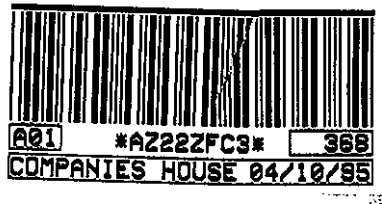


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Front cover Treatment manager, Roger Minnett, is pictured on the shores of Ennerdale Lake, which lies in one of the Lake District's most remote and beautiful valleys. A new treatment plant, built underground to preserve the scenery, was officially opened by HRH The Prince of Wales in 1995. The works has improved water quality to 60,000 people in Whitehaven and the villages of Copeland.

## Managing Director's introduction

For our customers, we unveiled a package of benefits incorporating rebates on bills, higher customer service standards backed by compensation, and extra investment to tackle priority problems.

These initiatives were backed by improvements in our performance against customer service standards. We were also rated by the Director General of Water Services as the most efficient water and wastewater company.

We successfully completed the first five years of our capital investment programme with savings of £400 million. The benefits of this efficiency will continue to be split equally between customers and shareholders.

We also agreed with the Director General our strategic business plan for the next five years involving capital investment of £2.5 billion and a lower price limit for

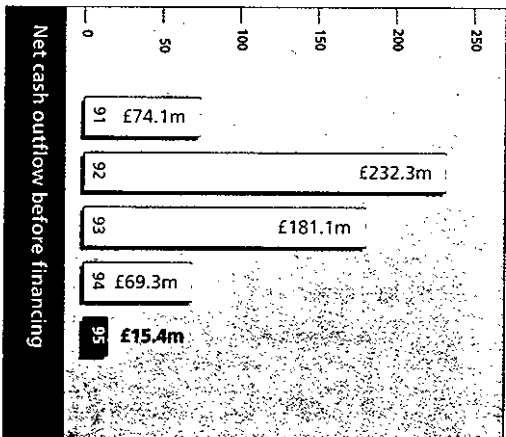
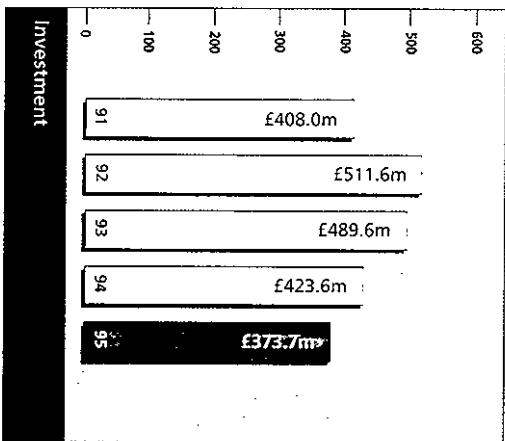
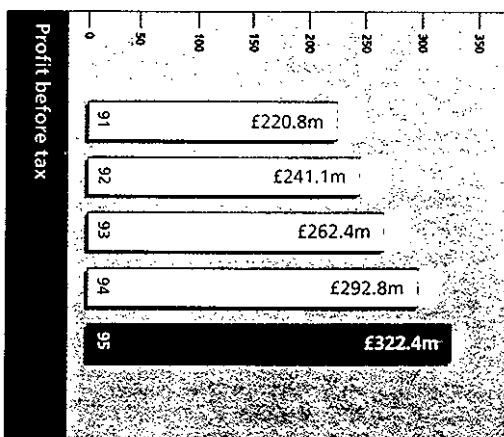
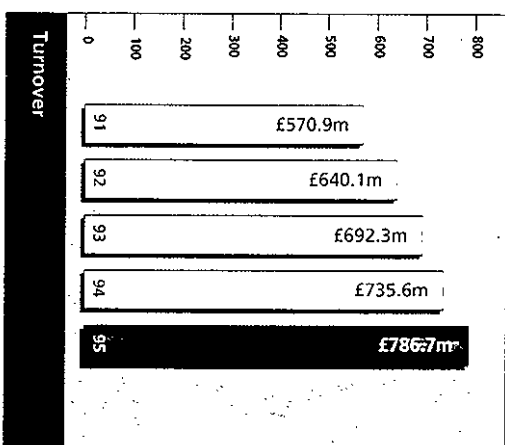
customers. The sale of NW Water Engineering to Bechtel, one of the world's largest construction companies, will allow us to continue maximising efficiencies from the delivery of this programme.

These achievements were underpinned by a strong financial performance. Turnover was up by 6.9 per cent to £786.7 million, and profit before tax grew by 10.1 per cent to £322.4 million.

In summary, I am confident we have laid firm foundations during 1994/95 for continued progress in increasing customer satisfaction and profitability.



**Derek Green** Managing Director  
North West Water Limited



## Operational review

In a very successful year, we continued to fulfil our twin objectives to increase customer satisfaction by providing good quality value-for-money services, and to grow profitability by constantly and continuously improving our efficiency.

### **Increasing customer satisfaction**

Our radical new deal for customers was welcomed by the industry regulator Ofwat and praised by business commentators. It provides for:

- cash payments of \$6.50 a year for the next five years to all customers we supply with water and wastewater services. It is worth a total of \$90 million over the five years, and is a share of our past capital expenditure efficiency savings. The first payments were made in May this year.
- extra investment of £180 million over the next five years to tackle priorities which concern customers, such as lead pipes, sewage flooding and smells, and poor water pressure. This is doing more than Ofwat allowed at the periodic review and will be paid for out of future capital

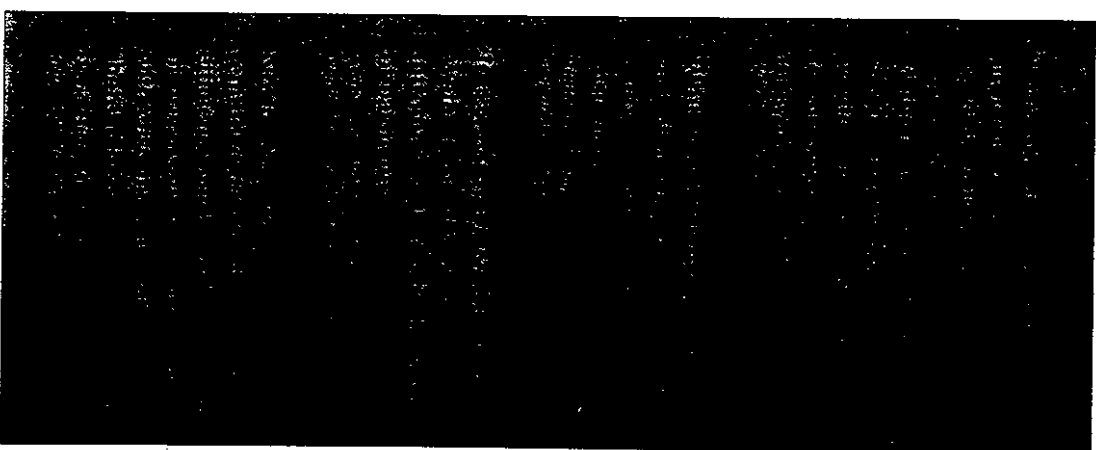
- expenditure efficiency savings, commitments to higher standards of service, backed in many cases by compensation if we fail to meet them, to be paid for out of operating more efficiently.

We have embarked on a series of annual surveys to monitor and analyse customers' views, which help us to measure and improve our performance. Details of our investment plans for the next five years and the service commitments we are making have been made widely available to our customers through advertising and direct mail. That we 'listen and consult' will be a major theme of our ongoing communications with customers.

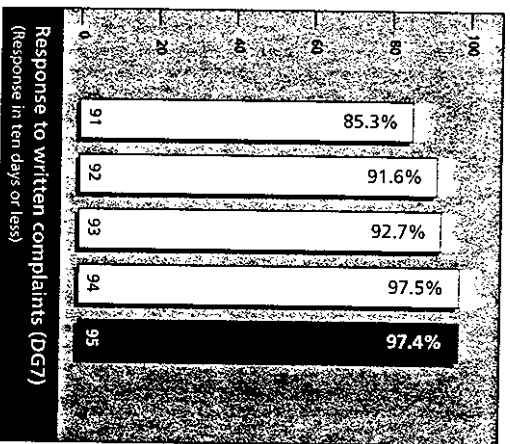
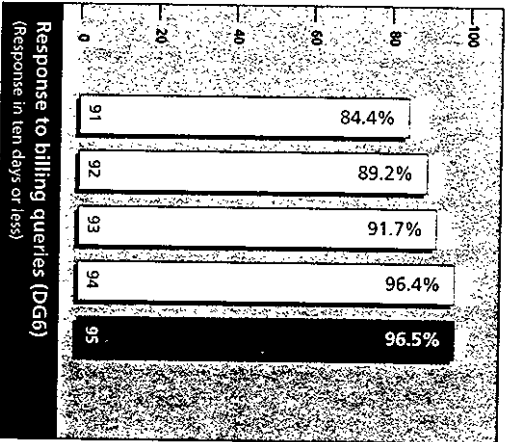
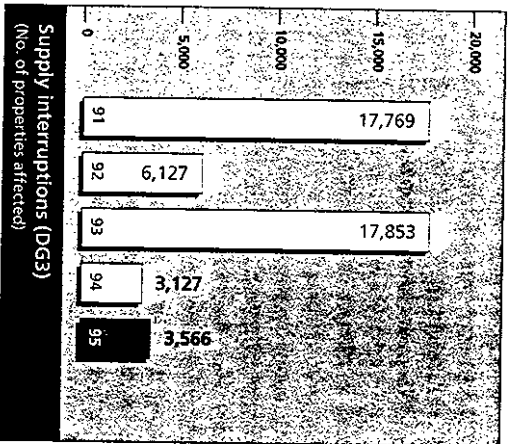
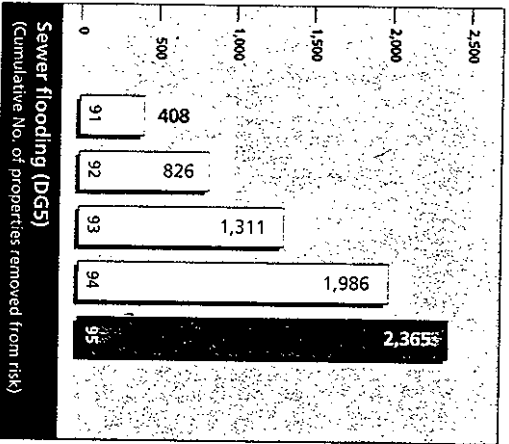
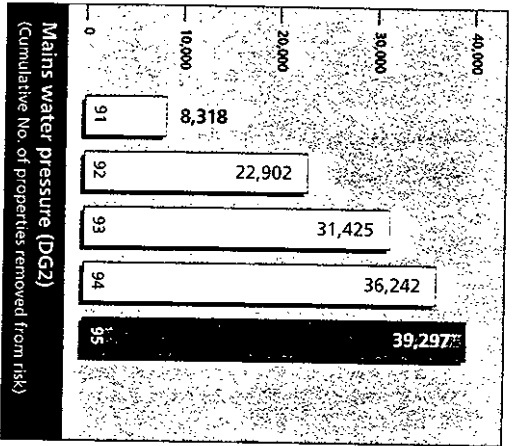
The new initiatives are underpinned by continued improvements in our service performance. North West Water rose from tenth to seventh place in the 1993/94 league table of customer service standards compiled by Ofwat, the largest improvement of any of the water and sewerage companies.

The new customer services centre at Lingley Mere, Warrington, was officially opened in February and the phased transfer of activities from other offices will be completed over the next two years. The centre

(continued page 4)



## Levels of service



In 1994/95, further customer service improvements have been made and we have met all our service targets.

### Water availability (DG1)

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

### Mains water pressure (DG2)

Less than one per cent of properties in the region are at risk of receiving water at pressure below the industry's reference level (around 20,500 properties out of a total of 2.8 million). Since privatisation the company has solved poor pressure problems for around 39,300 properties. This is about 93 per cent higher than planned at privatisation.

### Supply interruptions (DG3)

The number of properties affected by major supply interruptions remained at around 3,500, about 0.1 per cent of the region's properties. The number of properties affected by interruptions has reduced by over 85 per cent since privatisation. This performance rate met the regulator's 'average' classification.

### Water restrictions (DG4)

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

### Sewer flooding (DG5)

About 0.1 per cent of the properties in the region are at risk of sewer flooding two or more times in ten years (around 3,000 out of a total of 2.8 million). Since privatisation the company has solved sewer flooding problems for over 2,350 properties. This is higher than planned at privatisation.

### Response to billing queries (DG6)

In 1994/95 we received around 2.6 million billing queries and answered nearly 92 per cent within five days and over 96 per cent within ten days. This is an improvement on our 1993/94 performance when we answered 90 per cent within five days. This performance met the regulator's 'good' classification.

### Response to written complaints (DG7)

In 1994/95 we handled over 23,000 written complaints, nearly 60 per cent of them within five days and over 97 per cent within ten days. This is a significant improvement on our 1993/94 performance when we handled 45 per cent within five days. This performance met the regulator's 'good' classification compared to last year's 'moderate'.

(operational review continued)

already houses over 500 staff handling more than 1.6 million accounts and dealing with services enquiries from customers.

We maintained our general trend of lower disconnection levels with a rate of under two per 10,000 householders billed, compared with the industry average of three. We improved our Special Needs Scheme by installing a 'talking bill' service for customers with hearing difficulties, sending out bill summaries in large print and braille for customers with sight difficulties, and producing a customer information cassette for those with reading difficulties.

We also appointed 39 territory managers to develop a strong local identity and be more accessible for customers and other interest groups.

**Water service improvements**

Every day we purify and supply around 2,400 million litres of water at 154 treatment works. During 1994 we made over half a million measurements of water quality and over 99 per cent of all samples complied with standards. Out of a total investment for the year of £374 million, we invested £52 million on water supply and treatment and £83 million in water distribution improvements.

**Water service achievements 1994/95**

- 13 water treatment works completed construction or major refurbishment
- 230 kilometres of new mains
- 550 kilometres of mains renewed or relined to improve water quality
- over 55,000 new communication pipes
- over 3,300 properties received improved pressure.

**Wastewater service improvements**

During 1994 we again achieved a very high degree of compliance with National Rivers Authority consents for our wastewater treatment works, water treatment works and storm tanks. 98 per cent of final effluent samples complied with their consent conditions, and bathing water compliance was much better than in previous years.

We invested £157 million in wastewater treatment and disposal projects, and £33 million on wastewater networks.

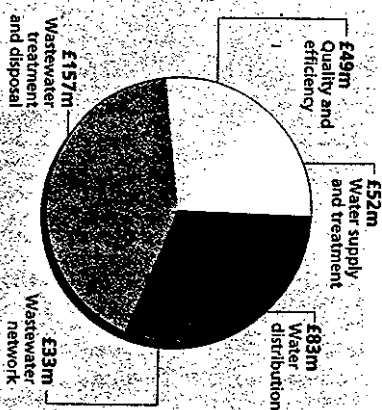
**Wastewater service achievements 1994/95**

- 7 works built or substantially upgraded
- 10 unsatisfactory sewer overflows improved or closed

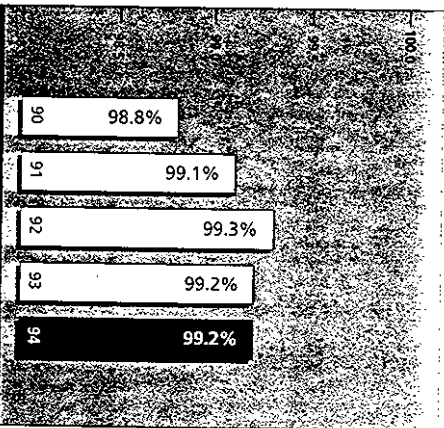
- 140 kilometres of new sewers
- 18 kilometres of critical sewers refurbished
- 335 properties removed from risk of foul flooding.

**Improved operating efficiency**

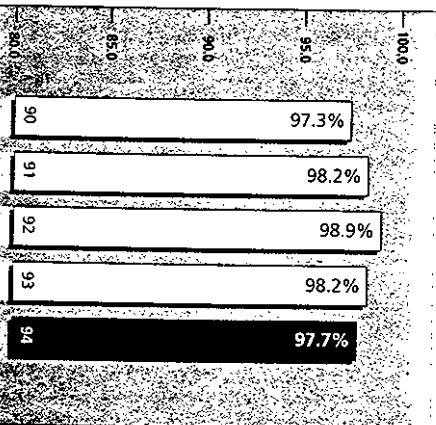
We have continued our cost reduction programmes since privatisation, with efficiencies worth over £40 million in 1994/95. Quality initiatives have placed an upward pressure on operating costs since privatisation. These extra costs, totalling approximately £30 million in 1994/95, have been more than offset by the efficiencies, resulting in



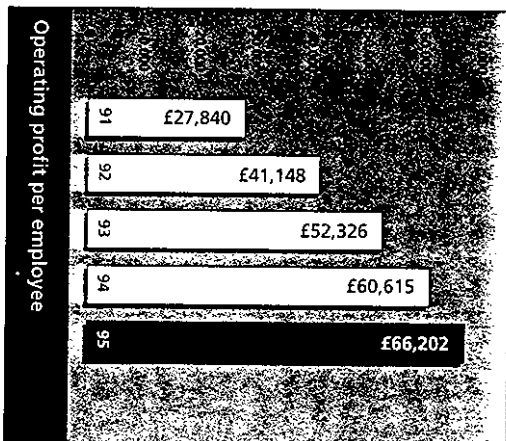
Analysis of investment 1995 £374m



Percentage of measurements meeting standards at customers' taps



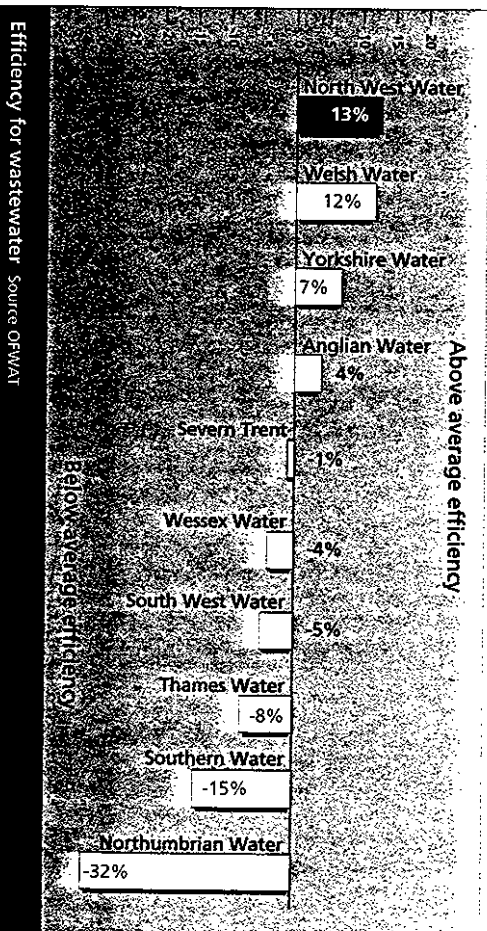
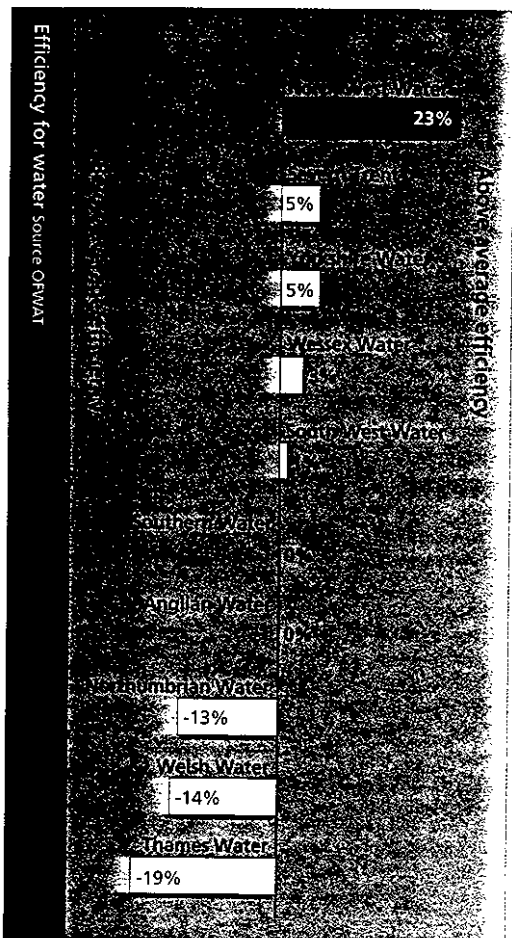
Percentage of compliant wastewater treatment works (per centile consents)



a net reduction in operating costs over the period. We have reduced our controllable unit costs by 17 per cent since privatisation. This has been achieved by a reduction in manpower numbers of around 25 per cent and through continued efficiencies in power and material costs. Ofwat's latest analysis of unit operating costs places North West Water as the most efficient of the water and wastewater companies. On water supply, we were rated 25 per cent above average efficiency and on wastewater, 13 per cent above average efficiency. To achieve still further efficiencies

we comprehensively reorganised our business, and have been retraining and upskilling many of our people. One of the key changes was in Operations, with the creation of three functions. The new Water and Wastewater Management team actively manages our five year capital investment programme, acting as the interface between North West Water and Bechtel Water Technology. Field Operations has day to day responsibility for the delivery of water and wastewater services. It will be supported by a single operations control centre with leading-edge systems including an

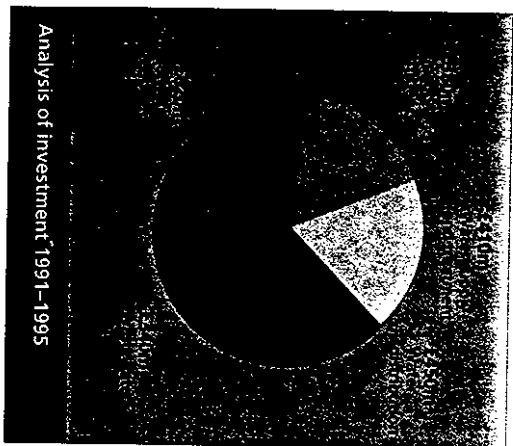
electronic wall display of the entire network. Asset Maintenance is an essential support function with responsibility to maintain the infrastructure both above and below ground. Integrated systems give us the ability to respond quickly and cost effectively, and our Information Services operation has been independently benchmarked as being in the top 7 per cent in the country for efficiency. We introduced new or enhanced systems for investment management, work management, operations, procurement, payments and human resources. Planned



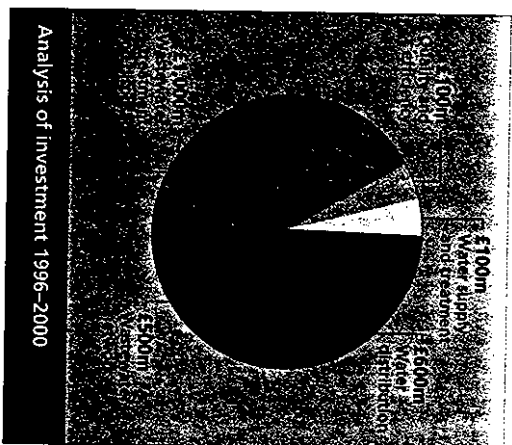
portable computers for Field Staff will complete the integration.

To coordinate our drive for excellence we are implementing the self-assessment model of the European Foundation for Quality Management. All these initiatives will help create further significant productivity savings.

**The First Five Years** We successfully completed our first five year capital investment programme to meet quality standards and improve services for customers. We achieved capital savings of £400 million.



- 60 impounding reservoirs improved
- 40 treatment works built or substantially improved to meet EC quality standards
- 1,500 kilometres of new water mains
- 3,500 kilometres of mains refurbished
- 280,000 new communication pipes
- 39,300 properties removed from the risk of low pressure, almost twice the original target.



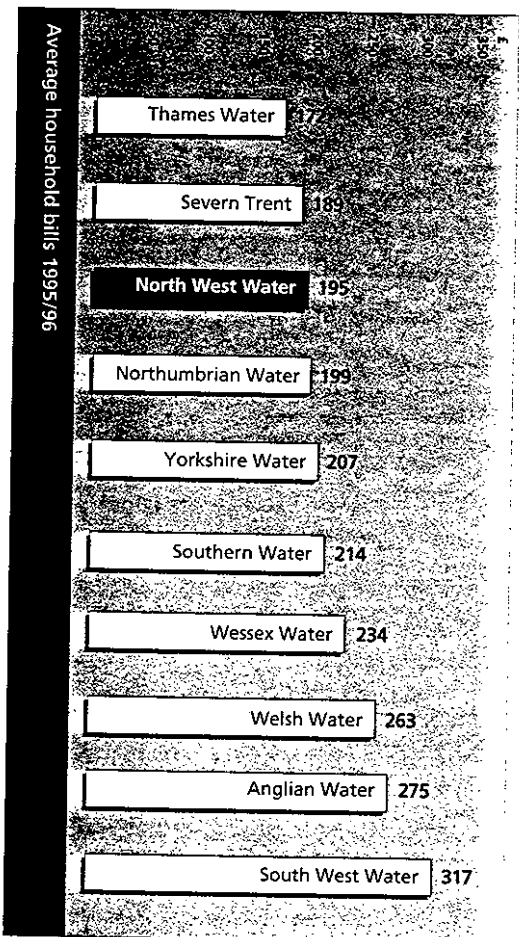
- 150 wastewater treatment works built, extended or substantially improved
- 330 unsatisfactory sewer overflows improved or closed,
- 900 kilometres of new sewers laid
- 180 kilometres of sewers refurbished or replaced.
- 2,360 properties removed from the risk of sewer flooding.

**Outcome of the Periodic Review**

A focal point this year was the response of the Director General of Water Services to the submission of

our proposals setting out the next phase of investment to meet higher standards. On the basis of the £2.3 billion investment plan, the Director General determined the K factor – the maximum amount above inflation by which we may increase our charges to fund the investment.

- refurbish or replace over 3,000 kilometres of water mains
- protect against risk from cryptosporidium at three major works
- build, extend or improve about







- 40 wastewater treatment plants
- improve around 250 unsatisfactory sewer overflows
- complete bathing waters programme.

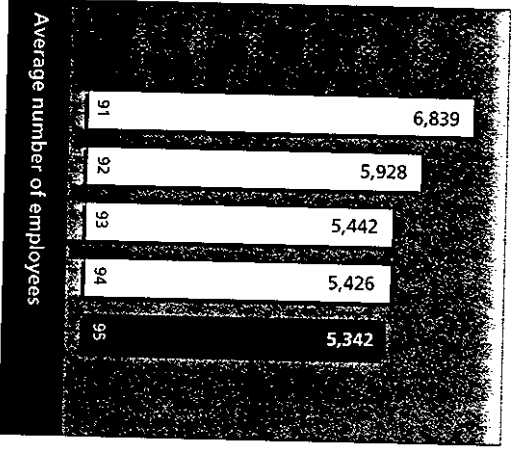
We were given a tough challenge. Our K factor has been set at 2.5 per cent a year for the next five years, and zero for the five years after 2000. The average household bill for our customers in 1995/96 is £195, or about 53p a day. By 1999/2000, after the allowed increases, that would be £221 in today's terms - still only about 60p a day. This is not allowing for the rebates which we

Allowed maximum change in average household bills 1995/96 to 1999/2000 (1995/96 prices)

intend to pay customers each year for the next five years. Our charges remain the third lowest of the water and wastewater companies.

Our business planning process will continue to examine rigorously all aspects of our cost base, with the intention of continuing to be the most efficient water and wastewater company and deliver our regulatory outputs at lowest cost.

The partnership we announced with Bechtel will help us to deliver the capital investment programme for less than the £2.5 billion planned, meeting our capital investment commitments at the lowest cost and highest quality.



**Employees** The major progress we have made during the year would not have been possible without the support and dedication of our employees. They have been responsible for delivering the actions that have brought significant improvements in both the service we provide our customers and our business performance.

A key to this has been the investment we continue to make on training. For the second successive year we won a National Training Award for our programme to create multi-skilled craftsmen. We also began to consolidate and take forward a drive for excellence, implementing a strategy based on the self-assessment model of the European Foundation for Quality Management.

Pipeline to Success, the employee suggestion scheme, continued to grow. For the second successive year, a North West Water employee won the UK Association of Suggestion Schemes trophy - for a 'sounding point' device which more accurately detects leaks.

Energy initiatives implemented at Wigan wastewater treatment works won a British Gas Energy Management Award.

## Financial review

The business continued to perform strongly in all key financial areas, with profit before tax up 10.1 per cent to £322.4 million.

**Turnover** Turnover for the year increased by 6.9 per cent, including a volume decline of 0.6 per cent. It is pleasing to note signs of improved economic activity in the North West region. Decline in industrial and commercial consumption slowed to just 1.7 per cent after three years of over 5 per cent decline. This downward movement is an historic trend which we have included in our strategic business plan.

During the year, 25,000 new domestic properties were added to our billing files, again an increase on previous years. A further 2,000 of our domestic customers opted for a meter supply. This brings the total number of domestic meters in the North West region to 124,000.

Trade effluent and miscellaneous sales also increased during the year.

**Operating costs** Total operating costs have increased by 6.5 per cent, allowing a small increase in operating margins to 45 per cent. The main increases reflect the impact of new capital schemes, in particular depreciation rising by

14.7 per cent to £74.3 million. Further efficiencies were made to accommodate these increases.

The infrastructure renewals charge is based upon an assessment of the average annual charge needed to maintain our underground network of sewers and mains in serviceable condition. Our aim is to keep the amount charged and spent broadly in line in the medium term. Our increased charge this year of £66.2 million reflects the movement in the construction price index used to adjust the charge and results in a small closing accrual of £15.8 million at the end of the first period.

We charged a further £11.8 million for business restructuring bringing the closing provision to £35.7 million. This provision is intended to cover planned business restructuring for the five year period to 2000.

We have continued to focus hard on reducing the level of uncollected customer accounts. We increased our charge to profit to £18.9 million as a result of writing off some old uncollected debt. Our collection

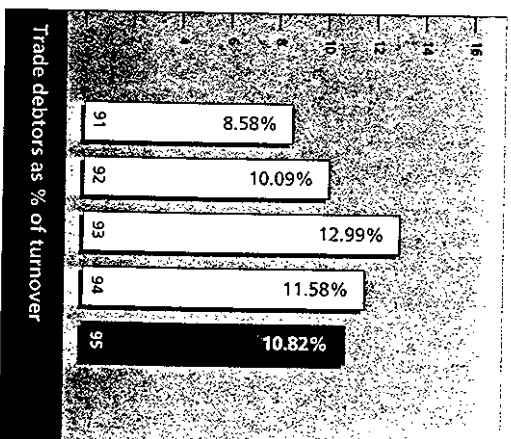
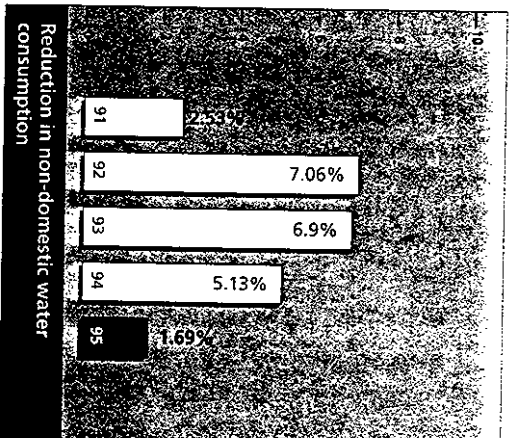
performance improved during the year and trade debtors as a percentage of turnover ended the year down for the second successive year at 10.8 per cent.

**Investment** Expenditure of £374 million brings to a close the first five year capital investment programme. During this period, we achieved all our quality and regulatory output targets for £400 million less than the planned amount. As a result a special dividend of £400 million was paid. The interest earned on this sum is being shared equally between

customers and shareholders, via customer rebates and a special dividend.

Expenditure in the year of £374 million is £50 million lower than 1993/94 mainly as a result of reduced expenditure on the Quality and Efficiency Strategy.

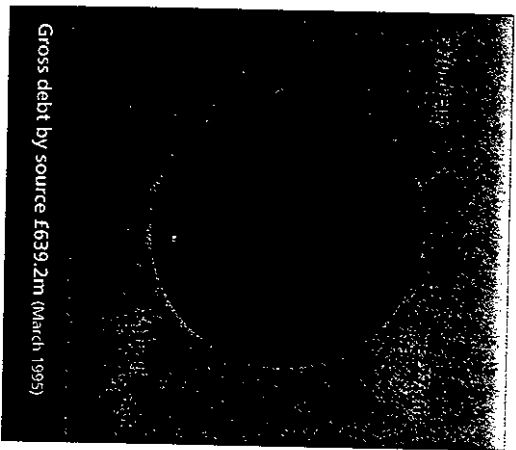
**Engineering subsidiary** During the year, North West Water Limited sold its engineering division to a separate subsidiary, NWW Engineering Limited. This involved the transfer of the business and certain assets involved in the design, engineering, project and construction



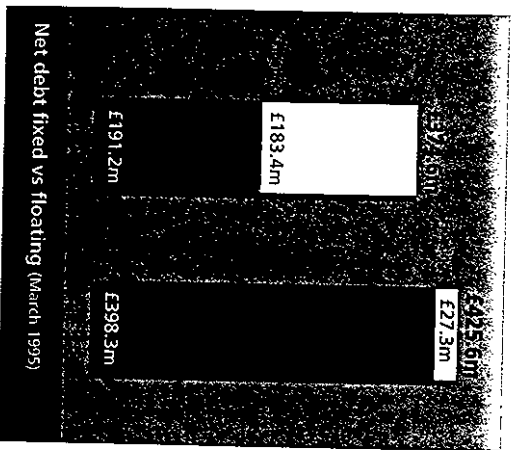
management services relating to the capital investment programme. The consideration of £15.5 million created a profit on disposal of £9.3 million in the "company" accounts. This is eliminated in the consolidated North West Water Limited "Group" accounts.

**Capital structure and treasury policy** During the year ended 31 March 1995, the company earned £318.9 million in net profit after taxes. Net borrowings increased in the year to £425.6 million from £374.6 million at the end of last year.

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 more 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.



Gross debt by source £639.2m (March 1995)



Net debt fixed vs floating (March 1995)

In financing the company's projects, which are predominantly associated with improving environmental infrastructure and implementing European Union directives, the company has benefited from the support of the European Investment Bank. Funding provided by the EIB totalled £370 million at the end of the year. Tax allowances generated from the company's capital investment programme continued to make long term lease finance attractive and additional funding of £30.4 million was taken during the year bringing the year end total to £227.7 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 much as possible, the maturity of its funding with the underlying assets.

During the year the company entered into a series of medium term interest rate swaps to increase its level of fixed rate debt. This reflects our policy of fixing the majority of our interest expense to match that allowed for in the revenue price cap formula announced by the Director General last July. At 31 March 1995, approximately 94 per cent of our net debt was at rates fixed for more than

one year, compared to 51 per cent the previous year. All major hedging programmes involving the use of swaps or similar products are reviewed and approved by the Board or an appropriate authorised committee of the Board.

The company's net interest charge fell during the year by £4.8 million to £31.3 million. New borrowings created an additional interest expense of £4.5 million but this was more than offset by a reduction of £9.3 million in interest as a result of more favourable interest rates.

The company finished the year with cash and short term marketable securities totalling £213.6 million. The company's policy is to maintain a strong liquidity position by prefunding its anticipated capital requirements or by maintaining committed standby facilities.

## Directors' report

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

The Managing Director's introduction and the financial and operating reviews to be read in conjunction with this report appear on pages 1 to 10.

The Group's subsidiary and associated undertakings are listed in note 11 to the accounts.

The disposal of NWW Engineering Limited to Bechtel Holdings Limited was completed on 8 April 1995 for a consideration of £15.5 million.

**Profit and dividends** The results for the year, set out in the consolidated profit and loss account on page 13, show that turnover for the year ended 31 March 1995 rose to £786.7 million, an increase of 6.9% over the previous year. Profit for the year after tax was £318.9 million (1994 – £292.8 million).

An interim dividend of 9.16p per share was paid on 24 February 1995. The directors recommend a final dividend of 18.36p per share for the year to 31 March 1995, for payment on 3 October 1995. As part of the sharing of the benefits of efficiency gains between shareholders and customers a special dividend of 92.61p per share for the year to 31 March 1995 was paid on 1 April 1995.

The retained loss for the year of £199.9 million (1994 – profit of £175.8 million) was transferred to reserves.

**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 1995, 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 company is committed to improving the skills and potential of its employees through training and development and to effective communications with employees through, for example, briefings and employee newspapers.

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 operation 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 to the business and are not significantly different from their market values. Changes in tangible fixed assets during the year are shown in note 10 to the accounts.

**Research and development** The company, through its research and development teams, is seeking to improve existing and develop new practical cost-effective water and wastewater 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 1995 are set out below. All were directors for the whole year except where otherwise indicated.

\* **Sir Desmond Picher**, Chairman.

**P N Applewhite** – appointed

20 December 1994, resigned 25 March 1995.

**R D Armstrong**, Customer Services

Director.

**R G Bradbury**, Capital Investment

Director – appointed 10 February 1995.

**D A Clegg**, Planning Director – resigned 31 October 1994.

**H R Croft**, Operations Director.

**T W Drury**, Finance and Regulation

Director.

**M R Dyer**, Group Technical Director – resigned 31 December 1994, reappointed 25 March 1995.

**C H Elphick**, Economic Regulation

Director – resigned 31 December 1994.

\* **R J Ferguson**, Group Finance Director.

**D Golden**, Procurement Director.

\* **D Green**, Managing Director.

**E Harper**, Quality Director – resigned 31 December 1994.

**D P Hosker**, appointed 25 March 1995.

**P E McCloskey**, Corporate Services

Director – appointed 10 February 1995.

\* **B L Staples**, Group Chief Executive – appointed 15 April 1994.

**R I Worrall**, Group Information Services Director – resigned 31 December 1994.

\* **F Sanderson**, non-executive director – resigned 31 December 1994, reappointed 23 March 1995.

\* Director, North West Water Group PLC.

## Directors' report continued

Mr D Golden resigned as a director of the company on 7 April 1995. Dr M R Dyer and Mr D P Hosker resigned as directors of the company on 10 April 1995. Details of directors' interests in ordinary shares of North West Water Group PLC are set out in note 5 to the accounts.

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

**Auditors** On 6 February 1995, our auditors changed the name under which they practice to KPMG and, accordingly have signed their report in their new name. In accordance with section 384 of the Companies Act 1985 a resolution to reappoint KPMG as auditors to the company will be proposed at the annual general meeting.

By order of the Board  
**J R Tellow** Secretary  
25 July 1995



## Consolidated profit and loss account

For the year ended 31 March 1995	Note	1995		1994	
		£m	£m	£m	£m
<b>Turnover</b>	1(b)	786.7		735.6	
Net operating costs	3	(453.0)		(406.7)	
<b>Operating profit</b>		353.7		328.9	
Net interest payable	7	(31.3)		(36.1)	
<b>Profit on ordinary activities before taxation</b>		322.4		292.8	
Tax on profit on ordinary activities	8	(3.5)		-	
<b>Profit for the financial year</b>		318.9		292.8	
Dividends	9	(518.8)		(117.0)	
<b>Transfer (from)/to reserves</b>	20	(199.9)		175.8	

All of the results derive from continuing operations.

The Group has no recognised gains or losses other than the profit for the period.

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

## Reconciliation of movements in shareholders' funds

For the year ended 31 March 1995	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Profit for the financial year	318.9	292.8	328.2	292.8
Dividends	(518.8)	(117.0)	(518.8)	(117.0)
Net movement in shareholders' funds for the year	(199.9)	175.8	(190.6)	175.8
Shareholders' funds at 31 March 1994	2,188.0	2,012.2	2,188.0	2,012.2
<b>Shareholders' funds at 31 March 1995</b>	<b>1,988.1</b>	<b>2,188.0</b>	<b>1,997.4</b>	<b>2,188.0</b>

## Balance sheets

At 31 March 1995	Note	Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
<b>Fixed assets</b>					
Tangible assets	10	3,066.2	2,830.1	3,060.4	2,830.1
Investments	11	0.4	0.4	0.5	0.4
		3,066.6	2,830.5	3,060.9	2,830.5
<b>Current assets</b>					
Stores		0.9	1.3	0.9	1.3
Debtors	12	185.1	182.6	200.2	182.6
Investments	13	205.7	224.6	205.7	224.6
Cash at bank and in hand		7.9	10.4	7.8	10.4
		399.6	418.9	414.6	418.9

### Creditors:

Amounts falling due within one year

14 (773.9) (391.0) (773.9) (391.0)

Net current (liabilities)/assets (374.3) 27.9 (359.3) 27.9

Total assets less current liabilities 2,692.3 2,858.4 2,701.6 2,858.4

### Creditors:

Amounts falling due after more than one year


15 (661.5) (632.2) (661.5) (632.2)

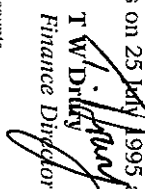
Provisions for liabilities and charges 17 (42.7) (38.2) (42.7) (38.2)

Net assets 1,988.1 2,188.0 1,997.4 2,188.0

Capital and reserves	19	431.9	431.9	431.9	431.9
Called up share capital	19	647.8	647.8	647.8	647.8
Share premium account	20	908.4	1,108.3	917.7	1,108.3
Profit and loss account					
Shareholders' funds		1,988.1	2,188.0	1,997.4	2,188.0

Approved by the Board of directors on 25 July 1995 and signed on its behalf by

  
Sir Desmond Pither  
Chairman

  
T W Drury  
Finance Director

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

## Consolidated cash flow statement

	1995 £m	1995 £m	1994 £m	1994 £m
For the year ended 31 March 1995				
<b>Net cash inflow from operating activities</b>		<b>435.7</b>		<b>380.6</b>
<b>Returns on investments and servicing of finance</b>				
Interest received	13.3		12.4	
Interest paid	(31.4)		(30.5)	
Interest paid on finance leases	(23.3)		(7.5)	
Dividends paid	(120.2)		(102.3)	
Net cash outflow from returns on investments and servicing of finance		<b>(161.6)</b>		<b>(127.9)</b>
<b>Investing activities</b>				
Purchase of tangible fixed assets	(316.7)		(343.3)	
Grants and contributions received	18.2		15.1	
Disposal of tangible fixed assets	9.0		6.2	
Net cash outflow from investing activities		<b>(289.5)</b>		<b>(322.0)</b>
<b>Net cash outflow before financing</b>		<b>(15.4)</b>		<b>(69.3)</b>
<b>Financing</b>				
New loans	-		188.6	
New finance leases	37.5		53.7	
Repayment of loans	(0.8)		(148.9)	
Capital element of leases repaid	(7.1)		(10.7)	
Loan from parent undertaking	-		60.0	
Repayment of loan from parent undertaking	(35.6)		-	
Net cash (outflow)/inflow from financing		<b>(6.0)</b>		<b>142.7</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(21.4)</b>		<b>73.4</b>

## Notes to the cash flow statement

	1995 £m	1994 £m	
For the year ended 31 March 1995			
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit	353.7	328.9	
Depreciation	74.3	64.8	
Profit on disposal of tangible fixed assets	(4.1)	(4.9)	
Movement in: stores	0.4	1.7	
debtors	(2.7)	0.8	
creditors	14.1	(10.7)	
Net cash inflow from operating activities	<b>435.7</b>	<b>380.6</b>	
<b>Analysis of changes in cash and cash equivalents</b>			
At 1 April 1994	235.0	161.6	
Net cash (outflow)/inflow for the year	(21.4)	73.4	
At 31 March 1995	<b>213.6</b>	<b>235.0</b>	
<b>Analysis of the balances of cash and cash equivalents</b>			
Cash at bank and in hand	7.9	10.4	
Current asset investments	205.7	224.6	
	<b>213.6</b>	<b>235.0</b>	
	Share capital (including share premium) £m	Parent undertaking loan £m	Loans and finance lease obligations £m
<b>Analysis of changes in financing during the year</b>			
At 1 April 1994	1,079.7	60.0	609.6
Cash (outflow)/inflow from financing	-	(35.6)	29.6
At 31 March 1995	<b>1,079.7</b>	<b>24.4</b>	<b>639.2</b>

# Notes to the accounts

## 1 Accounting policies

### (a) Basis of preparation of accounts

The consolidated accounts set out on pages 13 to 24 incorporate the accounts of North West Water Limited and its subsidiary undertakings.

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards, 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 since complying with the Act would not 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

### (g) Fixed asset investments

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

### (h) Current asset investments

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

### (i) Stores

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

### (j) 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 21.

### (k) Deferred taxation

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

### (l) Associated undertakings

The appropriate share of the results of associated undertakings are recognised in the consolidated accounts where the directors consider that the group is in a position to exert significant influence over the associated undertaking.

## 2 Segmental information

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

## 3 Net operating costs

	1995 £m	1994 £m
<b>Employee costs:</b>		
Wages and salaries	105.2	102.9
Social security costs	7.9	8.5
Pension contributions (note 21)	10.2	10.6
Capital schemes	123.3	122.0
Infrastructure renewals	(34.0)	(34.7)
	(6.1)	(9.3)
	83.2	78.0
<b>Depreciation:</b>		
Owned fixed assets	65.8	57.9
Fixed assets held under finance leases	8.5	6.9
	74.3	64.8
Infrastructure renewals expenditure	66.2	62.8
<b>Other operating costs include:</b>		
Energy, rates and other operating costs	176.3	169.4
Raw materials and consumables	19.1	17.6
Auditors' remuneration	0.1	0.1
Research and development	4.4	4.1
Operating leases		
- hire of plant and machinery	2.3	2.6
- land and buildings	1.6	1.7
Restructuring charge	11.8	12.0
Other income (note 4)	(6.3)	(6.4)
	209.3	201.1
<b>Total net operating costs</b>	<b>433.0</b>	<b>406.7</b>

Fees payable to KPMG for non-audit services in 1995 were £66,000. In 1994, the previous auditors Price Waterhouse received £771,000.

**4 Other income**

	1995 £m	1994 £m
Profit on disposal of fixed assets	4.1	4.9
Net rents receivable	1.8	1.5
Other	0.4	-
	6.3	6.4

**5 Directors**

	1995 £000	1994 £000
Salaries and taxable benefits	835	823
Performance related	210	192
Pension contributions	94	89
Compensation for loss of office	260	-
	1,399	1,104

**The Chairman:**

Salary and taxable benefits  
Performance related

-  
-

**Highest paid director:**

Salary and taxable benefits  
Performance related

191  
72

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

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 £22,100 (1994 - £17,200).

All executive directors are members of and contribute to the Water Pension Scheme (WPS) which provides an entitlement equal to between 1/30th and 1/60th of pensionable emoluments for each completed year of service but subject to an overall maximum of 20 years. The normal retirement age is 60, but early retirement is possible from age 50. 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 these executive directors, the company has undertaken to pay the difference between their pension entitlements based upon the relevant proportion of their final salaries and the maximum amount payable under the rules of the WPS. At the present time, these separate arrangements remained 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 for directors who had joined the company prior to 1989.

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

£	1995 Number	1994 Number
0 - 5,000	5	4
10,001 - 15,000	3	-
50,001 - 55,000	1	-
55,001 - 60,000	1	-
60,001 - 65,000	-	-
65,001 - 70,000	1	-
75,001 - 80,000	-	3
80,001 - 85,000	1	2
85,001 - 90,000	2	-
90,001 - 95,000	-	1
100,001 - 105,000	2	2
105,001 - 110,000	1	1
220,001 - 225,000	1	1
260,001 - 265,000	1	1

## Notes to the accounts continued

### 5 Directors continued

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).

	1995		1994 or on appointment			
	Share options		Share options			
	Ordinary shares	Executive option scheme	Employee share save scheme	Ordinary shares	Executive option scheme	Employee share save scheme
R D Armstrong	10,709	40,998	5,161	8,409	39,498	8,824
R G Bradbury	-	-	-	-	-	-
H R Croft	1,992	34,749	9,847	1,876	28,500	9,847
T W Drury	5,941	23,623	5,376	-	36,749	5,376
M R Dyer	4,147	50,497	2,042	5,480	47,748	3,263
D Golden	-	14,248	1,897	-	45,498	1,897
D P Hosker	2,381	4,874	3,300	2,381	4,874	3,300
P E McCloskey	-	-	-	-	-	-

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.

Details of directors' options granted 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	2,473 1,125 375	418.5p 496.0p 422.0p	2 March 2000 15 December 1997 15 December 1999	1 September 2000 15 December 2004 15 December 2004
H R Croft	4,687 1,562	496.0p 422.0p	15 December 1997 15 December 1999	15 December 2004 15 December 2004
T W Drury	1,687 562	496.0p 422.0p	15 December 1997 15 December 1999	15 December 2004 15 December 2004
M R Dyer	824 2,062 687	418.5p 496.0p 422.0p	2 March 2000 15 December 1997 15 December 1999	1 September 2000 15 December 2004 15 December 2004
D Golden	750 250	496.0p 422.0p	15 December 1997 15 December 1999	15 December 2004 15 December 2004

Details of directors' options exercised for ordinary shares during the year are as follows:

	Options exercised during the year	Exercise price per share	Mid-market price when exercised	First date exercisable	Last date exercisable
R D Armstrong	6,136	176.0p	503.0p	1 Mar 1995	31 Aug 1995
T W Drury	15,375	335.0p	538.0p	8 Jan 1995	8 Jan 2002
M R Dyer	2,045	176.0p	522.0p	1 Mar 1995	31 Aug 1995
D Golden	32,250	335.0p	538.0p	8 Jan 1995	8 Jan 2002

The mid-market price of a share at 31 March 1995 was 549.0p. The range during the year was 457.0p (low) to 602.0p (high).

**6 Employees**

	1995	1994
Average number of persons employed	5,342	5,426

**7 Net interest payable**

	1995	1994
	£m	£m

**Interest payable:**

On bank loans, overdrafts and other loans:		
Repayable within five years	4.9	1.3
Repayable wholly or partly in more than five years	26.4	28.9

On finance leases	31.3	30.2
Group undertakings	13.9	16.6
	1.5	1.6
Total interest payable	46.7	48.4

**Interest receivable:**

Group undertakings	(2.5)	(3.0)
External	(12.9)	(9.3)

Net interest payable	31.3	36.1
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**8 Taxation**

	Group		Company	
	1995	1994	1995	1994
UK Corporation Tax @ 33%	3.5	0.0	3.5	0.0

The corporation tax charge relates to group relief payable.

No other 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:

Accelerated tax allowances on buildings, plant and equipment				
Infrastructure assets	345.0	290.0	345.0	290.0
Other assets	146.2	102.3	146.2	102.3
Losses and other timing differences	(68.3)	(67.2)	(68.3)	(67.2)
	422.9	325.1	422.9	325.1

No deferred tax liability arises in the group or company accounts.

**9 Dividends**

	1995	1994
	£m	£m
Interim dividend of 9.16 pence per share (1994 – 8.42 pence)	39.5	36.4
Final dividend of 18.56 pence per share recommended (1994 – 18.66 pence)	79.3	80.6
Special dividend 92.61 pence per share recommended	400.0	-
	518.8	117.0

## Notes to the accounts continued

## 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
<b>Cost:</b>							
At 1 April 1994	113.6	1,244.0	990.1	307.7	177.4	374.4	3,207.2
Additions	2.8	69.2	32.8	14.4	-	202.9	322.1
Grants and contributions	-	(6.6)	-	-	-	(0.3)	(6.9)
Inter-group transfer	(4.3)	-	-	-	-	-	(4.3)
Transfers	12.0	48.4	104.8	22.9	-	(188.1)	-
Disposals	(0.4)	-	(0.7)	(1.8)	-	-	(2.9)
At 31 March 1995	123.7	1,355.0	1,127.0	343.2	177.4	388.9	3,515.2
<b>Depreciation:</b>							
At 1 April 1994	16.0	-	134.0	116.1	111.0	-	377.1
Charge for the year	5.0	-	29.3	34.5	5.5	-	74.3
Inter-group transfer	(0.2)	-	-	-	-	-	(0.2)
Disposals	(0.3)	-	(0.6)	(1.3)	-	-	(2.2)
At 31 March 1995	20.5	-	162.7	149.3	116.5	-	449.0
<b>Net book value:</b>							
At 31 March 1995	103.2	1,355.0	964.3	193.9	60.9	388.9	3,066.2
At 31 March 1994	97.6	1,244.0	856.1	191.6	66.4	374.4	2,830.1

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 £66.6 million (1994 - £59.7 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:

	1995	1994
	£m	£m
<b>Cost:</b>		
Operational structures	250.8	213.4
Fixtures, fittings, tools and equipment	23.2	26.9
At 31 March	274.0	240.3
<b>Accumulated depreciation:</b>		
Operational structures	(40.5)	(34.5)
Fixtures, fittings, tools and equipment	(14.4)	(14.2)
At 31 March	(54.9)	(48.7)
<b>Net book value:</b>		
Operational structures	210.3	178.9
Fixtures, fittings, tools and equipment	8.8	12.7
At 31 March	219.1	191.6

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1995. 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.

	1995	1994
	£m	£m
<b>Capital commitments:</b>		
Contracted but not provided for	268.1	535.8
Authorised but not yet contracted for	102.7	63.6

## 10 Tangible fixed assets continued

Company	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
<b>Cost:</b>							
At 1 April 1994	113.6	1,244.0	990.1	307.7	177.4	374.4	3,207.2
Additions	2.8	69.2	32.8	14.4	-	202.9	322.1
Grants and contributions	-	(6.6)	-	-	-	(0.3)	(6.9)
Inter-group transfer	(4.3)	-	-	-	-	-	(4.3)
Transfers	12.0	48.4	104.8	22.9	-	(188.1)	-
Disposals	(0.4)	-	(0.7)	(1.8)	-	-	(2.9)
Intra-group transfer	(0.3)	-	-	(13.8)	-	-	(14.1)
At 31 March 1995	123.4	1,355.0	1,127.0	329.4	177.4	388.9	3,501.1
<b>Depreciation:</b>							
At 1 April 1994	16.0	-	134.0	116.1	111.0	-	377.1
Charge for the year	5.0	-	29.3	34.5	5.5	-	74.3
Inter-group transfer	(0.2)	-	-	-	-	-	(0.2)
Disposals	(0.3)	-	(0.6)	(1.3)	-	-	(2.2)
Intra-group transfer	-	-	-	(8.3)	-	-	(8.3)
At 31 March 1995	20.5	-	162.7	141.0	116.5	-	440.7
<b>Net book value:</b>							
At 31 March 1995	102.9	1,355.0	964.3	188.4	60.9	388.9	3,060.4
At 31 March 1994	97.6	1,244.0	856.1	191.6	66.4	374.4	2,830.1

## 11 Fixed asset investments

Group	Shares in subsidiary undertakings £m	Other investments £m	Total £m
<b>Cost:</b>			
At 1 April 1994 and 31 March 1995	-	-	0.4
<b>Company</b>			
At 1 April 1994	-	0.4	0.4
Additions	0.1	-	0.1
At 31 March 1995	0.1	0.4	0.5

Details of subsidiary and associated undertakings, all of which are unlisted and registered in England and Wales, are detailed below:

Subsidiary undertakings	Description of holding	Proportion held	Nature of business
NWW Engineering Limited	Ordinary shares of £1 each	100%	Engineering services
Willow Lodge (St Annes) Limited	Ordinary shares of £1 each	100%	Dormant
<b>Associated undertakings</b>			
W/Rc plc	'B' Ordinary shares of £1 each 5% convertible unsecured loan stock 2014	26.25%	Water and wastewater research
WPF Holdings Limited	Ordinary shares of £1 each	18.44%	Pension fund services

## Notes to the accounts continued

## 12 Debtors

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
<b>Amounts falling due within one year:</b>				
Trade debtors	85.1	85.2	85.1	85.2
Amounts owed by Group undertakings	44.8	41.3	60.3	41.3
Other debtors	9.3	11.2	9.3	11.2
Infrastructure renewals prepayment	-	3.4	-	3.4
Prepayments and accrued income	45.6	38.7	45.2	38.7
	184.8	179.8	199.9	179.8
<b>Amounts falling due after more than one year:</b>				
Other debtors	0.3	2.8	0.3	2.8
	0.3	2.8	0.3	2.8
<b>Total debtors</b>	<b>185.1</b>	<b>182.6</b>	<b>200.2</b>	<b>182.6</b>

Amounts owed by Group undertakings comprises:

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Amounts owed by parent and fellow subsidiary undertakings	44.8	41.3	44.8	41.3
Amounts owed by subsidiary undertakings	-	-	15.5	-

## 13 Current asset investments

Group and company	1995 £m		1994 £m	
	1995 £m	1994 £m	1995 £m	1994 £m
Short term marketable securities	205.7	224.6	205.7	224.6

## 14 Creditors: amounts falling due within one year

Group and company	1995 £m		1994 £m	
	1995 £m	1994 £m	1995 £m	1994 £m
<b>Loans</b>	<b>7.3</b>	<b>0.9</b>	<b>7.3</b>	<b>0.9</b>
Trade creditors	18.7	23.7	18.7	23.7
Amounts owed to Group undertakings	32.8	64.8	32.8	64.8
Obligations under finance leases	8.0	7.1	8.0	7.1
Dividend proposed and payable	479.3	80.6	479.3	80.6
Other creditors	1.7	1.4	1.7	1.4
Taxation and social security	3.5	3.6	3.5	3.6
Infrastructure renewals accrual	15.8	-	15.8	-
Accruals and deferred income	206.8	208.9	206.8	208.9
	773.9	391.0	773.9	391.0

Amounts owed to Group undertakings comprises £32.8 million (1994 - £64.8 million) in respect of amounts owed to parent and fellow subsidiary undertakings.

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

Group and company	1995 £m		1994 £m	
	1995 £m	1994 £m	1995 £m	1994 £m
<b>Loans</b>	<b>404.2</b>	<b>411.4</b>	<b>404.2</b>	<b>411.4</b>
Obligations under finance leases	219.7	190.2	219.7	190.2
Other creditors	4.4	7.8	4.4	7.8
Deferred grants and contributions (note 16)	33.2	22.8	33.2	22.8
	661.5	632.2	661.5	632.2

## 16 Deferred grants and contributions

Group and company	1995 £m		1994 £m	
	1995 £m	1994 £m	1995 £m	1994 £m
At 1 April 1994		22.8		22.8
Received in the year		11.3		11.3
Credit to profit and loss account for the year		(0.9)		(0.9)
At 31 March 1995	33.2		33.2	

**17 Provisions for liabilities and charges**

<i>Group and company</i>	Restructuring £m	Other £m	Total £m
At 1 April 1994	33.1	5.1	38.2
Utilised	(11.2)	-	(11.2)
Profit and loss account	11.8	3.9	15.7
At 31 March 1995	33.7	9.0	42.7

**18 Borrowings**

<i>Group and company</i>	Repayable by instalment partly after 5 years £m	Loans wholly repayable within 5 years £m	Finance leases £m	1995 Total £m	1994 Total £m
	Within one year	7.3	-	8.0	15.3
Between one and two years	16.5	-	9.1	25.6	15.5
Between two and five years	76.3	70.0	10.6	156.9	81.2
After more than five years	241.4	-	200.0	441.4	504.9
	341.5	70.0	227.7	639.2	609.6

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2000 and 2052.

Interest rates range from 6.65 per cent to 14.85 per cent on £181.5 million and are at floating rates on £160 million.

**19 Called up share capital and share premium accounts**

	1995 £m	1994 £m
Authorised share capital		
650,000,000 ordinary shares of £1 each	650.0	650.0
Allotted 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 Profit and loss account**

	Group £m	Company £m
At 1 April 1994	1,108.3	1,108.3
Loss for the year	(199.9)	(190.6)
At 31 March 1995	908.4	917.7

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 £328.2 million.

**21 Pensions**

The company is a participant in the Group's two defined benefit final salary schemes, the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS). 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 investment growth of 9 per cent per annum, pay growth of 7 per cent per annum and increases to pensions in payment and deferred pensions of 5 per cent per annum.

The last actuarial valuation of the two schemes was carried out as at 31 March 1993. The total market value of the assets at the valuation date was £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 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 £10.2 million (1994 - £10.6 million).



## Notes to the accounts continued

### 22 Operating leases

The company is committed to making the following payments during the year ending 31 March 1996:

Leases which expire:	Land and buildings	Plant and machinery
	£m 1995	£m 1995
Within one year	1.5	0.4
Between two and five years	0.1	1.5
After five years	1.0	-
	2.6	1.9

### 23 Ultimate parent undertaking

The accounts of the company are consolidated in the Group accounts of the ultimate parent undertaking, 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 the Group at the end of the financial year and of the profit or loss for the financial year. 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 13 to 34, 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 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.

The directors' certificate to the Director General of Water Services under paragraph 6A.2 of Condition F is on page 35. 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 3.1 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 13 to 24.

#### *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 Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which 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 1995 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 Wilson**

Chartered Accountants

Registered Auditors

Manchester

25 July 1995

## Regulatory accounting information

### Introduction

The current cost accounts on pages 27 to 34 have been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services.

As the non-appointed business, as defined by Regulatory Accounting Guidelines, has generated turnover in excess of 1% of total turnover, further profit and loss information has been provided for both years in accordance with RAG 3.02 analysing the profit and loss account between the appointed and non-appointed businesses. Non-appointed activities mainly include the external sales of energy and the provision of engineering services.

Net operating assets for the non-appointed business are not material and, therefore, the current cost balance sheet and cash flow statements show the figures for the total business.

The historical balance sheet required by the guidelines is included in the statutory accounts which are set out on pages 13 to 24.

The directors' certificate to the Director General of Water Services required under paragraph 6A.2 of Condition F is on page 35.

### 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.

## Historical cost profit and loss account

	1995		1994 (Restated)		
	Appointed £m	Non- appointed £m	Total £m	Non- appointed £m	Total £m
For the year ended 31 March 1995					
<b>Turnover</b>	<b>778.6</b>	<b>8.1</b>	<b>786.7</b>	<b>729.3</b>	<b>6.3</b>
Operating costs	(451.9)	(7.4)	(459.3)	(408.3)	(4.7)
Operating income	4.1	-	4.1	4.8	-
<b>Operating profit</b>	<b>350.8</b>	<b>0.7</b>	<b>351.5</b>	<b>325.8</b>	<b>1.6</b>
Other income	2.2	-	2.2	1.5	-
Net interest payable	(31.3)	-	(31.3)	(36.1)	-
<b>Profit on ordinary activities before taxation</b>	<b>321.7</b>	<b>0.7</b>	<b>322.4</b>	<b>291.2</b>	<b>1.6</b>
Taxation	(3.5)	-	(3.5)	-	-
<b>Profit for the financial year</b>	<b>318.2</b>	<b>0.7</b>	<b>318.9</b>	<b>291.2</b>	<b>1.6</b>
Dividends	(518.6)	(0.2)	(518.8)	(116.3)	(0.7)
<b>Retained (loss)/profit retained</b>	<b>(200.4)</b>	<b>0.5</b>	<b>(199.9)</b>	<b>174.9</b>	<b>0.9</b>
					<b>175.8</b>

## Current cost profit and loss account

	1995		1994 (Restated)	
	Appointed £m	Non- appointed £m	Total Appointed £m	Non- appointed £m
For the year ended 31 March 1995	Note			
<b>Turnover</b>	2	778.6	8.1	786.7
Current cost operating costs	3	(454.3)	(7.6)	(461.9)
Operating income	2	1.4	1.4	0.5
Working capital adjustment		2.5	-	2.5
<b>Current cost operating profit</b>		328.2	0.5	328.7
Other income		2.2	-	2.2
Net interest payable		(31.3)	-	(31.3)
Financing adjustment		17.4	-	17.4
<b>Current cost profit before taxation</b>		316.5	0.5	317.0
Taxation		(3.5)	-	(3.5)
<b>Current cost profit for the financial year</b>		313.0	0.5	313.5
Dividends		(518.6)	(0.2)	(518.8)
<b>Current cost (loss)/profit retained</b>		(205.6)	0.3	(205.3)
			127.7	0.9
				128.6

## Current cost balance sheet

	At 31 March 1995		
	Note	1995 £m	1994 £m
<b>Tangible assets</b>			
Third party contributions since 1989-90	4	21,996.8	21,080.6
Working capital	5	(103.0)	(82.9)
		(48.1)	(70.2)
<b>Net operating assets</b>		21,845.7	20,927.5
Cash and investments		206.1	225.0
Non-trade debtors		50.5	55.2
Non-trade creditors due within one year		(582.4)	(210.0)
Creditors due after one year		(628.3)	(609.4)
Provisions for liabilities charges		(42.7)	(38.2)
<b>Net assets employed</b>		20,848.9	20,350.1
<b>Capital and reserves</b>			
Called up share capital		431.9	431.9
Share premium account		647.8	647.8
Profit and loss account		286.0	491.3
Current cost reserve	6	19,483.2	18,779.1
		20,848.9	20,350.1

## Current cost cash flow statement

For the year ended 31 March 1995		1995	1994
		£m	£m
<b>Returns on investments and servicing of finance</b>			
Net cash inflow from operating activities		433.5	379.1
Other income received		2.2	1.5
Interest received		13.3	12.4
Interest paid		(31.4)	(30.5)
Interest on finance lease rentals		(23.3)	(7.5)
Dividends paid		(120.2)	(102.3)
Net cash flow from returns on investments and servicing of finance		(159.4)	(126.4)
<b>Investing activities</b>			
Purchase of fixed assets		(316.7)	(343.3)
Receipt of grants and contributions		18.2	15.1
Disposal of fixed assets		9.0	6.2
Net cash flow from investing activities		(289.5)	(322.0)
Net cash flow before financing		(15.4)	(69.3)
<b>Financing</b>			
New loans		-	188.6
New finance leases		37.5	53.7
Repayment of loans		(0.8)	(148.9)
Capital element of leases repaid		(7.1)	(10.7)
Loan from parent undertaking		-	60.0
Repayment of loan from parent undertaking		(35.6)	-
Net cash flow from financing		(6.0)	142.7
(Decrease)/increase in cash and cash equivalents		(21.4)	73.4

## Note to the current cost cash flow statement

## Reconciliation of current cost operating profit to net cashflow from operating activities

	1995	1994
	£m	£m
Current cost operating profit	328.7	270.4
Working capital adjustment	(2.5)	(0.8)
Decrease in stocks	0.4	1.7
Current cost depreciation	125.2	100.9
Current cost profit on disposal of fixed assets	(1.4)	(0.5)
Increase in debtors and prepaid expenses	(6.1)	(4.9)
Increase in creditors and accrued expenses	(15.2)	11.8
Increase in provisions	4.4	0.5
Net cash inflow from operating activities	433.5	379.1

# Notes to the current cost accounts

## 1 Current cost accounting policies

These accounts have been prepared for the total business of North West Water Limited in accordance with guidance issued by the Director General of Water Services for modified real 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 historical 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 such assets to earn a return high enough to justify that value, this 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 contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs 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.

## 1 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

	1995		1994 (Restated)	
	Water Services £m	Sewerage Services £m	Total £m	Total £m
<b>Turnover</b>				
Measured	120.8	119.8	240.6	113.5
Unmeasured	225.0	254.8	479.8	209.4
Trade effluent	-	34.5	34.5	-
Revenue grants	0.5	0.5	1.0	0.4
Other sources	4.5	2.6	7.1	5.5
Third party services	15.6	-	15.6	13.6
	366.4	412.2	778.6	342.4
				386.9
				729.3
<b>Operating income</b>				
Current cost profit/(loss) on disposal of fixed assets	1.5	(0.1)	1.4	0.3
				0.2
				0.5

## Notes to the current cost accounts continued

## 3 Current cost operating costs and fixed asset net book values

		Service analysis						Business analysis		
		Water services			Sewerage services			Customer services	Scientific services	Cost of regulation
		Resources and treatment	Distribution	Water supply subtotal	Sewerage	Sewage treatment	Sludge treatment and disposal	Sewerage treatment and disposal subtotal	Sewerage services subtotal	
		£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Direct costs</b>										
Employment costs		8.6	15.0	23.6	0.8	8.9	6.0	14.9	15.7	
Power		5.6	6.6	12.2	0.3	7.5	1.2	8.7	9.0	
Agencies		-	-	-	16.3	-	-	-	16.3	
Hired and contracted services		2.4	6.0	8.4	0.4	2.6	2.4	5.0	5.4	
Materials and consumables		4.7	3.7	8.4	-	1.1	0.5	1.6	1.6	
Service charges		7.8	-	7.8	-	3.6	-	3.6	3.6	
Other direct costs		-	1.1	1.1	0.3	(0.2)	0.5	0.3	0.6	
<b>Total direct costs</b>		29.1	32.4	61.5	18.1	23.5	10.6	34.1	52.2	20.9
General and support expenditure		10.7	20.9	31.6	2.4	11.4	10.3	21.7	24.1	4.7
Functional expenditure		39.8	53.3	93.1	20.5	34.9	20.9	55.8	76.3	25.6
<b>Capital costs</b>										
Current cost depreciation		39.0	0.7	39.7	4.0	26.4	12.7	39.1	43.1	
Infrastructure renewals expenditure		8.5	16.5	25.0	19.2	1.9	0.9	2.8	22.0	
Infrastructure renewals accrual/(prepayment)		(4.3)	(3.2)	(7.5)	(0.2)	(1.1)	(0.2)	(1.3)	(1.5)	
Functional costs		83.0	67.3	150.3	43.5	62.1	34.3	96.4	139.9	
<b>Total including business analysis</b>				171.0					156.8	
Rates				26.2					12.3	
Doubtful debts				9.6					9.3	
Exceptional costs				7.1					8.6	
Business activities - capital costs				19.9					21.4	
Service costs				233.8					208.4	
Third party services - operating costs				11.4					-	
Third party services - depreciation				0.7					-	
<b>Total operating costs</b>				245.9					208.4	
<b>Fixed asset net book values</b>										
Service activities		1,533.0	6,448.6	7,781.6	12,614.9	860.7	427.0	1,287.7	13,902.6	
Business activities				174.4	19.0			93.6	112.6	
Service totals				7,956.0	12,633.9			1,381.3	14,015.2	
Services for third parties				17.8					7.8	
<b>Total</b>				7,973.8				14,023.0		

## 3 Current cost operating costs and fixed asset net book values – continued

	Service analysis						Business analysis		
	Water services			Sewerage services			Customer services £m	Scientific services £m	Cost of regulation £m
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewerage treatment and disposal £m	Sludge treatment and disposal £m	Sewerage treatment and disposal subtotal £m	Sewerage services subtotal £m	
<b>Direct costs</b>									
Employment costs	8.8	15.3	24.1	1.1	8.7	6.3	15.0	16.1	
Power	6.3	7.3	13.6	0.2	7.8	1.4	9.2	9.4	
Agencies	-	-	-	15.9	0.1	0.1	0.2	16.1	
Hired and contracted services	1.5	4.7	6.2	0.6	2.3	2.2	4.5	5.1	
Materials and consumables	4.7	3.2	7.9	0.1	1.1	0.5	1.6	1.7	
Service charges	8.3	-	8.3	-	3.7	-	3.7	3.7	
Other direct costs	-	1.3	1.3	0.1	(0.4)	0.4	-	0.1	
<b>Total direct costs</b>	29.6	31.8	61.4	18.0	23.3	10.9	34.2	52.2	18.0
General and support expenditure	13.2	18.5	31.7	4.2	14.1	9.1	23.2	27.4	1.5
<b>Functional expenditure</b>	42.8	50.3	93.1	22.2	37.4	20.0	57.4	79.6	19.5
<b>Capital costs</b>									9.0
Current cost depreciation	26.3	7.4	33.7	4.3	24.8	12.5	37.3	41.6	
Infrastructure renewals expenditure	10.4	15.3	25.7	28.7	1.7	1.1	2.8	31.5	
Infrastructure renewals accrual/(prepayment)	(1.5)	12.7	11.2	11.4	(0.1)	0.5	0.4	11.8	
<b>Functional costs</b>	78.0	85.7	163.7	66.6	63.8	34.1	97.9	164.5	2.2
<b>Total including business analysis</b>			179.9					179.0	
Rates			27.1					12.3	
Doubtful debts			7.6					8.9	
Exceptional costs			7.2					4.8	
Business activities – capital costs			11.3					13.7	
<b>Service costs</b>			233.1					218.7	
Third party services – operating costs			9.4					-	
Third party services – depreciation			0.6					-	
<b>Total operating costs</b>			243.1					218.7	
<b>Fixed asset net book values</b>									
Service activities	1,273.0	6,202.2	7,475.2	12,189.5	766.7	373.0	1,139.7	13,329.2	
Business activities			152.5	16.6			81.9	98.5	
<b>Service totals</b>			7,627.7	12,206.1			1,221.6	13,427.7	
Services for third parties			17.8				7.4		
<b>Total</b>			7,645.5				13,435.1		



## Notes to the accounts continued

## 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 tangible assets £m	Total £m
<b>Gross replacement cost:</b>					
At 1 April 1994	18,720.2	2,915.7	244.5	539.1	22,419.5
Inter group transfer	-	-	(5.2)	-	(5.2)
RPI adjustment	645.9	100.6	8.5	18.6	773.6
Disposals	(0.8)	(4.3)	(0.2)	(2.4)	(7.7)
Additions	125.3	144.2	15.5	39.1	322.1
At 31 March 1995	19,488.6	3,156.2	262.9	594.4	23,502.1
<b>Depreciation:</b>					
At 1 April 1994	-	1,140.8	42.7	155.2	1,538.7
Inter group transfer	-	-	(1.0)	-	(1.0)
RPI adjustment	-	39.9	1.4	5.4	46.7
Disposals	-	(2.8)	(0.1)	(1.5)	(4.4)
Charge for the year	-	73.8	7.9	43.6	125.3
At 31 March 1995	-	1,251.7	50.9	202.7	1,505.3
<b>Net book value:</b>					
At 31 March 1995	19,488.6	1,904.5	212.0	391.7	21,996.8
At 31 March 1994	18,720.2	1,774.9	201.6	383.9	21,080.6

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

	Water supply £m	Sewerage £m	Sewage treatment & disposal £m	Total £m
<b>Gross replacement cost:</b>				
At 1 April 1994	8,286.7	12,278.8	1,853.8	22,419.3
Inter group transfer	(4.6)	-	(0.6)	(5.2)
RPI adjustment	285.9	423.7	64.0	773.6
Disposals	(5.9)	(0.3)	(1.5)	(7.7)
Additions	131.6	12.5	178.0	322.1
At 31 March 1995	8,693.7	12,714.7	2,093.7	23,502.1
<b>Depreciation:</b>				
At 1 April 1994	641.2	72.7	624.8	1,538.7
Inter group transfer	(0.9)	-	(0.1)	(1.0)
RPI adjustment	22.4	2.5	21.8	46.7
Disposals	(3.1)	(0.2)	(1.1)	(4.4)
Charge for the year	60.3	5.9	59.1	125.3
At 31 March 1995	719.9	80.9	704.5	1,505.3
<b>Net book value:</b>				
At 31 March 1995	7,973.8	12,633.8	1,389.2	21,996.8
At 31 March 1994	7,645.5	12,206.1	1,229.0	21,080.6

## 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 tangible assets £m	Total £m
Water supply	7,030.9	812.0	81.7	49.2	7,973.8
Sewerage	12,059.8	226.2	121.2	226.6	12,633.8
Sewage treatment & disposal	397.9	866.3	9.1	115.9	1,389.2
At 31 March 1995	19,488.6	1,904.5	212.0	391.7	21,996.8

**5 Working capital**

	1995 £m	1994 £m
Stores	0.9	1.3
Trade debtors	85.1	85.2
Working cash balances	7.9	10.4
Trade creditors	(18.7)	(23.7)
Short term capital creditors	(89.8)	(81.1)
Infrastructure renewals accrual	(15.8)	(24.8)
Other trade accruals	(61.7)	(72.6)
Trade payments in advance	2.8	2.1
Payroll related taxes and Social Security contributions	(3.5)	(3.6)
Group trade debtor	1.9	-
Other debtors	42.8	36.6
<b>Total working capital</b>	<b>(48.1)</b>	<b>(70.2)</b>

**6 Movement on current cost reserve**

	1995 £m	1994 £m
At 1 April 1994		18,333.0
RPI adjustments	18,779.1	
Fixed assets	726.9	458.1
Working capital	(2.5)	(0.8)
Financing	(17.4)	(9.8)
Grants and third party contributions	(2.9)	(1.4)
At 31 March 1995	19,483.2	18,779.1

**7 Writeback of infrastructure renewals accrual**

The current cost infrastructure renewals accrual balance has been reduced by £45.1 million to eliminate indexation differences between the historical cost accrual and current cost accrual as, in the opinion of the directors, this excess indexation will not crystallise in the foreseeable future.

## Five year summary

## Current cost profit and loss account

	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Turnover	778.6	749.8	723.5	690.0	645.1
Current cost operating costs	(454.5)	(474.7)	(486.4)	(470.0)	(480.3)
Operating income	1.4	0.5	2.8	1.1	(4.1)
Working capital adjustment	2.5	0.8	1.5	1.6	4.4
Other income	328.2	276.4	241.4	222.7	165.1
Net interest	2.2	1.6	1.3	1.3	6.1
Financing adjustment	(31.3)	(37.2)	(23.4)	(3.0)	34.4
	17.4	10.1	5.2	3.6	(9.7)
Current cost profit before taxation	316.5	250.9	224.5	224.6	195.9
Taxation	(3.5)	-	-	-	-
Current cost profit on ordinary activities	313.0	250.9	224.5	224.6	195.9
Dividends	(518.6)	(118.6)	(104.3)	(100.6)	(152.7)
Current cost retained (loss)/profit	(205.6)	132.3	120.2	124.0	43.2

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

1994 and 1995 show figures for appointed business only.

## Current cost balance sheet

	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Tangible fixed assets	21,996.8	21,818.4	21,564.1	21,206.0	20,867.2
Third party contributions since 1989/90	(103.0)	(85.8)	(65.5)	(43.6)	(18.0)
Working capital	(48.1)	(72.7)	(37.6)	(78.6)	(42.8)
Net operating assets	21,845.7	21,659.9	21,463.0	21,083.8	20,806.4
Cash and investments	206.1	232.9	161.1	231.2	326.8
Non-trade debtors	50.5	57.1	60.6	61.8	73.4
Non-trade creditors	(582.4)	(217.3)	(161.2)	(176.9)	(204.9)
Creditors due after one year	(628.3)	(630.7)	(541.3)	(382.0)	(245.0)
Provisions	(42.7)	(39.5)	(40.0)	(20.0)	(43.2)
Net assets employed	20,848.9	21,062.4	20,942.2	20,797.9	20,713.5
Capital and reserves					
Called up share capital	431.9	447.0	457.4	466.0	485.0
Share premium account	647.8	670.5	686.0	699.0	727.5
Profit and loss account	286.0	508.5	384.1	267.4	149.1
Current cost reserve	19,483.2	19,436.4	19,414.7	19,365.5	19,351.9
	20,848.9	21,062.4	20,942.2	20,797.9	20,713.5

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

# Auditors' report

to the Director General of Water Services on the financial statements of North West Water Limited

We have audited the historical cost financial statements on pages 13 to 24, which have been prepared under the accounting policies set out on pages 15 and 16, and the current cost financial information on pages 27 to 34, which have been prepared under the accounting policies set out on pages 26 and 29.

### Respective responsibilities of directors and auditors

As described on page 25 the company's directors are responsible for the preparation of the regulatory financial statements. It is our responsibility to form an independent opinion, based on our audit, on those 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 regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory financial statements, and of whether the accounting policies are appropriate to the companies circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory 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 regulatory financial statements in terms of generally Accepted Accounting Principles, the Regulatory Accounting Guidelines and consistency with the statutory accounts.


### Opinion

In our opinion the regulatory financial statements contain the information for the year to 31 March 1995 required to be published and submitted to you by North West Water Limited ("the Appointee") to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the Appointee as a water and sewerage undertaker under the Water Industry Act 1991.

- (i) In respect of this information, we report that in our opinion:
  - (i) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;

- (ii) the information is in agreement with the Appointee's accounting records, compiled with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services;

- (iii) the financial statements on pages 13 to 34 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business; and
- (iv) the current cost financial information on pages 27 to 34 has been properly prepared in accordance with Regulatory Accounting Guideline 1, Accounting for current costs, issued in May 1992 by the Office of Water Services.

**KPMG**   
 Chartered Accountants  
 Registered Auditors  
 Manchester  
 25 July 1995

## Directors' certificate to the Director General

### Certificate under paragraph 6A.2 of Condition F of the appointments

In the opinion of the directors, North West Water Limited will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the company's obligations under the Appointments); and

In the opinion of the directors, North West Water Limited will, for at least the next 12 months, have available to it, management resources which are sufficient to enable it to carry out those functions.

Certified as having been approved at a duly convened meeting of the Board of directors of North West Water Limited held on 16 June 1995.

J R Tellow Secretary  
19 June 1995

