

No. 2366678



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## Managing Director's introduction

North West Water Limited continued to make substantial progress during the last twelve months. We fulfilled our customer commitments as announced in our 'Progress with Responsibility' initiative, with growth in turnover and profitability.

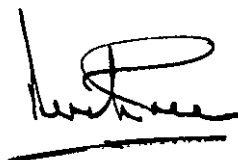
The weather had a major impact during the year. The thirteen months to the end of April 1996 have been the driest since records began, with only 60 per cent of normal rainfall in our catchment areas – a once in three hundred years probability. We took a range of actions to make sure that no customer went without water, and are grateful to our customers for their support in conserving water.

To substantially reduce the risk of future shortages caused by the weather, we are investing £85 million, at no extra cost to our customers, to create the equivalent of a 20 per cent increase in supply capacity by 2000. We are on target to reduce leakage by 250 million litres a day by 2000.

Last year we achieved all our key outputs, and made further efficiencies in the overall cost of the capital programme. Our investment spend was £440 million, including £131 million to improve bathing waters, £92 million on maintaining and supplementing the water mains network, £130 million on the sewer network and wastewater treatment, and £27 million to resolve customer problems with low water pressure, lead pipes, sewer flooding and unpleasant odours.

Turnover was up by 5.9 per cent to £832.8 million, and operating profit grew by 3.4 per cent to £365.6 million. This is after charging £23.4 million for customer rebates and other discretionary costs, and £24.4 million for additional drought related costs. Discounting those costs, operating profit increased by 16.9 per cent. We reduced our base operating costs in real terms by £23.8 million, or 5.5 per cent.

In summary, we sustained our progress on our twin objectives of increasing customer satisfaction and profitability.



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



## Financial review

The higher turnover for the year of £832.8 million included a permitted price increase of 5.4 per cent, with the remainder due to growth in the customer base. The company earned £300.3 million net profit after taxation.

Industrial consumption continued to fall, but more slowly than in past years. In 1995/96 it fell by 1.1 per cent, compared to 1.7 per cent in 1994/95 and a previous three year average of 5 per cent.

Twenty thousand new domestic properties were added to our metered customer base during the year. In addition, three thousand more customers opted to have a water meter installed.

Industrial trade waste sales continued to improve, largely as a result of our positive action in this business area. We are actively marketing our water and wastewater treatment expertise. As a sign of the promising future in this market, we have been selected as preferred tenderer for the Inverness and Fort William private finance project for wastewater treatment in the Highlands of Scotland.

**Operating Costs** During 1995/96, total operating costs including customer rebates increased by 7.9 per cent (£34.2 million) to £467.2 million. Excluding one-off items, however, operating costs fell by £13.6 million (3.1 per cent). Additional operating

efficiencies and other operating cost reductions amounting to £23.8 million (5.5 per cent) contributed to this improved performance.

We invested £23.4 million as part of fulfilling our commitments to make 'Progress with Responsibility', and an extra £24.4 million on additional pumping, water treatment, leakage reduction and other drought provisions. Although the impact on profit of the infrastructure renewals charge was largely the same as in 1994/95, the closing accrual fell by £5.7 million. This movement reflects the significant increase in expenditure in 1995/96 on maintaining our mains and sewer networks.

No further charge has been necessary for business restructuring. The current provision, valued at £24.6 million, is consistent with that held at 31 March 1995, and is intended to cover planned restructuring for the remaining four year period to 2000.

On bad debts, we reduced the impact on profits by £5.4 million to £13.5 million, through a sharply focused collection strategy. This leaves total outstanding trade debtors at 31 March 1996 covered to the extent of 30.3 per cent, compared with 27.1 per cent at 31 March 1995. Our collection performance continued to improve during the year, and trade debtors as a percentage of turnover ended down for the third successive year at 10 per cent.

**Exceptional Items** On 8 April 1995 North West Water Engineering Limited, the wholly owned subsidiary of North West Water Limited, was sold to Bechtel. This reduced our non-regulated turnover by £3.5 million to £4.6 million.

The purchase consideration was £15.5 million. When adjusted for the associated transfers of fixed assets, and costs incurred in relation to the sale, this increases the 1995/96 profit on ordinary activities before interest of North West Water Limited by £7.1 million to £372.7 million.

**Investment** During 1995/96, we achieved our compliance programme targets with an investment spend of £440 million. This is a substantial increase on the previous year's £374 million and reflects the cost of meeting our obligations to maintain service levels and substantially enhance water and wastewater quality.

The main areas of expenditure for 1995/96 were £131 million on bathing water compliance schemes, £92 million on maintaining and supplementing the water mains network (excluding bathing waters), £67 million on the sewer network and £63 million on wastewater treatment and disposal.

Our discretionary investment included £27 million to resolve customer problems relating to low water pressure, lead pipes, sewer flooding and unpleasant odours. We

also began our £85 million programme to substantially reduce the risk of future water shortages caused by the weather.

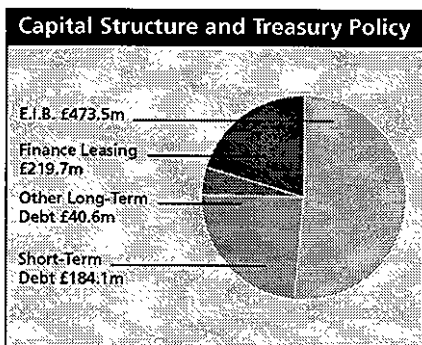
Our partnership with Bechtel is making real progress in improving the delivery of our larger capital projects, and in realising the savings expected.

**Capital Structure and Treasury Policy** Net borrowings increased to £917.9 million, analysed by source in the chart below. Net interest payable rose by £39.9 million reflecting the overall borrowing requirement for 1995/96 of £492.4 million.

The company continues to be supported by the European Investment Bank (EIB) in the funding of its sizeable investment programme to improve the environmental infrastructure and meet the compliance directives of the European Union. We were granted an additional EIB funding package of £110 million during the financial year.

Short-term debt (£184.1 million) is covered by a medium-term committed bank facility. We continued our policy of maintaining a high volume of fixed rate debt. The current volume of fixed debt of £820.6 million represents 89.4 per cent of total borrowing.

Our borrowing strategy is designed to secure interest stability within the water industry formulae based price setting methodology. Our Standard and Poors short-term credit rating is A1+.



**Martin Bradbury**  
Finance Director  
North West Water Limited

## Directors' report

**Principal activities** The North West Water Limited Group 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 Directors' introduction and the financial review to be read in conjunction with this report appear on pages 1 to 3.

The Group's associated undertakings are listed in note 12 to the accounts.

**Profit and dividends** The results for the year, set out in the consolidated profit and loss account on page 5, show that turnover for the year ended 31 March 1996 rose to £832.8 million, an increase of 5.9 per cent over the previous year. Profit for the year after tax was £300.3 million (1994 - £318.9 million).

An interim dividend of 10.26p per share was paid on 16 February 1996. The directors recommend a final dividend of 21.03p per share for the year to 31 March 1996, for payment on 1 October 1996.

**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 1996, if a special administration order had been made under section 23 of the Water Industry Act 1991 in respect of North West Water Limited, 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 effective communications with employees, using a wide variety of media, to enhance their active participation in the company's development and to keep them informed about the company's financial performance and other significant business issues. The company provides equal opportunities in employment, training and career development irrespective of gender, marital status, race, creed or disability. Employees who become unable to carry out, through disability, the job for which they were employed are counselled to determine their suitability for alternative work, for which retraining is offered if appropriate. The company is also committed to the highest international standards in every facet of the business. Proper attention to health and safety is an indispensable part of this commitment.

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

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

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

**Directors** The directors of the company during the year ended 31 March 1996 are set out below. All were directors for the whole year except where otherwise indicated.

- \* Sir Desmond Pitcher, Chairman.
- R D Armstrong, Customer Services Director.
- R G Bradbury, Commercial Director.
- H R Croft, Operations Director.
- T W Drury, Finance and Regulation Director.
- M R Dyer, Group Technical Director - resigned 10 April 1995.
- \* R J Ferguson, United Utilities PLC Finance Director.
- D Golden, Procurement Director - resigned 7 April 1995.
- \* D Green, Managing Director.
- D P Hosker, - resigned 10 April 1995.
- P E McCloskey, Corporate Services Director.
- \* B L Staples, United Utilities PLC Chief Executive.
- \* F Sanderson, non-executive director.
- \* Director, United Utilities PLC.

Sir Desmond Pitcher, B L Staples, T W Drury and F Sanderson resigned as directors of the company on 1 April 1996. M F Bradbury, M G Faulkner, E Harper, P G S Entwistle JP and D E Morton JP were appointed as directors on 1 April 1996. Details of directors' interests in ordinary shares of United Utilities 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.

By order of the Board

John Tetlow Secretary

23 July 1996



## Consolidated profit and loss account

For the year ended 31 March 1996	Note	1996 £m	1995 £m
<b>Turnover</b>	1(b)	<b>832.8</b>	786.7
Net operating costs	3	(448.9)	(433.0)
Customer rebates		(18.3)	-
<b>Operating profit</b>		<b>365.6</b>	353.7
Profit on disposal of business	7	7.1	-
<b>Profit on ordinary activities before interest</b>		<b>372.7</b>	353.7
Net interest payable	8	(71.2)	(31.3)
<b>Profit on ordinary activities before taxation</b>		<b>301.5</b>	322.4
Tax on profit on ordinary activities	9	(1.2)	(3.5)
<b>Profit for the financial year</b>		<b>300.3</b>	318.9
Dividends	10	(135.1)	(518.8)
<b>Transfer to/(from) reserves</b>	21	<b>165.2</b>	(199.9)

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 9 to 20 form part of these accounts.

## Reconciliation of movements in shareholders' funds

For the year ended 31 March 1996	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Profit for the financial year	300.3	318.9	291.0	328.2
Dividends	(135.1)	(518.8)	(135.1)	(518.8)
Net movement in shareholders' funds for the year	165.2	(199.9)	155.9	(190.6)
Shareholders' funds at 31 March 1995	1,988.1	2,188.0	1,997.4	2,188.0
<b>Shareholders' funds at 31 March 1996</b>	<b>2,153.3</b>	1,988.1	<b>2,153.3</b>	1,997.4

## Balance sheets

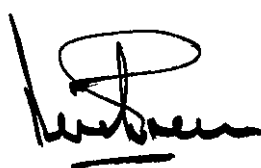
At 31 March 1996	Note	Group		Company	
		1996 £m	1995 £m	1996 £m	1995 £m
<b>Fixed assets</b>					
Tangible assets	11	3,346.3	3,066.2	3,346.3	3,060.4
Investments	12	0.4	0.4	0.4	0.5
		<b>3,346.7</b>	<b>3,066.6</b>	<b>3,346.7</b>	<b>3,060.9</b>
<b>Current assets</b>					
Stores		1.0	0.9	1.0	0.9
Debtors	13	213.8	185.1	213.8	200.2
Investments	14	-	205.7	-	205.7
Cash at bank and in hand		-	7.9	-	7.8
		<b>214.8</b>	<b>399.6</b>	<b>214.8</b>	<b>414.6</b>
<b>Creditors:</b>					
Amounts falling due within one year	15	(609.1)	(773.9)	(609.1)	(773.9)
<b>Net current liabilities</b>		<b>(394.3)</b>	<b>(374.3)</b>	<b>(394.3)</b>	<b>(359.3)</b>
<b>Total assets less current liabilities</b>		<b>2,952.4</b>	<b>2,692.3</b>	<b>2,952.4</b>	<b>2,701.6</b>
<b>Creditors:</b>					
Amounts falling due after more than one year	16	(755.6)	(661.5)	(755.6)	(661.5)
<b>Provisions for liabilities and charges</b>	18	<b>(43.5)</b>	<b>(42.7)</b>	<b>(43.5)</b>	<b>(42.7)</b>
<b>Net assets</b>		<b>2,153.3</b>	<b>1,988.1</b>	<b>2,153.3</b>	<b>1,997.4</b>
<b>Capital and reserves</b>					
Equity share capital	20	431.9	431.9	431.9	431.9
Share premium account	20	647.8	647.8	647.8	647.8
Profit and loss account	21	1,073.6	908.4	1,073.6	917.7
<b>Shareholders' funds</b>		<b>2,153.3</b>	<b>1,988.1</b>	<b>2,153.3</b>	<b>1,997.4</b>

Approved by the Board of directors on 23 July 1996 and signed on its behalf by

**Derek Green**  
Managing Director

**Martin F Bradbury**  
Finance Director

The notes on pages 9 to 20 form part of these accounts.






## Consolidated cash flow statement

For the year ended 31 March 1996	1996 £m	1996 £m	1995 £m	1995 £m
<b>Net cash inflow from operating activities</b>		<b>424.3</b>		435.7
<b>Returns on investments and servicing of finance</b>				
Interest received	10.5		13.3	
Interest paid	(27.6)		(31.4)	
Interest paid on finance leases	(28.4)		(23.3)	
Dividends paid	(523.6)		(120.2)	
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(569.1)</b>		(161.6)
<b>Investing activities</b>				
Purchase of tangible fixed assets	(347.1)		(316.7)	
Grants and contributions received	10.0		18.2	
Disposal of tangible fixed assets	1.6		9.0	
<b>Net cash outflow from investing activities</b>		<b>(335.5)</b>		(289.5)
<b>Net cash outflow before financing</b>		<b>(480.3)</b>		(15.4)
<b>Financing</b>				
New loans	103.5		-	
New finance leases	-		37.5	
Repayment of loans	(0.9)		(0.8)	
Capital element of leases repaid	(8.0)		(7.1)	
Repayment of loan from parent undertaking	(12.0)		(35.6)	
<b>Net cash inflow/(outflow) from financing</b>		<b>82.6</b>		(6.0)
<b>Decrease in cash and cash equivalents</b>		<b>(397.7)</b>		(21.4)

## Notes to the cash flow statement

For the year ended 31 March 1996	1996 £m	1995 £m	
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>			
Operating profit	365.6	353.7	
Depreciation	75.3	74.3	
Profit on disposal of tangible fixed assets	(1.1)	(4.1)	
Movement in: stores	(0.1)	0.4	
debtors	(15.6)	(2.7)	
creditors	0.2	14.1	
<b>Net cash inflow from operating activities</b>	<b>424.3</b>	<b>435.7</b>	
<b>Analysis of changes in cash and cash equivalents</b>			
At 1 April 1995	213.6	235.0	
Net cash outflow for the year	(397.7)	(21.4)	
<b>At 31 March 1996</b>	<b>(184.1)</b>	<b>213.6</b>	
<b>Analysis of the balances of cash and cash equivalents</b>			
Cash at bank and in hand	-	7.9	
Current asset investments	-	205.7	
Overdrafts	(2.1)	-	
Short-term bank loans	(182.0)	-	
	<b>(184.1)</b>	<b>213.6</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 1995	1,079.7	24.4	639.2
Cash (outflow)/inflow from financing	-	(12.0)	94.6
<b>At 31 March 1996</b>	<b>1,079.7</b>	<b>12.4</b>	<b>733.8</b>

## Notes to the accounts

### 1 Accounting policies

#### (a) Basis of preparation of accounts

The consolidated accounts set out on pages 5 to 20 incorporate the accounts of North West Water Limited and its subsidiary undertakings. The results of businesses disposed of during the year are excluded from the date of disposal.

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	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.

## Notes to the accounts continued

### (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.

### (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 22.

### (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

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

**3 Net operating costs**

	1996 £m	1995 £m
<b>Employee costs:</b>		
Wages and salaries	95.6	105.2
Social security costs	9.1	7.9
Pension contributions (note 22)	11.9	10.2
	<b>116.6</b>	<b>123.3</b>
Capital schemes	(24.3)	(34.0)
Infrastructure renewals	(4.9)	(6.1)
	<b>87.4</b>	<b>83.2</b>
<b>Depreciation:</b>		
Owned fixed assets	66.3	65.8
Fixed assets held under finance leases	9.0	8.5
	<b>75.3</b>	<b>74.3</b>
Infrastructure renewals	<b>66.4</b>	<b>66.2</b>
<b>Other operating costs include:</b>		
Energy, rates and other operating costs	194.3	176.3
Raw materials and consumables	19.9	19.1
Auditors' remuneration	0.1	0.1
Research and development	4.6	4.4
Operating leases		
– hire of plant and machinery	1.9	2.3
– land and buildings	3.5	1.6
Restructuring charge	-	11.8
Other income (note 4)	(4.5)	(6.3)
	<b>219.8</b>	<b>209.3</b>
<b>Total net operating costs</b>	<b>448.9</b>	<b>433.0</b>

Fees payable to KPMG for non-audit services in 1996 were £21,000 (1995 – £66,000).

## Notes to the accounts continued

**4 Other income**

	1996 £m	1995 £m
Profit on disposal of fixed assets	1.1	4.1
Net rents receivable	3.2	1.8
Other	0.2	0.4
	<b>4.5</b>	<b>6.3</b>

**5 Directors**

	1996 £000	1995 £000
Salaries	592	765
Taxable benefits	48	70
Bonuses	211	210
Pension contributions	86	94
Compensation for loss of office	—	260
	<b>937</b>	<b>1,399</b>

**The Chairman:**

Salary	—	—
Taxable benefits	—	—
Bonuses	—	—
Pension contributions	—	—

**Highest paid director:**

Salary	185	179
Taxable benefits	13	12
Bonuses	93	72
Pension contributions	24	22

The criteria set for the directors' performance related bonus are the increase in profit before tax and the return on capital employed. In certain cases, special bonuses were awarded by the United Utilities PLC Remuneration Committee in relation to the acquisition of NORWEB PLC.

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.

## 5 Directors continued

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

£	1996 Number	1995 Number
0- 5,000	6	5
5,001- 10,000	1	-
10,001- 15,000	-	3
50,001- 55,000	-	1
55,001- 60,000	-	1
65,001- 70,000	-	1
80,001- 85,000	-	1
85,001- 90,000	-	2
100,001-105,000	1	2
105,001-110,000	2	1
110,001-115,000	1	-
115,001-120,000	1	-
260,001-265,000	-	1
290,001-295,000	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 United Utilities PLC (details of the interests of directors of United Utilities PLC are dealt with in that company's accounts).

	1996			1995 or on appointment		
	Ordinary shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	6	43,626	5,334	10,709	40,998	5,161
R G Bradbury	-	26,333	-	-	-	-
H R Croft	81	36,667	12,974	1,992	34,749	9,847
T W Drury	2,111	27,415	5,557	5,941	23,623	5,376
P E McCloskey	-	30,727	3,586	-	-	-

Details of the employee sharesave scheme and the executive share option scheme operated by United Utilities 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	1,250	584.5p	20 December 1998	20 December 2005
R G Bradbury	19,188	563.98p	12 June 1998	12 June 2005
	6,395	479.82p	12 June 2001	12 June 2005
	750	584.5p	20 December 1998	20 December 2005
H R Croft	750	584.5p	20 December 1998	20 December 2005
T W Drury	3,000	584.5p	20 December 1998	20 December 2005
P E McCloskey	3,586	481.0p	2 February 2001	1 August 2001
	22,483	563.98p	12 June 1998	12 June 2005
	7,494	479.82p	12 June 2001	12 June 2005
	750	584.5p	20 December 1998	20 December 2005

No directors' options were exercised for ordinary shares during the year.

## Notes to the accounts continued

**6 Employees**

	1996	1995
Average number of persons employed	4,770	5,342

**7 Profit on disposal of business**

On 8 April 1995, the North West Water Limited Group completed the sale of its subsidiary, North West Water Engineering Limited, to Bechtel Water Technology for £15.5 million. This realised a profit on disposal of £7.1 million.

**8 Net interest payable**

	1996 £m	1995 £m
<b>Interest payable:</b>		
On bank loans, overdrafts and other loans:		
Repayable within five years	7.3	4.9
Repayable wholly or partly in more than five years	33.4	26.4
	40.7	31.3
On finance leases	17.8	13.9
Associated undertakings	24.0	1.5
Total interest payable	82.5	46.7
<b>Interest receivable:</b>		
Associated undertakings	(3.0)	(2.5)
External	(8.3)	(12.9)
Net interest payable	71.2	31.3

**9 Taxation**

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
UK Corporation Tax @ 33%	1.2	3.5	1.2	3.5

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	395.0	345.0	395.0	345.0
Other assets	192.7	146.2	192.7	146.2
Losses and other timing differences	(68.3)	(68.3)	(68.3)	(68.3)
	519.4	422.9	519.4	422.9

No deferred tax liability is provided in the North West Water Limited Group or company accounts.



**10 Dividends**

	1996 £m	1995 £m
Interim dividend of 10.26 pence per share (1995 – 9.16 pence)	44.3	39.5
Final dividend of 21.03 pence per share recommended (1995 – 18.36 pence)	90.8	79.3
Special dividend of 92.61 pence per share	-	400.0
	<b>135.1</b>	<b>518.8</b>

North West Water Limited's licence requires that its dividend policy will not impair the ability of the Appointed Business to finance its functions. In accordance with this policy the total dividend payment from North West Water Limited to United Utilities PLC increased by 11 per cent in real terms in 1995/96. This increase results from:

- a base level of growth implied by the cost of capital and K setting assumptions.
- a further level of growth funded from efficiencies.

The dividend payment is consistent with the company's initiative to share the benefits of out-performance with customers and shareholders between price reviews.

**11 Tangible fixed assets**

Group	Land and buildings £m	Infra- structure assets £m	Opera- tional structures £m	Fixtures, fittings, tools and equipment £m	Pre-1974 assets £m	Assets in course of con- struction £m	Total £m
<b>Cost:</b>							
At 1 April 1995	123.7	1,355.0	1,127.0	343.2	177.4	388.9	3,515.2
Additions	8.3	33.8	9.9	14.3	-	298.0	364.3
Grants and contributions	-	(2.7)	-	-	-	-	(2.7)
Transfers	41.1	5.9	22.8	12.4	-	(82.2)	-
Disposals	(0.9)	-	(0.1)	(16.1)	-	-	(17.1)
At 31 March 1996	172.2	1,392.0	1,159.6	353.8	177.4	604.7	3,859.7
<b>Depreciation:</b>							
At 1 April 1995	20.5	-	162.7	149.3	116.5	-	449.0
Charge for the year	4.5	-	33.6	31.7	5.5	-	75.3
Disposals	(0.6)	-	-	(10.3)	-	-	(10.9)
At 31 March 1996	24.4	-	196.3	170.7	122.0	-	513.4
<b>Net book value:</b>							
At 31 March 1996	147.8	1,392.0	963.3	183.1	55.4	604.7	3,346.3
At 31 March 1995	103.2	1,355.0	964.3	193.9	60.9	388.9	3,066.2

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence, the net book value of fixed assets is £69.3 million (1995 – £66.6 million) lower than it would have been had this treatment not been adopted.

## Notes to the accounts continued

## 11 Tangible fixed assets continued

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

	1996 £m	1995 £m
Cost:		
Operational structures	250.8	250.8
Fixtures, fittings, tools and equipment	21.6	23.2
At 31 March	272.4	274.0
Accumulated depreciation:		
Operational structures	(47.1)	(40.5)
Fixtures, fittings, tools and equipment	(15.4)	(14.4)
At 31 March	(62.5)	(54.9)
Net book value:		
Operational structures	203.7	210.3
Fixtures, fittings, tools and equipment	6.2	8.8
At 31 March	209.9	219.1

The depreciation charge for the year for assets held under finance leases is £9.0 million (1995 - £8.5 million)

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

	1996 £m	1995 £m
Capital commitments:		
Contracted but not provided for	408.1	268.1
Authorised but not yet contracted for	110.4	102.7

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
Cost:							
At 1 April 1995	123.4	1,355.0	1,127.0	329.4	177.4	388.9	3,501.1
Additions	8.3	33.8	9.9	14.3	-	298.0	364.3
Grants and contributions	-	(2.7)	-	-	-	-	(2.7)
Transfers	41.1	5.9	22.8	12.4	-	(82.2)	-
Disposals	(0.6)	-	(0.1)	(2.3)	-	-	(3.0)
At 31 March 1996	172.2	1,392.0	1,159.6	353.8	177.4	604.7	3,859.7
Depreciation:							
At 1 April 1995	20.5	-	162.7	141.0	116.5	-	440.7
Charge for the year	4.5	-	33.6	31.7	5.5	-	75.3
Disposals	(0.6)	-	-	(2.0)	-	-	(2.6)
At 31 March 1996	24.4	-	196.3	170.7	122.0	-	513.4
Net book value:							
At 31 March 1996	147.8	1,392.0	963.3	183.1	55.4	604.7	3,346.3
At 31 March 1995	102.9	1,355.0	964.3	188.4	60.9	388.9	3,060.4

**12 Fixed asset investments**

<i>Group</i>			Investments £m
Cost:			
At 1 April 1995 and 31 March 1996			0.4
<i>Company</i>	Shares in subsidiary undertakings £m	Other Investments £m	Total £m
Cost:			
At 1 April 1995	0.1	0.4	0.5
Disposals	(0.1)	-	(0.1)
At 31 March 1996	-	0.4	0.4

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

Associated undertakings	Description of holding	Proportion held	Nature of business
WRC 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
Utilities Consortium Limited	Ordinary shares of 1 pence each	1.23%	Cash collection services

## Notes to the accounts continued

## 13 Debtors

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
<b>Amounts falling due within one year:</b>				
Trade debtors	83.9	85.1	83.9	85.1
Amounts owed by associated undertakings	41.7	44.8	41.7	60.3
Other debtors	17.1	9.3	17.1	9.3
Prepayments and accrued income	61.5	45.6	61.5	45.2
	<b>204.2</b>	<b>184.8</b>	<b>204.2</b>	<b>199.9</b>
<b>Amounts falling due after more than one year:</b>				
Other debtors	9.6	0.3	9.6	0.3
Total debtors	<b>213.8</b>	<b>185.1</b>	<b>213.8</b>	<b>200.2</b>

Amounts owed by associated undertakings comprises:

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Amounts owed by parent and fellow subsidiary undertakings	41.7	44.8	41.7	44.8
Amounts owed by subsidiary undertakings	-	-	-	15.5
	<b>41.7</b>	<b>44.8</b>	<b>41.7</b>	<b>60.3</b>

## 14 Current asset investments

<i>Group and company</i>	1996 £m	1995 £m
Short term marketable securities	-	205.7

## 15 Creditors: amounts falling due within one year

<i>Group and company</i>	1996 £m	1995 £m
Loans and overdrafts	200.6	7.3
Trade creditors	24.0	18.7
Amounts owed to associated undertakings	28.6	32.8
Obligations under finance leases	9.1	8.0
Dividend proposed and payable	90.8	479.3
Other creditors	2.2	1.7
Taxation and social security	4.8	3.5
Infrastructure renewals accrual	10.1	15.8
Accruals and deferred income	238.9	206.8
	<b>609.1</b>	<b>773.9</b>

Amounts owed to associated undertakings comprises £28.6 million (1995 – £32.8 million) in respect of amounts owed to parent and fellow subsidiary undertakings.

**16 Creditors: amounts falling due after more than one year**

<i>Group and company</i>	1996 £m	1995 £m
Loans	497.7	404.2
Obligations under finance leases	210.6	219.7
Other creditors	6.9	4.4
Deferred grants and contributions (note 17)	40.4	33.2
	<b>755.6</b>	<b>661.5</b>

**17 Deferred grants and contributions**

<i>Group and company</i>	£m
At 1 April 1995	33.2
Received in the year	8.4
Profit and loss account	(1.2)
At 31 March 1996	40.4

**18 Provisions for liabilities and charges**

<i>Group and company</i>	Restructuring £m	Other £m	Total £m
At 1 April 1995	33.7	9.0	42.7
Utilised	(9.1)	(5.1)	(14.2)
Profit and loss account	-	15.0	15.0
At 31 March 1996	24.6	18.9	43.5

**19 Borrowings**

<i>Group and company</i>	Repayable by instalment partly after 5 years £m	Loans wholly repayable within 5 years £m	Loans wholly repayable after more than 5 years £m	Finance leases £m	1996 Total £m	1995 Total £m
Within one year	16.4	184.1	-	9.1	209.6	15.3
Between one and two years	21.4	-	-	5.8	27.2	25.6
Between two and five years	85.4	70.0	-	4.8	160.2	156.9
After more than five years	210.9	-	110.0	200.0	520.9	441.4
	334.1	254.1	110.0	219.7	917.9	639.2

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2001 and 2050.

Interest rates range from 6.06 per cent to 16.33 per cent on £820.6 million and are at floating rates on £97.3 million.

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

	1996 £m	1995 £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

## Notes to the accounts continued

### 21 Profit and loss account

	Group £m	Company £m
At 1 April 1995	908.4	917.7
Retained profit for the year	165.2	155.9
At 31 March 1996	1,073.6	1,073.6

As allowed by section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The amount of North West Water Limited Group profit for the financial year dealt with in the company's profit and loss account was £291.0 million.

### 22 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 year was £11.9 million (1995 - £10.2 million).

A formal revaluation is currently being undertaken in respect of the position as at 31 March 1996 and will be reflected in the accounts for the year ending 31 March 1997.

### 23 Operating leases

The company is committed to making the following payments during the year ending 31 March 1997:

	Land and buildings £m 1996	Plant and machinery £m 1966	Land and buildings £m 1995	Plant and machinery £m 1995
Leases which expire:				
Within one year	0.2	0.4	1.5	0.4
Between two and five years	1.4	1.8	0.1	1.5
After five years	1.0	-	1.0	-
	2.6	2.2	2.6	1.9

### 24 Ultimate parent undertaking

The accounts of the company are consolidated in the Group accounts of the ultimate parent undertaking, United Utilities PLC, a company registered in England and Wales.

Copies of the accounts of United Utilities PLC may be obtained from the Group Secretary, United Utilities 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 North West Water Limited 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 5 to 31, 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 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

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We have audited the financial statements on pages 5 to 20.

#### *Respective responsibilities of directors and auditors*

As described under "Directors' responsibilities" on page 21 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 North West Water Limited 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 North West Water Limited Group as at 31 March 1996 and of the profit of the North West Water Limited Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG** *KPMG*  
Chartered Accountants  
Registered Auditors  
Manchester  
23 July 1996

## Regulatory accounting information

### Introduction

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The current cost accounts on pages 23 to 31 have been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services.

Turnover and net operating assets for the non-appointed business, as defined by Regulatory Accounting Guidelines, are not material and, therefore, the current cost profit and loss account, balance sheet and cash flow statement show the figures for the total business. Comparative figures have been restated where appropriate.

The historical balance sheet required by the guidelines is included in the statutory accounts which are set out on pages 5 to 20.

### Auditors' Contract

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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

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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

	1996	1995
For the year ended 31 March 1996	£m	(Restated) £m
<b>Turnover</b>	<b>814.5</b>	<b>786.7</b>
Operating costs	(453.4)	(439.3)
Operating income	1.1	4.1
<b>Operating profit</b>	<b>362.2</b>	<b>351.5</b>
Other income	10.5	2.2
Net interest payable	(71.2)	(31.3)
<b>Profit on ordinary activities before taxation</b>	<b>301.5</b>	<b>322.4</b>
Taxation	(1.2)	(3.5)
<b>Profit for the financial year</b>	<b>300.3</b>	<b>318.9</b>
Dividends	(135.1)	(518.8)
<b>Retained profit/(loss)</b>	<b>165.2</b>	<b>(199.9)</b>

## Current cost profit and loss account

		1996	1995
For the year ended 31 March 1996	Note	£m	(Restated) £m
<b>Turnover</b>	2	<b>814.5</b>	<b>786.7</b>
Current cost operating costs	3	(556.6)	(461.9)
Operating (expense)/income	2	(0.9)	1.4
Working capital adjustment		1.3	2.5
<b>Current cost operating profit</b>		<b>258.3</b>	<b>328.7</b>
Other income		10.5	2.2
Net interest payable		(71.2)	(31.3)
Financing adjustment		14.0	17.4
<b>Current cost profit before taxation</b>		<b>211.6</b>	<b>317.0</b>
Taxation		(1.2)	(3.5)
<b>Current cost profit for the financial year</b>		<b>210.4</b>	<b>313.5</b>
Dividends		(135.1)	(518.8)
<b>Current cost profit/(loss) retained</b>		<b>75.3</b>	<b>(205.3)</b>

## Current cost balance sheet

At 31 March 1996	Note	1996 £m	1995 £m
Tangible assets	4	31,639.0	21,996.8
Third party contributions since 1989 – 90		(115.7)	(103.0)
Working capital	5	(89.1)	(48.1)
<b>Net operating assets</b>		<b>31,434.2</b>	<b>21,845.7</b>
Cash and investments		0.4	206.1
Non-trade debtors		68.0	50.5
Non-trade creditors due within one year		(382.4)	(582.4)
Creditors due after one year		(715.3)	(628.3)
Provisions for liabilities charges		(43.5)	(42.7)
<b>Net assets employed</b>		<b>30,361.4</b>	<b>20,848.9</b>
<b>Capital and reserves</b>			
Called up share capital		431.9	431.9
Share premium account		647.8	647.8
Profit and loss account		361.3	286.0
Current cost reserve	6	28,920.4	19,483.2
		<b>30,361.4</b>	<b>20,848.9</b>

## Current cost cash flow statement

For the year ended 31 March 1996	1996 £m	1995 (Restated) £m
Net cash inflow from operating activities	496.4	482.6
<b>Returns on investments and servicing of finance</b>		
Interest received	10.5	13.3
Interest paid	(27.6)	(31.4)
Interest on finance lease rentals	(28.4)	(23.3)
Dividends paid	(523.6)	(120.2)
Net cash flow from returns on investments and servicing of finance	(569.1)	(161.6)
<b>Investing activities</b>		
Purchase of fixed assets	(347.1)	(316.7)
Receipt of grants and contributions	10.0	18.2
Infrastructure renewals expenditure	(72.1)	(46.9)
Disposal of fixed assets	1.6	9.0
Net cash flow from investing activities	(407.6)	(336.4)
Net cash flow before financing	(480.3)	(15.4)
<b>Financing</b>		
Capital element of leases repaid	(8.0)	(7.1)
New loans	102.6	36.7
Repayment of loan from parent undertaking	(12.0)	(35.6)
Net cash flow from financing	82.6	(6.0)
Decrease in cash and cash equivalents	(397.7)	(21.4)

## Note to the current cost cash flow statement

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

	1996 £m	1995 (Restated) £m
Current cost operating profit	258.3	328.7
Other income	3.4	2.2
Working capital adjustment	(1.3)	(2.5)
Increase/decrease in stocks	(0.1)	0.4
Current cost depreciation	169.3	125.2
Current cost loss/profit on disposal of fixed assets	0.9	(1.4)
Increase in debtors and prepaid expenses	(15.6)	(6.1)
Decrease/increase in creditors and accrued expenses	8.5	(15.2)
Infrastructure renewals expenditure	72.1	46.9
Increase in provisions	0.9	4.4
Net cash inflow from operating activities	496.4	482.6

## 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.

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 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 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.

#### Modern equivalent asset (MEA) valuation

A review of the modern equivalent asset (MEA) valuation and asset stock was undertaken as part of the Periodic Review. The revised values arising from this review have been used as the basis for calculating the MEA in the 1995/96 current cost financial statements.

The process of continuing refinement of asset records has produced adjustments to existing values.

The current cost depreciation figures included in the 1995/96 current cost operating costs statement have been based upon the revised "MEA" values.

##### (i) Operational assets

Non-specialised operational assets are valued on the basis of open market value for existing use at 31 March 1993 and have been expressed in real terms by indexing using the Retail Price Index (RPI) since that date.

Specialised operational assets are valued on the basis of information provided by the Asset Management Plan (AMP). Values are adjusted by changes in RPI between Periodic Reviews.

The unamortised portion of third party contributions received is deducted in arriving at net operating costs (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 AMP.

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.

## Notes to the current cost accounts continued

### 1 Current cost accounting policies continued

#### (iii) Other fixed assets

All other fixed assets are valued principally on the basis of data provided by the AMP. Between Periodic Reviews, values are restated for inflation as measured by changes in the RPI.

#### (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

	1996			1995 (Restated)		
	Water services £m	Sewerage Services £m	Total £m	Water services £m	Sewerage Services £m	Total £m
<b>Turnover</b>						
Measured	124.6	131.1	255.7	120.8	119.8	240.6
Unmeasured	230.2	261.0	491.2	225.0	254.8	479.8
Trade effluent	–	39.7	39.7	–	34.5	34.5
Revenue grants	0.1	–	0.1	0.5	0.5	1.0
Other sources	7.1	1.1	8.2	4.5	2.6	7.1
Third party services	15.5	4.1	19.6	16.2	7.5	23.7
	<b>377.5</b>	<b>437.0</b>	<b>814.5</b>	<b>367.0</b>	<b>419.7</b>	<b>786.7</b>
<b>Operating costs/income</b>						
Current cost (loss)/profit on disposal of fixed assets	(0.7)	(0.2)	(0.9)	1.5	(0.1)	1.4

The above figures are shown net of customer rebates for each category.

Third party services for 1995 have been restated to include non-appointed turnover.

### 3 Current cost operating costs

For the year ended 31 March 1996

#### Service analysis

	Water services			Sewerage services			
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewerage treatment £m	Sludge treatment & disposal £m	Sewerage services subtotal £m
<b>Direct costs</b>							
Employment costs	9.1	18.8	27.9	0.7	8.2	5.6	14.5
Power	5.7	9.1	14.8	0.3	7.0	1.2	8.5
Agencies	-	-	-	12.3	0.1	-	12.4
Hired and contracted services	1.5	6.7	8.2	0.2	2.3	2.1	4.6
Materials and consumables	4.4	3.8	8.2	-	1.5	0.6	2.1
Service charges NRA	8.8	-	8.8	-	3.9	-	3.9
Other direct costs	-	1.3	1.3	0.2	(0.4)	0.7	0.5
<b>Total direct costs</b>	<b>29.5</b>	<b>39.7</b>	<b>69.2</b>	<b>13.7</b>	<b>22.6</b>	<b>10.2</b>	<b>46.5</b>
General and support expenditure	11.3	20.6	31.9	2.8	12.3	6.8	21.9
<b>Functional expenditure</b>	<b>40.8</b>	<b>60.3</b>	<b>101.1</b>	<b>16.5</b>	<b>34.9</b>	<b>17.0</b>	<b>68.4</b>
<b>Operating expenditure</b>							
Customer services			21.3				20.6
Scientific services			8.6				4.2
Other business activities			0.9				0.9
<b>Total business activities</b>			<b>30.8</b>				<b>25.7</b>
Local authority rates			27.3				11.9
Doubtful debts			6.9				6.6
Exceptional items			15.0				-
<b>Total opex less third party services</b>			<b>181.1</b>				<b>112.6</b>
Third party services – operating costs			14.3				3.7
<b>Total operating expenditure</b>			<b>195.4</b>				<b>116.3</b>
<b>Capital maintenance</b>							
Infrastructure renewals expenditure	5.0	31.4	36.4	35.6		0.1	35.7
Infrastructure renewals accrual/(prepayment)	(0.5)	3.4	2.9	(0.5)		1.1	0.6
Current cost depreciation	58.6	6.6	65.2	4.1	54.5	9.6	68.2
Business activities capital costs			16.7				18.1
<b>Capital maintenance less third party services</b>			<b>121.2</b>				<b>122.6</b>
Third party services – depreciation			0.8				0.3
<b>Total capital maintenance</b>			<b>122.0</b>				<b>122.9</b>
<b>Total operating costs</b>			<b>317.4</b>				<b>239.2</b>

## Notes to the current cost accounts continued

## 3 Current cost operating costs – continued

Service analysis							
For the year ended 31 March 1995 (Restated)							
	Water services			Sewerage services			
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewerage treatment £m	Sludge treatment & disposal £m	Sewerage services subtotal £m
<b>Direct costs</b>							
Employment costs	8.6	15.0	23.6	0.8	8.9	6.0	15.7
Power	5.6	6.6	12.2	0.3	7.5	1.2	9.0
Agencies	-	-	-	16.3	-	-	16.3
Hired and contracted services	2.4	6.0	8.4	0.4	2.6	2.4	5.4
Materials and consumables	4.7	3.7	8.4	-	1.1	0.5	1.6
Service charges NRA	7.8	-	7.8	-	3.6	-	3.6
Other direct costs	-	1.1	1.1	0.3	(0.2)	0.5	0.6
<b>Total direct costs</b>	<b>29.1</b>	<b>32.4</b>	<b>61.5</b>	<b>18.1</b>	<b>23.5</b>	<b>10.6</b>	<b>52.2</b>
General and support expenditure	10.7	20.9	31.6	2.4	11.4	10.3	24.1
Functional expenditure	39.8	53.3	93.1	20.5	34.9	20.9	76.3
<b>Operating expenditure</b>							
Customer services			14.6				11.0
Scientific services			5.0				4.9
Other business activities			1.1				1.0
<b>Total business activities</b>			<b>20.7</b>				<b>16.9</b>
Local authority rates			26.2				12.3
Doubtful debts			9.6				9.3
Exceptional items			7.1				8.6
<b>Total opex less third party services</b>			<b>156.7</b>				<b>123.4</b>
Third party services – operating costs			12.0				7.0
<b>Total operating expenditure</b>			<b>168.7</b>				<b>130.4</b>
<b>Capital maintenance</b>							
Infrastructure renewals expenditure	8.5	16.5	25.0	19.2	1.9	0.9	22.0
Infrastructure renewals accrual/(prepayment)	(4.3)	(3.2)	(7.5)	(0.2)	(1.1)	(0.2)	(1.5)
Current cost depreciation	39.0	0.7	39.7	4.0	26.4	12.7	43.1
Business activities capital costs			19.9				21.4
<b>Capital maintenance less third party services</b>			<b>77.1</b>				<b>85.0</b>
Third party services – depreciation			0.7				-
<b>Total capital maintenance</b>			<b>77.8</b>				<b>85.0</b>
<b>Total operating costs</b>			<b>246.5</b>				<b>215.4</b>

## 4 Current cost analysis of fixed assets by asset type and service

	Service analysis									
	Water services					Sewerage services				
	Infra-structure assets £m	Operational assets £m	Other tangible assets £m	Sub-total £m	Infra-structure assets £m	Operational assets £m	Other tangible assets £m	Sub-total £m	Total £m	
<b>Gross replacement cost:</b>										
At 1 April 1995	7,030.9	1,481.3	181.4	8,693.6	12,457.7	1,937.8	413.0	14,808.5	23,502.1	
AMP adjustment	2,655.7	916.2	14.2	3,586.1	5,232.1	1,017.8	55.5	6,305.4	9,891.5	
RPI adjustment	261.6	63.4	3.9	328.9	477.6	78.3	9.6	565.5	894.4	
Disposals	-	(5.1)	(7.8)	(12.9)	-	(0.7)	(7.6)	(8.3)	(21.2)	
Additions	49.4	25.3	29.0	103.7	84.8	144.5	31.4	260.7	364.4	
At 31 March 1996	9,997.6	2,481.1	220.7	12,699.4	18,252.2	3,177.7	501.9	21,931.8	34,631.2	
<b>Depreciation:</b>										
At 1 April 1995	-	587.6	132.2	719.8	-	715.0	70.5	785.5	1,505.3	
AMP adjustment	-	660.8	10.4	671.2	-	484.0	100.9	584.9	1,256.1	
RPI adjustment	-	33.7	3.8	37.5	-	32.4	4.6	37.0	74.5	
Disposals	-	(3.4)	(4.7)	(8.1)	-	(0.5)	(4.4)	(4.9)	(13.0)	
Charge for the year	-	62.5	20.2	82.7	-	69.9	16.7	86.6	169.3	
At 31 March 1996	-	1,341.2	161.9	1,503.1	-	1,300.8	188.3	1,489.1	2,992.2	
<b>Net book value:</b>										
At 31 March 1996	9,997.6	1,139.9	58.8	11,196.3	18,252.2	1,876.9	313.6	20,442.7	31,639.0	
At 31 March 1995	7,030.9	893.7	49.2	7,973.8	12,457.7	1,222.8	342.5	14,023.0	21,996.8	

## Notes to the current cost accounts continued

**5 Working capital**

	1996 £m	1995 £m
Stores	1.0	0.9
Trade debtors	83.9	85.1
Working cash balances	(2.2)	7.9
Trade creditors	(24.0)	(18.7)
Short term capital creditors	(114.3)	(89.8)
Infrastructure renewals accrual	(19.3)	(15.8)
Other trade accruals	(69.3)	(61.7)
Trade payments in advance	5.5	2.8
Taxation and social security	(4.8)	(3.5)
Group trade debtors/creditors	(1.6)	1.9
Other debtors	56.0	42.8
<b>Total working capital</b>	<b>(89.1)</b>	<b>(48.1)</b>

**6 Movement on current cost reserve**

	1996 £m	1995 £m
At 1 April 1995	19,483.2	18,779.1
AMP adjustment	8,635.4	-
RPI adjustments:		
Fixed assets	819.9	726.9
Working capital	(1.3)	(2.5)
Financing	(14.0)	(17.4)
Grants and third party contributions	(2.8)	(2.9)
<b>At 31 March 1996</b>	<b>28,920.4</b>	<b>19,483.2</b>



## Five year summary

### Current cost profit and loss account

	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Turnover	814.5	804.3	780.5	747.0	712.4
Current cost operating costs	(556.6)	(469.3)	(495.0)	(502.3)	(485.3)
(Loss)/profit on disposal of fixed assets	(0.9)	1.4	0.5	2.9	1.1
Working capital adjustment	1.3	2.6	0.8	1.5	1.7
	<b>258.3</b>	<b>339.0</b>	<b>286.8</b>	<b>249.1</b>	<b>229.9</b>
Other income	10.5	2.3	1.6	1.3	1.3
Net interest payable	(71.2)	(32.3)	(38.3)	(24.2)	(3.1)
Financing adjustment	14.0	18.0	10.4	5.4	3.7
Current cost profit before taxation	211.6	327.0	260.5	231.6	231.8
Taxation	(1.2)	(3.6)	–	–	–
Current cost profit on ordinary activities	210.4	323.4	260.5	231.6	231.8
Dividends	(135.1)	(535.7)	(124.1)	(107.7)	(103.8)
Current cost retained profit/(loss)	75.3	(212.3)	136.4	123.9	128.0

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

### Current cost balance sheet

	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Tangible fixed assets	31,639.0	22,590.7	22,408.7	22,154.6	21,776.0
Third party contributions since 1989/90	(115.7)	(105.8)	(88.1)	(65.3)	(44.8)
Working capital	(89.1)	(49.4)	(74.7)	(38.6)	(80.7)
<b>Net operating assets</b>	<b>31,434.2</b>	<b>22,435.5</b>	<b>22,245.9</b>	<b>22,050.7</b>	<b>21,650.5</b>
Cash and investments	0.4	211.7	239.2	165.5	237.3
Non-trade debtors	68.0	51.9	58.7	62.2	63.4
Non-trade creditors	(382.4)	(598.1)	(223.2)	(165.6)	(181.7)
Creditors due after one year	(715.3)	(645.3)	(647.8)	(556.1)	(392.2)
Provisions	(43.5)	(43.9)	(40.6)	(41.1)	(20.5)
<b>Net assets employed</b>	<b>30,361.4</b>	<b>21,411.8</b>	<b>21,632.2</b>	<b>21,515.6</b>	<b>21,356.8</b>
<b>Capital and reserves</b>					
Called up share capital	431.9	443.6	459.1	469.9	478.5
Share premium account	647.8	665.3	688.6	704.8	717.8
Profit and loss account	361.3	293.7	522.3	394.6	274.6
Current cost reserve	28,920.4	20,009.2	19,962.2	19,946.3	19,885.9
	<b>30,361.4</b>	<b>21,411.8</b>	<b>21,632.2</b>	<b>21,515.6</b>	<b>21,356.8</b>

Note: 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 5 to 20, which have been prepared under the accounting policies set out on pages 9 and 10, and the current cost financial information on pages 23 to 31, which have been prepared under the accounting policies set out on pages 25 and 26.

#### *Respective responsibilities of directors and auditors*

As described on page 21 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 1996 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 to the Appointee as a water and sewerage undertaker under the Water Industry Act 1991.

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, complies 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 5 to 20 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 23 to 31 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 *KPMG*  
Chartered Accountants  
Registered Auditors  
Manchester  
23 July 1996