting the 26 kilometre interceptor sewer, part of the Mersey Estuary pollution alleviation scheme. The new interceptor sewer and associated wastewater treatment works are nearing

completion, with only seven of the 28 crude sewage outfalls remaining. This has already resulted in many species of fish and abundant birdlife returning to the river.

Right: As part of the £500 million Sea Change programme to upgrade 33 designated bathing waters to European Union standards, the first section of a new five kilometre long sea outfall pipe is winched

into position off Fleetwood. The pipe, which was laid last summer, discharges treated wastewater from Blackpool and Fleetwood. It is part of the £150 million Fylde coast project, the largest of the Sea Change schemes. Heavy concrete collars ensured that the plastic pipe could, when filled with water, be sunk and buried in a sea bottom trench.



Bringing together two activities which are likely to remain regulated monopolies – the pipes of North West Water Operations and the wires of Norweb Distribution – will maximise the synergistic benefits to be achieved.



Derek Green, Managing Director,
Regulated Utility Division

The Regulated Utility Division provides water and wastewater services and distributes electricity to domestic customers, commerce and industry across the North West of England. Its twin goals are customer satisfaction and profitability.

The business benefits

The new integrated Division will deliver efficiency savings in areas such as common depots and transport fleets, cross-boundary labour utilisation, energy management, a single telephone system, and property rationalisation.

For example, by March 1999 we plan to have released a net 300,000 square feet of office accommodation. Through integration, we will free between 15 and 20 depots, saving revenue costs as well as creating sites with development potential.

Business performance

North West Water Operations' turnover for the year increased by 6.4 per cent to £828.2 million, which includes 5.4 per cent allowed under the pricing formula, and an increase in measured domestic water consumption and industrial waste treatment sales.

Operating profit increased by £15.9 million to £364.2 million, up 4.6 per cent. This is after charging £23.4 million for customer rebates and other discretionary costs, and £24.4 million for additional drought related costs. Discounting those costs, operating profit increased by 18.3 per cent.

The partnership with Bechtel is making real progress in improving the delivery of our larger capital projects and in realising the capital savings expected.

Norweb Distribution's turnover for the full year at £339.2 million was down by £45.6 million, some 11.9 per cent, reflecting the impact of the first distribution price review, operative from April 1995. However, as a result of real savings of 5 per cent in controllable operating costs, operating profit before the

release of £5.4 million of prior provisions fell by only £21.4 million to £139.6 million for the full year.

In July 1995, the Director General of Electricity Supply announced the results of a second review of the price control formula which imposed a further 11 per cent reduction in income from the distribution business in 1996/97, and restricted income in each of the next three years by 3 per cent below inflation.

Customer satisfaction

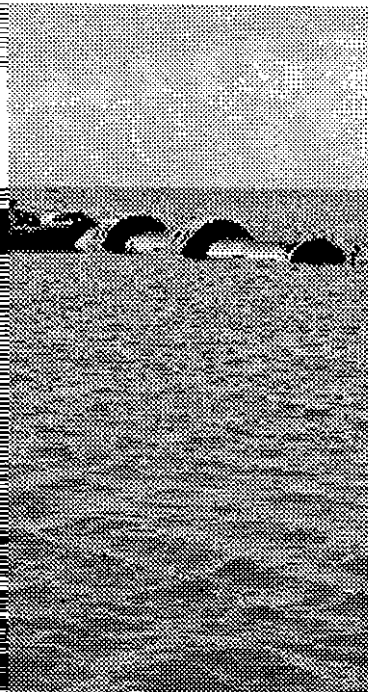
We fulfilled our commitments to customers as announced in our Progress with Responsibility initiative. These commitments have since been extended to Norweb.

During the year, North West Water made compensation payments of £343,000 to its customers following the introduction of its new compensation scheme. This was more than the previous year but, because of improvements in service, was less than anticipated. We are extending the scheme to include discretionary payments to customers who suffer poor pressure and discoloured water.

Last year, North West Water sought the public endorsement of a Charter Mark. Disappointingly, no awards were made to water companies. However, we were encouraged to reapply this year. Norweb has held its government Charter Mark for three years and is also due to reapply in 1996.

We seek closely to align service delivery with customer needs. Our strategy is to embrace the social obligations that are part of being a monopoly provider of essential public services.

We maintained our open approach to communications with customers through our Facing up to the Future advertising campaign, visitor centres, speakers panel and community partnerships. We continue to measure customer satisfaction on a regular basis and implement actions to improve. Our Business Quality programme supports our drive to be a totally customer-focused organisation.



Regulated Utility Division

North West Water Operations

We continued to implement our major business restructuring programme. This investment in people, new technology and information systems is already improving the quality and reliability of service to our customers. Our new 24 hour control centre, which by 1997 will remotely monitor all key operations across the region, was used to great effect during the severe freeze and thaw in December and January.

The new asset management organisation, merging operational, planning and technical know-how, has improved our ability to manage the business, delivering both operating and capital cost efficiencies.

Overall water supply compliance for all determinands, as measured at our customers' homes, improved to 99.31 per cent, up from 99.22 per cent the previous year. There was a significant improvement in bacteriological quality measured at treatment plants, service reservoirs and customers' homes.

We met all our compliance programme requirements and made further efficiency savings on the overall cost of the capital programme. We invested £146 million on water services, including replacement of 570 kilometres of water main to improve the quality of water at the customers' taps, and a further 33 kilometres to reduce bursts and leakage. We provided 22,000 properties with new communication pipes, replacing old pipes mainly made of lead.

The new £23 million Wybersley water treatment plant to serve Stockport and surrounding areas is now completed. It will treat up to 70 million litres of water a day, replacing previous facilities at Kinder, Lyme Park and Goyt which were unable to meet the necessary higher water quality standards.

We are on target to deliver all our committed outputs under the regulatory contract, and to solve low pressure problems for customers at a faster rate.

We invested £294 million on wastewater services. We made substantial progress on improving bathing waters, including the opening of major new treatment works at Southport, Barrow and Silloth. Schemes are nearing completion at Fylde, Preston and Workington, and construction started at Morecambe and Heysham.

Our wastewater treatment works again achieved a high degree of compliance with 96.6 per cent meeting numerical consent standards. The sewerage network of some 35,000 kilometres had 456 potentially polluting spillages, a 5 per cent improvement on 1994/95.

A nitrification plant at Davyhulme is under construction, the largest single project in the Environmental Programme to improve river water quality.

In March, we received long-awaited planning permission to build a new sludge processing centre at Shell Green, Widnes. This must now proceed without delay to meet the requirement to end disposal of sludge to sea by December 1998.

During the year, we removed 233 properties from risk of internal foul flooding with sewage, improved or closed 37 unsatisfactory combined sewer overflows, and refurbished 42 kilometres of sewer network.

Norweb Distribution

As part of the integration process and to maintain profitability following the second price control formula review, we have started a fundamental reorganisation, moving from a regional to a functional structure. Four general managers responsible for asset management, design and project management, network operations and resources, report directly to the managing director.

Norweb has one of the most reliable distribution networks in the UK. In 1995/96, the quality of supply to customers improved further. Supply was available to the average customer 99.99 per cent of the time.

The total number of planned customer interruptions has been reduced by 33 per cent to 74,945 compared with 112,696 in 1994/95.

The percentage of those customers with unplanned interruptions, reconnected within three hours, increased to 90.8 per cent from the previous five year average of 87.8 per cent. Only 32 customers had no supply for more than 24 hours, compared to 60 in 1994/95.

The parts of the network which performed least well were identified and 32 circuits were improved.

We are setting new targets to reduce interruptions by 20 per cent in 1996/97 on those circuits where the quality of supply is below average; to improve the trend for the average time each customer is without supply by 10 per cent by 1999/2000; and to improve the trend for the average number of interruptions experienced by customers by 10 per cent by 1999/2000.

We will introduce systems and procedures to enable short term interruptions to be monitored by 1999/2000.

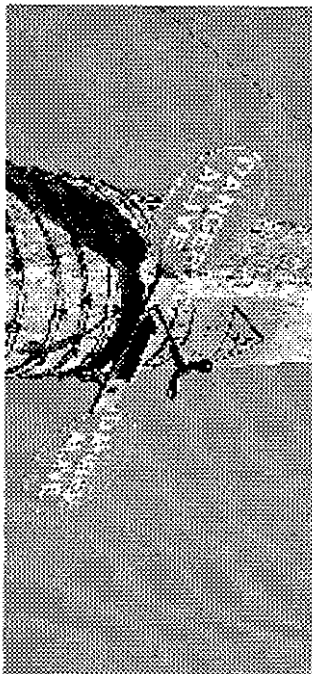
By achieving these objectives, we expect to remain in the top four of the Director General of Electricity Supply's performance league tables.

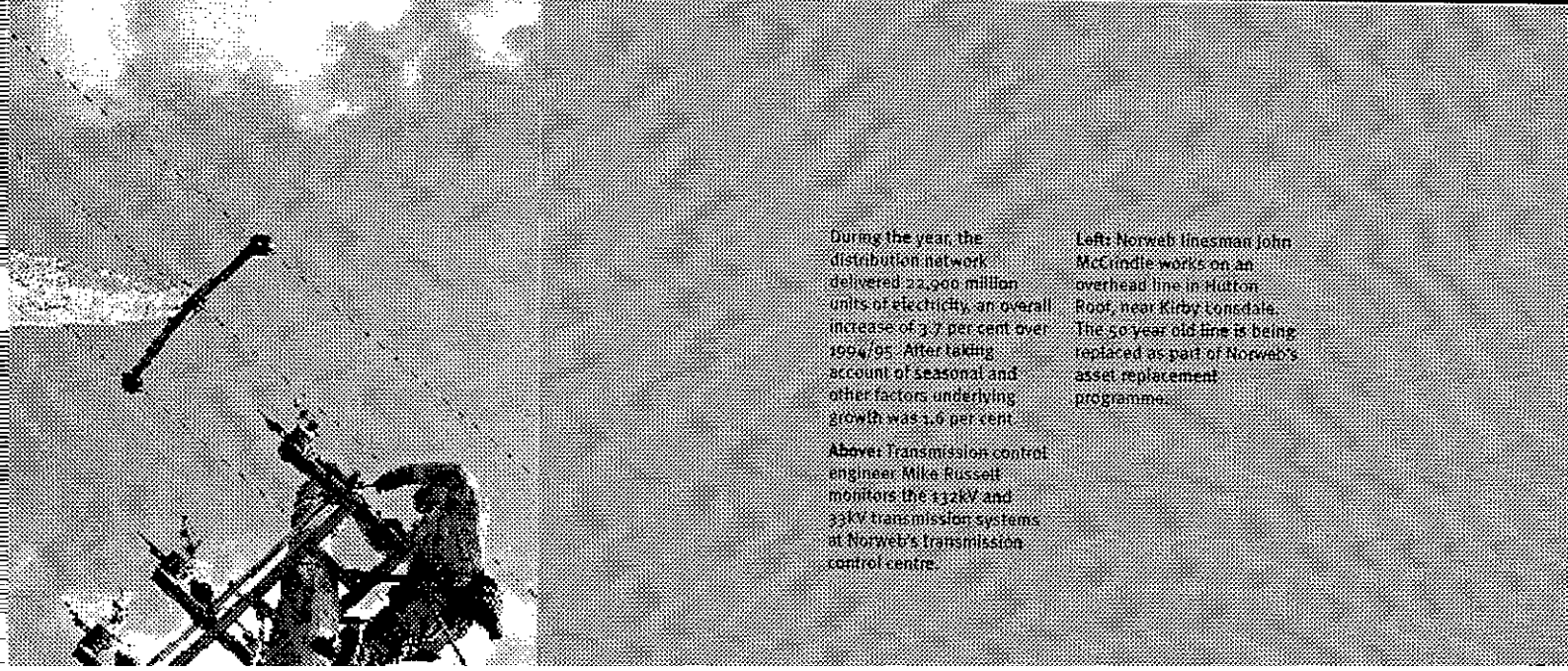
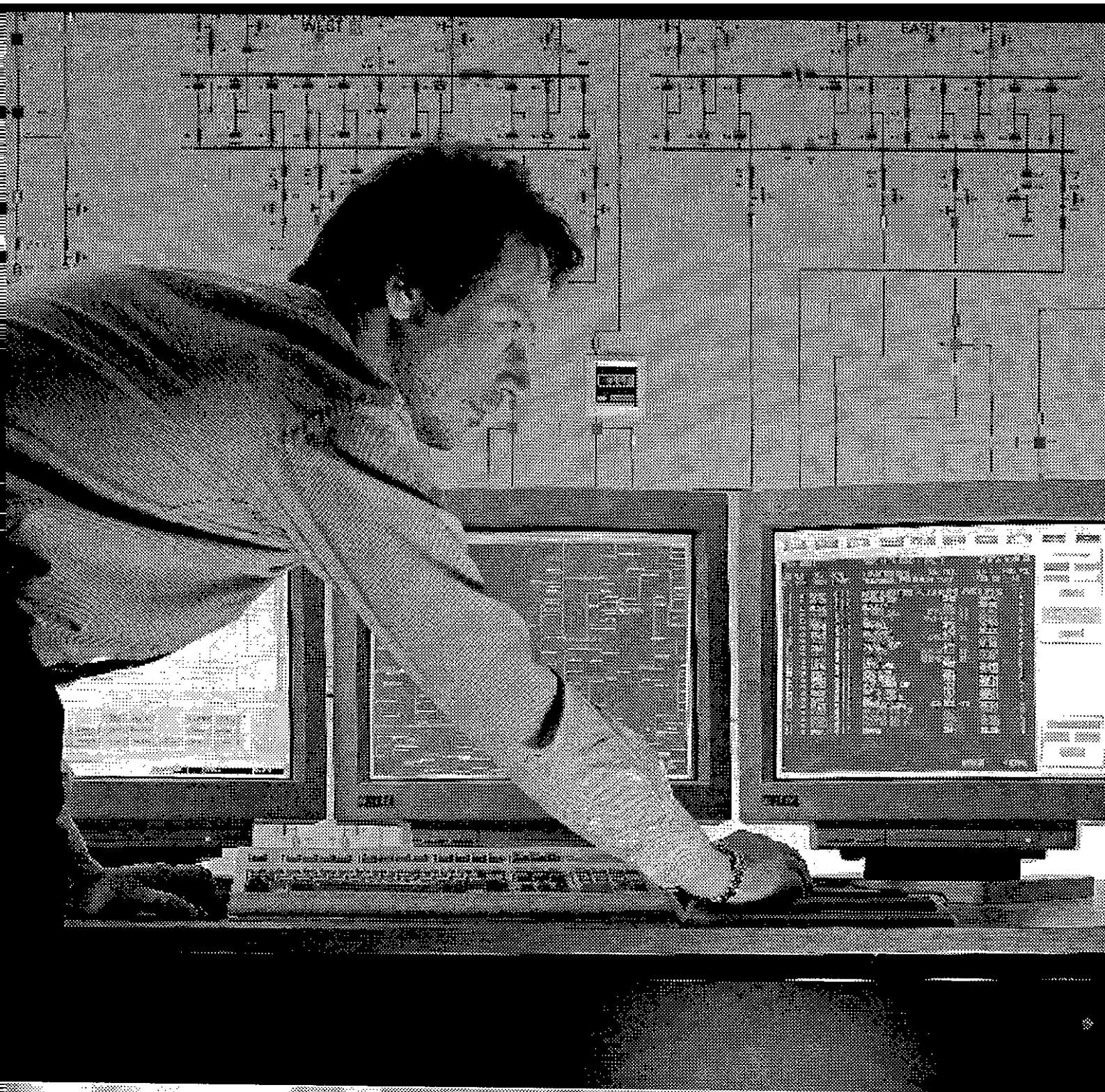


Howard Kirkham, Managing Director, Norweb Distribution



Harry Croft, Managing Director, North West Water Operations





During the year, the distribution flat work delivered 22,900 million units of electricity, an overall increase of 3.7 per cent over 1004/05. After taking account of seasonal and other factors underlying growth was 1.6 per cent.

Above: Transmission control engineer Mike Russell monitors the 132kV and 33kV transmission systems at Norweb's transmission control centre.

Left: Norweb linesman John McCrindle works on an overhead line in Hutton Roof, near Kirby Cotesdale. The 50 year old line is being replaced as part of Norweb's asset replacement programme.

The 1995 drought created enormous pressure. Working with our customers, we took action for both the short and long term, to ensure no one went without water.

The driest period on record

The 13 months to the end of April 1996 have been the driest since records began, with only 60 per cent of normal rainfall in our catchment areas. According to the Meteorological Office, the likelihood of such conditions is once every 300 years.

At the peak of the drought in autumn 1995, our largest reservoir at Haweswater was only 10 per cent full. Even by May 1996, reservoirs which would normally be over 90 per cent full were on average only 70 per cent full.

Actions for the short term

We took a range of actions during the year to ensure that water continued to flow to customers. Overland pipes were installed to pump extra water to badly hit areas; and emergency boreholes were brought back into use. We were able to reduce compensation water discharges from reservoirs or to continue to abstract water at times when we would normally have had to cease, under drought orders agreed with the National Rivers Authority. The leakage detection and repair programme was dramatically increased; and customer demand was reduced through appeals for voluntary restraint, and then a hose pipe ban.

Our further actions will ensure that essential supplies can be maintained this year even if there is a repeat of last year's drought.

Actions for the long term

We will invest a total of £85 million, at no extra cost to our customers, to create the equivalent of a 20 per cent increase in supply capacity by 2000. This is enough to meet the daily needs of 3 million people, and will substantially reduce the risk of future water restrictions.

We already have a highly integrated system, and 40 projects are underway to increase the carrying capacity of the system. For example, £12 million is being invested in a new

aqueduct to pump an extra 100 million litres of water a day into Greater Manchester from our southern sources. Twelve kilometres will have been laid between April and June 1996, one of the fastest pipe-laying projects the water industry has seen.

Our total mains network is over 40,000 kilometres long, enough to stretch around the world. We will replace 3,600 kilometres between 1996 and 2000, 300 kilometres more than planned under our 20 year programme to replace old cast iron mains with modern plastic pipes.

100 separate projects are underway to develop additional groundwater supplies, and maximise existing abstraction licences by increasing local treatment capacity. We are on target to reduce leakage by the year 2000 by 250 million litres a day.

Leakage is a long term problem for which there is no quick solution, and our programme involves water pressure reduction, enhanced leak detection and repair, and mains replacement.

We fixed around 45,000 leaks last year, and are now fixing around 1,000 a week – a 40 per cent increase on the previous rate.

We launched LeakLine on 1 April 1996, a free 24 hour telephone line for reporting leaks and around 2,000 a month are being reported. Around a quarter of all leaks are on customers' properties, and so we also introduced a scheme to repair customers' external pipework free of charge.

We actively promote water conservation awareness and are grateful to our customers for their positive response. Demand is currently running at 6 per cent below average for the time of the year.

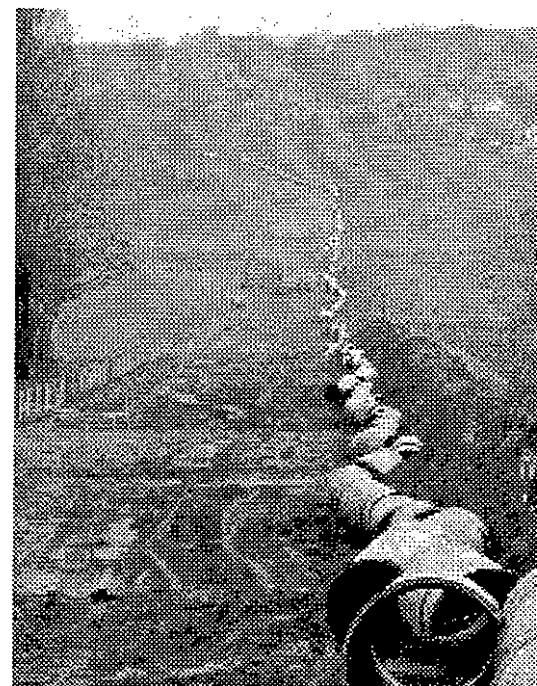
We also introduced selective metering of households with significant non-domestic use of water, such as swimming pools. We have an optional metering scheme for all customers, and a continuing programme of metering for non-domestic properties.

Electricity supply

Norweb achieved an excellent quality of supply performance despite some severe weather during the year, including blizzards and lightning storms.

In the winter, snow drifts up to seven feet deep meant that helicopter and four wheel drive vehicles were needed to transport employees and equipment to restore breaks in supply at the more remote areas of West Cumbria, such as Eskdale.

During the summer, lightning storms caused widespread supply interruptions to more than 60,000 customers throughout Norweb's area. Damage to the system included broken overhead line insulators, overhead lines brought down and damage to pole mounted transformers.





Last year's exceptionally dry weather led to record lows at reservoirs across the region. Worst hit were those in the Pennine area, where in some cases levels fell below 10 per cent. The continuing lack of rain over the winter in this area means that Pennine reservoirs still remain well below normal level.

Above: Frank Schofield, one of two headworks controllers responsible for reservoirs in the Oldham area, is pictured at Crack

Gate reservoir in March standing below the usual winter water line.

Left: Pipe sections strung out along the route of a new £12 million aqueduct. They were joined and laid between Ashton-in-Makerfield and Prescott in a record twelve weeks.

The pipeline provides a new link in the Bivington Aqueduct, enabling the company to pump an extra 100 million litres a day from North Wales and the River Don into Greater Manchester.

The scheme, undertaken between April and June 1996, is one of the fastest pipelaying projects the water industry has seen, and is a key link enabling water supplies to be moved to relieve local sources and help to meet demand in all areas of the North West.

We have brought together our electricity supply, gas supply and telecommunications services in one division, to concentrate on the development of commercial skills to win in open competition.



Malcolm Faulkner, Managing Director,
Energy and Telecommunications Division

This new Division brings together five core competitive sector businesses: electricity supply, gas supply, communications, metering services and connections.

These businesses all operate in increasingly competitive environments and face common challenges.

Enhanced levels of customer service, founded on a changing culture and commercial philosophy, as well as competitive prices, will distinguish us from our competitors.

The Division handles the marketing and sales of electricity and gas to industrial, commercial and domestic customers and manages a growing portfolio of gas purchases. An increasing number of combined electricity and gas deals are being negotiated.

Major customers include Unilever, Marks & Spencer, Manchester Airport and Manchester United.

One of our major challenges is preparing for the introduction of competition throughout the UK domestic energy market by 1998, and a dedicated competitive edge development team has been established to formulate our marketing strategies.

Norweb Electricity Supply

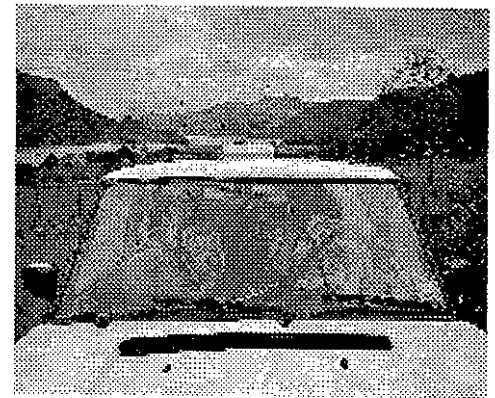
We currently supply more than two million customers throughout the North West of England, as well as competitive (100 kW+) customers throughout the UK. We supply energy to sites in every regional electricity

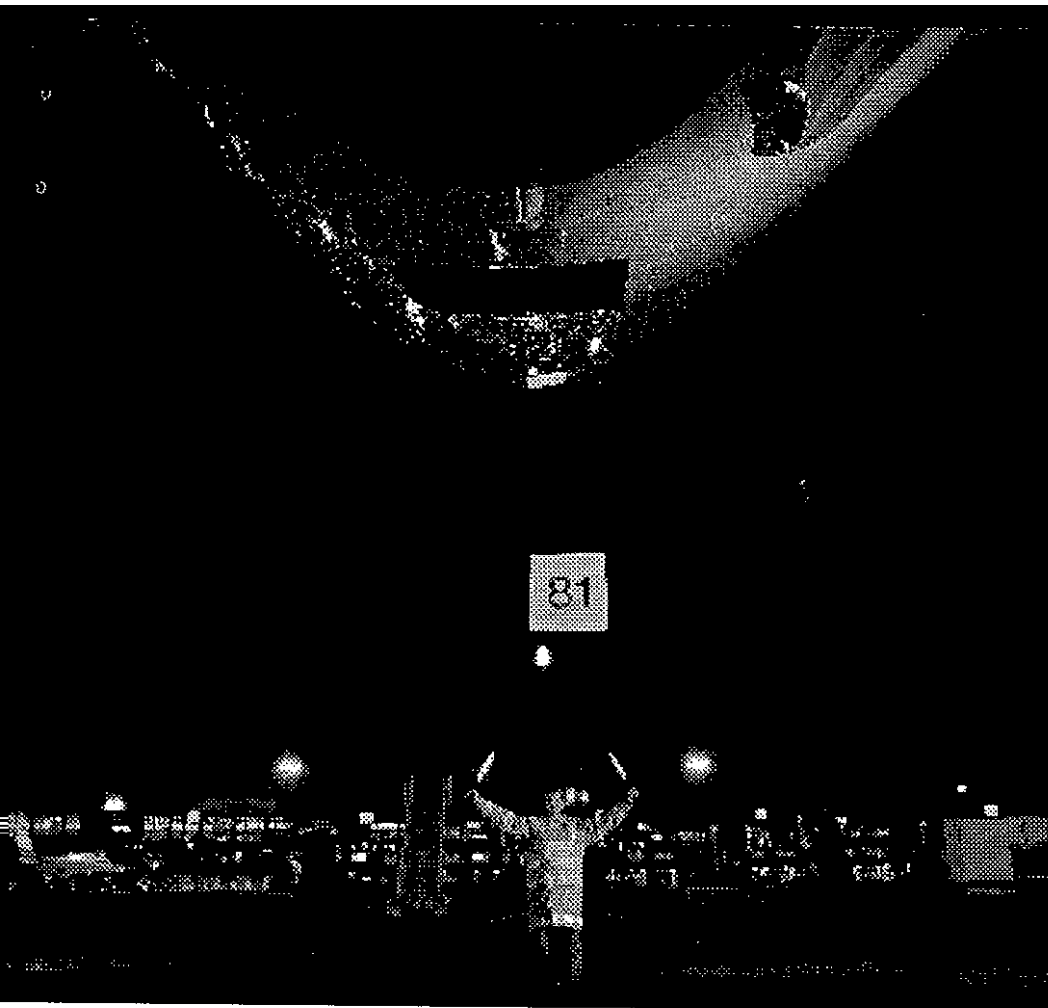
company area in the country.

Turnover for the full year decreased by 2.7 per cent to £1,179 million with operating profit for the full year of £21.1 million, before the release of £0.4 million of prior year provisions, down 29.9 per cent. This performance reflects the fact that electricity costs in 1995/96 have been higher than anticipated when the decision to freeze tariffs in 1995/96 was taken by the NORWEB Board. The 4.9 per cent increase in the 1996/97 tariffs will offset the reduced profit in 1995/96 as allowed under the regulatory formula. Despite this tariff increase, our domestic tariffs remain comfortably amongst the lowest in the UK.

We are well placed to compete effectively. Our domestic electricity prices are the fourth lowest in the country, compared to the 12 other regional electricity companies (RECs). The margin between the cheapest and most expensive of the top five "value-for-money" RECs is approximately £5 a year on the average domestic customer's bill, an indication of the narrow price difference that exists between the industry's leading performers.

In the last quarter of 1995/96, Norweb gave each domestic customer a discount on their electricity bills of £50.56 in connection with the flotation of the National Grid Group plc. In addition, we extended the Progress with Responsibility initiative to electricity customers with the £10 cold weather rebate for senior citizens with off peak supplies. Information published by the Director General of





Norweb Electricity Supply, Norweb Gas and Norweb Communications all operate in highly competitive environments and are a powerful presence within their markets. Customers continue to benefit from a service which offers them maximum efficiency at minimum cost.

Left: Norweb supplies electricity to the prestigious Manchester Airport – the UK's third largest airport serving 15 million passengers worldwide.

Below left: Cumbria Police now benefit from major cost savings thanks to Norweb Communications. Their

private telecommunications network, CBMNET, which covers the whole of Cumbria, uses Norweb's new telephony services for its voice communications. All outgoing telephone calls are routed via the Norweb Communications network with the majority of calls being charged at Norweb Communications' regional rate.

Electricity Supply shows, once again, that Norweb's overall performance in relation to the standards of service agreed with the Director General was arguably the best of all the RECs.

At the purpose-built electricity test and experience centre (EMTEC) at Chorley, Lancashire, we commercially evaluate new electrical techniques and processes. The centre, which has been updated during the year, is a dynamic showcase for energy innovation and has recently attracted its 50,000th visitor.

Norweb Gas Supply

Competition in the gas supply sector has been fierce, particularly due to the impact of the collapse of prices on the spot gas market. Turnover in 1995/96 reduced from £20.9 million to £17.6 million and the business made an operating loss of £0.6 million, compared to a £0.5 million operating profit in 1994/95.

We have secured a 12 per cent share of the North West competitive gas market and gained valuable experience through participation in the recent competitive domestic trial in the South West of England, where the number of customers who signed contracts with Norweb Gas exceeded our expectations.

Norweb Communications

The telecommunications business, launched in 1994, has made excellent progress in the development of its infrastructure and support

network. Turnover of £2.2 million was achieved in 1995/96, its first full year of trading, which is set to grow rapidly in the current year. Norweb Communications aims to become the main alternative supplier of choice to British Telecom in the business community in the North West of England. Customers include Cumbria Police and major tour operator and travel group, Airtours.

Our system is the most up-to-date in the region and the increased geographical scope of the United Utilities Group provides the means to extend the operating area. Already fibre optic cable has been laid to Warrington and shortly will be to Liverpool.

Norweb Metering Services

Since 1994, customers have been able to choose their meter supplier. Norweb Metering Services has expanded rapidly to become a recognised leader in its field, competing with around 30 other independent service providers, and again performed well during the year. Its customers include major groups such as Makro, Morrisons and BNFL (England). The wider United Utilities customer base provides increased market opportunities for this business.

Norweb Connections

From 1 April 1995, competition was introduced into the construction of extensions to the existing electricity supply network and Norweb Connections was formed. The


business is responsible for the design, scheme preparation and project management of new connections to newly-built homes, businesses and non-metered connections, such as street lighting.

The business has successfully secured contracts throughout the year in line with previous performance and new multi-utility connections – gas, water and telecommunications – provide growth and improved profit opportunities within the wider Group.



Above: In Mexico City, with our local partners in Agua de Mexico, we are implementing a metered water service to 2,500,000 people. Here, a technician visits residents to check their supply system for leaks – part of the customer service programme provided by the company.

Right: In North Brunswick, New Jersey, US Water operators Jim Hancocks and Joe Palovcik (foreground) in the township's water treatment plant control building.



International Division

We will compete powerfully in international markets drawing on the strengths of the Group's core utility businesses to continue our success in water whilst adding our new skills in electricity.



Gordon Waters, Managing Director,
International Division

The Division is now organised into four strategic business units.

North West Water International Services manages our operating contracts serving 21 million customers outside the UK and the USA, and provides consultancy services.

US Water operates 30 municipal and industrial water and wastewater systems in North America, and is jointly owned with global partners Bechtel and Kiewit.

International Water Limited, a joint venture with Bechtel, is charged with all overseas business development, project finance and bidding activity outside the USA. On winning contracts, operations and maintenance responsibilities will be passed to North West Water International Services; engineering, procurement and construction will be handled by Bechtel in association with local partners.

Norweb International newly established to seek out global electricity distribution and transmission opportunities. It will draw on the strengths and experience of Norweb, which has earned an enviable reputation as one of the UK's most efficient and competitive regional electricity companies.

Business performance

Profit before interest and tax increased to £5.9 million from £3 million the previous year as

the pace of contribution increased from both Mexico and Malaysia and as the Macarthur water treatment plant in Sydney, Australia, came on stream.

The year's highlights

We secured two new water and wastewater contracts in the face of strong international competition.

Canada: the regional municipality of York selected a consortium of North West Water Canada and Consumers Gas to develop and implement a long term water strategy. Projections indicate a threefold increase in water consumption within the next 30 years due to dramatic growth in that region.

USA: US Water was awarded a 20 year concession to operate the water and sewer systems for the town of North Brunswick, in New Jersey. It is the first time a publicly procured, long term concession has been awarded in the USA. US Water will operate water treatment and distribution, as well as wastewater collection systems. It also has responsibility for billing and collection and installing new water meters.

Continuing operations

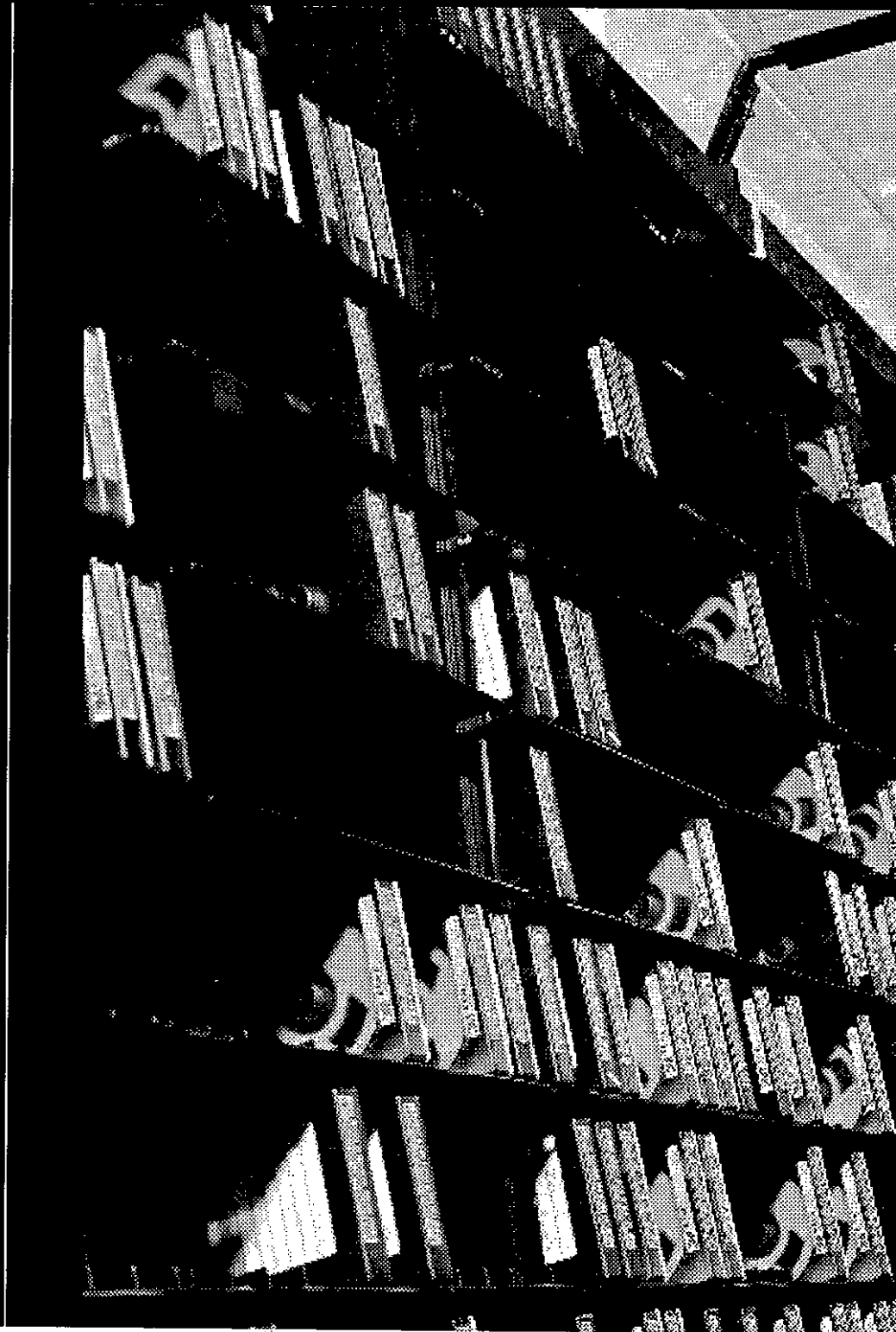
In Mexico City, good progress has been maintained on meter installation and we have commenced implementation of the billing and customer service facilities.

In Australia, the Macarthur water treatment plant was commissioned on time and to budget, and both it and the Yan Yean water treatment plant continue to operate well within their specified requirements.

In Malaysia, we have taken over further areas of the wastewater system as part of our concession for the whole of the country, and at Ipoh, our clean water concession continues to perform well.

Right: Investment in leading-edge technology is producing efficiencies which further strengthen Vertex Data Science's competitive position as it enters the facilities management market. This robot librarian, at the company's computer centre in Warrington, Cheshire, was one of the first of its kind in the country. The automation of the library provides faster retrieval and secure storage of essential information from customer billing to

investment management. The facility for speedily accessing information helps ensure that we keep on computer only the information that is appropriate, consequently reducing costs. This example of our progressive approach to computer management has helped result in the Vertex data centre being independently rated amongst the top 9 per cent most efficient in the country.



Facilities Management Division

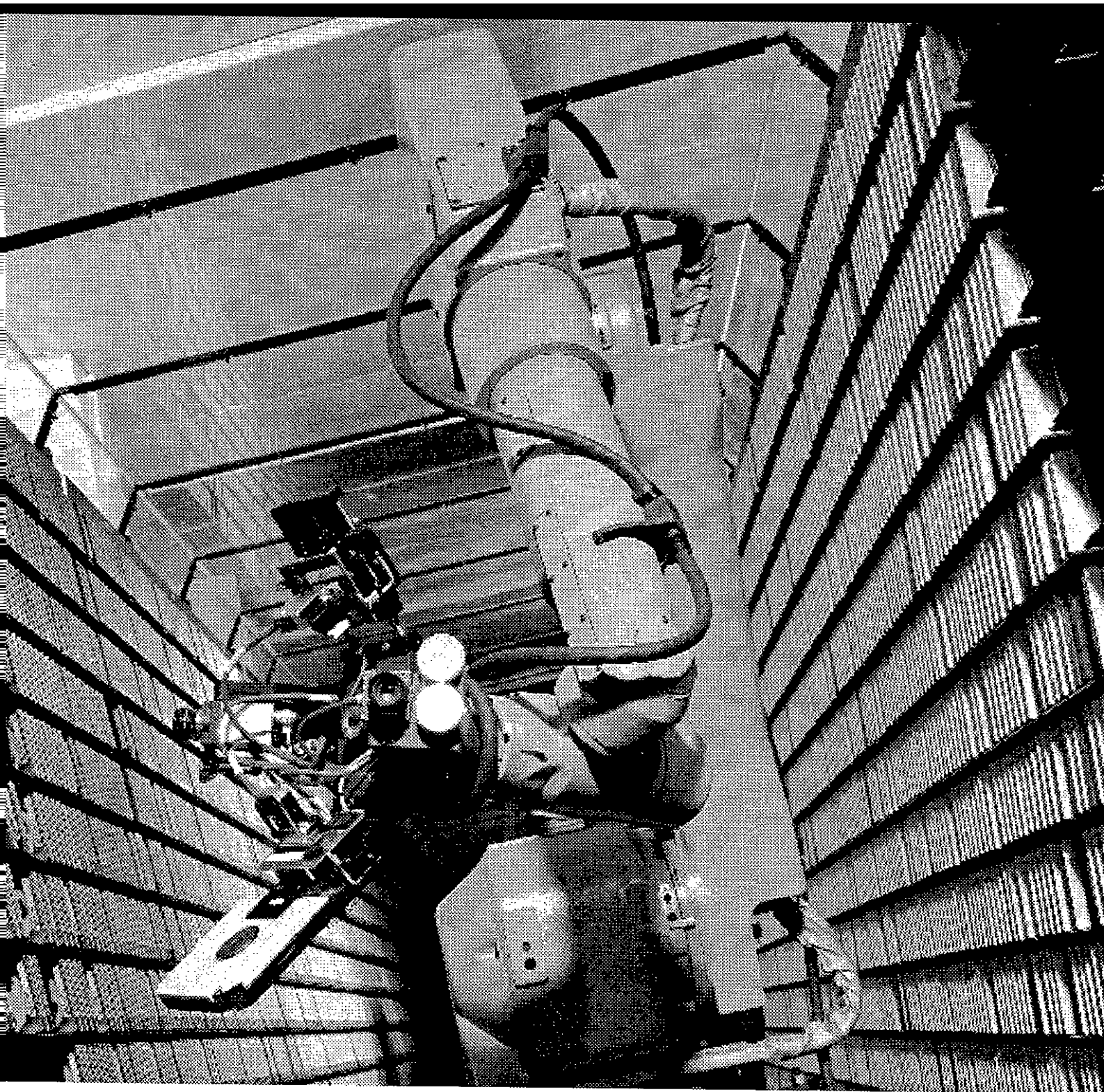
A range of services, previously provided in different parts of the Group, have been integrated to maximise efficiency and create new opportunities in the expanding facilities management sector.



Derek Lewis, Managing Director,
Facilities Management Division



Tom Drury, Managing Director, Vertex
Data Science Limited



During the year, we established a major presence in the expanding facilities management sector through the formation of Vertex Data Science Limited, a new company with a staff of 2,500 and an anticipated initial annual turnover of £200 million. Vertex is already one of the leading companies of its kind in the UK.

Vertex brings together employees from both North West Water and Norweb and sells a wide range of managed business services under arms length and competitively agreed contracts, both internally within United Utilities and, as time progresses, to new external customers who find it more efficient to buy in certain functions.

The company's services include: information technology (strategy, development and operation); customer services (meter reading, billing, customer contact, cash handling, debt management, telesales and telemarketing); operations systems (labour force planning and logistical management and strategy, and geographic information systems); accounting services (management and financial accounting, payroll, taxation and payments); procurement (logistics, purchasing and procurement); and training (training design and delivery).

All these services and facilities, which were previously provided within either North West Water or Norweb, have been integrated within

Vertex to maximise efficiency and synergy benefits, and create new market opportunities.

More and more organisations are recognising the financial benefits of competitively outsourcing their non core business support and service requirements and Vertex has been created to meet this increasing demand. Key target customers include central and local government, other utilities and commercial organisations.

Vertex, which began trading on 1 April 1996, operates as an independent company with its own competitive focus and ambitious expansion plans in the non-regulated market. It operates from new headquarters close to Manchester Airport.

We have built solid foundations for continuing growth as the process businesses move towards new ownership. New management at many of our operations responded admirably to the challenges of the year.

Business performance

Sales for the year advanced to £172.0 million from £163.1 million. The increase in sales of 5.5 per cent was achieved despite difficult trading conditions in all our established markets. The cost of major initiatives in Europe and Asia/Pacific resulted in a contribution to profit before business restructuring costs, which was essentially unchanged at £7.9 million from £7.8 million in 1995.

Markets

In the United States, which accounts for more than 60 per cent of our sales, expenditure by municipalities slowed markedly. New environmental legislation was delayed and existing regulations were enforced less rigorously.

In Germany, traditionally a strong market for Wallace & Tiernan our disinfection specialists, the continuing high cost of re-unification depressed municipal spending.

In the United Kingdom, the balance of spending by the privatised water companies switched decisively towards wastewater investments and only the drought tilted the balance back towards potable water as the companies sought creative means to provide additional supplies.

Investment in improvement

This pattern of depressed markets and unfavourable trading conditions invigorated our internationalisation plans and substantial progress was made in positioning the Division for growth in the strategically important European and Asia/Pacific regions.

We completed the restructuring of the Division and the year was characterised by a continuous process of improvement.

Wallace & Tiernan launched an unprecedented 17 new products, many of which unlocked industrial opportunities for the company.

Plans were completed to move the largest of the Wallace & Tiernan operations from its present facility at Belleville, New Jersey, to a purpose designed green-field facility at Vineland, New Jersey. The move, scheduled to be completed towards the end of this year, will radically improve Wallace & Tiernan's ability to respond to customers' needs.

In Europe, we established an Envirex and General Filter operation based at Stoke on Trent, Staffordshire. This new unit is responsible for marketing Envirex and General Filter products throughout Europe, the Middle East and Africa.

Sales

Early successes included the sale of the world's largest microfiltration plant for the treatment of potable water. The order for the plant was secured in February 1996 and the plant is on schedule for commissioning in July.

This fast-track delivery exemplifies the intra-Division synergies, which in this case combined the membrane technologies and know-how of Acumem, our membrane specialists; the pre-filtration know-how and equipment of General Filter; the procurement and production engineering skills of Edwards & Jones and the project management capability of Envirex and General Filter Europe.

European sales were further enhanced by the commissioning of Envirex processes at major new wastewater treatment plants at Preston and Fleetwood. Both plants are part of North West Water's Sea Change programme.

The Envirex Orbal™ process installed at Preston is the world's largest and a valuable reference site for this innovative and cost effective process for wastewater treatment.

The Envirex submerged biological contactor (SBC™) plant at Fleetwood, in common with the remainder of this state of the art wastewater treatment plant, is fully enclosed. The design and engineering



John Beckett, Managing Director,
Process Equipment Division

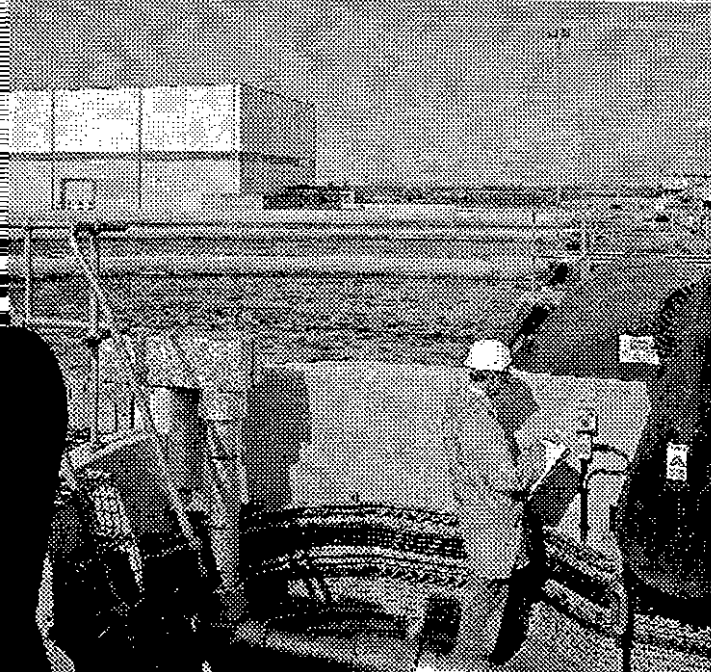
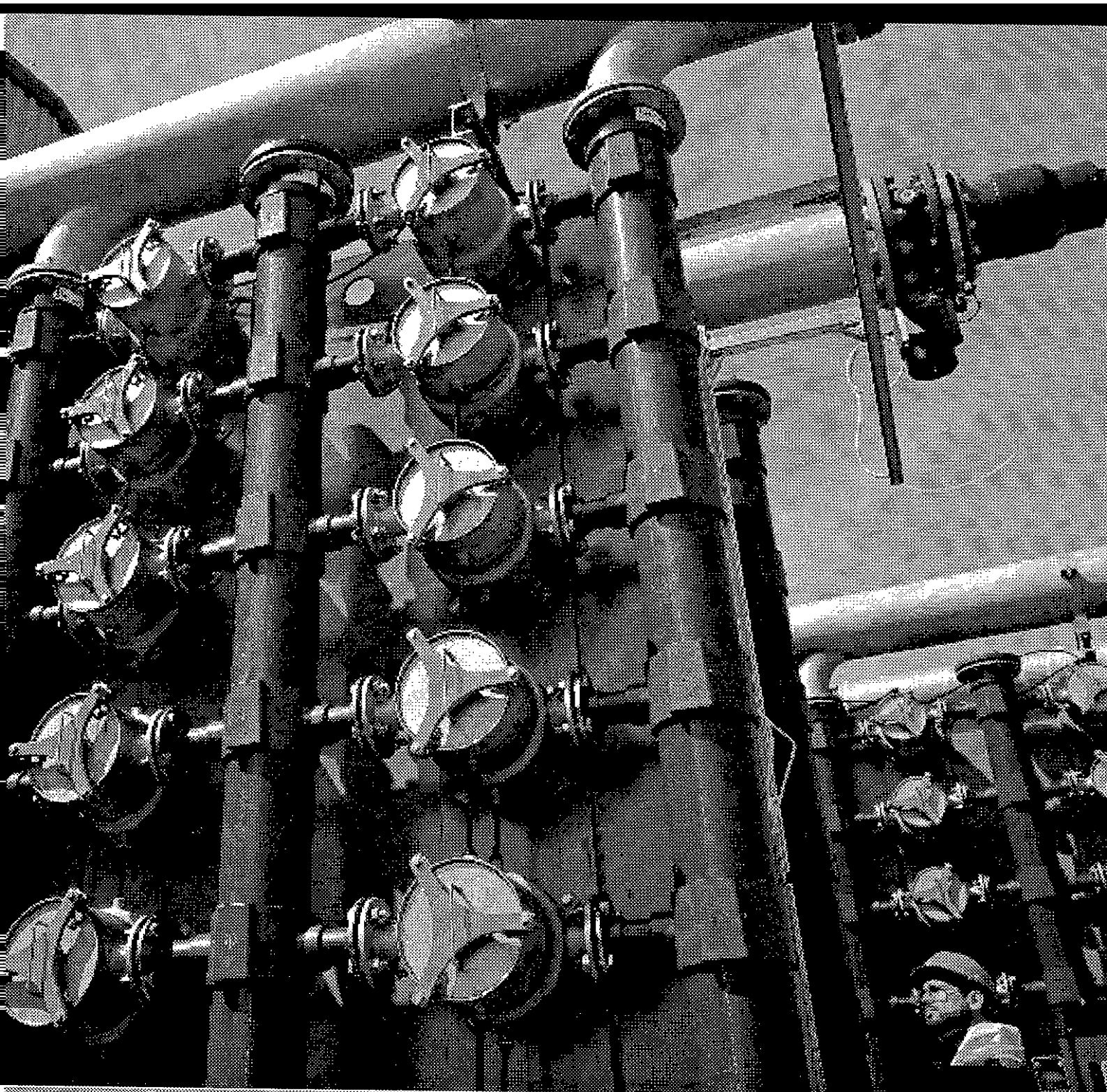
challenges inherent in such a novel approach to wastewater treatment signal the way forward in the many densely populated urban areas of the world in which we operate.

International developments

In India, we established and reinforced our relationships with our partners during the year. The major infrastructure investments planned for the subcontinent bode well for our products. Nowhere is there a greater and more urgent need for wholesome drinking water and for proper treatment of wastewater. Our partners are well positioned to provide appropriate products and technology to this rapidly developing market.

In China, we established a direct presence through a representative office in Beijing and accelerated the process of developing partnerships with design and manufacturing organisations. We are also forging closer links with the various international funding agencies whose support of Chinese infrastructure development is so crucial.

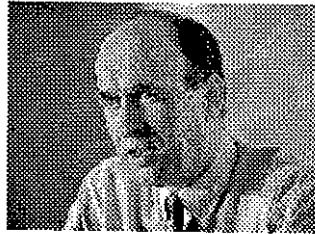
In Malaysia, we established a joint venture with our local partner Transwater. The joint venture works closely with Indah Water Konsortium, the company which holds the concession to construct and operate wastewater treatment facilities throughout Malaysia.



Left: The Envirex Orbal™ process, recently commissioned at Preston, Lancashire, treats wastewater from the Preston area prior to discharge to the Ribble estuary. This highly efficient biological treatment process is contributing to North West Water's Sea Change programme which is rapidly improving the quality of the coastal waters of Lancashire. The installation is the largest in the world.

Above: One of 30 Acumem microfiltration membrane units each capable of processing up to 3 million litres of water per day. The units, manufactured by Edwards & Jones are being installed at North West Water's Huntington water treatment plant. This fast track project, the world's largest microfiltration plant, is part of North West Water's drought management programme providing additional supplies of potable water.

Encouraged by their sound performance, we are confident that these businesses will go forward as successful entities in new ownerships.



Peter McTague, Managing Director,
Retail Division



Graham Barker, Managing Director,
Norweb Contracting



Peter Goldsworthy, Managing Director,
Norweb Generation

Norweb Retail

The Retail business continued to make sound progress with sales growing by 29 per cent to £267 million and operating profit up to £9.5 million, despite intense competition and difficult market conditions. It is now the third largest electrical retailer in the UK.

The strong sales performance was underpinned by the acquisition of 18 superstores from the former SWEB Retail business, which have been successfully integrated into the existing retail operation and are trading ahead of expectations. The acquisition was a perfect geographical fit, enabling the Retail business to enter an area in which it had no previous representation without adding to sector capacity.

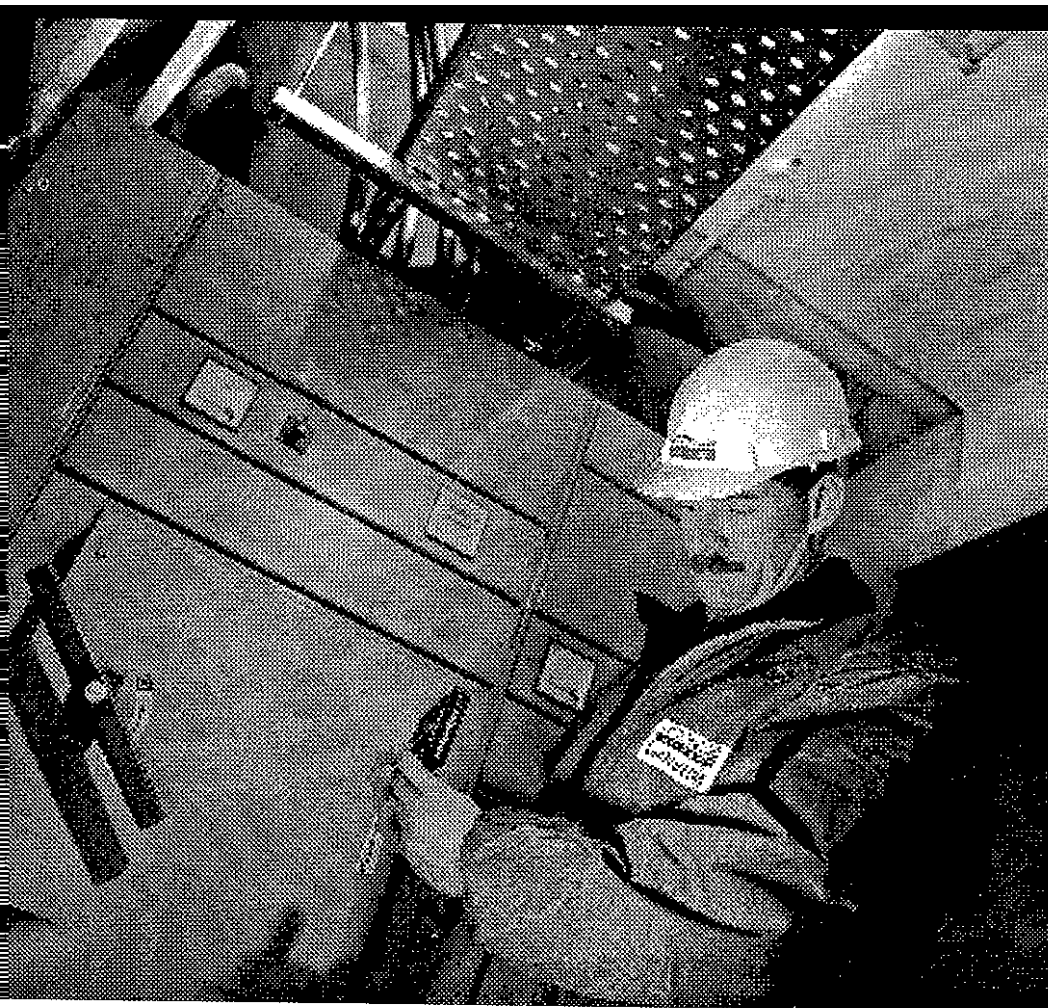
Nine high street shops were closed and five additional superstores were opened as part of the continuing strategy to focus on the growing out of town sector.

Sales were further boosted by the launch of personal computers and gas appliances, which helped to deliver an 8 per cent increase in like for like superstore sales.

New merchandise management systems have been implemented to improve stock control and ranging, and a new state of the art "windows" based point of sale system will be rolled out to all stores following successful trials at test outlets.

A new store design has been developed which allows for greater ranges to be displayed within the same space, focuses on new





Left: Norweb Contracting electrician Ronald Williams uses a heat sensor to detect "hot spots" on connections within a low voltage panel. The advantage of this piece of equipment is that it can be used to seek out any bad electrical connections without having to disconnect the supply.

Below left: A new store design for the Retail Division was launched at the new Norweb superstore in Newport during March 1996.

technology and promotional areas, and improved customer flow and departmentalisation.

The design has been successfully implemented at a number of new stores and will form the basis of our out of town expansion programme over the coming year.

Norweb Generation

Strong financial progress was made by Norweb Generation during the year and profit before interest and tax of £4.9 million was achieved, compared with a £2.5 million loss in the previous year. We are involved in a wide range of UK and international developments, mainly in the USA, to generate electricity from conventional and renewable energy and combined heat and power sources.

In early 1996, what is widely regarded to be the world's most efficient gas fired combined cycle generation plant was opened at Keadby, South Humberside. This 680MW project, in which Norweb Generation holds a 50 per cent stake, is operating profitably.

Roosecote power station, Cumbria, in which we have a 20 per cent interest and which has been operating since 1992, exceeded its operational targets during the year and made a positive contribution to profits.

Further investment has been made in renewable projects including a 3MW landfill gas development at Butchersfield, near Warrington, which was completed to time and budget, and work has started on a 750 kW

hydro plant at Ffestiniog, for completion during 1996.

During the year, one of our subsidiaries entered into an agreement with US partner Louisville Gas and Electric to develop up to six further projects. Also in the USA, another subsidiary purchased a 50 per cent stake in Auburndale Power Partners, a 150MW gas fired combined cycle project in Auburndale, Florida. This sells its power to the Florida Power Corporation and steam to the Coca Cola company at its nearby Minute Maid Orange juice plant and a local distillery.

Norweb Contracting

Norweb Contracting had another successful year. Operating profit for the year, before the release of £0.7 million of prior year provisions, was £1.2 million on a level turnover of £25.9 million.

Margins obtained in the industrial sector continued to improve and the planned expansion in the domestic wiring market was achieved, with income increasing by 40 per cent year on year. The franchise operation was also extended to include the Midlands.

During the year, the business brought a new sales, purchasing and delivery operation on line for the electrical heating market and a more focused industrial marketing approach was introduced ready for 1996/97.

Our Progress with Responsibility initiative recognises that as well as delivering value to shareholders and customers we must be an outstanding employer, fulfil the expectations of the communities we serve, and adopt environmentally responsible policies and practices.

In a year of significant change, the enthusiasm and dedication of our employees has enabled us to improve further our services to customers and our business performance.

We continue our drive for excellence, building on previous achievements and developing a culture which values people and encourages them to work to their full potential. We are committed to improving the skills of employees through training and development to support our business strategy.

This is a key aspect in ensuring the continued success of the Group and we have concentrated on training to support new roles and systems. As part of our commitment to the development of National Vocational Qualifications, 96 operations employees achieved the BTEC National in Water Engineering. This programme, developed by North West Water, was also sold to two other water companies.

Our drive to increase the flexibility of electrical craftsmen included an ongoing programme of developing employees to undertake low and high voltage operational duties. Following deregulation, training has supported new commercial businesses in electrical connections and electrical metering services.

We have established a strategic alliance with the Manchester Federal School of Business and Management to improve management education and training, demonstrating our commitment to the value of partnerships between business and the academic community.

Our employees are encouraged to take an active role in their community. Volunteers on a speakers panel have been trained to give talks to community groups. Also, a group of volunteers act as education coordinators, trained to give presentations to schools and education groups.

Employees won a trophy in the UK

Association of Suggestion Schemes Idea of the Year competition. A new Group suggestion and recognition scheme, Water and Wires, is to be introduced.

Every employee plays a key part in building a quality company and we have pledged to deliver real business improvement by focusing on our customers and meeting their needs. In the drive to achieve excellence we use the European Foundation for Quality Management model.

Three programmes were launched to recognise the hard work of employees: the Quality Award for larger teams or departments, the Improvement Day for smaller teams and Special Recognition Awards for individuals. Nearly 400 employees have received awards, being nominated by customers or colleagues for giving extra in their jobs.

Communications

We are committed to effective communications with employees, using a wide variety of media, to enhance their active participation in the Group's development and to keep them informed about the Group's financial performance and other significant business issues.

Regular and open communication with employees has been particularly important during the process of the integration of North West Water and Norweb.

Equal opportunities

We provide equal opportunities in employment, training and career development irrespective of gender, marital status, race, creed or disability. Employees who become unable to carry out, through disability, the job for which they were employed are counselled to determine their suitability for alternative work, for which retraining is offered if appropriate.

Health and safety

We are also committed to the highest international standards in every facet of the business. Proper attention to health and safety is an indispensable part of this commitment. All injuries, occupational illness and damage to property can be prevented by the adoption of sound risk management principles.

Our health and safety policy has been revised to take account of the broader organisation.

We encourage good health and fitness through education and promotion activities in the workplace, with a specialist occupational health service provided by the Group Medical Adviser and his team. Employees have access to counselling on health problems relevant to their work, and a mobile unit enables health checks to be done in the workplace. Health advice and immunisation are also provided for employees who travel abroad on company business.

To help young people learn about safety and water, we have created an interactive presentation as part of Crucial Crew, with community partners Greater Manchester Police. Over 12,000 children from schools in the Manchester area will experience "Swim safe – swim at a pool". Over 100 employees volunteered to help communicate this clear and important safety message.

Right: Technical training officer, Simon Wyles, assessing safe working practices at the Daniel training and conference centre's 132kV training substation – part of a high voltage electrical safety course.



Progress with Responsibility: community

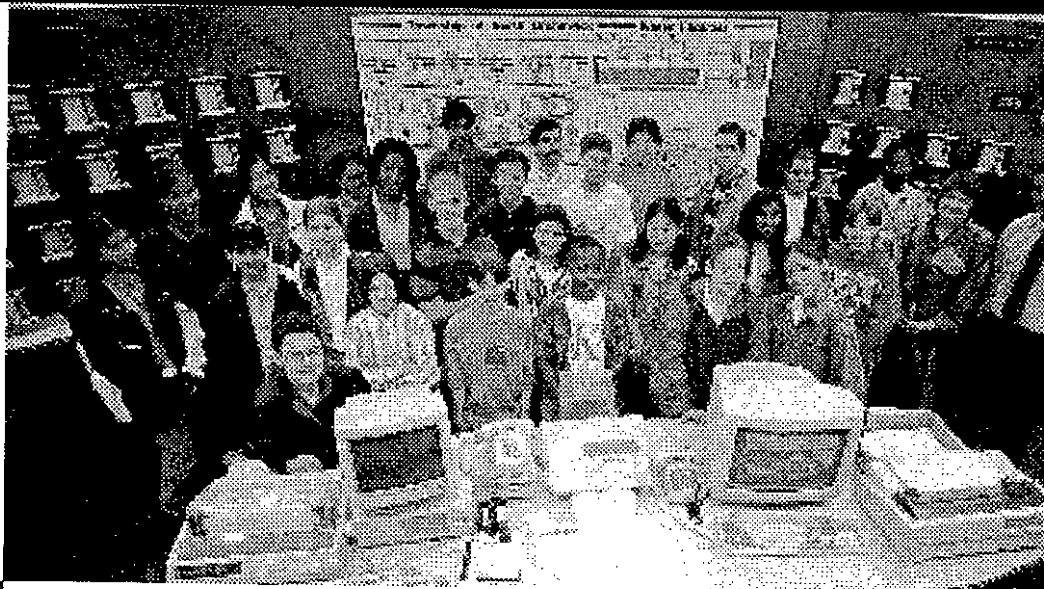
Investment in education is a significant element of our partnerships programme with the communities we serve.

Below: Jayne Clarke, North West Water education officer, explains the water cycle using volunteers from a school party visiting Leigh environmental education centre. We have restored a

100 year old barn to create the centre, part of a 37 acre wetlands nature reserve at a wastewater treatment works. It enables students from primary to further education to develop their understanding of the water cycle, water treatment and the environment from both scientific and environmental perspectives.

Right: In North Brunswick, New Jersey, students and instructors of the Linwood Middle School during a tour of the township's water treatment plant, operated by US Water, conducted by the manager, Basil D'Armiento (back row, centre).





Our commitment to the North West community is a long term investment in the regional economy, tomorrow's customers and future employees.

A leading edge approach to education

We have developed an environmental education centre in Leigh, to add to our two highly rated classrooms in Wigan and Widnes. The centre has been created with Wigan Education Business Partnership, working together to achieve common objectives and deliver lasting benefits to the community.

In September 1996, we will open an environmental education centre at Brockhole Visitor Centre in Windermere, in partnership with the Lake District National Park Authority and an environmental classroom at Fleetwood Marsh, in partnership with Wyre Borough Council.

Over 3,000 teachers and students visited our classrooms last year and positively endorsed the unique and highly regarded educational resources we provide for the North West. This approach to education was recognised by Business in the Community with its Aim High Award in 1995.

Community partnerships

We have worked in close partnership with community organisations for many years, such as a 20 year relationship with the British Trust for Conservation Volunteers and 13 years with the Wildlife Trust.

Our most recent partnership with the Royal National Institute for the Blind involves local action from our employees, the creation of specialist national curriculum materials for visually impaired children, and training our employees to improve their confidence when serving customers who are visually impaired. We are pursuing partnerships with other charities representing people with special needs.

Satisfying a thirsty world

Our Thirsty World Appeal involves customers, community groups and North West Water employees and in less than two years has raised £500,000 for WaterAid, a charity that enables developing countries to build water systems. The appeal was awarded the Institute of Public Relations Sword of Excellence Award for Community Campaigning (1995).

Community Challenge Awards

Our employees are a resource of professional skills, knowledge and experience. We encourage them to contribute their time and skills to the community, and offer Community Challenge Awards. If they are successful, their chosen charity or community organisation receives a share of £5,000. Awards recognised activities as diverse as operating a youth club and weekly disco in a deprived area of Manchester to organising holidays for older people with Age Concern.

We are one of five teams from major North West companies taking up the challenge to build community projects for five of the region's under-privileged housing areas. Our team will build a £2.7 million sports centre in Miles Platting, Manchester, obtaining finance and materials by grants and donations of money and materials.

Meeting expectations

A major piece of research is underway, including interviews with community leaders, customers, suppliers, opinion leaders and employees, to help us meet community expectations as a business leader in the North West.

The findings will lead to new actions, which will include commitments to the community, in the way that we have made commitments to customers.

Safeguarding the environment is an integral and fundamental element of our business strategy.

We aim to adopt environmentally responsible policies and practices throughout all our operations, both at home and in our overseas ventures.

Environmental sustainability can be entirely consistent with business sustainability.

The activities and expertise of United Utilities are a major force for environmental improvement.

The substantial investment by North West Water in the UK wastewater infrastructure and progress in a number of our overseas ventures are starting to bring major improvements to the cleanliness of urban and coastal waters.

Norweb's electricity supply and distribution activities are undertaken with close regard to the need to promote and provide advice on energy efficiency.

We recognise that concern for the environment has steadily moved from being a fringe issue to become a major item on the social, political and economic agenda. Therefore, notwithstanding the very positive impacts that arise from our activities, we also recognise the need to demonstrate to a very wide variety of stakeholders (customers, shareholders, employees and society) that we are managing the environmental impacts of our activities in an organised and structured manner and that we retain our social licence to operate.

To that end, United Utilities has committed itself to a revised environmental policy that reflects our expanded activities and the new organisational structure of the business.

The revised policy is a headline set of principles amongst which are important commitments to:

- develop, design and operate our facilities and networks taking into consideration the efficient use of energy and materials, the

sustainable use of renewable resources, and the minimisation of adverse environmental impact;

- search for and employ low pollution technologies and adopt environmentally sound waste management practices; and
- recognise our obligations to conserve and protect the natural environment, and where appropriate create opportunities for recreation by the community.

In order continuously to improve our environmental management, each of United Utilities' divisions is in the process of analysing its specific activities against these governing principles. Each division will develop an annual improvement plan which will detail specific and measurable targets for improvement.

We believe that by establishing the management of environmental issues as a structured planning process, which in turn is integrated into the normal business planning process, we will be able to demonstrate a consistently improving environmental performance.

The practical application of our environmental policy takes many forms.

Below: Help for residents living in 67 tower blocks is to be provided by United Utilities in a joint project with Liverpool Housing Action Trust.

North West Water and Norweb water and energy planners are helping develop and install innovative features for a multi-million pound, seven year programme of renewal and refurbishment to remedy the poor condition of more than 5,000 separate dwellings between 20 and 40 years old. Because many tenants are elderly, infirm, disabled or on low incomes, the Trust is keen to minimise the running costs of water and energy.

Among possibilities being explored are the recycling of water to a local market

garden and the coordination of activities between utility contractors to help meet deadlines and control costs. Tony Buckley, United Utilities technical manager, who has coordinated initial contacts with the Trust, talks with local residents.

Right: At the Wildlife and Wetlands Trust's Martin Mere visitor centre in Lancashire, North West Water has supported a number of projects, including the development of the John Morris raised pond zone, named in memory of a local North West Water employee. This environmental feature has been designed to inform visitors about the dramatic underwater life of plants and animals and about the wetlands.





The Board

Executive directors

Sir Desmond Pitcher (age 61) *Chairman*
Joined the Board in 1990 and was appointed Chairman in 1993. Sir Desmond is also chairman of the Merseyside Development Corporation and a non-executive director of National Westminster Bank. He was formerly group chief executive of The Littlewoods Organisation, and previously managing director of Plessey Telecommunications and Office Systems and of British Leyland (truck and bus division).

Brian Staples (age 51) *Chief Executive*
Joined the Board in 1994. Brian was formerly chief executive of Tarmac Construction and previously managing director of Tarmac Construction.

Bob Ferguson (age 53) *Group Finance Director*
Joined the Board in 1992. Bob was formerly deputy managing director and previously finance director of North West Water Limited.

John Beckett (age 48) *Managing Director of the Process Equipment Division*
Joined the Board in 1995. John was formerly international business manager of ICI KLEA.

Malcolm Faulkner (age 51) *Managing Director of the Energy and Telecommunications Division*
Joined the Board in 1996. Malcolm is also a non-executive director of the Energy Saving Trust. He was formerly marketing director of Norweb and served on the board of Norweb from 1990 and of its predecessor, the North Western Electricity Board, from 1987.

Derek Green (age 56) *Managing Director of the Regulated Utility Division*
Joined the Board in 1992. Derek is also a non-executive director of Graham Group. He was formerly Aggregates Group chief executive of BTR and was previously with AMEC and Fairclough Building.

Non-executive directors

Eric Clark (age 61)
Joined the Board in 1993. Eric is also a non-executive director of the Merseyside Development Corporation and of the Dana Corporation. He was formerly chairman and managing director of BICC Cables and a director of BICC Group and previously managing director of Plessey Telecommunications and Office Systems.

Frank Sanderson (age 69)
Chairman of the Remuneration Committee.
Joined the Board in 1989, having previously served on the board of the North West Water Authority from 1983. Frank is also chairman of Acumen Technologies. He was formerly divisional managing director (water engineering division) of Babcock International.

Sir Peter Middleton (age 62)
Joined the Board in 1994. Sir Peter is also chairman of BZW, 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. He was formerly Permanent Secretary to H M Treasury.

Alan Pendleton (age 67)
Joined the Board in 1989, having previously served on the board of the North West Water Authority from 1987. Alan is also a non-executive director of Nord Anglia Education. He was formerly managing director of West's Group International and a director of Tilbury Group.

Dr Rodney Leach (age 64)
Chairman of the Audit Committee
Joined the Board in 1989, having been appointed to the board of the North West Water Authority earlier that year. Rodney is also a non-executive director of Jasmin. He was formerly a partner in McKinsey & Company, an executive director of P&O and chief executive and managing director of VSEL.

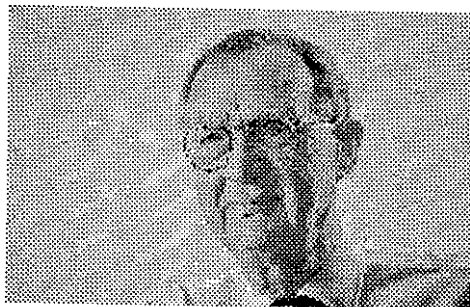
John Seed (age 57)
Joined the Board in 1996. John is also chairman of Great Western Assured Growth plc and of Windelectric Limited. He is a non-executive director of PRISM Rail plc and British Smaller Companies VCT plc. He was formerly chief executive of South Western Electricity plc.



Eric Clark



Alan Pendleton



Frank Sanderson



Dr Rodney Leach



Sir Peter Middleton



John Seed

Corporate governance

Corporate governance is concerned generally with how a company is directed and controlled and in particular with the role of the board of directors and the need for ensuring there is an effective framework of accountability.

The Listing Rules of the London Stock Exchange require directors to report on compliance with recommendations set out in the code of best practice of the Cadbury Committee on the financial aspects of corporate governance. Your directors, having reviewed fully the company's corporate governance practice and procedures, are pleased to confirm that the company has complied throughout the year, and continues to comply, with those recommendations of the Cadbury Committee's code of best practice.

The Listing Rules also require the directors to report on the company's compliance with the best practice provisions regarding remuneration committees, and to include in the annual report and accounts a report to shareholders on behalf of the Board by the Remuneration Committee. These provisions have been included in the Listing Rules following the report of the Greenbury Study Group on directors' remuneration published in July 1995. Your directors are pleased to confirm that the company has met throughout the year or, in relation to this report and the accompanying documents, is taking this first opportunity to meet these best practice provisions.

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 regularly reviews the financial performance of the company and the Group's business units. Following the acquisition of NORWEB plc, it has reviewed and approved formal delegation arrangements for effective management of the Group's business.

All directors have access to the advice and services of the Secretary and the Board has approved a procedure whereby directors may, if necessary, in the furtherance of their duties take independent professional advice, the cost of which would be met by the company.

The Audit Committee has formal terms of reference and the minutes of its meetings are submitted to the full Board. The Committee comprises solely non-executive directors. It is chaired by Rodney Leach, with Eric Clark, Alan Pendleton and Frank Sanderson as the other members of the Committee. 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.

Further information about the Remuneration Committee and its activities is set out in the Committee's first annual report to shareholders on pages 38 to 43.

The appointment of non-executive directors is made by the Board, after extensive consultation including independent professional advice. Appointments are for an initial term of three years.

The directors are responsible for the Group's system of internal financial control, the effectiveness of which has been reviewed by the Board. They consider that it is appropriately designed to provide reasonable, but not absolute, assurance that assets are safeguarded against misstatement or loss. The key procedures are:

control environment: the culture and values of the Group are communicated through specific policies covering the quality, integrity and ethics of personnel. There are clear responsibilities and accountabilities within a defined organisational structure;

identification and evaluation of risks: the key risk areas are reviewed on a regular basis by executive management and specific committees of the Board. Significant risk areas arising from the development of new activities are subject to consideration by the Board;

information and financial reporting systems: there are comprehensive planning procedures which include detailed operational budgets for the year ahead and projections for subsequent years which are approved by the Board. Key performance indicators are reviewed by the Board monthly to assess progress towards objectives. The Group reports to shareholders half yearly;

investment appraisal: there are clear policies and procedures for capital expenditure, which include short and long term budgets, detailed appraisal and review procedures and defined levels of authority;

control procedures: there are comprehensive policies and procedures which cover authorisation, segregation of duties, recording of data and physical security; and

monitoring systems: all operating units prepare self-certification questionnaires which confirm compliance with required standards of internal control. The questionnaires are reviewed and substantively verified by both internal and external auditors as part of their annual statutory audit. The auditors report to the Audit Committee.

After making enquiries, the directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing the accounts.

The Group's auditors, KPMG, have confirmed that in their opinion, with respect to the directors' statement on internal financial control and going concern above, the directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Cadbury Committee's code of best practice as supplemented by the related guidance for directors, and such statement is not inconsistent with the information of which they are aware from their audit work on the financial statements. The auditors have also confirmed that the directors' statement above appropriately reflects the Group's compliance with the other paragraphs of the code specified by the Listing Rules for their review. They have carried out their review in accordance with the bulletin issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of the Group's system of internal financial control or corporate governance procedures, or on the ability of the Group to continue in operational existence.

Report of the Remuneration Committee

the Listing Rules of the London Stock Exchange. In preparing these proposals, the Committee has consulted with a number of major institutional investors.

In summary, the proposed changes to the remuneration arrangements for executive directors are:

- the introduction of a new incentive plan with two elements: an incentive award based on annual results and a long term incentive award;
- the new incentive plan will replace the current arrangements for annual bonus and executive share options;
- the pensionability of incentives will be eliminated; and
- a policy to encourage greater share ownership will be introduced.

Salary

As the Group has developed and has now become the first major multi-utility in the UK with expanding international interests, it has been increasingly appropriate to make salary comparisons with a wider spectrum of companies than just other water companies or regional electricity companies.

Through our professional advisers, we have established market rates based on the practice of a group of major companies in the FTSE-100, including various utilities and other companies of a similar size and complexity to the Group. From this investigation, we have endeavoured to set the salaries of executive directors at a level consistent with those companies, taking into account the scope of individual jobs and the nature and extent of organisational change. Pay levels will continue to be reviewed annually, supported by independent assessment of market rates in these companies. Salaries of some executive directors have also been adjusted from 1 April 1996 to take account of increased responsibilities in the enlarged United Utilities Group.

Incentive plan

Subject to approval by shareholders at the 1996 annual general meeting, a new incentive plan will be introduced for executive directors and selected senior executives to replace the annual bonus and granting of executive share options. The proposed plan is described in more detail in the explanatory notes for shareholders about the resolutions to be proposed at the annual general meeting (which are set out in a separate leaflet circulated with the annual report).

The plan consists of two elements, a short term incentive award based on annual results and a long term incentive award. Whilst the introduction of a long term incentive will provide an effective relationship with long term performance, we believe that achievement of annual financial targets is equally important.

Short term incentive award

We intend to introduce the short term incentive award in place of the current annual bonus. Awards under the short term incentive, up to a maximum award level of 40 per cent of annual salary, will be based on annual financial performance over a three year period. All awards will be subject to stringent performance criteria. Awards will be payable in contingent shares.

Long term incentive

This part of the plan is based on overlapping three year performance cycles with new cycles beginning every year. During a cycle, performance of executives will be measured by reference to total shareholder return, which includes share price appreciation and dividends.

Awards will be based on a combination of absolute and relative performance. As a participant in the FTSE-100, we believe that the long term performance of the company should be compared with those other companies in the FTSE-100. Participants will not be eligible for an award unless the company ranks in the top 50 companies within the FTSE-100 and there is also an increase in earnings per share over the three year performance period which exceeds the Retail Price Index by at least 2 per cent per annum. The amount of any award will then depend on the relative ranking achieved and the absolute total shareholder return over the three year period. Maximum awards will be earned if the company's absolute three year average annualised total shareholder return performance is at least 25 per cent or more and that return ranks within the top 25 companies in the FTSE-100.

When the amount of the award, if any, is determined at the end of each period, one third is payable immediately in cash and two thirds is converted into shares which are held in trust for the executive for an additional two year period, directly aligning the interests of executives and shareholders. The transfer of these shares into the ownership of the executive will be contingent on the executive remaining with the company for that two year period and therefore should an executive leave for reasons other than normal retirement, redundancy, death, disability, or in special circumstances as determined by the Committee, contingent shares in trust are forfeited.

The Committee believes that this incentive plan offers significant advantages over the current incentive arrangements of annual bonus and executive share options and significantly increases the commonality of purpose between executives and shareholders.

Share ownership

Share ownership is generally regarded as an effective means of aligning the interests of executives and shareholders.

To encourage greater ownership, both the short term and the long term incentives will pay awards in contingent shares which will be received free from any restrictions by an executive following the two year period. To promote share

Report of the Remuneration Committee

ownership, executive directors will be encouraged to accumulate (and hold) shares in the company with a value of the order of their annual salary.

Executive share option scheme

With the introduction of the incentive plan, the granting of executive share options to executive directors will be discontinued. Executive directors will be encouraged to exercise existing share options as soon as practicable. Options under the executive scheme will continue to be granted to executives who are not participating in the incentive plan. In common with all other eligible employees in the UK, executive directors and other executives will continue to be able to participate in the employee sharesave scheme.

Pension

The company's pension policy currently provides for pensionability of the annual bonus for all employees, including executive directors. Under the new arrangements, no annual bonuses are payable and awards under the short term and the long term incentives will not be pensionable. In order to protect existing contractual entitlements, the pension calculation for each executive director (except the Chairman) will be adjusted so that executive directors will not be disadvantaged even though incentive awards will no longer be pensionable.

New executive directors will be recruited on the basis of a traditional pension scheme providing for 1/30th of basic salary for each year of service subject to a maximum of two thirds of salary upon retirement.

Further information on pensions is given in the notes below.

Contracts of service

All executive directors serve under contracts which are terminable by the company giving not less than two years' notice. The Committee considers that the notice period of two years is reasonable and proper in the interests of both the company and its executive directors, having regard to prevailing market conditions and current practice. The notice period provides executive directors with a reasonable degree of security, thus enabling them to concentrate on the challenges involved in securing and enhancing the future of the company. Non-executive directors do not have contracts of service.

Remuneration of non-executive directors

The remuneration of non-executive directors is determined by the Board as a whole.

Details of directors' remuneration

The aggregate emoluments of the directors were:

	1996 £000	1995 £000
Salaries	973	788
Fees	143	158
Bonuses	462	290
Taxable benefits	56	38
Pension contributions	124	95
	1,758	1,369

The remuneration (excluding pension contributions) of the directors was within the following bands:

	1996 Number	1995 Number
0 - 5,000	1	-
5,001 - 10,000	1	-
20,001 - 25,000	2	3
25,001 - 30,000	1	1
30,001 - 35,000	1	1
35,001 - 40,000	1	1
200,001 - 205,000	-	1
210,001 - 215,000	1	-
260,001 - 265,000	1	1
290,001 - 295,000	1	-
310,001 - 315,000	-	1
335,001 - 340,000	-	1
345,001 - 350,000	1	-
380,001 - 385,000	1	-

Report of the Remuneration Committee *Continued*

The remuneration of individual directors was:

Executive directors	Salary		Bonuses		Taxable benefits		Total remuneration		Pension contributions	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000	1996 £'000	1995 £'000	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Sir Desmond Pitcher Chairman	255.6	250.0	76.7	75.0	13.9	12.8	346.2	337.8	24.2	23.6
Brian Staples Chief Executive	235.0	220.0	142.0	88.0	3.7	3.4	380.7	311.4	24.2	23.6
John Beckitt Managing Director, Process Equipment Division	141.2	-	56.5	-	12.9	-	210.6	-	24.2	-
Bob Ferguson Group Finance Director	156.2	138.0	94.5	55.3	9.7	6.9	260.4	200.2	26.9	23.8
Derek Green Managing Director, Regulated Utility Division	185.1	179.8	92.7	71.9	13.3	11.6	291.1	263.3	24.2	23.6

Notes:

The highest paid director in 1996 was Brian Staples (1995 – Sir Desmond Pitcher, the Chairman).

John Beckitt was appointed a director with effect from 25 April 1995.

Performance related bonus scheme: the criteria set by the Committee for the executive directors' bonus scheme related to increases in profits before tax, before the acquisition of NORWEB plc and the exceptional business restructuring costs. Up to a maximum of 40 per cent was payable dependent on achievement of the targets. The targets were met in full in 1995/96. In addition to the performance related annual bonus, the bonuses shown in the table above include special bonuses for Brian Staples (£48,000), Bob Ferguson (£32,000), and Derek Green (£18,650), which were awarded by the Remuneration Committee in recognition of the exceptional burden borne by them in relation to the acquisition of NORWEB plc. Sir Desmond Pitcher has requested that the annual bonus payable to him in respect of 1995/96 be maintained at 30 per cent of basic salary; and he has waived his entitlement to a special bonus awarded by the Remuneration Committee in connection with the acquisition of NORWEB.

Pensions: Sir Desmond Pitcher, Brian Staples, John Beckitt, Bob Ferguson and Derek Green are members of and contribute to the Water Pension Scheme (WPS) which provides an entitlement on retirement at age 60 equal to 1/30th of pensionable remuneration for each completed year of service but subject to an overall maximum of 20 years. The normal retirement age is 60 (Sir Desmond Pitcher, 65) but early retirement is possible from age 50 with the agreement of the company. Under the rules of the WPS all performance related bonuses are pensionable. As a consequence of changes made by the Finance Act 1989, the company is unable to provide pensions from the WPS for its executive directors who have joined the company since 1989 on the same basis as pensions for directors who joined the company before that date. In line with many other companies, the company has established separate arrangements for these executive directors. Accordingly, on the retirement of Sir Desmond, Brian Staples, John Beckitt and Derek Green, the company has undertaken to pay the difference between their pensionable entitlements based upon the relevant proportion of their final salaries and the maximum amount payable under the rules of the WPS. At the present time, these separate arrangements remain unfunded. This undertaking will not result in any greater or additional benefits for these directors than would have been payable had it been possible for their pensions to be provided fully within the WPS on the same basis as directors who had joined the company prior to 1989. Malcolm Faulkner was appointed a director with effect from 1 May 1996. He is a member of and contributes to the Electricity Supply Pension Scheme and is a member of the NORWEB executive pension plan. These arrangements provide an entitlement on retirement at age 60 equal to 1/30th of basic pay for each year of pensionable service, subject to a maximum of 20 years.

Report of the Remuneration Committee

Taxable benefits: comprise, as appropriate, a car, travel (taxable mileage), telephone allowance, mobile telephone, medical and life insurance.

Non-executive directors	Fee		Board committee chairmanship		Additional responsibility payments		Taxable benefits		Total remuneration	
	1996 £'000	1995 £'000	1996 £'000	1995 £'000	1996 £'000	1995 £'000	1996 £'000	1995 £'000	1996 £'000	1995 £'000
Eric Clark	20.0	20.0	-	-	-	-	0.1	0.1	20.1	20.1
Rodney Leach	20.0	20.0	5.0	5.0	-	-	1.2	1.5	26.2	26.5
Sir Peter Middleton	20.0	20.0	-	-	20.0	20.0	-	-	40.0	40.0
Alan Pendleton	20.0	20.0	-	-	-	-	0.1	0.4	20.1	20.4
Frank Sanderson	20.0	20.0	5.0	5.0	5.0	5.0	0.9	1.5	30.9	31.5
John Seed	1.7	-	-	-	-	-	-	-	1.7	-

Notes:

Following a review by the Board in March 1996, the remuneration per annum currently payable to non-executive directors is: a director's fee of £20,000; £5,000 for chairmanship of a Board committee; £1,000 for membership of a Board committee; and appropriate amounts for additional and special responsibilities.

The non-executive directors do not participate in the performance related bonus scheme, pension or healthcare arrangements.

Taxable benefits comprise, as appropriate, telephone allowances and travel (taxable mileage).

John Seed was appointed a director with effect from 1 March 1996.

Clare Bolton retired as a director on 28 July 1995 and in the period from 1 April 1995 to her retirement received remuneration amounting to £7,000 (1995 - £23,100).

Details of directors' interests in shares

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):

	1996			1995 or on appointment		
	Ordinary shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	Executive option scheme	Employee sharesave scheme
Sir Desmond Pitcher	7,800	223,747	3,914	5,811	223,747	3,914
Brian Staples	1,341	179,662	3,586	1,000	165,912	-
John Beckitt	2,320	126,199	3,586	-	113,449	-
Bob Ferguson	24,929	116,218	5,334	19,636	106,468	5,334
Derek Green	11,491	64,421	4,903	1,111	175,471	4,903
Eric Clark	6,308	-	-	4,832	-	-
Rodney Leach	14,079	-	-	10,951	-	-
Sir Peter Middleton	4,574	-	-	3,558	-	-
Alan Pendleton	6,724	-	-	5,230	-	-
Frank Sanderson	9,205	-	-	6,101	-	-
John Seed	3,855	-	-	-	-	-

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 1995 or on appointment	Options granted during the year	Exercise price per share	First date exercisable	Last date exercisable	Options exercised during the year
<i>Employee sharesave scheme</i>						
Sir Desmond Pitcher	3,914	-	440.6p	1.3.1999	31.8.1999	-
Brian Staples	-	3,586	481.0p	2.2.2001	1.8.2001	-
John Beckitt	-	3,586	481.0p	2.2.2001	1.8.2001	-
Bob Ferguson	2,778	-	269.9p	1.2.1997	31.7.1997	-
Derek Green	2,556	-	404.8p	2.3.2000	1.9.2000	-
	4,903	-	369.5p	1.2.1998	31.7.1998	-

Report of the Remuneration Committee

	Share options as at 31 March 1995 or on appointment	Options granted during the year	Exercise price per share	First date exercisable	Last date exercisable	Options exercised during the year
<i>Executive option scheme</i>						
Sir Desmond Pitcher	167,811	–	446.9p	5.7.1996	5.7.2003	–
	55,936	–	380.2p	5.7.1998	5.7.2003	–
Brian Staples	124,435	–	530.1p	19.8.1997	19.8.2004	–
	41,477	–	450.8p	19.8.1999	19.8.2004	–
	–	13,750	584.5p	20.12.1998	20.12.2005	–
John Beckitt	85,087	–	479.8p	15.12.1997	15.12.2004	–
	28,362	–	408.2p	15.12.1999	15.12.2004	–
	–	12,750	584.5p	20.12.1998	20.12.2005	–
Bob Ferguson	2,842	–	305.2p	3.12.1993	3.12.2000	–
	22,483	–	324.1p	8.1.1995	8.1.2002	–
	7,494	–	275.7p	8.1.1997	8.1.2002	–
	18,025	–	463.4p	6.1.1996	6.1.2003	–
	6,008	–	394.2p	6.1.1998	6.1.2003	–
	19,382	–	566.9p	20.1.1997	20.1.2004	–
	6,460	–	482.2p	20.1.1999	20.1.2004	–
	17,831	–	479.8p	15.12.1997	15.12.2004	–
	5,943	–	408.2p	15.12.1999	15.12.2004	–
	–	9,750	584.5p	20.12.1998	20.12.2005	–
Derek Green	114,550	–	392.8p	18.6.1995	18.6.2002	114,550
	38,182	–	334.2p	18.6.1997	18.6.2002	–
	13,567	–	566.9p	20.1.1997	20.1.2004	–
	4,522	–	482.2p	20.1.1999	20.1.2004	–
	3,488	–	479.8p	15.12.1997	15.12.2004	–
	1,162	–	408.2p	15.12.1999	15.12.2004	–
	–	3,500	584.5p	20.12.1998	20.12.2005	–

Notes:

In respect of options granted under either scheme prior to 18 September 1995, the numbers of shares over which options were granted (and the associated exercise prices) were adjusted during the year to reflect the two part rights issue of new ordinary shares offered to shareholders in connection with the acquisition of NORWEB plc. The basis of the adjustments was agreed with the Inland Revenue and, in the opinion of the company's auditors, was fair and reasonable. The numbers of options over ordinary shares as at 31 March 1995 shown in the above tables have been adjusted on the same basis, for ease of comparison.

The mid market price of a share at 31 March 1996 was 618.0 pence and the range during the year was 549.0 pence to 658.0 pence. At the date of exercise of options by Derek Green the mid market price of a share was 596.0 pence. The aggregate notional amount of gains made by directors on the exercise of share options during the year (based on the difference between the mid market price of a share on the day on which options were exercised and the exercise price) was £232,765.60.

Sir Desmond Pitcher has waived his entitlement in 1995/96 to the grant of further options under the executive option scheme.

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.

No options held by the directors above lapsed during the year.

On his appointment as a director, Malcolm Faulkner and his immediate family had a beneficial interest in 6,758 shares and in options on 2,796 shares at an exercise price of 308.29 pence, exercisable from 1 March to 31 August 2000 (the options were granted on 12 January 1995 under the terms of the NORWEB employee sharesave scheme and converted into options of an equivalent value for United Utilities shares under the arrangements in connection with the acquisition of NORWEB – see note 21 to the accounts. The number of options and exercise price are the converted figures).

From the end of the financial year to 3 June 1996, there have been no changes in the above interests.

Save as mentioned above, no director had any interest in any share capital of any other Group company or in any debenture of any Group company.

Directors standing for re-election

Three directors are standing, and are recommended by the Board, for re-election at the 1996 annual general meeting – John Seed and Malcolm Faulkner, who have been appointed to the Board since the last annual general meeting, and Rodney Leach, the director to retire by rotation.

Malcolm has a contract of service with the company terminable by the company on two years' notice. As non-executive directors, John and Rodney do not have contracts of service.

Directors' report

We are pleased to present our first report for United Utilities PLC, which is for the year ended 31 March 1996.

Principal activities

The United Utilities Group is principally engaged in the planning, design and operation of water and wastewater systems in the United Kingdom and overseas and, following the acquisition of NORWEB plc, in the distribution and supply of electricity in the UK. It also supplies gas to commercial customers in the UK, and provides telecommunications services in the North West of England.

It is also engaged in the following activities which, as announced in March 1996 following the strategic review, are to be divested: electrical retailing, electrical contracting and electricity generation (all part of NORWEB's activities) and the design, manufacture and installation of water and wastewater process equipment.

The Group's organisation structure is set out on pages 6 and 7. Its principal subsidiary and associated undertakings are listed in note 11 to the accounts.

The Chairman's statement and the Chief Executive's review are set out on pages 4 and 5, and 8 to 11 respectively. The Group's financial performance and its operations are reviewed on pages 12 to 29; and the development of our Progress with Responsibility initiative, including our commitments to our employees, the communities we serve and the environment, is described on pages 30 to 35. Information on likely future developments is included in those sections. The Group's results, together with information on capital expenditure, are set out in pages 48 to 69.

Dividends

We propose a final dividend of 19.59 pence per ordinary share for the year to 31 March 1996, to be paid on 1 October 1996 to shareholders on the register at close of business on 18 June 1996. We will operate our share dividend plan, which continues to be successful, for that dividend.

As part of the sharing between our shareholders and our regulated water services customers of the benefits of efficiency savings achieved in the execution of the water services capital programme over the first five years following privatisation, a special dividend of 3.8 pence per ordinary share for the year ended 31 March 1996 was paid on 3 October 1995. From 1996/97, the special dividend will be consolidated into the ordinary dividend.

Business at the annual general meeting

Full details of all the resolutions to be proposed at the 1996 annual general meeting are set out in the notice of meeting, and there are explanatory notes about the resolutions in a separate leaflet, both of which are enclosed with this report.

Substantial shareholdings

At 3 June 1996, the company had been notified by the Norwich Union Group that it held an interest in 3.4 per cent of the company's issued ordinary share capital.

Close company

The company is not a close company as defined by the Income and Corporation Taxes Act 1988.

Research and development

The Group is committed to develop innovative, cost-effective and practical solutions for providing high quality services and standards to our customers, and for the benefit of the wider community and the development of the business. It seeks to take in this process maximum advantage of the wide-ranging expertise, abilities and facilities within the Group.

Directors

The present directors are listed on page 36. Further information about the directors seeking re-election at the annual general meeting is set out in the report of the Remuneration Committee on page 43 and in the enclosed leaflet which contains explanatory notes about the resolutions to be proposed at the meeting. Further information about the directors' remuneration and interests in the company's ordinary shares is also set out in the Remuneration Committee's report.

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.

Payments to suppliers

The Group's policy is normally to pay suppliers according to agreed terms of business. These terms are agreed with suppliers upon entering into binding contracts and the Group's policy is to adhere to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts.

Charitable donations

The company has continued to support a range of charitable projects through direct donations and to support in many other ways the communities of which our businesses are an integral part. Donations in the year amounted to £257,537 including full year donations by NORWEB plc of £107,484 (1995 - £229,356 of which £126,331 related to NORWEB plc).

Auditors

The company's auditors, KPMG, have indicated to the directors that a limited liability company, KPMG Audit Plc, is to undertake part of their audit business. Accordingly, a resolution is to be proposed at the annual general meeting for the appointment of KPMG Audit Plc as auditors to the company in place of the retiring auditors, KPMG, whose period of office expires at the annual general meeting. Further details are given in the explanatory notes to the resolutions enclosed with this report.

Signed on behalf of the Board of directors

John Tetlow Secretary

10 June 1996

A handwritten signature in black ink, appearing to read 'J.R. Tetlow', is written over the typed name 'John Tetlow Secretary'. The signature is written in a cursive style and is underlined with a single horizontal stroke.

Directors' responsibilities

in respect of the preparation of financial statements

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the report of the auditors on page 47, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 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 as at the end of the financial year and of the profit or loss for the financial year.

In preparing the financial statements, the directors are required to select appropriate accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent and state whether all applicable accounting standards have been followed. The directors are also required to use a going concern basis in preparing the financial statements unless this is inappropriate.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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 United Utilities PLC

We have audited the financial statements on pages 48 to 69. We have also examined the amount disclosed relating to the emoluments and share options of directors which form part of the Remuneration Committee's report on pages 38 to 43.

Respective responsibilities of directors and auditors

As described under 'Directors' responsibilities' on page 46 the company's directors are responsible for the preparation of 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 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 the Group as at 31 March 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG 
Chartered Accountants
Registered Auditors
Manchester

10 June 1996

Consolidated profit and loss account

For the year ended 31 March 1996	Note	Before acquisition £m	Acquisition £m	Total before business restructuring £m	Business restructuring £m	1996 Total £m	1995 Total £m
Turnover – continuing operations	2	1,077.8	760.8	1,838.6	–	1,838.6	1,011.8
Net operating costs	3	(714.0)	(673.2)	(1,387.2)	(123.8)	(1,511.0)	(671.3)
Operating profit – continuing operations		363.8	87.6	451.4	(123.8)	327.6	340.5
Share of associates' profits	2, 11	1.5	11.3	12.8	–	12.8	3.9
Profit before exceptional items, interest and tax	2	365.3	98.9	464.2	(123.8)	340.4	344.4
Profit/(Loss) on disposal of businesses						7.2	(13.5)
Profit on ordinary activities before interest						347.6	330.9
Net interest payable	6					(75.0)	(46.9)
Profit on ordinary activities before taxation						272.6	284.0
Taxation on profit on ordinary activities	7					(48.2)	(24.8)
Profit for financial year						224.4	259.2
Dividends	8					(163.8)	(93.9)
Transfer to reserves	22					60.6	165.3
Earnings per share – net basis	9					51.7p	66.9p
– nil basis	9					62.1p	72.7p
Adjusted earnings per share – net basis	9					78.5p	70.4p
– nil basis	9					89.0p	76.1p

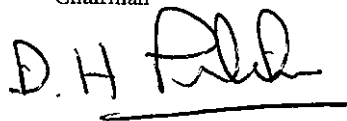
All of the results derive from continuing operations.

Balance sheets

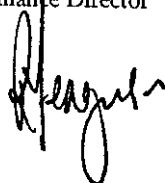
At 31 March 1996	Note	Group		Company	
		1996 £m	1995 £m	1996 £m	1995 £m
Fixed assets					
Tangible assets	10	4,417.5	3,092.3	3.4	2.7
Investments	11	111.0	10.6	2,629.8	1,216.6
		4,528.5	3,102.9	2,633.2	1,219.3
Current assets					
Stocks	13	91.3	37.5	-	-
Debtors	14	532.7	224.2	301.6	574.6
Investments	15	273.8	225.6	35.7	9.8
Cash at bank and in hand		40.1	16.8	-	-
		937.9	504.1	337.3	584.4
Creditors:					
Amounts falling due within one year	16	(1,796.3)	(516.9)	(625.2)	(210.6)
Net current (liabilities)/assets		(858.4)	(12.8)	(287.9)	373.8
Total assets less current liabilities		3,670.1	3,090.1	2,345.3	1,593.1
Creditors:					
Amounts falling due after more than one year	17	(1,267.7)	(789.6)	(79.1)	(62.6)
Provisions for liabilities and charges	19	(410.3)	(54.1)	(7.3)	(4.3)
		1,992.1	2,246.4	2,258.9	1,526.2
Capital and reserves					
Equity share capital	21	523.1	377.1	523.1	377.1
Share premium account	21	615.0	3.0	615.0	3.0
Profit and loss account	22	854.0	1,866.3	1,120.8	1,146.1
		1,992.1	2,246.4	2,258.9	1,526.2

Approved by the Board of directors on 10 June 1996 and signed on its behalf by

Sir Desmond Pitcher
Chairman



Bob Ferguson
Group Finance Director



Consolidated cash flow statement

For the year ended 31 March 1996	1996 £m	1996 £m	1995 £m	1995 £m
Net cash inflow from operating activities		356.3		421.7
Returns on investments and servicing of finance				
Interest received	21.6		12.5	
Interest paid	(77.1)		(45.1)	
Interest paid on finance leases	(28.4)		(23.4)	
Dividends paid	(115.7)		(107.1)	
NORWEB special dividend	(156.3)		-	
Dividends received	102.3		-	
Net cash outflow from returns on investments and servicing of finance		(253.6)		(163.1)
Taxation				
Advance corporation tax paid	(46.7)		(19.5)	
Overseas tax paid	(2.4)		(0.6)	
Taxation paid		(49.1)		(20.1)
Investing activities				
Purchase of fixed asset investments	(45.6)		(8.9)	
Disposal of fixed asset investments	2.1		-	
Purchase of tangible fixed assets	(413.2)		(322.0)	
Grants and contributions received	15.2		18.2	
Sale of tangible fixed assets	7.8		3.4	
Acquisition of NORWEB plc, net of cash and cash equivalents acquired	(1,208.3)		-	
Other disposals/acquisitions	(1.0)		0.6	
Disposal of National Grid and Pumped Storage Business holdings	300.0		-	
Net cash outflow from investing activities		(1,343.0)		(308.7)
Net cash outflow before financing		(1,289.4)		(70.2)
Financing				
Issue of ordinary share capital	572.9		5.0	
Share issue costs	(13.9)		(0.3)	
New loans	478.2		-	
New finance leases	-		37.5	
Repayment of loans	(93.0)		(6.6)	
Capital element of finance leases repaid	(8.1)		(7.2)	
HMG debt premium	(27.6)		-	
Net cash inflow from financing		908.5		28.4
Decrease in cash and cash equivalents		(380.9)		(41.8)

Report of the Remuneration Committee

We are pleased to present our first annual report to shareholders.

The Greenbury Study Group on directors' remuneration recommended that remuneration committees should report to shareholders each year explaining their companies' approach to executive remuneration and providing full disclosure of all elements in the remuneration of individual directors. That recommendation is now incorporated in the Listing Rules of the London Stock Exchange (and reference to the company's compliance with the relevant Rules is made earlier, in the section on corporate governance on page 37).

The Study Group also recommended that all the privatised utilities should undertake a review of their remuneration packages in the light of the Study Group's report and should report the outcome of the review to shareholders. Our conclusions following that review are set out below.

The role of the Remuneration Committee

The Committee determines the company's policy on executive directors' remuneration. It agrees the terms and conditions of employment, including remuneration levels, of the company's executive directors and other senior executives. It is also involved in the selection process for executive directors. The Committee has formal terms of reference and the minutes of meetings are submitted to the full Board.

All the members of the Committee are non-executive directors. The Committee is chaired by Frank Sanderson, with Eric Clark, Rodney Leach and Alan Pendleton as the other members. They have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors, and no potential conflicts of interest arising from cross-directorships. They are not involved in the day-to-day running of the company.

Although not members of the Committee, on occasion and for matters not relating to themselves, the executive Chairman and Chief Executive may attend meetings and they are consulted by the Committee on proposals relating to the remuneration of the other executive directors.

In its deliberations, the Committee takes professional advice from within and outside the company. In conducting its comprehensive review of executive remuneration, the Committee has had the assistance of an outside specialist consulting firm which has not previously advised the Committee or the company.

The Chairman of the Committee responds to questions on executive directors' remuneration at the company's annual general meetings.

The Committee has structured the total remuneration arrangements to attract, retain and motivate executive directors. They are reviewed annually to ensure they support both the company's business objectives and the creation of shareholder value.

Review of remuneration

The Committee reviewed during the year the appropriateness of remuneration arrangements since privatisation. In particular, it confirmed that:

- executive directors' salaries and the annual bonuses paid have been consistent with amounts paid in general industry for jobs comparable in terms of scope, business complexity and the nature of organisational change;
- all but one of the company's current executive directors previously held senior positions in companies outside the utility sector and joined the company after privatisation. Competitive pay packages, negotiated on an arms length basis, were required to attract these executives;
- the executive share option scheme is similar to schemes in other major companies. Some share options were granted at a discount although all were subject to performance criteria agreed by the Association of British Insurers. No "windfall" profits on options were received by current executive directors as none were directors at privatisation; and
- the terms of executive directors' pensions are comparable with market norms and the practice of including executive directors' annual bonuses in pensionable pay is common amongst FTSE-100 companies.

The Committee has therefore concluded that the remuneration of executive directors since privatisation has been wholly consistent with the company's objectives and relevant market practice and no retrospective adjustments are required.

Summary of remuneration arrangements and proposed changes

The company has changed significantly in recent years and in particular following the acquisition of NORWEB plc.

Whilst the Committee's comprehensive review of remuneration has confirmed that the company's remuneration practices have been in line with market practice, the Committee wishes to ensure the continuing effectiveness of those practices and is proposing a change in emphasis in the way performance is measured and executive directors are rewarded. In putting forward these proposals, the Committee recognises that their implementation will require agreed amendments to executive directors' existing terms and conditions of employment.

The remuneration principles outlined below describe these changes in greater detail. The principles are intended to implement fully Greenbury's code of best practice and are in compliance with sections A and B of the best practice provisions annexed to

Notes to the cash flow statement

For the year ended 31 March 1996	1996 £m	1995 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	327.6	340.5
Depreciation	103.1	77.1
Profit on disposal of tangible fixed assets	(1.8)	(2.5)
Movement in stocks	13.3	(2.9)
debtors	(85.1)	(12.7)
creditors	(0.8)	22.2
Net cash inflow from operating activities	356.3	421.7
Analysis of changes in cash and cash equivalents		
At 1 April	182.7	223.2
Net cash outflow for the year	(380.9)	(41.8)
Exchange adjustments	(4.0)	1.3
At 31 March	(202.2)	182.7
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	40.1	16.8
Bank overdrafts	(10.5)	(1.5)
Temporary borrowings repayable within 3 months	(472.2)	(43.7)
Short term deposits	240.4	211.1
	(202.2)	182.7
	Share capital (including share premium) £m	Loans and finance lease obligations £m
Analysis of changes in financing during the year		
At 1 April 1995	380.1	797.9
Shares issued as part consideration for NORWEB plc	197.0	-
Shares issued in lieu of cash dividends	2.0	-
Acquired obligations	-	414.3
Cash inflow from financing	559.0	349.5
Exchange adjustments	-	6.4
At 31 March 1996	1,138.1	1,568.1

The impact of the acquisition of NORWEB plc on the cash flows for the year is given in note 12 to the accounts.

Statement of total recognised gains and losses

For the year ended 31 March 1996	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Profit for the financial year	224.4	259.2	130.0	499.6
Exchange adjustments	(6.5)	4.1	0.1	(0.3)
Total recognised gains and losses for the financial year	217.9	263.3	130.1	499.3

Reconciliation of movements in shareholders' funds

For the year ended 31 March 1996	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Profit for the financial year	224.4	259.2	130.0	499.6
Dividends	(163.8)	(93.9)	(163.8)	(93.9)
Goodwill on disposals	2.1	13.5	—	—
Shares issued in lieu of cash dividends	8.4	5.7	8.4	5.7
New share capital issued	758.0	6.7	758.0	6.7
Goodwill on acquisitions	(1,076.9)	—	—	0.6
Exchange adjustments	(6.5)	4.1	0.1	(0.3)
Net addition to shareholders' funds for the year	(254.3)	195.3	732.7	418.4
Opening shareholders' funds	2,246.4	2,051.1	1,526.2	1,107.8
Shareholders' funds at 31 March	1,992.1	2,246.4	2,258.9	1,526.2

Notes to the accounts

1 Accounting policies

(a) Basis of preparation of financial statements

The consolidated financial statements set out on pages 48 to 69 incorporate the financial statements of United Utilities PLC and its subsidiary undertakings. The results of businesses acquired during the year are included from the date of acquisition, being the date that effective control passes. The financial statements 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.

In relation to the Norweb supply and distribution businesses, where there is an over-recovery of business revenues against the regulated maximum allowable amount revenues are deferred equivalent to the over-recovered amount. The deferred amount is deducted from turnover and included in creditors within accruals and deferred income. Where there is an under-recovery, no account is taken of any potential future recovery.

Credit sales charges in the Norweb retail and contracting businesses are apportioned over the period of the sales agreements so as to produce an approximate constant periodic rate of return on the outstanding debt.

(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 financial statements 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. Past fair value adjustments include provisions for reorganisation and restructuring costs. In accordance with Financial Reporting Standard 7, reorganisation and restructuring costs are no longer included in fair value adjustments. 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 water and wastewater 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	5–80 years
Fixtures, fittings, tools and equipment	3–40 years
Pre-1974 assets of North West Water Limited	22–27 years

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

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

(g) **Grants and contributions**

Capital contributions towards infrastructure assets are deducted from the cost of those assets. This is not in accordance with Schedule 4 to the Companies Act 1985 under which the infrastructure assets should be stated at their purchase price or production cost and the capital contributions treated as deferred income and released to profit and loss account over the useful life of the corresponding assets. The directors are of the opinion that, as infrastructure assets have no finite economic lives (see note (f) above) and the capital contributions would therefore remain in the balance sheet in perpetuity, the treatment otherwise required by the Companies Act 1985 would not present a true and fair view of the Group's effective investment in infrastructure assets.

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

(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 on a straight line basis over the period of the lease.

(i) **Fixed asset investments**

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

(j) **Current asset investments**

Current asset investments are stated at the lower of cost and net realisable value.

(k) **Stocks**

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

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

Finished goods and goods for resale are stated at the lower of cost, including appropriate production overheads, and net realisable value.

(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 is recognised in the consolidated profit and loss account 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 exceptional items, interest and tax and net operating assets for each class of business and by geographical origin are:

	Turnover		Profit before exceptional items, interest and tax		Net operating assets	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
By business area:						
Water and wastewater operations	828.2	778.6	387.6	348.3	3,236.5	2,960.8
Customer rebates and discretionary initiatives	-	-	(23.4)	-	-	-
	828.2	778.6	364.2	348.3	3,236.5	2,960.8
Electricity distribution operations	154.1	-	70.4	-	1,004.7	-
Electricity supply operations	596.9	-	10.8	-	(45.5)	-
Other energy and telecommunications	11.8	-	(1.7)	-	0.6	-
International operations	9.9	7.3	5.9	3.0	8.1	8.0
Other activities	61.2	36.2	(1.4)	(7.5)	54.2	4.4
	1,662.1	822.1	448.2	343.8	4,258.6	2,973.2
International development	-	-	(8.9)	(7.8)	0.3	(3.7)
	1,662.1	822.1	439.3	336.0	4,258.9	2,969.5
Proposed disposals:						
Process Equipment	172.0	163.1	7.9	7.8	82.9	67.4
Norweb Retail	129.8	-	6.0	-	165.9	-
Norweb Contracting	10.8	-	0.5	-	8.3	-
Norweb Generation	2.5	-	11.1	-	(3.1)	-
Disposed contracting businesses	8.5	26.6	(0.6)	0.6	-	(2.2)
Inter-business eliminations	(147.1)	-	-	-	-	-
	1,838.6	1,011.8	464.2	344.4	4,512.9	3,034.7
Business restructuring	-	-	(123.8)	-	-	-
	1,838.6	1,011.8	340.4	344.4	4,512.9	3,034.7
By geographical origin:						
United Kingdom	1,629.6	848.6	355.0	339.7	4,447.4	2,978.3
Europe	24.7	25.2	4.9	2.4	10.4	5.5
The Americas	124.9	117.1	(19.6)	2.6	50.9	41.2
Rest of the world	59.4	20.9	0.1	(0.3)	4.2	9.7
Group total	1,838.6	1,011.8	340.4	344.4	4,512.9	3,034.7

- (i) Profit before exceptional items, interest and tax comprises operating profit amounting to £327.6 million (1995 - £340.5 million) and share of profits of associated undertakings £12.8 million (1995 - £3.9 million).
- (ii) The inter-business eliminations totalling £147.1 million comprise £139.3 million within the Norweb businesses and £7.8 million from those businesses to water and wastewater operations. In addition, intra-Group sales of £9.5 million (1995 - £16.8 million) have been eliminated in arriving at the segmental analysis of turnover. These sales are primarily within the process equipment business and from that business segment to water and wastewater operations.
- (iii) The geographical destination of turnover does not differ materially from the geographical origin analysis above.
- (iv) Net operating assets comprise fixed assets and net current (liabilities)/assets excluding net borrowings, investments, taxation and dividends.
- (v) Business restructuring costs of £123.8 million have not been allocated across the above business segments because they have been calculated by reference to the Group structure effective from 1 April 1996. £103.8 million relates to the integration of NORWEB plc and £20.0 million is for business restructuring in the Process Equipment Division.

Notes to the accounts continued

3 Net operating costs

	1996 £m	1995 £m
Employee costs:		
Wages and salaries	209.5	165.1
Social security costs	24.0	18.5
Pension contributions (note 23)	20.3	13.7
	253.8	197.3
Capital schemes	(35.3)	(34.3)
Infrastructure renewals	(4.9)	(6.1)
	213.6	156.9
Depreciation:		
Owned fixed assets	94.0	68.5
Fixed assets held under finance leases	9.1	8.6
	103.1	77.1
Infrastructure renewals expenditure	66.4	66.2
Other operating costs:		
Auditors' remuneration	0.3	0.3
Research and development	8.2	8.6
Operating leases – hire of plant and machinery	4.6	3.8
– land and buildings	8.1	2.2
Restructuring charge	–	11.8
Customer rebates	18.3	–
Exceptional business restructuring	123.8	–
Other operating costs	973.6	349.1
Other income (note 4)	(9.0)	(4.7)
	1,127.9	371.1
Total net operating costs	1,511.0	671.3

Fees payable to KPMG and overseas associates of the UK firm for non-audit services in 1996 were £0.8 million (1995 – £0.1 million), of which £0.7 million (1995 – nil) related to their work on the NORWEB acquisition and these fees are included within the cost of the investment. During the year, KPMG received no fees for management consultancy within the United Kingdom.

4 Other income

	1996 £m	1995 £m
Profit on disposal of fixed assets	1.8	2.5
Net rents receivable	3.2	1.8
Management fees	2.1	–
Other	1.9	0.4
	9.0	4.7

Notes to the accounts continued

5 Employees

	1996	1995
Average number of persons employed by the Group	10,237	7,871
Water and wastewater operations	4,770	5,342
Electricity distribution and supply operations	1,781	-
Other energy and telecommunications	94	-
International operations	174	150
Other activities	224	167
Proposed disposals:		
Process Equipment	1,976	2,071
Norweb Retail	987	-
Norweb Contracting	175	-
Norweb Generation	11	-
Disposed contracting business	45	141

6 Net interest payable

	1996 £m	1995 £m
Interest payable:		
On bank loans, overdrafts and other loans:		
Repayable within 5 years	26.8	7.2
Repayable wholly or partly in more than 5 years	49.8	31.4
	76.6	38.6
On finance leases	17.9	22.6
Total interest payable	94.5	61.2
Interest receivable	(19.5)	(14.3)
Net interest payable	75.0	46.9

7 Taxation

	1996 £m	1995 £m
UK corporation tax at 33%	-	-
Overseas tax	2.8	2.6
Unrelieved advance corporation tax	45.4	22.2
	48.2	24.8

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

The full potential deferred tax liability is:

Accelerated tax allowances on buildings, plant and equipment		
Infrastructure assets	395.0	345.0
Other assets	363.7	146.0
Losses and other timing differences	(161.6)	(100.3)
	597.1	390.7
Advance corporation tax recoverable	(191.0)	(107.1)
	406.1	283.6

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.

Notes to the accounts *continued*

8 Dividends

	1996 £m	1995 £m
Special dividend of 3.8 pence (1995 – nil)	13.0	–
Interim dividend of 9.27 pence (1995 – 8.35 pence)	48.4	28.9
Final dividend of 19.59 pence recommended (1995 – 17.20 pence)	102.4	65.0
	163.8	93.9

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

9 Earnings per share

	1996	1995
Net basis:		
Profit for financial year attributable to ordinary shareholders	£224.4m	£259.2m
Earnings per ordinary share	51.7p	66.9p
	£m	£m
Adjusted earnings per share:		
Profit for financial year attributable to ordinary shareholders	224.4	259.2
Adjustments:		
Business restructuring	123.8	–
(Profit)/Loss on disposal of businesses	(7.2)	13.5
Adjusted profit for financial year attributable to ordinary shareholders	341.0	272.7
Adjusted earnings per ordinary share	78.5p	70.4p
Nil basis:		
Profit on ordinary activities after the elimination of the charge for unrelieved advance corporation tax	£269.8m	£281.4m
Earnings per ordinary share	62.1p	72.7p
	£m	£m
Adjusted earnings per share:		
Profit on ordinary activities after the elimination of the charge for unrelieved advance corporation tax	269.8	281.4
Adjustment:		
Business restructuring	123.8	–
(Profit)/Loss on disposal of businesses	(7.2)	13.5
Adjusted profit on ordinary activities after the elimination of the charge for unrelieved advance corporation tax	386.4	294.9
Adjusted earnings per ordinary share	89.0p	76.1p

The adjustment to profit and earnings per share has been made to eliminate the impact of non-recurring items.

Earnings per ordinary share and the adjusted earnings per ordinary share on the net basis have been calculated by dividing profit and the adjusted profit for the financial year attributable to ordinary shareholders by 434.3 million, being the weighted average number of shares in issue during the year (1995 – 387.3 million, restated from 374.7 million to reflect the bonus element of the 1995/96 rights issue).

Earnings per ordinary share and the adjusted earnings per ordinary share on the nil basis are calculated by eliminating the taxation charge of £45.4 million (1995 – £22.2 million) in respect of unrelieved advance corporation tax.

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

10 Tangible fixed assets

Group:	Land and buildings	Infra-structure 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:							
At 1 April 1995	138.5	1,355.0	1,126.9	363.0	177.4	390.1	3,550.9
Arising on acquisition of NORWEB	90.0	-	1,299.2	167.5	-	-	1,556.7
Additions	10.3	33.8	53.3	34.8	-	298.3	430.5
Grants and contributions	-	(2.7)	-	-	-	-	(2.7)
Transfers	40.4	5.9	22.8	13.8	-	(83.2)	(0.3)
Disposals	(12.3)	-	(18.2)	(16.8)	-	-	(47.3)
Exchange adjustments	0.2	0.1	-	0.4	-	-	0.7
At 31 March 1996	267.1	1,392.1	2,484.0	562.7	177.4	605.2	5,488.5
Depreciation:							
At 1 April 1995	21.9	-	162.8	157.3	116.6	-	458.6
Arising on acquisition of NORWEB	19.3	-	413.2	110.0	-	-	542.5
Charge for the year	6.9	-	46.5	44.3	5.4	-	103.1
Disposals	(0.4)	-	(17.9)	(15.1)	-	-	(33.4)
Exchange adjustments	-	-	-	0.2	-	-	0.2
At 31 March 1996	47.7	-	604.6	296.7	122.0	-	1,071.0
Net book value:							
At 31 March 1996	219.4	1,392.1	1,879.4	266.0	55.4	605.2	4,417.5
At 31 March 1995	116.6	1,355.0	964.1	205.7	60.8	390.1	3,092.3

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 £69.3 million (1995 - £66.6 million) lower than it would have been had this treatment not been adopted.

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

	1996 £m	1995 £m
Cost:		
Operational structures		
Fixtures, fittings, tools and equipment	250.8	250.8
At 31 March	276.9	277.6
Accumulated depreciation:		
Operational structures		
Fixtures, fittings, tools and equipment	47.1	40.5
At 31 March	65.1	56.3
Net book value:		
Operational structures		
Fixtures, fittings, tools and equipment	203.7	210.3
At 31 March	8.1	11.0
At 31 March	211.8	221.3

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1996. Pre-1974 assets comprise a pool of assets which was transferred to the Group from North West Water Authority, which the Group 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.

Notes to the accounts continued

	1996 £m	1995 £m
Capital commitments:		
Contracted but not provided for	426.0	268.7
Authorised but not yet contracted for	174.4	103.4
Company		Fixtures, fittings, tools and equipment £m
Cost:		
At 1 April 1995		3.4
Additions		1.5
Transfers		(0.3)
At 31 March 1996		4.6
Depreciation:		
At 1 April 1995		0.7
Charge for the year		0.5
At 31 March 1996		1.2
Net book value:		
At 31 March 1996		3.4
At 31 March 1995		2.7

11 Fixed asset investments

Group	Associated undertakings		Other investments				Total £m
	Unlisted £m	Loans £m	Unlisted £m	Loans £m	Listed £m	Other £m	
Cost:							
At 1 April 1995	9.1	-	1.5	-	-	-	10.6
Arising on acquisition of NORWEB	17.4	0.5	311.5	4.1	14.8	24.0	372.3
Additions	7.8	18.0	-	-	3.0	-	28.8
Share of profits	12.6	-	-	-	-	-	12.6
Disposals	-	-	(311.5)	-	-	-	(311.5)
Loan repayment	-	-	-	(0.9)	-	(0.2)	(1.1)
Profit and loss account	-	-	-	-	-	(2.4)	(2.4)
Exchange	1.7	-	-	-	-	-	1.7
At 31 March 1996	48.6	18.5	1.5	3.2	17.8	21.4	111.0

A list of the Group's principal operating subsidiaries and associated undertakings is shown on pages 61 and 62.

Share of profits is stated after a taxation charge of £0.2 million.

Included within other investments are:

- (i) a 20 per cent interest in Lakeland Power Limited. In the opinion of the directors they are unable to exercise significant influence over this company and accordingly it is accounted for as a trade investment;
- (ii) the listed investments held by Carefree Insurance Limited which had a market value of £17.9 million at 31 March 1996; and
- (iii) other investments, including own shares held in the ESOP trusts (see note 21).

Company	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Cost:			
At 1 April 1995			
Additions	1,216.2	0.4	1,216.6
Disposals	1,433.2	-	1,433.2
	(20.0)	-	(20.0)
At 31 March 1996	2,629.4	0.4	2,629.8

Notes to the accounts *continued*

Details of principal operating subsidiary and associated undertakings, all of which are unlisted, are detailed below. These subsidiary undertakings are included within the consolidated Group financial statements. 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
<i>Subsidiary undertakings:</i>			
Great Britain:			
North West Water Limited	Ordinary	100%	Water supply and sewerage services
North West Water International Limited	Ordinary	100%	Consulting services and project management
Wallace & Tiernan Limited	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Edwards and Jones Limited	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
NORWEB plc	Ordinary	100%	Provision of energy and related services
Northern Hydro Limited	Ordinary	100%*	Electricity generation
Norweb Generation Limited	Ordinary	100%*	Investment in electricity generation
South West Stores Limited	Ordinary	100%*	Investment in retailing
Norweb CPS Limited	Ordinary	100%*	Installation and sale of combined heat and power equipment
CPS (Central) Limited	Ordinary	100%*	Installation and sale of combined heat and power equipment
Norweb Gas Limited	Ordinary	75%*	Sale of gas
Isle of Man:			
Carefree Insurance Limited	Ordinary	100%*	Provision of re-insurance services
Talbot Insurance Limited	Ordinary	100%*	Provision of insurance services
Republic of Ireland:			
Norweb North America Corporation	Ordinary	100%*	Investment
USA:			
Envirex Inc	Ordinary	100%*	
General Filter Company Inc	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Wallace & Tiernan Inc	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Consolidated Electric Company	Ordinary	100%*	
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%*	Suppliers of equipment for water and wastewater treatment processes
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

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 United Utilities PLC except where marked with an asterisk where they are held by subsidiary undertakings.

Notes to the accounts *continued*

4

	Class of share capital held	Proportion of share capital owned/voting rights	Nature of business
<i>Associated undertakings:</i>			
Great Britain:			
International Water Limited	Ordinary	50%*	Investment in water and wastewater services
Keadby Power Limited	Ordinary	50%*	Electricity generation
Norweb Land Fill Gas Limited	Ordinary	50%*	Electricity generation
Combined Power Systems Ltd	Ordinary	29.9%*	Installation and sale of combined heat and power equipment
USA:			
Gordonville Energy Limited Partnership	Ordinary	50%*	Electricity generation
US Water Inc	Ordinary	50%*	Contract operations and maintenance services
Australia:			
Yan Yean Water Pty Limited	Ordinary	50%*	Water treatment operations
NWT Water Pty Limited	Ordinary	50%*	
Malaysia:			
Indah Water Operations SDN BHD	Ordinary	50%*	Wastewater network and treatment operations
Mexico:			
Agua de Mexico SA de CV	Ordinary	49%*	Technical and management services
Spain:			
CIDA Hidroquímica 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 United Utilities PLC except where marked with an asterisk where they are held by subsidiary undertakings.

The Group reduced its proportion of share capital owned in US Water Inc from 100 per cent to 50 per cent on 29 March 1996. The financial statements for 1996 fully consolidate the results of US Water Inc for the period 1 April 1995 to 29 March 1996.

Notes to the accounts continued

12 Purchase of subsidiary

The Group acquired NORWEB plc on 8 November 1995 and the acquisition method of accounting has been adopted. The analysis of net assets acquired and the fair value to the Group is as follows:

	Book value £m	Revaluation £m	Accounting policy alignment £m	Other £m	Fair value to Group £m
Tangible fixed assets	779.3	234.9	—	—	1,014.2
Investments	147.4	247.6	—	—	395.0
Stocks	68.4	—	(3.7)	—	64.7
Debtors	248.2	—	(14.7)	(21.1)	212.4
Cash and cash equivalents	254.9	—	—	—	254.9
Creditors falling due within one year	(281.0)	(48.0)	—	4.0	(325.0)
Creditors falling due after more than one year	(517.7)	(32.5)	—	—	(550.2)
Provisions for liabilities and charges	(44.2)	(1.0)	(1.3)	(217.9)	(264.4)
Net assets before special dividend	655.3	401.0	(19.7)	(235.0)	801.6
Special dividend, including advance corporation tax	(195.6)	—	—	—	(195.6)
Net assets	459.7	401.0	(19.7)	(235.0)	606.0
Consideration:					
Cash					1,463.2
Shares allotted					197.0
Share option obligations					22.7
Total consideration					1,682.9
Goodwill arising					1,076.9

Explanations of the major fair value adjustments in the above table are given in the financial review on pages 12 and 13.

The fair value adjustment of £217.9 million relating to provisions for liabilities and charges includes £173.2 million in respect of onerous gas and electricity contracts.

The fair value adjustments are provisional and may be subject to revision in the 1996/97 accounts. Any adjustments made will be reflected in the goodwill calculation.

The consolidated profit and loss statements of NORWEB plc for the period 1 April 1995 to 7 November 1995 and the year ended 31 March 1995 are set out below. They do not constitute the statutory accounts of NORWEB plc. The information for 1995 is derived from the statutory accounts for that year of NORWEB plc on which the auditors, Binder Hamlyn, reported and which were unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985. The statutory accounts for 1995 of NORWEB plc have been delivered to the Registrar of Companies.

	1 April 1995 to 7 November 1995 £m	Year ended 31 March 1995 £m
Turnover	768.7	1,510.6
Operating costs	(698.4)	(1,312.2)
Operating profit	70.3	198.4
Income from fixed asset investments	7.7	17.0
Share of losses of associated undertakings	(4.5)	(1.0)
Net interest payable	(10.5)	(9.0)
Profit on ordinary activities before taxation	63.0	205.4
Taxation on profit on ordinary activities	—	(51.7)
Profit on ordinary activities after taxation	63.0	153.7
Equity minority interests	0.1	(0.1)
Profit attributable to ordinary shareholders	63.1	153.6

There is no difference between profit for the year and total recognised gains and losses.

Notes to the accounts continued

13 Stocks

	Group	
	1996 £m	1995 £m
Stores	20.7	8.9
Work in progress	16.7	13.7
Finished goods and goods for resale	53.9	14.9
	91.3	37.5

14 Debtors

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Amounts falling due within one year:				
Trade debtors	244.7	132.5	–	–
Amounts owed by subsidiary undertakings	–	–	295.8	572.8
Amounts owed by associated undertakings	2.1	–	–	–
Other debtors	51.6	15.3	–	–
Prepayments and accrued income	188.5	64.6	5.8	1.8
Amounts recoverable under contracts	7.5	5.3	–	–
	494.4	217.7	301.6	574.6
Amounts falling due after more than one year:				
Amounts owed by associated undertaking	–	3.2	–	–
Other debtors	38.3	3.3	–	–
	38.3	6.5	–	–
Total debtors	532.7	224.2	301.6	574.6

15 Current asset investments

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Managed funds and short term deposits	240.4	211.1	–	–
Other current asset investments	33.4	14.5	35.7	9.8
	273.8	225.6	35.7	9.8

Notes to the accounts continued

16 Creditors: amounts falling due within one year

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Loans	16.7	31.8	-	-
Bank overdrafts and temporary borrowings	981.0	58.2	264.3	-
Trade creditors	196.8	42.8	-	-
Amounts owed to subsidiary undertakings	-	-	178.7	112.8
Obligations under finance leases	9.2	8.1	-	-
Dividends	103.0	65.4	103.0	65.4
Other creditors	1.6	1.8	-	-
Taxation and social security	56.9	6.5	40.0	-
Infrastructure renewals accrual	10.1	15.8	-	-
Accruals and deferred income	337.9	263.1	13.5	9.0
Advance corporation tax	83.1	23.4	25.7	23.4
	1,796.3	516.9	625.2	210.6

17 Creditors: amounts falling due after more than one year

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Loans	833.2	525.1	79.1	62.6
Obligations under finance leases	210.7	219.9	-	-
Other creditors	48.7	11.4	-	-
Deferred grants and contributions (note 18)	175.1	33.2	-	-
	1,267.7	789.6	79.1	62.6

18 Deferred grants and contributions

	£m
At 1 April 1995	33.2
Arising on acquisition of NORWEB	134.6
Received in the year	13.7
Credit to profit and loss account for the year	(6.4)
At 31 March 1996	175.1

19 Provisions for liabilities and charges

	Group			Company
	Restructuring £m	Other £m	Total £m	Other £m
At 1 April 1995	38.2	15.9	54.1	4.3
Arising on acquisition of NORWEB	50.3	214.1	264.4	-
Utilised	(31.1)	(19.1)	(50.2)	-
Profit and loss account	123.8	18.0	141.8	3.0
Exchange adjustment	0.2	-	0.2	-
At 31 March 1996	181.4	228.9	410.3	7.3

Other provisions at 31 March 1996 amounting to £228.9 million include £201.4 million arising from fair value adjustments on the acquisition of NORWEB plc, of which £173.2 million relates to onerous gas and electricity contracts.

Notes to the accounts continued

20 Borrowings

Group	Loans and overdrafts			Finance leases £m	1996 Total £m	1995 Total £m
	Repayable by instalments partly after 5 years £m	Wholly repayable after more than 5 years £m	Wholly repayable within 5 years £m			
Within one year	16.4	–	981.3	9.2	1,006.9	98.1
Between one and two years	21.4	–	–	5.8	27.2	25.6
Between two and five years	85.4	–	109.3	4.9	199.6	157.0
After more than five years	210.9	406.2	–	200.0	817.1	562.4
	334.1	406.2	1,090.6	219.9	2,050.8	843.1

Loans repayable by instalments partly after five years and loans wholly repayable after more than 5 years comprise bank and other loans repayable between 2001 and 2053. Interest rates range from 6.65 per cent to 14.83 per cent on £535.0 million and are at floating rates on £205.3 million.

Company

The company has loans totalling £407.8 million (1995 – £174.5 million) of which £64.4 million is owed to Group undertakings and falls due within one year. The remaining loans totalling £343.4 million comprise £264.4 million falling due within one year, £16.4 million repayable in 1998 and £62.6 million repayable in 2001. The loans repayable in 1998 are at floating rates of interest, as is £42.6 million of the £62.6 million repayable in 2001. The balance of £20.0 million is at 11.625 per cent.

21 Share capital and share premium accounts

The authorised share capital at 31 March 1995 was £475,000,001 divided into 475,000,000 ordinary shares of £1 each and one special rights redeemable preference share of £1. By an ordinary resolution passed at the extraordinary general meeting of the company held on 13 October 1995, which became unconditional on 8 November 1995, the authorised share capital was increased to £660,000,001 by the creation of 185,000,000 new ordinary shares of £1 each. The special rights redeemable preference share was redeemed on 31 December 1994 and a resolution will be proposed at the 1996 annual general meeting to cancel that share.

The allotted and fully paid share capital of the company at 31 March 1996 was 523,068,903 ordinary shares (377,092,424 ordinary shares at 31 March 1995).

The movements on the allotted and fully paid share capital and the share premium accounts were:

	Shares million	Share capital £m	Share premium £m
At 1 April 1995	377.1	377.1	3.0
Issued under share option and sharesave schemes	2.0	2.0	4.0
Issued in lieu of cash dividends	2.0	2.0	–
Issue of shares in NORWEB offer	34.0	34.0	163.0
Issue of shares by rights issue	108.0	108.0	458.9
Share issue costs	–	–	(13.9)
At 31 March 1996	523.1	523.1	615.0

2,022,287 ordinary shares were allotted during the year ended 31 March 1996 following the exercise of options in accordance with the rules of the employee sharesave scheme, the executive option scheme and the NORWEB sharesave scheme for a total consideration of £6.0 million.

On 3 October 1995 1,394,204 ordinary shares and on 16 February 1996 607,739 ordinary shares were issued to ordinary shareholders who elected under the company's share dividend plan to receive shares instead of cash for the final dividend for the year ended 31 March 1995 and for the special and the interim dividends for the year ended 31 March 1996.

33,978,680 ordinary shares were allotted during the year ended 31 March 1996 as consideration for the acquisition of NORWEB plc and 107,973,569 ordinary shares were allotted under the associated two part rights issue made by the company.

Since 31 March 1996, 150,292 shares have been allotted on the exercise of options and at 3 June 1996, the company's issued share capital, credited as fully paid, was 523,219,195.

Notes to the accounts

The company has two share option schemes – an employee sharesave scheme available to all eligible employees and an executive share option scheme currently for executive directors and senior executives. 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. Further reference relating to the share option schemes is contained in the Remuneration Committee's report.

In respect of options granted prior to 18 September 1995, the numbers of options granted (and exercise prices) were adjusted during the year ended 31 March 1996, on a basis agreed with the Inland Revenue and which in the opinion of the company's auditors was fair and reasonable, to reflect the two parts rights issue offered to shareholders in connection with the acquisition of NORWEB plc. In the table below, the numbers of options shown at 31 March 1996 and the associated exercise prices are the adjusted figures. The numbers of options at 31 March 1995 have not been adjusted. Options outstanding under the two share option schemes at 31 March, together with their exercise prices and dates, were:

	1996	1995	Exercise price	Normal dates of exercise
Employee sharesave scheme	816,629	955,973	170.2p	1997
	436,352	1,066,356	244.3p	1996 or 1998
	1,233,084	1,470,953	269.9p	1997 or 1999
	718,350	884,642	369.5p	1998 or 2000
	655,532	811,684	440.6p	1999 or 2001
	1,022,604	1,304,948	404.8p	2000 or 2002
	1,368,801	–	481.0p	2001
Executive option scheme	37,730	66,000	268.9p	1993 to 2000
	–	36,800	277.1p	1993 to 2000
	42,634	96,900	305.2p	1993 to 2000
	–	54,500	319.2p	1994 to 2001
	320,558	579,732	324.1p	1995 to 2002
	289,733	358,528	275.7p	1997 to 2002
	75,187	296,245	392.7p	1995 to 2002
	95,023	98,744	334.2p	1997 to 2002
	415,620	503,938	463.4p	1996 to 2003
	165,112	167,963	394.2p	1998 to 2003
	355,592	347,577	446.9p	1996 to 2003
	118,507	115,851	380.2p	1998 to 2003
	836,776	825,543	566.9p	1997 to 2004
	273,564	273,916	482.2p	1999 to 2004
	315,521	305,241	530.1p	1997 to 2004
	105,157	101,741	450.8p	1999 to 2004
	576,887	561,199	479.8p	1997 to 2004
	192,191	186,999	408.2p	1999 to 2004
	207,576	–	564.0p	1998 to 2005
	69,187	–	479.8p	2000 to 2005
	408,500	–	584.5p	1998 to 2005
	11,152,407	11,471,973		

In the year ended 31 March 1996, options were granted under the two option schemes in respect of 2,050,208 ordinary shares and options for a total of 1,996,447 ordinary shares were exercised. Of these, options for 790,868 ordinary shares were exercised after the making of adjustments to the numbers of shares and the exercise prices following the rights issue, and options for 1,205,579 ordinary shares were exercised before those adjustments were made.

A further opportunity to join the employee sharesave scheme was offered during the year and options were granted under the executive share option scheme and the overseas executive share option scheme.

Notes to the accounts *continued*

In connection with the acquisition of NORWEB, employees participating in the NORWEB sharesave scheme were offered the opportunity of replacing their options for NORWEB shares with options of an equivalent value for United Utilities shares. Options for United Utilities shares outstanding under the NORWEB scheme at the date of conversion from NORWEB to United Utilities options, together with their exercise prices and dates, were:

	Options outstanding	Exercise price	Normal date of exercise
	7,245,672	85.91p	1996
	5,790,077	308.29p	2000

Between conversion of the options and 31 March 1996, no options have been granted under the NORWEB sharesave scheme and at 3 June 1996 options over 5,647,381 shares remained outstanding under the NORWEB sharesave scheme.

In 1993, two independently managed ESOP trusts were formed to purchase NORWEB shares to be used to meet some of the future obligations under the NORWEB employee share option schemes. As part of the process of the acquisition of NORWEB by the company, the trustee sold the NORWEB shares then held and part of the proceeds were used to purchase United Utilities shares to be held similarly to meet obligations under the NORWEB sharesave scheme. Since 1 March 1996 and up to 3 June 1996, 7,032,040 ordinary shares of the company have been transferred out of one trust to NORWEB employees on the exercise of options. The balance of trust assets will be used to satisfy some of the options still outstanding under the NORWEB sharesave scheme. All finance costs and administration expenses connected with the operation of the trusts are written off to the profit and loss account as they accrue. The number of shares held in the ESOP at 31 March 1996 was 314,046 with a market value of £1,940,804.28 based on the mid market price of a share at that date of 618.0 pence. All dividends have been waived in accordance with a deed of waiver between NORWEB plc and Norweb ESOP Limited as trustee. All shares held in the ESOP are under option to employees of NORWEB plc.

22 Profit and loss account

	Group £m	Company £m
At 1 April 1995	1,866.3	1,146.1
Retained profit/(loss) for the year	60.6	(33.8)
Goodwill loss on disposal	2.1	—
Goodwill arising on the acquisition of NORWEB plc	(1,076.9)	—
Shares issued in lieu of cash dividends	8.4	8.4
Exchange adjustments	(6.5)	0.1
At 31 March 1996	854.0	1,120.8

Cumulative goodwill arising on the acquisition of subsidiary undertakings written off to the profit and loss account amounts to £1,208.8 million (1995 – £134.0 million).

As allowed by section 230 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 £130.0 million, after accounting for dividends receivable from subsidiary undertakings of £179.9 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), the Water Pension Scheme (WPS) and the Electricity Supply Pension Scheme (ESPS). The assets of these schemes are held in trust funds independent of Group finances.

For the WMIS and WPS, 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.

Notes to the accounts continued

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 £316.4 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.

Most employees of NORWEB plc who joined prior to 1 October 1991 are members of the ESPS, a defined benefit scheme. This scheme is now closed to new employees.

The latest full actuarial valuation of NORWEB's section of the ESPS was carried out by Bacon & Woodrow, consulting actuaries, as at 31 March 1995. The attained age method was used for the valuation and the principal actuarial assumptions adopted for average annual growth rates were investment returns 9 per cent, salary increases (exclusive of merit awards) 6.5 per cent and pensions increases 5 per cent.

The total market value of NORWEB's share of the net assets of the ESPS at 31 March 1995 was £662.3 million.

The valuation showed that the actuarial value of the assets of NORWEB's section of the ESPS as at 31 March 1995 represented 112.8 per cent of the actuarial value of the accrued benefits. This is within the statutory maximum. The accrued benefits include all benefits for pensioners and other former members as well as benefits based on service completed to date for active members, allowing for future salary rises. In deriving the pension cost, the surplus remaining after benefit improvements is being spread over the future working lifetime of the 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 £20.3 million (1995 - £13.7 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 £1.6 million has been actuarially determined and was fully provided for on acquisition of the subsidiary undertakings.

Information about the pension arrangements for executive directors is contained in the Remuneration Committee's report.

24 Operating leases

Subsidiary undertakings are committed to making the following payments during the year ending 31 March 1997:

	Land and buildings £m	Plant and machinery £m
Leases which expire:		
Within one year	1.1	1.0
Between two and five years	2.7	5.2
After five years	8.6	0.2
	12.4	6.4

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 £675.5 million, including £480.0 million relating to North West Water Limited's loans from the European Investment Bank.

Five year summary

	1992 £m	1993 £m	1994 £m	1995 £m	1996 £m
Profit and loss accounts					
Turnover	789	878	924	1,012	1,839
Net operating costs	(543)	(590)	(600)	(671)	(1,511)
Operating profit	246	288	324	341	328
Share of (losses)/profits of associated undertakings	-	-	(2)	4	13
(Loss)/profit on disposal of businesses	-	-	-	(14)	7
Net interest payable	(16)	(41)	(53)	(47)	(75)
Profit before tax	230	247	269	284	273
Tax on profit on ordinary activities	(24)	(25)	(9)	(25)	(48)
Profit for financial year	206	222	260	259	225
Dividends	(70)	(76)	(86)	(94)	(164)
Transfer to reserves	136	146	174	165	61
Balance sheets					
Fixed assets	2,221	2,564	2,860	3,103	4,528
Net current assets/(liabilities)	39	18	40	(13)	(858)
Creditors falling due after more than one year	(499)	(674)	(788)	(790)	(1,268)
Provisions for liabilities and charges	(63)	(74)	(61)	(54)	(410)
	1,698	1,834	2,051	2,246	1,992
Ordinary share capital and share premium	356	358	373	380	1,138
Reserves and retained profits	1,342	1,476	1,678	1,866	854
	1,698	1,834	2,051	2,246	1,992

Shareholder information

Financial calendar

The 1996 annual general meeting will be held on Friday, 26 July 1996 at 10.30 am at the G-Mex Centre, Manchester. The notice of meeting is enclosed with this report, together with the separate leaflet containing explanatory notes about the resolutions to be proposed at the meeting.

Other forthcoming events are:

- payment of the 1996 final dividend, on 1 October 1996;
- payment of interest on the unsecured floating rate loan notes, on 18 September 1996;
- announcement of the half year results, in November 1996;
- payment of the 1997 interim dividend, in February 1997;
- payment of interest on the unsecured floating rate loan notes, on 18 March 1997;
- preliminary announcement of the full year results, in May 1997;
- publication of the annual report and accounts, in June 1997; and
- the annual general meeting, in July 1997.

Share dividend plan

The company offers shareholders the option to receive ordinary shares instead of cash dividends. This gives shareholders an opportunity to increase their shareholding in the company without the expense of dealing costs. The necessary election forms are sent to shareholders prior to the payment of the appropriate dividend. A "continuing election" arrangement is available to enable shareholders automatically to receive shares instead of cash whenever the share dividend plan is operated.

Payment of dividends by BACS

Payment of the company's dividends direct to a shareholder's bank or building society account is made through the BACS (Bankers' Automated Clearing Service) system. The benefit to shareholders is that tax vouchers are sent direct to them rather than to their bank or building society. If you have not already arranged to have your dividends paid direct to your bank or building society account and would like to do so, please contact the company's registrar, Lloyds Bank Registrars, 54 Pershore Road South, Kings Norton, Birmingham B30 3EP (telephone: 0121 433 8000), quoting reference number 813.

Enquiries about your shareholding

If you wish to enquire about or need any information about your shareholding in the company, please contact the company's registrar (at the address above), quoting reference number 813. Please also notify the registrar of any change to your name and/or address.

Amalgamation of your shareholding

If you have received more than one copy of this annual report, there may be more than one account in your name on the company's register of members. To amalgamate your holdings, please contact the company's registrar (at the address above) giving details of the accounts concerned and how you wish them to be amalgamated.

Personal equity plans (PEPs)

The United Utilities single company and corporate PEPs are managed by Halifax Investment Services Limited (a member of IMRO). They enable shareholders to hold their shares in the company in a tax efficient way. Details are available from the Plan Manager, Halifax Investment Services Limited, Halifax Building Society, Trinity Road, Halifax HX1 2RG (telephone: 01422 335991).

CREST

A new computerised system for settling share dealings, known as CREST, is currently being developed by the Bank of England. It will enable shares to be held in electronic form instead of the traditional paper share certificate. When the system is introduced in the near future there will be no change in shareholders' existing rights.

CREST is voluntary. Shareholders who wish to retain their paper share certificates can do so. This may be especially preferable for shareholders who do not trade frequently.

The directors anticipate that, subject to all the necessary requirements being met, dealings in the company's ordinary shares will begin to be settled in CREST during March 1997. Further information will be given to shareholders prior to formal entry into CREST.

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.

If you would like further information, please contact David Highet, Corporate Communications Director, at Dawson House, Great Sankey, Warrington WA5 3LW (telephone: 01925 234000).

Regulatory accounts

Copies of the separate regulatory accounts for the year ended 31 March 1996 for North West Water and for NORWEB, which are filed respectively with the Director General of Water Services and the Director General of Electricity Supply, are available free of charge. If you would like copies, please contact Peter Applewhite, Assistant Secretary, or Jane Lawton, Compliance Manager, also at Dawson House.

Unsolicited mail

The law obliges the company to make its register of members available to other organisations. Because of this, you may receive mail you have not asked for. If you wish to limit the amount of personally addressed unsolicited mail you receive, please write for information and an application form to the Mailing Preference Service, Freepost 22, London W1E 4EZ.

The paper used in the making of this annual report is recycled and contains a minimum of 10 per cent consumer de-inked waste. No chlorine or chlorine compound is used in the bleaching process. It is ECF (elemental chlorine free).

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