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The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.

Companies House would like to apologies for any inconvenience this may cause.



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Personnel & Training

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AWARDED FOR EXCELLENCE



INVESTOR IN PEOPLE

CHPM 4 (07/02)

Operational review

During the year we continued to deliver further improvements in customer service and financial performance.

Efficiency savings, good cash management and a reduction in the restructuring charge led to an 11.6 per cent rise in profit before tax to £32.8 million while improving customer service.

We also carried out extensive preparation for the industry's price review by the Director General of Water Services. In preparing our business plan for the next ten year period we have consulted with our customers and worked closely with our regulators to balance quality and costs.

Following the Director General's price determination in late July this year, we will be publishing a document explaining our plans and their implications for customers' charges.

Increasing efficiency During the year, the Office of Water Services published *Independent analysis, based on 1992/93 operating costs, of the relative efficiency of the water companies in England and Wales, for water, excluding exceptional costs.* North West Water was first out of the 52 water companies, with costs 17 per cent below the industry average. For wastewater we were first out of the ten wastewater

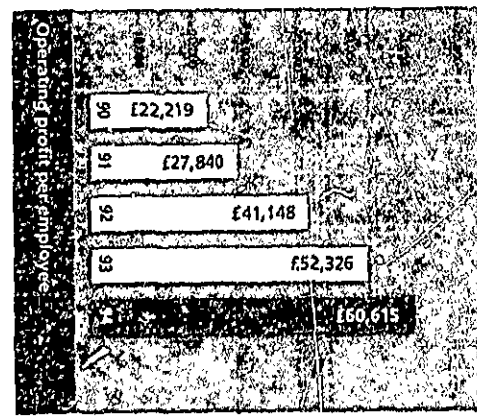
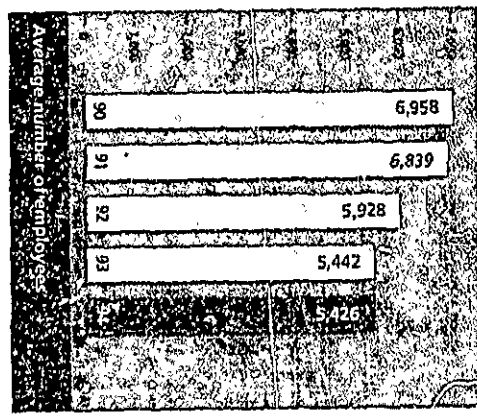
companies with costs 13 per cent below the industry average.

These results are evidence of the progress made since privatisation in reducing our operating cost base. We are now reaching the end of our first phase of restructuring with a reduction of around 25 per cent in employee numbers since 1989.

During the year, new investment programme management, procurement, human resources, financial and operational management systems were introduced.

We have also started the phased move of employees to the new centralised facility for customer services, training, data processing and laboratory services at Lingley Mere in Warrington. The new laboratory, which will become fully operational in 1994/95, replaces eight smaller laboratories around the region.

This is one of the most advanced and highly automated laboratories in the country and will carry out around three million measurements a year. A small laboratory service has been retained in Cumbria to provide microbiological services for the far north of our region. The drive to increase efficiency whilst



improving service standards will continue. We anticipate further savings, particularly from 1995/96 as we continue the restructuring of our operations which will further reduce layers of management and devolve responsibility. The new structure, based on geographical areas, will draw together water and wastewater responsibilities under the control of territory managers.

Investing in the North West. Since 1989, North West Water has spent more than £2 billion on improvements to the region's water and wastewater system to overcome past, under-funding and meet new stringent quality standards. In the last five years this

programme, one of the largest in the water industry, has achieved all required quality outputs.

During the year, we completed improvements or extensions at six water treatment works, added 180 kilometres of new water mains, improved 620 kilometres of water mains, improved or extended 21 wastewater treatment works and added 209 kilometres of new sewers.

We also launched our Sea Change initiative, a £500 million investment to clean-up the coastal waters of the North West. This major engineering programme will ensure discharges at popular bathing resorts and other coastal areas meet European quality standards.

Profile information

Key points about North West Water
Our infrastructure enables us to supply 2,400 million litres of water and treat 2,600 million litres of wastewater every day for 6.8 million customers in a region covering more than 14,000 square kilometres. Our water and wastewater system includes:

- 168 supply reservoirs
- 127 water treatment works
- 522 service reservoirs
- 49,000 kilometres of water mains
- 679 wastewater treatment works
- 30,000 kilometres of sewers
- 1,475 wastewater pumping stations

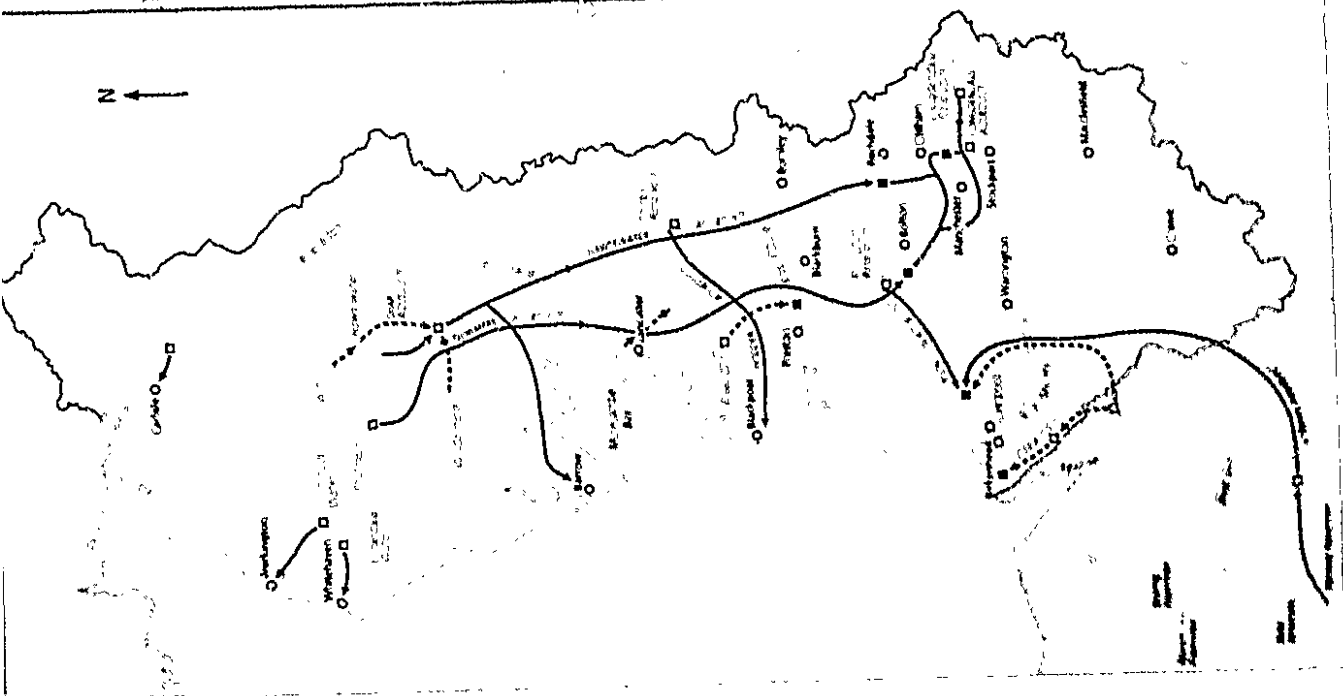
Map A: Sources of Water
Most of our drinking water in the North West comes from reservoirs in the Lake District, the Pennines, the Peak District and North Wales. We also use water from clean rivers and underground sources. The map shows major:

- Service reservoirs
- Water treatment works
- Capacity supply
- Pumped supply
- Detention of flow

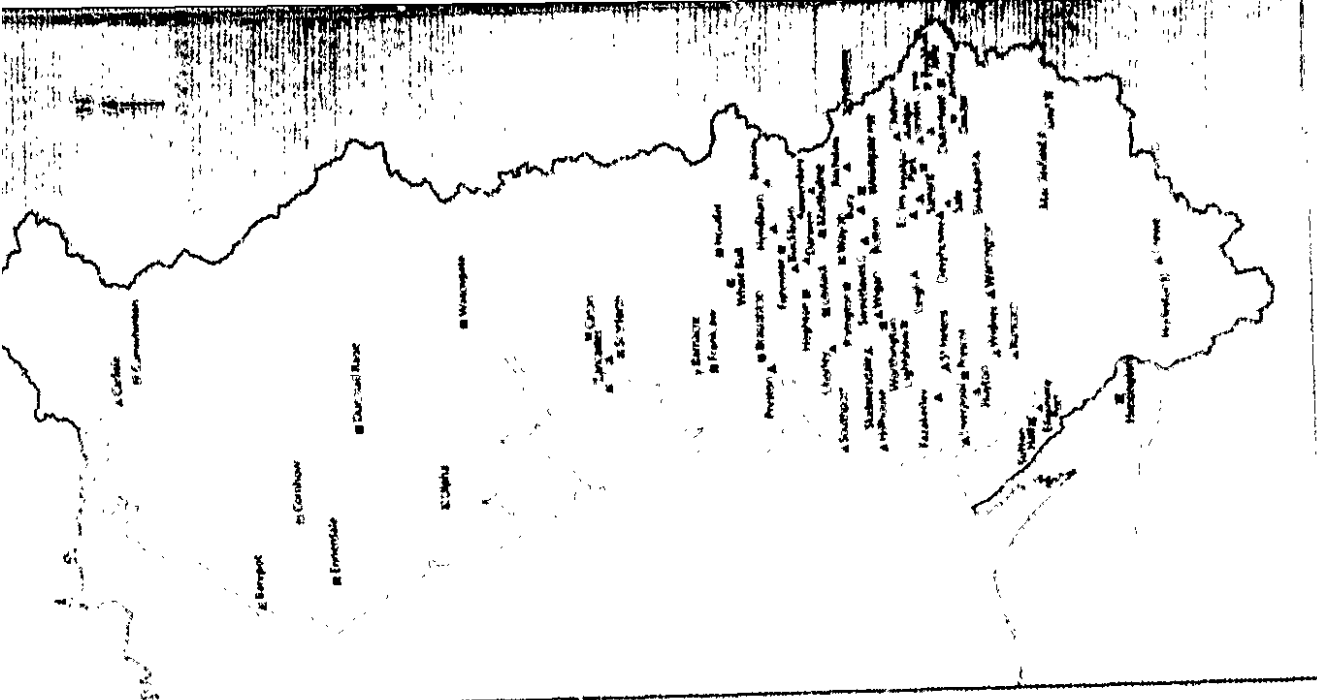
Map B: Water and Wastewater Treatment Works
The maps show water and wastewater treatment works with an output capacity of up to 20 million litres a day.

Output in megalitres per day (Ml/d):

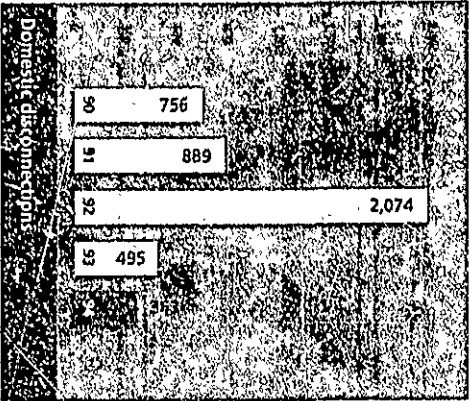
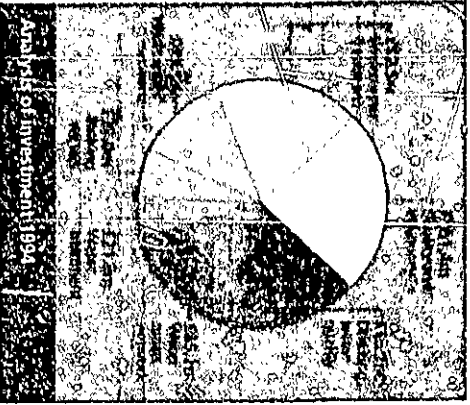
- Water treatment works
- ▲ Wastewater treatment works
- ▲ Over 100
- ▲ 50-100
- ▲ 20-50



Map A



Map B



On Lancashire's Fylde Coast, work has started on a £150 million scheme that will intercept and transfer previously untreated wastewater from Blackpool and Fleetwood to a wastewater treatment works. At Southport, where £75 million is being invested, work on a 5.2 kilometre interceptor tunnel was completed in December ahead of schedule and the major upgrading of the town's wastewater treatment plant is progressing well.

Other major projects under way include a new water treatment plant, service reservoir and mains at Wyterley which will improve water quality for 300,000 people in the Stockport area at a cost of £39 million. Our £200 million investment

to improve the quality of the Mersey Estuary continued during the year with the completion of four more stages of a 25 kilometre sewer from Crosby to Speke which will intercept wastewater previously discharged into the river untreated.

We completed a new water treatment works at Rivington, improving the water supply to 200,000 people in the Wigan area, at a cost of £39 million. We also finished a major extension of the Formby wastewater treatment works which will bring a major improvement to the quality of the River Aln.

Of course, there still remains much to be done. The main drivers for quality related investment over the next five years are the Urban Wastewater Treatment Directive,

the Bathing Waters Directive and drinking water quality improvement, particularly in the areas of iron, manganese and cryptosporidium. We have a major programme to comply with the requirement to cease disposal of sewage sludge to sea by 31 December 1998. The centrepiece of this is the planned Shell Green Sludge Processing Centre aimed at dewatering and incinerating sludge from the Mersey Valley area.

Customer service During 1993, we created a new department with specific responsibility for customer service and began the phased staffing of the new customer services centre, following the success of a pilot scheme serving 800,000 customers in South Manchester. Nearly all customer contacts are now dealt with at the centre. During the year, operating hours in the new centre were extended from 7am until 8pm, Monday to Friday, and from 8am to 5pm on Saturday, providing increased flexibility for responding to customers' enquiries.

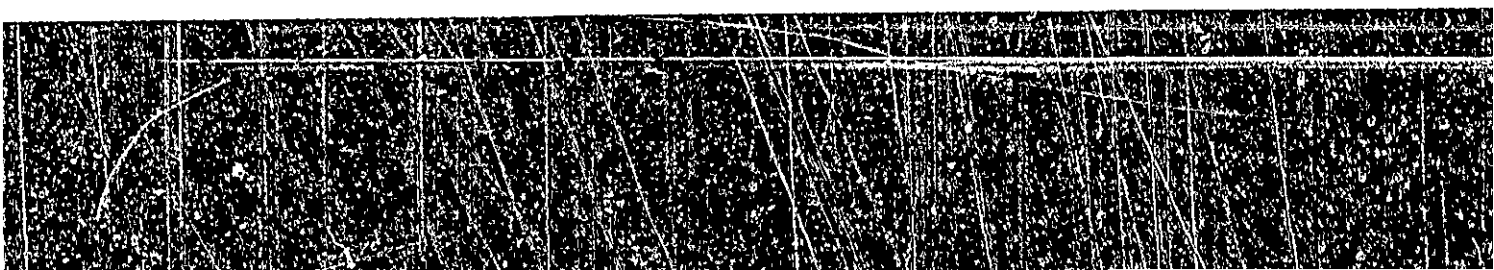
Employees working at the new centre receive extensive systems and business training and work in a new organisational structure based on the principles of team work and shared objectives. Our approach has been to carefully manage this transition by addressing the organisation issues ahead of the phased introduction of new computer systems.

We have introduced a number of

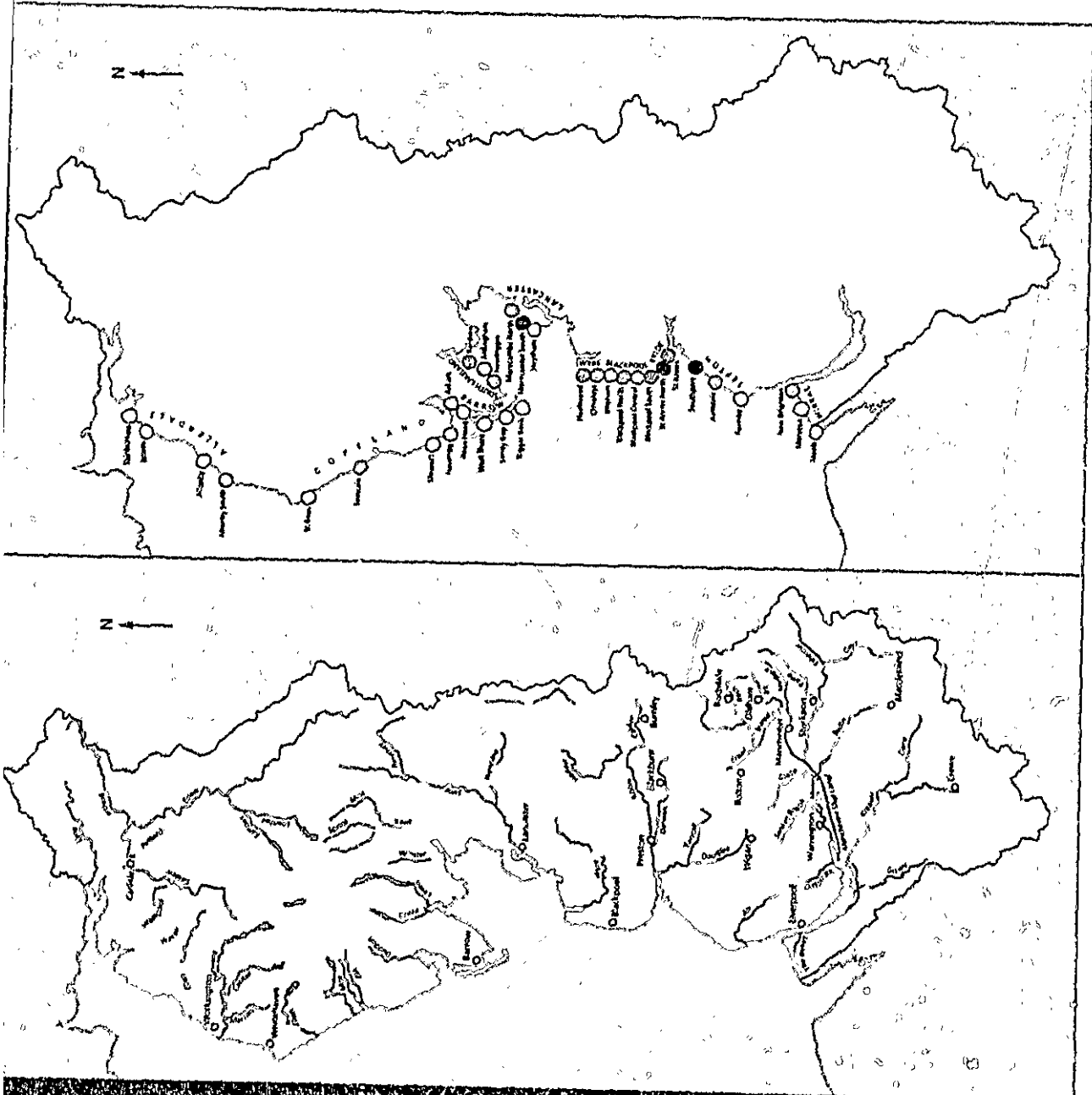
initiatives aimed at improving the access of customers to our services. These include the installation of systems at our two largest billing centres enabling customers to leave messages during busy periods, a minicom terminal for the use of deaf customers and the revision of a range of customer literature and our main billing leaflet.

Our special needs register enables us to provide a range of additional services for 2,000 customers with hearing, speech and other difficulties.

For customers who have difficulty budgeting for their water bills, the company has extended its range of payment options. The result has been a reduction in the level of arrears and domestic disconnections for non-payment. Disconnections for the year totalled 363 out of 2.6 million households, which is well below the industry average. Exhaustive procedures including close liaison with social services departments ensure that customers in genuine financial difficulty or in special categories such as the elderly, the sick or the disabled, are not disconnected.



Profile information



Map C: River Water Quality
 The quality of river water in the North West ranges from good in upland areas to fair through to bad in densely populated and industrial areas

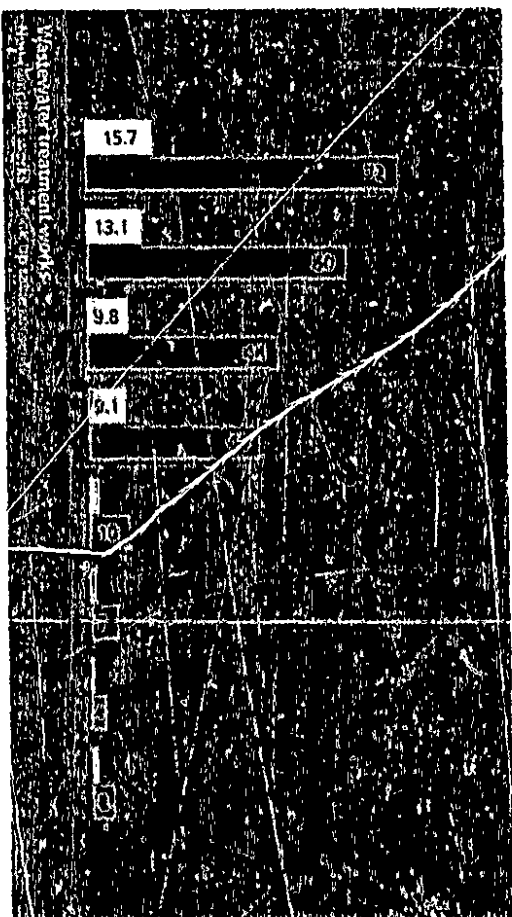
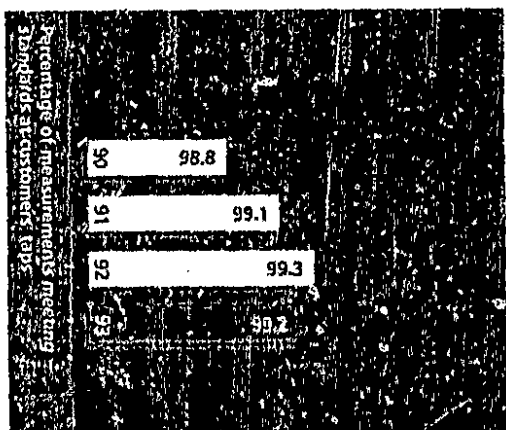
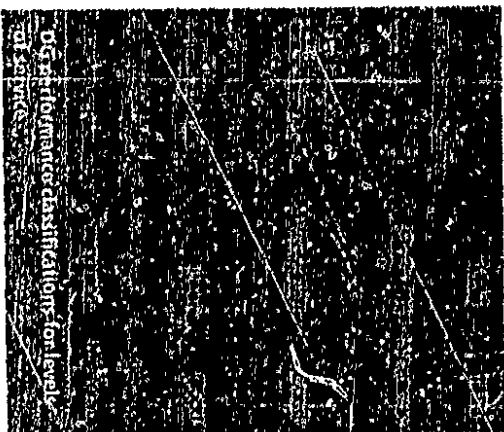
River water quality (according to National Water Council classification)
 — 1a Good
 — 1b Good
 — 2 Fair
 — 3 Poor
 — 4 Bad

Map D: Bathing Water Quality

Currently only 13 of the North West's 35 bathing waters conform with EU quality standards. North West Water is spending £500 million to ensure wastewater discharges at these bathing waters meet EU standards

Percentage compliance with coliform standard
 ○ 96-100 Excellent
 ○ 91-95
 ○ 81-90
 ○ 71-80
 ○ 61-70
 ○ 51-60
 ○ Under 50 Poor

Map D



Meeting standards The benefits of the substantial investment in our water and wastewater systems coupled with the phased restructuring of the business is seen in the improved quality and service standards now being delivered.

In 1993, more than 99 per cent of the 680,000 measurements of water quality taken at customers' taps and in the distribution system met stringent quality standards. The results of this quality testing, together with other detailed information are supplied to the Drinking Water Inspectorate and local authorities.

The quality of effluent returned to rivers and coastal waters continued at a high level

with more than 98 per cent of all samples taken by the National Rivers Authority complying with discharge conditions.

High quality standards are being implemented by improved service level standards. More than 90 per cent of billing enquiries are now dealt with in under five days while 97 per cent of written complaints were responded to in less than ten days. We have also reduced interruptions to the supply of drinking water, solved problems of poor pressure at more than 5,000 properties and removed the risk of sewer flooding for more than 6,700 properties. On three of the four levels of service where the Director General of

Water Services classifies company performance, there has been a substantial improvement in our classifications over the last 12 months.

Employee commitment The progress we have made has been made possible by the commitment and dedication of our employees. A key to that success has been the emphasis we continue to place on training across the business. This investment in training was recognised by a national award for our programme to provide 350 operations controllers with engineering, scientific and process skills.

Recognition of our commitment to

improving safety levels at work came in the form of a Gold Award from the Royal Society for the Prevention of Accidents. Over the years there has been a substantial reduction in the number of accidents recorded and days lost.

Levels of service

DG3 Supply interruptions
 The number of properties affected by major supply interruptions dropped to around 3,000, about 0.1 per cent of the region's properties. This performance met the regulator's "good" classification.

DG4 Water restrictions
 Continuing good management of our water resources ensured there was no need for water restrictions or hosepipe bans in the region - a situation that has been maintained since privatisation.

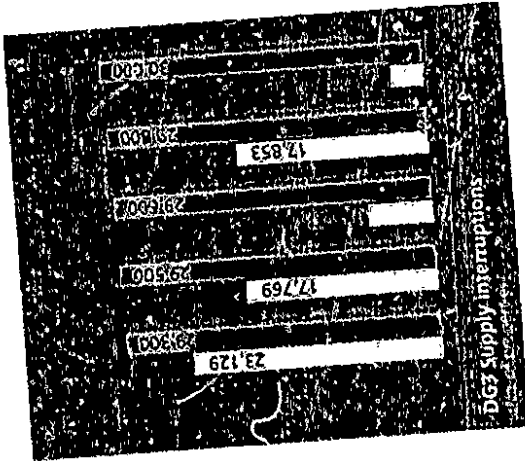
DG5 Sewer flooding
 As in previous years we have beaten our privatisation target for removing properties from the risk of sewer flooding.

DG6 Response to billing queries
 Our overall response to billing queries has improved substantially since 1992/93. More than 90 per cent of queries were answered within five days and over 86 per cent within ten days. This performance met the regulator's "good" classification.

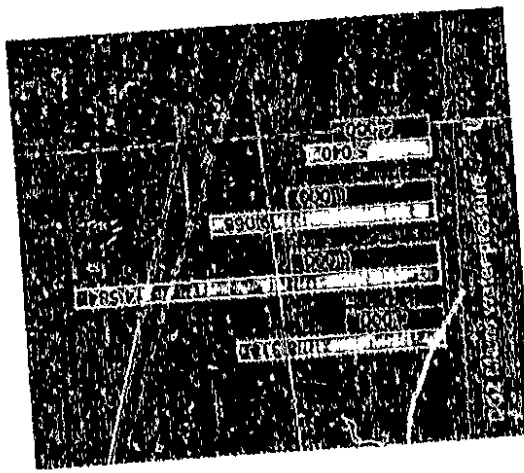
DG7 Response to written complaints
 Our overall response to written complaints has improved substantially since 1992/93. Over 97 per cent were answered within 10 days and over 99 per cent within 20 days. This performance met the regulator's "moderate" classification.

DG1 Water availability
 We maintained full water availability to our customers as we have done each year since 1990/91.

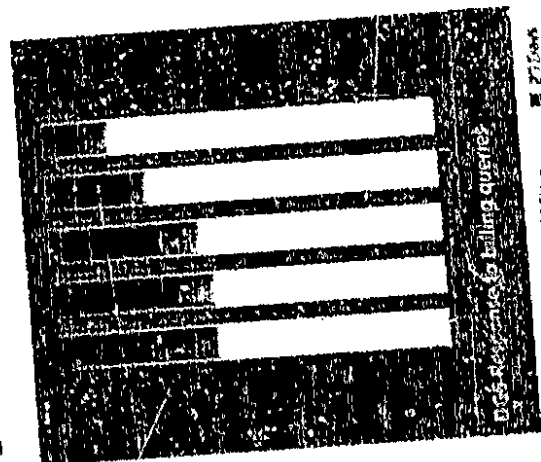
DG2 Mains water pressure
 The number of properties at risk of receiving water pressure below the industry's reference level has fallen from 1.1 per cent in 1990/91 to 0.7 per cent as we continue to resolve more pressure problems than was assumed at privatisation. This performance met the regulator's "moderate" classification.



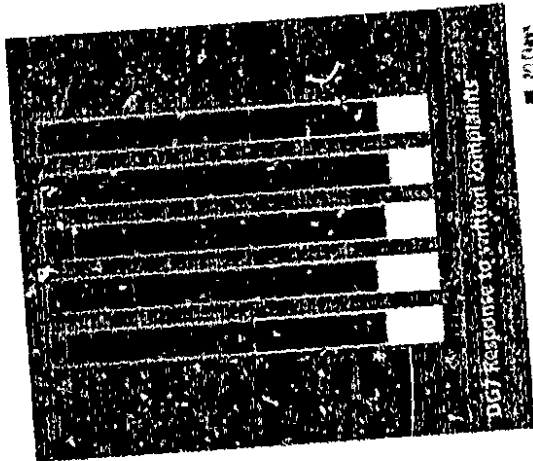
Properties affected
 Privatisation target



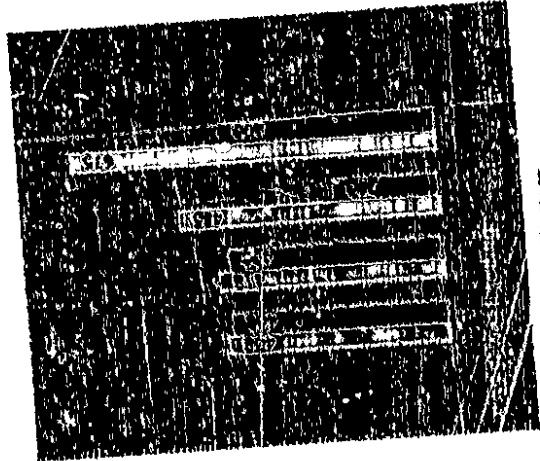
Properties at risk
 Privatisation target



Properties answered by billing queries



Response to written complaints



Properties at risk
 Privatisation target

Financial review

The business continued to perform strongly over the year in all key financial areas with operating profit up 15.5 per cent to £528.9 million.

Turnover Turnover for the year increased by 0.3 per cent to £755.6 million representing an average price rise of 7.3 per cent offset by a volume decline of 1.0 per cent. The continuing impact of the recession and more efficient use of water by industry meant that last year's 7 per cent decline in industrial and commercial consumption was followed by a further fall in 1993/94 of 5 per cent. This is a trend we see continuing, albeit at a slower pace, and has been incorporated into our Strategic Business Plan.

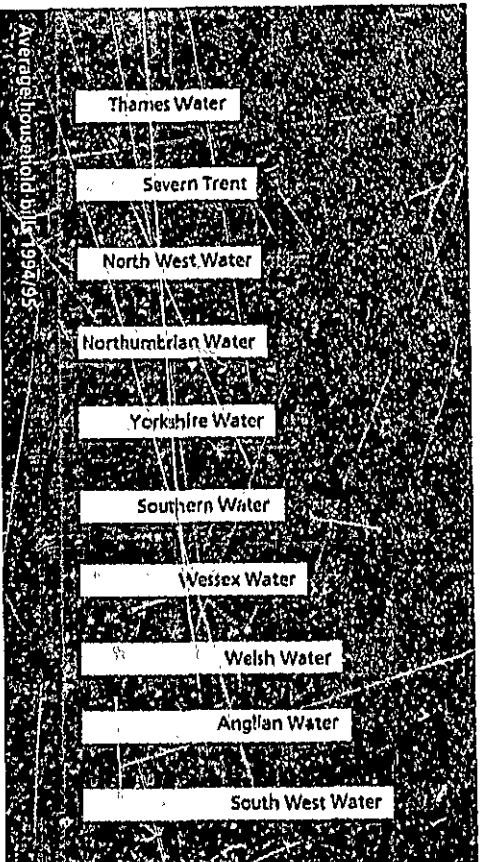
During 1993/94 3,000 of our domestic customers switched to a metered supply bringing the total who have taken up this option to 15,000. A further 85,000 customers who are in new or substantially altered properties built after 1990 are also expected. A survey by the Office of Water Services published in March, commented favourably on our meter option scheme, confirming our belief that an attractive scheme should be available to those customers who would like to exercise the option. However, we remain of the view that widespread metering is not cost-effective and not appropriate to the

circumstances of the North West.

The regulatory price control formula, which was set at the time of privatisation and which reflected our substantial investment commitments, allowed us to increase our prices by RPI + 5 per cent. However, in 1993/94 we passed the benefits of lower construction costs to customers by restricting the increase to 4 per cent as agreed with the Director General. At £182 our current average domestic unmeasured bill is still the third lowest of the ten water and sewerage companies. The average household charge for England and Wales in 1994/95 is £199.

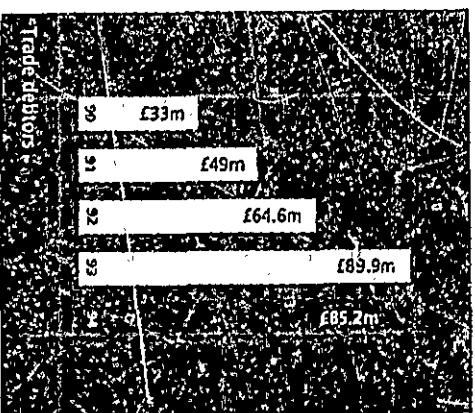
Operating costs Operating costs excluding restructuring charges have increased by 6.2 per cent, primarily reflecting the additional running costs and depreciation arising from new capital schemes. After inflation and these new capital related costs, additional efficiencies have been achieved to further reduce our already low operating cost base.

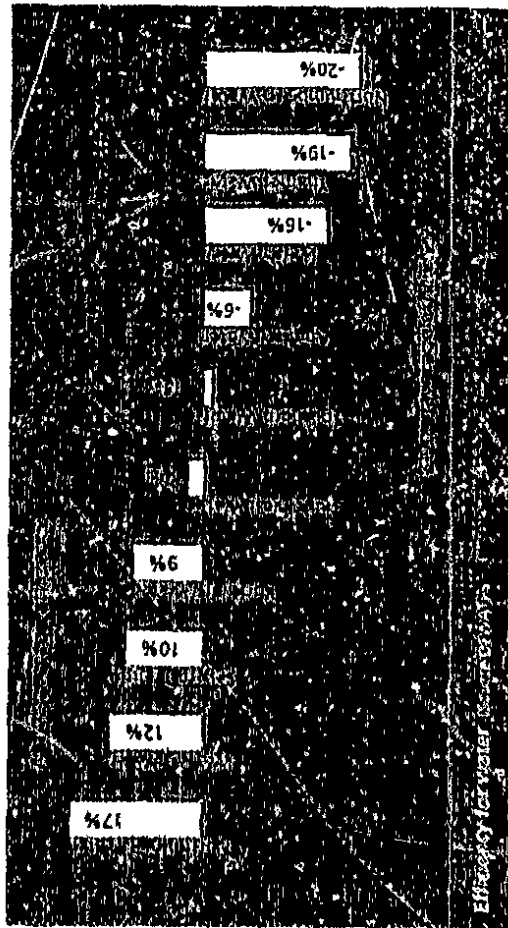
We have focused hard on reducing the level of uncollected customer accounts, reducing trade debtors by £4.7 million



following four years of successive increases.

The infrastructure renewals charge of £62.8 million is based upon an assessment of the average annual charge needed to maintain our underground network of sewers and mains in serviceable condition. We have kept our underlying charge constant, the small decrease of £0.2 million over last year representing the slight change in the construction price index used to adjust the charge. We continue to spend in line with the amount charged to profit, carrying a prepayment of just £3.4 million in the historical cost balance sheet at the year end. We charged a further £12 million for business restructuring bringing the total since privatisation to £121 million.



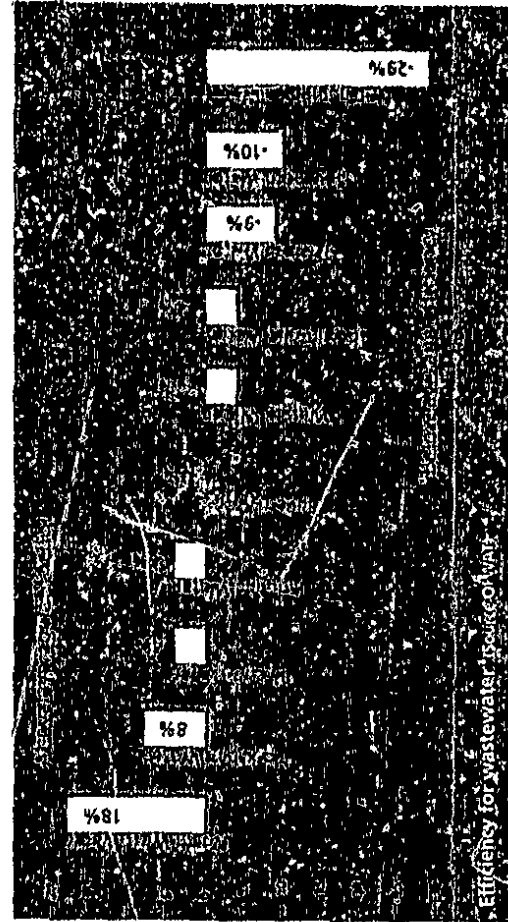


Investment We have again met our output targets from the investment programme for the year to seek an interim determination with the Director General in 1992-93 has meant that we have been well placed to focus our expenditure on areas where we will earn a return. Investment has fallen to £427.6 million from £489.6 million last year. Of this amount £191.4 million relates to Quality and Efficiency Strategy.

Memorandum of Understanding The Director General signed a Memorandum of Understanding with North West Water on 5 October 1991 in regard to the financing of our Quality and Efficiency Strategy. This memorandum was designed to enable North

West Water to earn an adequate rate of return on this investment through the retention of sufficient consequential efficiency savings. The memorandum is being implemented at this periodic review by increasing North West Water's capital value at 31 March 1995 by £553 million, on which the company will earn a 7 per cent real pre tax rate of return. Customers' bills will be no higher than would otherwise have been the case, since the return on this investment is offset by additional efficiency savings.

Capital structure and treasury policy A substantial amount of new capital will be required over the coming years to finance

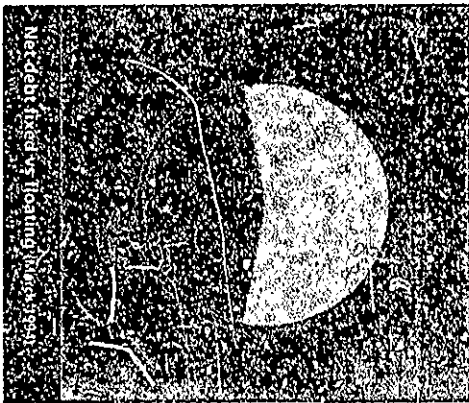
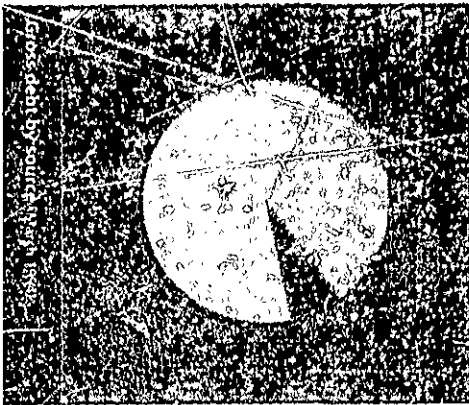


the company's investment programme. Much of this will be provided by retaining profits within the business but, inevitably, a significant amount of debt financing will be raised resulting in higher gearing. The Director General of Water Services has a primary duty to ensure that our charges to customers enable the company to finance its functions. We therefore view our growing debt position as sustainable, especially when set against our operating cash flow.

During the year ended 31 March 1994, the company earned £292.8 million in net profit after taxes, of which some 60 per cent was retained in the business, increasing the shareholders' equity investment by

£175.8 million to £2,188 million. Net borrowings increased in the year to £574.6 million from £361.0 million at the end of last year.

In financing the company's projects which are predominantly associated with improving environmental infrastructure and implementing EU directives the company has benefited from the continuing support of the European Investment Bank. Funding provided by the EIB increased during the year by £50 million and totalled £370 million at the end of the year. Tax allowances generated from the company's capital investment programme will be used to make long term lease finance attractive and additional funding of £47.3 million was



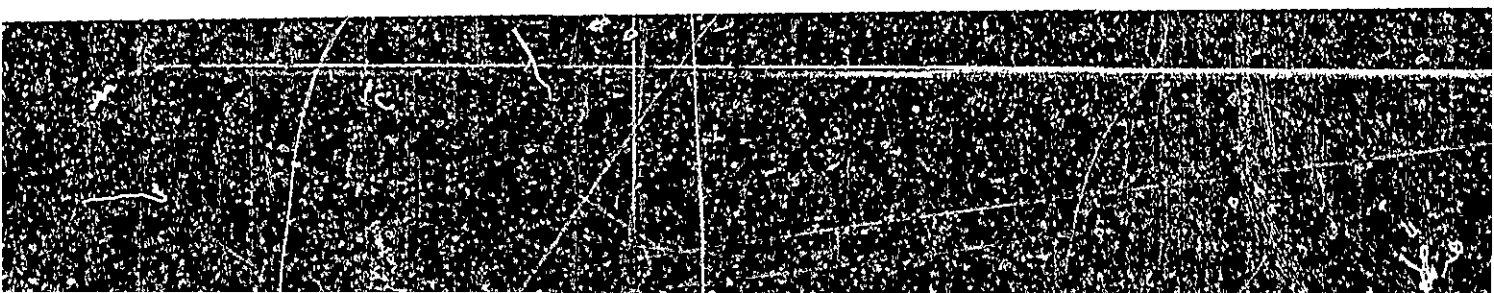
taken during the year bringing the year end total to £197.3 million.

The majority of the company's funding matures after more than five years, reflecting the long life of assets being financed. Subject to availability and cost, the company will continue to match, as far as possible, the maturity of its funding with the underlying assets.

The company's net interest charge rose during the year by £13.7 million to £36.1 million mainly as a result of the full year impact of the previous year's increase in borrowings. Given the present level of debt and the anticipated increase in future borrowings, management of the company's interest rate exposure becomes increasingly

important. The company manages this risk by maintaining an appropriate mix of variable rate and fixed rate debt and by the use of rate management products. All major hedging programmes involving the use of such products are reviewed and approved by the Board or an appropriate authorised committee of the Board.

The company finished the year with cash and short term deposits totalling £235 million. The company's policy is to maintain a strong liquidity position by pre-funding its anticipated capital requirements or by maintaining committed standby facilities.



Directors' report

Principal activities The company provides water and sewerage services in the North West of England in accordance with its licence held under the Water Industry Act 1991.

The operating and financial reviews to be read in conjunction with this report appear on pages 2 to 20.

Profit and dividend Turnover for the year ended 31 March 1994 rose to £735.6 million, an increase of 6.5 per cent over the previous year. Profit before tax was £292.8 million. An interim dividend of 8.42 pence per share was paid in February 1994. The directors recommend a final dividend of 18.66 pence per share for the year to 31 March 1994, for payment on 5 October 1994.

Regulation As required by paragraph 3.1 of condition K of the licence, the directors state that they are satisfied that as at 31 March 1994, if a special administration order had been made under section 23 of the Water Industry Act 1991 in respect of the company, the company would have had available to it sufficient rights and assets (not including financial resources) to have enabled the special administrator so to manage the affairs, business and property of the company that the purpose of the order could have been achieved.

Employees The continued effective training and development of our employees is a cornerstone of the success of the overall business strategy.

The company is committed to effective communications with employees through, for example, newsletters and briefings. The formal briefing arrangements have been improved and extended to enhance the active participation of all employees in the development of the company. The company is also committed to equal opportunities in employment irrespective of sex, marital status, race, creed or disability.

Health and safety have an equal priority with all other company priorities.

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

Changes in tangible fixed assets during the year are shown in note 18 to the accounts.

Research and development The company through its research and development teams and facilities is seeking ways to improve existing and to develop new cost effective and practical water and sewerage processes which will benefit customers and the communities in which the company operates.

Share capital The authorised share capital of the company, together with details of shares issued, is shown in note 19 to the accounts.

Directors The directors of the company during the year ended 31 March 1994 are set out below. All were directors for the whole year except where otherwise indicated.

- Sir Desmond Pitcher, Chairman - appointed 1 April 1993
 - R P Thian, Deputy Chairman - ceased to be a director 19 November 1993
 - R D Armstrong, Customer Services Director.
 - D A Clegg, Planning Director
 - H R Croft, Operations Director - appointed 14 May 1993
 - T W Drury, Finance Director
 - M R Dyer, Group Technical Director
 - C H Elphick, Economic Regulation Director - appointed 14 May 1993
 - R J Ferguson, Group Finance Director.
 - D Golden, Procurement Director
 - D Green, Managing Director
 - E Harper, Quality Director.
 - P J Worrall, Director of Information Systems
 - F Sanderson, Non-executive Director.
- Director North West Water Group PLC

Mr B L Staples, Chief Executive of North West Water Group PLC, was appointed a director of the company on 15 April 1994.

Details of directors' interests in ordinary shares of North West Water Group PLC are set out in note 5 to the accounts.

At a time in the year did any director have a material interest in any contract or arrangement which was significant in relation to the company's business?

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

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

J. R. T. Stewart
 Director of the Board
 J. R. T. Stewart, Secretary
 18 July 1994

Profit and loss account

	Note	1994 £m	1995 £m
Turnover	10(1)	735.6	692.3
Net operating costs	3	(406.7)	(407.5)
Operating profit		328.9	284.8
Net interest payable	7	(36.1)	(22.4)
Profit on ordinary activities before taxation		292.8	262.4
Tax on profit on ordinary activities	8	-	-
Profit for financial year		292.8	262.4
Dividends	9	(117.0)	(99.8)
Transfer to reserves	21	175.8	162.6

The company has no recognised gains or losses other than the profit for the period.
The notes on pages 14 to 22 form part of these accounts.

Balance sheet

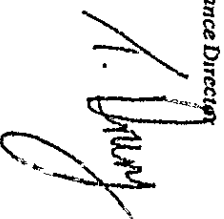
	Note	1994 £m	1995 £m
At 31 March 1994			
Fixed Assets			
Tangible assets	10	2,850.1	2,525.7
Investments	11	0.4	0.4
		2,850.5	2,526.1
Current assets			
Stores		1.5	5.0
Debtors	12	182.6	185.9
Investments	13	224.6	151.7
Cash at bank and in hand		10.4	9.9
		418.9	348.5
Creditors: Amounts falling due within one year	14	(591.0)	(516.4)
Net current assets		27.9	52.1
Total assets less current liabilities		2,858.4	2,568.2
Creditors: Amounts falling due after more than one year	15	(632.2)	(518.2)
Provisions for liabilities and charges	17	(58.2)	(57.8)
		2,188.0	2,012.2
Capital and reserves			
Called up share capital	19	431.9	431.9
Share premium account	19	647.8	647.8
Profit and loss account	21	1,108.5	932.5
	20	2,188.0	2,012.2

Approved by the Board of directors on 18 July 1994 and signed on its behalf by

Sir Desmond Pitcher
Chairman

T W Drury
Finance Director

The notes on pages 14 to 22 form part of these accounts.

Cash flow statement

Notes to the cash flow statement

	1994 £m	1994 £m	1993 £m	1993 £m	1994 £m	1993 £m
For the year ended 31 March 1994						
Net cash inflow from operating activities		580.6		304.0		
Returns on investments and servicing of finance						
Interest received	12.4		26.9			
Interest paid	(50.5)		(34.3)			
Interest paid on finance leases	(7.5)		(2.8)			
Dividends paid	(102.3)		(96.2)			
Net cash outflow from returns on investments and servicing of finance		(127.9)		(106.4)		
Investing activities						
Purchase of tangible fixed assets	(343.3)		(409.1)			
Grants and contributions received	15.1		19.5			
Sale of tangible fixed assets	6.2		2.9			
Net cash outflow from investing activities		(322.0)		(386.7)		
Net cash outflow before financing		(69.3)		(189.1)		
Financing						
New loans	188.6		100.0			
New finance leases	53.7		62.2			
Repayment of loans	(148.9)		(14.7)			
Capital element of leases repaid	(10.7)		(7.5)			
Loans from North West Water Group PLC	60.0		-			
Net cash inflow from financing		142.7		140.0		
Increase/(decrease) in cash and cash equivalents		73.4		(49.1)		
At 1 April 1993						
Cash at bank and in hand	10.4		10.4			
Current asset investments	224.6		224.6			
At 31 March 1994		235.0		161.6		
Analysis of the balances of cash and cash equivalents						
Cash at bank and in hand	10.4		10.4			
Current asset investments	224.6		224.6			
At 31 March 1994		235.0		161.6		
Analysis of changes in cash and cash equivalents						
At 1 April 1993						
Net cash inflow/(outflow) for the year		73.4		(49.1)		
At 31 March 1994		235.0		161.6		
Share capital including share premium	£m		£m			
At 1 April 1993	1,079.7		1,079.7			
At 31 March 1994	1,079.7		1,079.7			
Share obligations	£m		£m			
At 1 April 1993	140.0		140.0			
At 31 March 1994	69.0		69.0			

Notes to the accounts

1 Accounting policies

- (a) **Basis of preparation of accounts**
The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and, except for the treatment of certain grants and contributions, with the Companies Act 1985 ("the Act"). An explanation of this departure from the requirements of the Act is given in the "Grants and contributions" section below.

- (b) **Turnover**
Turnover represents the income receivable in the ordinary course of business for services provided and excludes VAT

- (c) **Research and development**
Expenditure on research and development is written off against profits in the year in which it is incurred

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

(i) Infrastructure assets
Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions, which are included at cost after deducting related grants and contributions.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

Charges for infrastructure renewals expenditure take account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying the company's investment programme. The timing of the investment programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations between actual and planned expenditure.

(ii) Other assets
Additions are included at cost. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives which are principally as follows:

Buildings	30-60 years
Operational structures	10-80 years
Fixtures, fittings, tools and equipment	3-40 years
Pre-1974 assets	22-27 years

Capitalised computer software costs are depreciated over 3-10 years. Assets in the course of construction with an estimated economic life of greater than 20 years are not depreciated until the year following commissioning.

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

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

(f) **Leased assets**

Assets financed by leasing arrangements which transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in the balance sheet and the corresponding capital cost is shown as an obligation to the lessor. Leasing repayments comprise both a capital and a finance element. The finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease.

Operating lease rentals are charged to the profit and loss account as incurred.

Notes to the accounts continued

4 Other income

	1994 £m	1993 £m
Profit on disposal of fixed assets	4.9	2.7
Net rents receivable	1.5	1.2
	6.4	3.9

5 Directors' emoluments

	1994 £'000	1993 £'000
Salaries and taxable benefits	823	630
Performance related	192	160
Pension contributions	89	89
	1,104	879

The Chairman:

Salaries and taxable benefits

Performance related

Highest paid director:

Salaries and taxable benefits

Performance related

No contributions were made to the pension fund in respect of the Chairman. The contributions to the pension fund in respect of the highest paid director amounted to £17,200 (1993 - £17,300). Further details of the executive directors' pension arrangements are set out in note 22.

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

	1994	1993	£	1994	1993
0-5,000	4	4	90,001-95,000	1	1
50,001-55,000	-	1	95,001-100,000	-	2
55,001-60,000	-	1	100,001-105,000	2	3
70,001-75,000	-	2	105,001-110,000	1	-
75,001-80,000	5	-	115,001-150,000	-	1
80,001-85,000	2	1	220,001-225,000	1	-

At 31 March, the directors and their immediate families had the following interests, all of which were beneficial interests, in the ordinary shares and options to subscribe for ordinary shares in North West Water Group PLC (details of the interests of directors of North West Water Group PLC are dealt with in that company's accounts).

	1994		1993	
	Share options	Share options	Share options	Share options
	Ordinary shares	Executive share option scheme	Employee share option scheme	Ordinary shares
R D Armstrong	8,409	39,498	8,824	14,409
D A Clegg	13,280	8,999	4,090	12,698
H R Croft	1,276	28,500	9,847	6,016
T W Drury	-	36,749	5,376	-
M R Dyer	5,480	47,748	3,263	7,114
C H Elphick	-	37,498	6,720	-
D Golden	-	45,498	1,897	-
E Harper	1,945	38,998	8,824	1,945
R I Worrell	4,000	32,749	6,019	-

Details of the employee share save scheme and the executive share option scheme operated by North West Water Group PLC are given in that company's accounts.

- (g) Fixed asset investments
Investments held as fixed assets are stated at cost less amounts written off.
- (h) Current asset investments
Current asset investments in externally managed interest bearing funds are stated at market value
- (i) Stores
Stores are stated at cost less any provision necessary to recognise damage and obsolescence.
- (j) Pensions
Most of the company's employees belong to pension schemes which provide for defined benefits based on final pensionable pay. Pension costs are charged against profits over the estimated remaining service lives of employees.
Details of pension arrangements and funding are set out in note 22.
- (k) Deferred taxation
Provision is made for deferred taxation where a liability is considered likely to arise in the foreseeable future.

2 Segmental information

The company operates in the United Kingdom in one class of business.

	1994 £m	1993 £m
3 Operating costs		
Employee costs:		
Wages and salaries	102.9	99.0
Social security costs	8.5	8.5
Pension contributions (note 22)	10.6	10.0
Capital schemes	122.0	117.5
Infrastructure renewals	(54.7)	(34.7)
	(9.3)	(8.2)
	78.0	74.6
Depreciation:		
Owned fixed assets	57.9	47.5
Fixed assets held under finance leases	6.9	6.0
	64.8	53.5
Infrastructure renewals expenditure	62.8	(63.0)
Other operating costs include:		
Energy, rates and other operating costs	169.4	159.3
Raw materials and consumables	17.6	18.5
Auditors' remuneration	0.1	0.1
Research and development	4.1	2.6
Operating leases		
- hire of plant and machinery	2.6	2.1
- land and buildings	1.7	1.7
Restructuring charge	12.0	36.0
Other income (note 4)	(6.4)	(8.0)
	201.1	216.4
Total operating costs	406.7	407.9

Items payable to Price Waterhouse for audit services in 1994 were 10.8 million (1993 17.5 million)

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

5 Directors' emoluments continued

During the year under the terms of the executive option scheme Mr Worrall exercised his option to purchase 44,500 shares at 315.5p per share.
 Details of options granted to directors to subscribe for ordinary shares during the year are as follows:

	Options granted during the year	Exercise price per share	First date exercisable	Last date exercisable
R D Armstrong	937	586.0p	20 January 1997	20 January 2004
	312	498.5p	20 January 1999	20 January 2004
F R Croft	2,250	586.0p	20 January 1997	20 January 2004
	750	498.5p	20 January 1999	20 January 2004
T W Drury	2,062	586.0p	20 January 1997	20 January 2004
	687	498.5p	20 January 1999	20 January 2004
M R Dyer	302	455.5p	1 March 1999	31 August 1999
	1,875	586.0p	20 January 1997	20 January 2004
	625	498.5p	20 January 1999	20 January 2004
C H Blythick	562	586.0p	20 January 1997	20 January 2004
	187	498.5p	20 January 1999	20 January 2004
D Golden	562	586.0p	20 January 1997	20 January 2004
	187	498.5p	20 January 1999	20 January 2004
E Harper	937	586.0p	20 January 1997	20 January 2004
	312	498.5p	20 January 1999	20 January 2004
R E Worrall	757	455.5p	1 March 1999	31 August 1999

As shareholders, Dr Dyer and Mr Croft took up their full entitlement to shares under the terms of the share dividend plan for the 1994 interim dividend, which were issued on 6 April 1994.

6 Employees

	1994	1993
Average number of persons employed	5,426	5,442

7 Net interest payable

	1994	1993
Interest payable:		
On bank loans, overdrafts and other loans:		
Repayable within five years	1.3	3.2
Repayable wholly or partly in more than five years	28.9	32.4
On finance leases	30.2	35.6
Group undertakings	16.6	9.9
	1.6	-
Total interest payable	48.4	45.5
Interest receivable:		
Group undertakings	(3.0)	(3.7)
External	(9.3)	(19.4)
Net interest payable	36.1	22.4

Notes to the accounts continued

8 Taxation

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

The full potential deferred tax liability is:

	1994 £m	1993 £m
Accelerated tax allowances on buildings, plant and equipment	392.3	277.3
Losses and other timing differences	(67.2)	(46.3)
	325.1	231.0

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

9 Dividends

	1994 £m	1993 £m
Interim dividend of 8.42 pence (1993 - 7.85 pence)	36.4	33.9
Final dividend of 18.66 pence recommended (1993 - 15.27 pence)	80.6	65.9
	117.0	99.8

10 Tangible fixed assets

	Land and buildings £m	Infra-structure assets £m	Operational structures £m	Fixtures, fittings, tools and equipment £m	Pre-1974 assets £m	Assets in course of construction £m	Total £m
Cost:							
At 1 April 1993	73.0	1,135.5	543.4	509.9	177.4	417.7	2,854.9
Additions	12.4	37.8	55.5	26.8	-	230.1	362.6
Grants and contributions	-	(5.2)	-	-	-	(0.6)	(5.8)
Inter-group transfer	3.1	-	-	-	-	-	3.1
Transfers	25.7	77.9	114.0	55.2	-	(272.8)	-
Reclassifications	-	-	277.8	(277.8)	-	-	-
Disposals	(0.6)	-	(0.6)	(6.4)	-	-	(7.6)
At 31 March 1994	113.6	1,244.0	990.1	307.7	177.4	374.4	3,207.2
Depreciation:							
At 1 April 1993	12.6	-	54.5	146.7	105.6	-	319.2
Charge for the year	3.9	-	21.8	33.7	5.4	-	64.8
Inter-group transfer	(0.3)	-	-	-	-	-	(0.3)
Reclassifications	-	-	58.0	(58.0)	-	-	-
Disposals	(0.2)	-	(0.1)	(6.3)	-	-	(6.6)
At 31 March 1994	16.0	-	134.0	116.1	111.0	-	377.1
Net book value:							
At 31 March 1994	97.6	1,244.0	856.1	191.6	66.4	374.4	2,830.1
At 31 March 1993	60.4	1,135.5	489.1	363.2	71.8	417.7	2,535.7

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence, the net book value of fixed assets is £59.7 million (1993 - £53.9 million) lower than it would have been had this treatment not been adopted.

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

10 Tangible fixed assets continued

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

	1994 £m	1995 £m
Cost	240.3	184.6
Accumulated depreciation	(48.7)	(44.1)
Net book value	191.6	140.5

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1994. Pre-1974 assets comprise a pool of assets which was transferred to the company from North West Water Authority, which it acquired in 1974 from its predecessors. No analysis by asset category is available. The directors consider that the provision of the above information would incur expense out of proportion to the benefit it would provide to shareholders.

	1994 £m	1995 £m
Capital commitments		
Contracted but not provided for	535.8	528.5
Authorised but not yet contracted for	63.6	57.4

11 Fixed asset investments

	Investments £m
Cost:	
At 1 April 1995 and 31 March 1994	0.4
Investments include the following holdings in unlisted companies registered in England and Wales:	
Water Research Centre (1989) plc	26.25%
WPF Holdings Limited	26.25%
Willow Lodge (St Annes) Limited (dormant)	18.44%
	100%

Description of investments

'B' Ordinary shares of £1
5% convertible unsecured
loan stock 2014

Ordinary shares of £1
Ordinary shares of £1

Notes to the accounts continued

12 Debtors

	1994 £m	1993 £m
Amounts falling due within one year:		
Trade debtors	85.2	89.9
Amounts owed by Group undertakings	41.3	40.7
Other debtors	11.2	14.8
Infrastructure renewals prepayment	3.4	9.1
Prepayments and accrued income	38.7	27.7
	179.8	182.2
Amounts falling due after more than one year:		
Amounts owed by associated undertaking	—	0.3
Other debtors	2.8	1.4
	2.8	1.7
Total debtors	182.6	183.9

13 Current asset investments

	1994 £m	1993 £m
Participated funds and short term deposits	225.6	151.7

14 Creditors: amounts falling due within one year

	1994 £m	1993 £m
Loans	0.9	0.9
Bank overdrafts and temporary borrowings	—	10.8
Trade creditors	23.7	24.2
Amounts owed to Group undertakings	64.8	3.1
Obligations under finance leases	7.1	7.4
Dividend proposed and payable	80.6	65.9
Other creditors	1.4	1.3
Taxation and social security	3.6	5.4
Accruals and deferred income	208.9	200.2
	591.0	316.4

15 Creditors: amounts falling due after more than one year

	1994 £m	1993 £m
Loans	—	—
Obligations under finance leases	411.4	361.7
Other creditors	190.2	162.6
Deferred grants and contributions (note 10)	7.8	6.8
	22.8	7.1
	632.2	538.2

16 Deferred grants and contributions

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

17 Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 April 1993	32.8	5.0	37.8
Utilised	(11.7)	(0.3)	(12.0)
Profit and loss account	12.0	0.4	12.4
At 31 March 1994	33.1	5.1	38.2

18 Borrowings

	Leases and overdrafts repayable wholly by instalment partly after 5 years £m		Finance leases £m		1995 Total £m	
	£m	£m	£m	£m	£m	£m
Within one year	0.9	-	7.1	8.0	18.3	18.3
Between one and two years	7.5	-	8.0	15.5	7.7	7.7
Between two and five years	63.1	-	18.1	81.2	61.6	61.6
After more than five years	270.8	70.0	164.1	504.9	435.0	435.0
	342.3	70.0	197.3	609.6	522.6	522.6

Loans repayable by instalments partly after five years and loans wholly repayable after more than five years comprise bank and other loans repayable between 1999 and 2052.

Interest rates range from 6.65 per cent to 14.85 per cent on £182.5 million and are at floating rates on £230 million.

In addition to the above the company has net loans owing to North West Water Group PLC amounting to £29.0 million (1993 - £40.0 million owing from North West Water Group PLC).

19 Called up share capital and share premium account

	1994 £m	1993 £m
Authorised share capital		
650,000,000 ordinary shares of £1 each	650.0	650.0
Alotted and fully paid share capital		
431,930,000 ordinary shares of £1 each	431.9	431.9
Share premium account	647.8	647.8

20 Reconciliation of movements in shareholders' funds

	1994 £m	1993 £m
Profit for the financial year	292.8	262.4
Dividends	(117.0)	(199.8)
Net addition to shareholders' funds for the year	175.8	162.0
Shareholders' funds at 31 March 1993	2,012.2	1,849.6
Shareholders' funds at 31 March 1994	2,188.0	2,012.2

21 Profit and loss account

	£m
At 1 April 1993	932.5
Profit for the year	175.8
At 31 March 1994	1,108.3

Notes to the accounts continued

22 Pensions

The company is a participant in the Group's two defined benefit final salary schemes, the Water Meter Inage Pension Scheme (WMIS) and the Water Pension Scheme (WPS). The assets of these schemes are held in trust funds independent of Group finances.

The employer's contributions and the pension cost under the accounting standard SSAP 24 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 an estimated growth of 9 per cent per annum, pay growth of 7 per cent per annum and increases to pensions in payment and deferred pensions of 5 per cent per annum.

The last actuarial valuation of the two schemes was carried out as at 31 March 1993. The total market value of the assets at the valuation date was £116.4 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 SSAP 24, the deficiency in the schemes is being spread over the future working lifetime of the existing members.

The total pension cost for the period was £10.6 million (1993 - £10.0 million). As a consequence of changes made by the Finance Act 1989, the company is unable to provide pensions from the WPS for its most senior executives, including executive directors, who have joined the company since 1989, on the same basis as pensions for executives who joined the company before that date. In line with many other companies, the company has established therefore separate arrangements for this category of executive.

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

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

23 Operating leases

The company is committed to making the following payments during the year ending 31 March 1995:

	1995	1994
Leases which expire within one year	1.5	1.6
Between two and five years	0.8	-
After five years	2.5	2.1

24 Ultimate parent company

The accounts of the company are consolidated in the Group accounts of the ultimate parent company, North West Water Group PLC, a company registered in England and Wales. Copies of the Group accounts of North West Water Group PLC may be obtained from the Group Secretary, North West Water Group PLC, Dawson House, Great Sankey, Warrington, Cheshire WA5 3LW.

Directors' responsibilities

in respect of the preparation of 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 of the profit for the period. The company is also required to prepare accounting statements each year which comply with the requirements of Condition F of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991. The accounting statements may be combined with the financial statements.

The directors consider that in preparing the financial statements on pages 12 to 22, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards and all Regulatory Accounting Guidelines issued by the Office of Water Services which they consider to be applicable to these financial statements have been followed.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. In addition, the directors have responsibility for ensuring that the company keeps proper accounting records sufficient to enable the historical cost and current cost information required by Condition F of the Instrument of Appointment to be prepared, having regard to all relevant Regulatory Accounting Guidelines.

The directors have general responsibility at law for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors certify to the Director General of Water Services under paragraph 6A.2 of Condition F as set out on page 32. The directors must also, under Condition F of the Instrument of Appointment, report to the Director General of Water Services changes in the company's activities which may be material in relation to the company's ability to finance the carrying out of its regulated activities.

The directors are required to confirm in the accounting statements that, in their opinion, the company was in compliance with paragraph 3.2 of Condition K of the Instrument of Appointment relating to the availability of rights and assets at the end of the financial year.

Auditors' report

to the members of North West Water Limited

We have audited the financial statements on pages 12 to 22 which have been prepared under the historical cost convention and the accounting policies set out on pages 14 and 15.

Respective responsibilities of directors and auditors

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

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company'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 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 as at 31 March 1994 and of the profit and cash flows of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Chartered Accountants

and Registered Auditors

Manchester

18 July 1994

Regulatory accounting information

Introduction

The current cost accounts on pages 24 to 31 have been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services

Non appointed activities, which mainly include the external sales of energy and the provision of engineering services, are not material and, therefore, the current cost accounts show the figures for the total business.

The historical cost profit and loss account and balance sheet required by the guidelines are included in the statutory accounts which are set out on pages 12 to 22.

The directors certificate to the Director General of Water Services required under paragraph 6A.2 of Condition F is on page 32.

Auditors' Contract

The contract of appointment with the auditors satisfies the requirements of paragraph 9.2 of Condition F, namely that the auditors will provide such further explanation or clarification of their reports, and such further information in respect of the matters which are the subject of their reports, as the Director General may reasonably require.

Basis of allocations and apportionments

The revenues, costs, assets and liabilities are directly allocated to the appointed business and any other activity or associated company, except where they relate to common support services. Those relating to common support services are apportioned on the basis of the demands made on each of the support services by each principal service or activity.

Current cost profit and loss account

	For the year ended 31 March 1994		1995	
	1994	1995	1994	1995
	£m	£m	£m	£m
Turnover	2	735.6	692.3	
Current cost operating costs	3	(466.5)	(465.5)	
Operating income	2	0.5	2.7	
Working capital adjustment		0.8	1.4	
Current cost operating profit		270.4	230.9	
Other income		3.5	1.2	
Net interest payable		(36.3)	(22.4)	
Financing adjustment		9.8	5.0	
Current cost profit before taxation		245.6	214.7	
Taxation		-	-	
Current cost profit on ordinary activities		245.6	214.7	
Dividends		(117.0)	(99.8)	
Current cost profit retained		128.6	114.9	

Current cost cash flow statement

		1993 £m	1994 £m
For the year ended 31 March 1994			
Net cash inflow from operating activities		379.1	302.8
Returns on investments and servicing of finance			
	Other income received	1.2	12
	Interest received	12.4	26.9
	Interest paid	(30.5)	(34.3)
	Interest in finance lease rentals	(7.5)	(2.8)
	Dividends paid	(102.3)	(96.2)
Net cash flow from returns on investments and servicing of finance		(126.4)	(105.2)
Investing activities			
	Purchase of fixed assets	(343.3)	(409.1)
	Receipt of grants and contributions	15.1	19.5
	Disposal of fixed assets	6.2	2.9
Net cash flow from investing activities		(322.0)	(386.7)
Net cash flow before financing		(69.3)	(184.1)
Financing			
	New loans	188.6	100.0
	New finance leases	53.7	62.2
	Repayment of loans	(148.9)	(14.7)
	Capital element of leases repaid	(10.7)	(7.5)
	Loan from North West Water Group PLC	60.0	140.0
Net cash flow from financing		142.7	140.0
Increase/(decrease) in cash and cash equivalents		73.4	(44.1)

Current cost balance sheet

		1993 £m	1994 £m
As at 31 March 1994			
	Tangible assets	20,362.7	(60.0)
	Third party contributions since 1989-90	(82.9)	(35.5)
	Working capital	(70.2)	(55.5)
	Net operating assets	20,267.2	20,267.2
	Cash and investments	152.1	225.0
	Non-trade debtors	57.2	55.2
	Non-trade creditors due within one year	(152.2)	(210.0)
	Creditors due after one year	(511.1)	(60.4)
	Provisions for liabilities charges	(37.8)	(38.2)
	Net assets employed	19,775.4	20,350.1
Capital and reserves			
	Called up share capital	431.9	451.9
	Share premium account	647.8	647.8
	Profit and loss account	491.3	362.7
	Current cost reserve	18,533.0	18,533.0
		6	6
		18,779.1	18,779.1
		20,350.1	19,775.4

Note to the current cost cash flow statement

Reconciliation of current cost operating profit to net cash flow from operating activities

	1994 £m	1993 £m
Current cost operating profit	270.4	230.9
Working capital adjustment	(0.8)	11.4
Decrease in stocks	1.7	1.6
Current cost depreciation	100.9	92.0
Current cost profit on disposal of fixed assets	(0.5)	(2.7)
Increase in debtors and prepaid expenses	(4.9)	(18.4)
Increase in creditors and accrued expenses	11.8	(18.5)
Increase in provisions	0.5	19.3
Net cash inflow from operating activities	379.1	302.8

Notes to current cost accounts

1 Current cost accounting policies

These accounts have been prepared for the water business of North West Water Limited in accordance with guidance issued by the Director General of Water Services for modified period terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business with the exception of assets acquired prior to 31 March 1990.

The accounting policies used are the same as those adopted in the statutory financial accounts except as set out below.

(a) Tangible fixed assets

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow water assets to earn a return high enough to justify that value, the represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of pre-31 March 1990 assets by contributors from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost figures differ from value to the business.

(i) Land and buildings

Non-specialised operational properties were valued on the basis of open market value for existing use at 1 September 1989 and have been expressed in real terms by indexing using the Retail Price Index (RPI) since that date.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between Periodic Reviews by adjusting for inflation as measured by changes in the RPI. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

(ii) Infrastructure assets

Mains, sewers, impounding and raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost determined principally on the basis of data provided by the Asset Management Plan.

A process of continuing refinement of asset records is expected to produce adjustments to existing values at Periodic Reviews. In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

(iii) Other fixed assets

All other fixed assets are valued periodically at depreciated replacement cost. Between Periodic Reviews, values are restated for inflation as measured by changes in the RPI.

(iv) Surplus land

Surplus land is valued at recoverable amount taking into account that part of any proceeds to be passed onto customers under Condition B of the Licence.

3 Current cost accounting policies continued

(b) Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as for deferred income

(c) Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms

(i) Working capital adjustment

This is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock less trade creditors.

(ii) Financing adjustment

This is calculated by applying the change in RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities other than to equity shareholders, which are not included in working capital.

2 Analysis of turnover and operating income

	1994		1993	
	Water services £m	Sewerage Services £m	Total £m	1993 £m
Turnover				
Measured	113.5	111.4	224.9	109.8
Unmeasured	209.4	241.8	451.2	194.6
Trade effluent	-	30.9	30.9	-
Revenue grants	0.4	0.3	0.7	0.4
Other sources	20.7	7.2	27.9	21.6
	344.0	391.6	735.6	326.4
Operating income				365.9
Current cost profit on disposal of fixed assets	0.5	0.2	0.5	0.5

The rateable value based element of sewerage service charges to metered customers has been analysed as measured sewerage services, which is consistent with the principal statement. The 1993 figures have been restated on a similar basis.

Notes to the current cost accounts continued

1 Activity cost analysis

	Water services		Service analysis		Sewerage services		Business analysis	
	Revised accounting 1988	Expenditure 1988	Water costs 1988	Services 1988	Waste water 1988	Waste water 1988	Water costs 1988	Water costs 1988
Direct costs								
Employment costs	89	153	241	11	87	65	150	161
Power	63	73	136	02	78	14	92	94
Agencies	-	-	-	159	01	01	02	161
Hired and contracted services	15	47	62	06	23	22	45	51
Materials and consumables	47	32	79	01	11	05	10	17
Service charges	83	-	85	-	37	-	57	17
Other direct costs	-	15	13	01	(04)	04	-	01
Total direct costs	296	318	614	180	233	109	342	522
General and support expenditure	152	185	317	42	141	91	232	274
Functional expenditure	428	503	931	222	374	200	574	796
Capital costs								
Current cost depreciation	354	102	456	57	331	165	496	553
Infrastructure renewals expenditure	104	153	257	287	17	11	28	315
Infrastructure renewals accrual/(prepayment)	(15)	127	112	114	(01)	05	04	118
Functional costs	871	885	1756	680	721	381	1102	1382
Total no funding business analysis			1918					1927
Rates			271					123
Debtful debts			76					89
Exceptional costs			72					48
Service costs			2357					2187
Services for third parties			104					57
Total costs			2441					2224
Fixed asset net book values*								
Service activities	12836	62004	74950	121895	7667	3804	11471	153366
Business activities			1525	166			819	985
Service totals			76455	122061			12290	154351

* The number of employees at 31st March 1988

4(a) Current cost analysis of fixed assets by asset type

	Infra structure assets £m	Specialised operational assets £m	Non specialised operational assets £m	Other intangible assets £m	Total £m
Gross replacement cost:					
At 1 April 1993	18,207.1	2,097.5	207.5	1,244.3	21,756.2
Inter group transfer	-	-	3.1	-	3.1
Reclassifications	-	739.9	-	(739.9)	-
RPI adjustment	410.1	47.3	4.7	28.0	490.1
Disposals	(0.5)	(120.4)	(5.1)	(66.7)	(192.7)
Additions	103.5	151.6	34.1	73.4	362.6
At 31 March 1994	18,720.2	2,915.7	244.5	539.1	22,419.3
Depreciation:					
At 1 April 1993	-	744.9	43.0	605.6	1,393.5
Inter group transfer	-	-	(0.3)	-	(0.3)
Reclassifications	-	431.8	-	(431.8)	-
RPI adjustment	-	17.2	1.0	13.8	32.0
Disposals	-	(119.0)	(4.1)	(64.3)	(187.4)
Charge for the year	-	65.9	3.1	31.9	100.9
At 31 March 1994	-	1,140.8	42.7	155.2	1,338.7
Net book value					
At 31 March 1994	18,720.2	1,774.9	201.6	383.9	21,080.6
At 31 March 1993	18,207.1	1,352.4	164.5	638.7	20,362.7

4(b) Current cost analysis of fixed assets by service

	Water supply £m	Sewerage £m	Other operational assets £m	Total £m
Gross replacement cost:				
At 1 April 1993	7,936.8	12,003.9	1,815.5	21,756.2
Inter group transfer	2.4	0.1	0.6	3.1
RPI adjustment	138.8	270.4	40.9	490.1
Disposals	(104.2)	(40.2)	(48.3)	(192.7)
Additions	272.9	44.6	45.1	362.6
At 31 March 1994	8,286.7	12,278.8	1,853.8	22,419.3
Depreciation:				
At 1 April 1993	680.5	104.5	608.5	1,393.5
Inter group transfer	10.3	-	-	10.3
RPI adjustment	15.6	2.4	14.0	32.0
Disposals	(100.3)	(39.9)	(47.2)	(187.4)
Charge for the year	45.7	5.7	49.5	100.9
At 31 March 1994	641.2	72.7	624.8	1,338.7
Net book value:				
At 31 March 1994	7,645.5	12,206.1	1,229.0	21,080.6
At 31 March 1993	7,256.3	11,899.4	1,207.0	20,362.7

4(c) Net book value of fixed assets by service and by type

	Infra structure assets £m	Specialised operational assets £m	Non specialised operational assets £m	Other operational assets £m	Total £m
Water supply	6,523.6	749.1	140.9	231.9	7,645.5
Sewerage	12,092.4	82.4	6.8	34.5	12,206.1
Sewage treatment & disposal	104.2	943.4	53.9	122.5	1,229.0
At 31 March 1994	18,720.2	1,774.9	201.6	383.9	21,080.6

Note to the current cost accounts continued

5 Working capital

	1994 £m	1995 £m
Stocks	1.5	5.0
Trade debtors	85.2	89.9
Working cash balances	10.4	9.9
Trade creditors	(25.7)	(24.5)
Short term capital creditors	(81.1)	(69.5)
Infrastructure renewals accrual	(24.8)	(1.8)
Other trade accruals	(72.6)	(67.2)
Trade payments in advance	2.1	2.4
Payroll related taxes and Social Security contributions	(3.6)	(5.4)
Other short term debtors	36.6	25.5
Total working capital	(70.2)	(55.5)

6 Movement on current cost reserve

	1994 £m	1995 £m
At 1 April 1995	18,355.9	17,947.0
RPI adjustments		
Fixed assets	458.1	392.4
Working capital	(0.8)	(1.4)
Financing	(9.8)	(5.0)
Grants at third party contributions	(1.4)	(0.2)
At 31 March 1994	18,779.1	18,555.0

**Four year summary
Current cost profit and loss account**

	1994 £m	1995 £m	1992 £m	1993 £m
Turnover	755.6	704.1	671.5	627.4
Current cost operating costs	(466.5)	(473.4)	(457.4)	(467.1)
Operating income	0.5	2.7	1.0	(4.0)
Working capital adjustment	0.8	1.4	1.6	4.3
(Other income)	270.4	234.8	216.7	160.6
Net interest	1.5	1.2	1.3	5.9
Financing adjustments	(36.1)	(22.8)	(2.9)	55.4
Provisions	9.8	5.1	3.5	(9.5)
Current cost profit before taxation	245.6	218.3	218.6	190.4
Taxation	-	-	-	-
Current cost profit on ordinary activities	245.6	218.3	218.6	190.4
Dividends	(117.0)	(101.5)	(97.9)	(148.5)
Current cost retained profit	128.6	116.8	120.7	41.9

All figures in the summary have been restated at current year prices using movements in the average RPI

Current cost balance sheet

	1994 £m	1995 £m	1992 £m	1993 £m
Tangible fixed assets	21,080.6	20,831.0	20,478.8	20,142.6
Third party contributions since 1989/90	(82.9)	(61.4)	(42.1)	(17.3)
Working capital	(70.2)	(36.3)	(75.9)	(41.3)
Net operating assets	20,927.5	20,733.3	20,360.8	20,084.0
Cash and investments	225.0	155.6	223.2	319.4
Non-trade debtors	55.2	58.5	59.6	70.4
Non-trade creditors	(210.0)	(155.7)	(170.4)	(197.8)
Creditors due after one year	(609.4)	(522.9)	(568.9)	(636.5)
Provisions	(38.2)	(38.7)	(13.3)	(4) -
Net assets employed	20,350.1	20,230.1	20,084.5	19,994.3
Capital and reserves				
Called up share capital	431.9	441.8	450.0	468.2
Share premium account	647.8	662.7	675.0	702.2
Profit and loss account	491.3	371.0	258.2	344.0
Current cost reserve	18,779.1	18,754.6	18,701.3	18,674.9
	20,350.1	20,230.1	20,084.5	19,994.3

All figures in the summary have been restated at current year prices using movements in the year end RPI