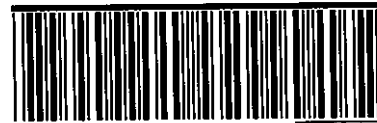




North
West
Water

North West Water Limited

Report and Accounts 1997



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Contents

- 1 Managing Director's statement
- 2 Financial review

Statutory information

- 4 Directors' report
- 5 Directors' responsibilities
- 5 Auditors' report
- 6 Profit and loss account
- 6 Reconciliation of movements in shareholders' funds
- 7 Balance sheet
- 8 Cash flow statement
- 9 Notes to the accounts

Regulatory accounting information

- 22 Auditors' report to the Director General
- 23 Historical cost profit and loss account
- 23 Current cost profit and loss account
- 24 Current cost balance sheet
- 24 Current cost cash flow statement
- 25 Note to the current cost cash flow statement
- 25 Notes to the current cost accounts
- 31 Five year summary

Front cover

'Spring Tide, Blackpool' by Frank Millar C. Eng., M.I. Mech.E., L.R.P.S.
Winner of the Mersey River Festival 1997 photographic competition
monochrome water section, supported by North West Water

Registered in England and Wales
Registered No: 2366678
Registered Office:
Birchwood Point Business Park
Birchwood
Warrington WA3 7WB

Managing Director's statement



During the last twelve months, North West Water Limited made further sustained 'Progress with Responsibility'. We are achieving our twin objectives of increasing customer satisfaction and profitability.

Our business planning process is focused on four key result areas, which we measure using the European Business Excellence model: customer satisfaction, people satisfaction, impact on society and business results.

Customer satisfaction We made the biggest **annual investment** to date of £504.6 million, to help bring even higher standards of drinking water and cleaner rivers and coastal waters, with a further £81.5 million of discretionary investment to improve services for our customers. The Financial Review gives the details.

We increased the **annual rebate** for customers from £6.50 to £10, equivalent to two weeks free service or 5 per cent off the average annual bill. The total rebates to customers will be equivalent to about £64 million over the three years ending 31 March 1998.

We launched **ExtraCare** services for customers who need a little extra help, because they are either elderly or have a disability or serious illness. We also created a **special fund** for customers who are struggling to pay their bills, working jointly with Ofwat

and the Citizens Advice Bureau to review their circumstances.

Our **LeakLine** initiative to cut leakage includes a free repair service for leaks from domestic customers' supply pipes. About 14,500 customers have taken advantage of this service. In total we fixed over 56,000 leaks last year. By these measures and other initiatives, we have secured an additional 360 megalitres of water per day. This represents 15 per cent of our normal requirements – enough to supply a city the size of Liverpool.

Over the last two years we have committed an extra £85 million to substantially reduce the risk of future water restrictions. This investment helped us to lift the hosepipe ban in October 1996 despite continuing dry weather. We are continuing to encourage and assist our customers in using water wisely, and we thank them for their support.

Under the **CustomerFirst** banner, we introduced a new package that enhances the level and range of compensation offered when guaranteed service standards are not met. This includes compensation for our customers if we have to cut off their supply because of drought.

BusinessCare was established to provide dedicated services and support to our commercial and business customers.

People satisfaction We are a fair but demanding employer, and encourage our people to maximise their full potential. During the year we developed the **Employment Partnership**, a charter that clearly sets out our commitments to and our expectations of our employees. The partnership is a shared responsibility, and we encourage two-way communications through team briefings, Business Forums, roundtables and conferences, and regularly survey opinion to monitor satisfaction.

Impact on society We are committed to protecting and enhancing public health, safety and the environment, and to meeting community expectations of us as a business leader in the North West. During the year we launched our **Environmental Strategy**, embracing all our activities and reinforcing our commitment to environmental best practice in all areas of the business.

Our extensive community partnership programme has been independently rated as one of the best in the country, and we have developed and published a very wide range of **Community Commitments** in four focus areas: education, environment, enterprise skills and regional leadership, and extra needs. Our community investment is currently around £2 million a year.

Business results Turnover was up by 4.8 per cent to £872.7 million, and operating profit grew by 5.3 per cent to £385.0 million. This is after charging £40.1 million for customer rebates and discretionary service improvement. Discounting those costs, operating profit increased by 9.3 per cent.

We measure our performance in all the key result areas of our business planning, and develop strategies for continuous improvement. We look forward to making further progress in the year ahead.

Derek Green
Managing Director
North West Water Limited

Financial review

Capital investment programme

During 1996/97, we achieved our compliance programme targets with an investment of £504.6 million – a 14.6 per cent increase on the previous year's £440.3 million. We continue to meet our obligations to maintain service levels and substantially enhance water and wastewater quality. In addition, our partnership with Bechtel continued to deliver efficiency savings in our larger capital projects, maximising the returns on the investment.

The main areas of expenditure for 1996/97 were the £85 million programme of new investment to alleviate drought conditions (now over 70 per cent complete); £132 million on maintaining and supplementing the water mains network; £114 million on the sewer network; and £161 million on wastewater treatment and disposal.

Key outputs were:

- improvements at key water treatment works to reduce the risk of cryptosporidium
- the development and improvement of water supplies and treatment to provide an additional 180 million litres of water a day
- strengthening and reinforcement of aqueducts, trunk mains and distribution network to improve supply flexibility across the region
- 780 kilometres of old water mains refurbished or replaced, improving water quality at customers' taps and reducing bursts
- 683 kilometres of water mains cleaned to improve water quality
- over 56,000 leaks repaired, and as a result leakage cut by 190 million litres a day
- 154 kilometres of new sewers added to the network
- 74 unsatisfactory sewage overflows closed, improved or replaced to reduce the risk of river pollution
- 65 kilometres of derelict sewers replaced or refurbished
- completion of the £500 million Sea Change programme of wastewater treatment systems to meet EU standards for bathing waters

- major new treatment works opened at Fleetwood, Preston, Barrow and Workington and schemes nearing completion at Morecambe and Heysham
- further substantial progress on MEPAS – Mersey Estuary Pollution Alleviation Scheme – including final stages of the 28 kilometre Liverpool interceptor sewer
- start of work on the Mersey Valley Processing Centre at Widnes, to enable us to end the disposal of sludge to sea.

Discretionary investment We invested £81.5 million over and above the statutory and regulatory requirements, including drought-related expenditure and schemes to enhance the level of service to our customers. An additional 48,000 properties were given new communication pipes to replace old, mainly lead, pipes. Over 9,600 properties were relieved of low water pressure, and 324 of sewage flooding problems, and we also began a programme to address odour problems at 25 wastewater treatment sites.

Turnover The increased turnover from the previous year of £872.7 million before rebates included a permitted price increase of 5.97 per cent. The company earned £309.6 million profit after taxation.

Industrial consumption continued to fall in 1996/97 by 1.8 per cent, compared to 1.1 per cent in 1995/96, 1.7 per cent in 1994/95. The three year average fall before this was approximately 5 per cent.

24,000 new domestic properties were added to our metered customer base during the year. In addition, 5,000 more customers opted to have a water meter installed.

Industrial trade waste sales continued to improve, largely as the result of our positive action in this business area.

Operating costs During 1996/97, total operating costs including customer rebates increased by 4.4 per cent (£20.5 million) to £487.7 million. Additional operating cost efficiencies and other operating cost savings amounted to £16 million (3.4 per cent).

We spent £40.1 million operating expenditure as part of fulfilling our commitments to customers under our 'Progress with Responsibility' initiative.

We continued to integrate with the regulated business operations of Norweb, within the Utility Division of United Utilities PLC. Integrating common support services, information systems and depots enabled us to increase efficiency and deliver substantial cost savings.

During the year, with the agreement of Ofwat, we sold assets for their net book value of £189 million to Vertex Data Science Limited, and used the proceeds to reduce our borrowings. These assets, which are mainly IT-related, will be used to provide a managed service to the company. Vertex is part of United Utilities PLC, and provides a range of business services to North West Water Limited, under the terms of a Service Level Agreement. The charge from Vertex has been analysed in the regulatory accounts according to regulatory accounting guidelines issued by Ofwat.

No further charge has been necessary for business restructuring. The current provision, £19.8 million, is consistent with that held at 31 March 1996, and is intended to cover planned restructuring for the remaining three year period to 2000.

Although the impact on profit of the infrastructure renewals charge was largely the same as in 1995/96, there has been a significant increase in expenditure in 1996/97 on maintaining our mains and sewer networks. This is reflected in the historic cost prepayment of £21.7 million at 31 March 1997 compared with an accrual of £10.1 million at the previous year-end.

We will shortly be faced with a windfall levy, to which we will respond appropriately when we know the

details and the amount. It seems certain though that the levy will inhibit, to an extent, the rate at which we can expand the business.

Capital structure and treasury policy

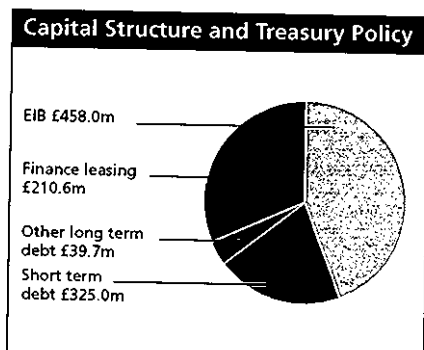
Net borrowings increased to £1,033.3 million, analysed by source in the chart below. Net interest payable fell by £2.8 million reflecting both the reduction in average net borrowings and average interest rates for the year.

The company continues to be supported by the European Investment Bank (EIB) in the funding of its large investment programme to improve the environmental infrastructure and meet the compliance directives of the European Union. The company was granted an additional borrowing facility of £200 million during the year, which will be utilised in the next financial year to fund further capital investment.

Short term debt (£325 million) is covered by a medium term committed borrowing facility. We continued our policy of maintaining a high volume of fixed rate debt. The current volume of fixed debt of £787.2 million represents over 75 per cent of total borrowing.

Our borrowing strategy is designed to secure interest stability within the regulatory price formula. Our Standard and Poors short term credit rating is unchanged at A1+.

During the year, we issued £38.5 million non-equity preference share capital. The proceeds were used to reduce overall borrowings.



Martin Bradbury
Finance Director
North West Water Limited.

Directors' report

Principal activities North West Water Limited 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 review to be read in conjunction with this report appear on pages 1 to 3.

Profit and dividends The results for the year, set out in the profit and loss account on page 6, show that turnover for the year ended 31 March 1997 rose to £872.7 million, an increase of 4.8 per cent over the previous year. Profit for the year after tax was £309.6 million (1996 - £300.3 million).

An interim dividend of 11.66 pence per share was paid on 13 February 1997. The directors recommend a final dividend of 23.97 pence per share for the year to 31 March 1997, for payment on 1 October 1997.

As a result of ongoing performance and in line with our increased benefit sharing with customers, a special dividend of £200 million (46.30 pence per share) was paid to United Utilities PLC on 27 March 1997.

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 1997, 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 to manage the affairs, business and property of the company that the purpose of the order could have been achieved.

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. In accordance with SI 1997 No. 571 The Companies Act 1985 (Directors' Report) (Statement of Payment Practice) Regulations 1997, the company had 54 days of purchases outstanding at the end of the financial year.

Directors The directors of the company during the year ended 31 March 1997 are set out below. All were directors for the whole year except where otherwise indicated.

- * **D Green**, Chairman and Managing Director.
- * **Sir Desmond Pitcher**, United Utilities PLC Chairman - resigned 1 April 1996.
- R D Armstrong**, Customer Services Director.
- M F Bradbury**, Finance Director - appointed 1 April 1996.
- R G Bradbury**, Commercial Director.
- H R Croft**, Operations Director.
- T W Drury**, Finance and Regulation Director - resigned 1 April 1996.
- PGS Entwistle**, Non-executive director - appointed 1 April 1996.
- * **M G Faulkner**, Director - appointed 1 April 1996.
- * **R J Ferguson**, United Utilities PLC Finance Director.
- E Harper**, Quality Director - appointed 1 April 1996.
- P E McCloskey**, Corporate Services Director.
- D E Morton JP**, Non-executive director - appointed 1 April 1996.
- * **B L Staples**, United Utilities PLC Chief Executive - resigned 1 April 1996.
- * **F Sanderson**, Non-executive director United Utilities PLC - resigned 1 April 1996.
- * Director, United Utilities PLC.

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.

Auditors A resolution to re-appoint KPMG Audit Plc as auditor to the company will be proposed at the annual general meeting.

By order of the Board
John Tetlow Secretary
30 June 1997



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 North West Water Limited 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 6 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

We have audited the financial statements on pages 6 to 21.

Respective responsibilities of directors and auditors

As described under "Directors' responsibilities" on page 5 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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 as at 31 March 1997 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester
30 June 1997

KPMG Audit Plc

Profit and loss account

For the year ended 31 March 1997	Note	1997 £m	1996 £m
Turnover	1(b)	872.7	832.8
Net operating costs	3	(459.4)	(448.9)
Customer rebates		(28.3)	(18.3)
Operating profit		385.0	365.6
Profit on disposal of business		-	7.1
Profit on ordinary activities before interest		385.0	372.7
Net interest payable	7	(68.4)	(71.2)
Profit on ordinary activities before taxation		316.6	301.5
Tax on profit on ordinary activities	8	(7.0)	(1.2)
Profit for financial year		309.6	300.3
Dividends	9	(353.9)	(135.1)
Transfer (from)/to reserves	19	(44.3)	165.2

All of the results derive from continuing operations.
The company has no recognised gains or losses other than the profit for the year.

Reconciliation of movements in shareholders' funds

For the year ended 31 March 1997	1997 £m	1996 £m
Profit for the financial year	309.6	300.3
Dividends	(353.9)	(135.1)
Transfer to/from reserves	(44.3)	165.2
Issue of preference shares	38.5	-
Net movement in shareholders' funds for the year	(5.8)	165.2
Shareholders' funds at 31 March 1996	2,153.3	1,988.1
Shareholders' funds at 31 March 1997	2,147.5	2,153.3

Balance sheet

At 31 March 1997	Note	1997 £m	1996 £m
Fixed assets			
Tangible assets	10	3,494.0	3,346.3
Investments	11	0.5	0.4
		3,494.5	3,346.7
Current assets			
Stores		1.0	1.0
Debtors	12	269.9	213.8
Cash at bank and in hand		8.9	-
		279.8	214.8
Creditors:			
Amounts falling due within one year	13	(849.7)	(609.1)
Net current liabilities		(569.9)	(394.3)
Total assets less current liabilities		2,924.6	2,952.4
Creditors:			
Amounts falling due after more than one year	14	(749.1)	(755.6)
Provisions for liabilities and charges	16	(28.0)	(43.5)
Net assets		2,147.5	2,153.3
Capital and reserves			
Equity share capital	18	431.9	431.9
Non-equity share capital	18	38.5	-
Share premium account	18	647.8	647.8
Profit and loss account	19	1,029.3	1,073.6
Equity shareholders' funds		2,109.0	2,153.3
Non-equity shareholders' funds		38.5	-
Shareholders' funds		2,147.5	2,153.3

Approved by the Board of directors on 30 June 1997 and signed on its behalf by

Martin F Bradbury
Finance Director



Cash flow statement

For the year ended 31 March 1997	1997 £m	1997 £m	1996 £m	1996 £m
Net cash inflow from operating activities		438.4		424.3
Returns on investments and servicing of finance				
Interest received	17.6		10.5	
Interest paid	(71.3)		(27.6)	
Interest element of finance lease repayments	(9.8)		(28.4)	
Net cash outflow from returns on investment and servicing of finance		(63.5)		(45.5)
Taxation		(1.2)		-
Capital expenditure				
Purchase of tangible fixed assets	(390.9)		(347.1)	
Grants and contributions received	4.0		10.0	
Disposal of tangible fixed assets	191.0		1.6	
Net cash outflow for capital expenditure		(195.9)		(335.5)
Dividends paid		(341.2)		(523.6)
Cash outflow before use of liquid resources		(163.4)		(480.3)
Management of liquid resources				
Sale of short term marketable securities		-		205.7
Financing				
Issue of preference share capital	38.5		-	
Increase in debt	135.9		264.6	
Net cash inflow from financing		174.4		264.6
Increase/(decrease) in cash		11.0		(10.0)

The 1996 figures have been restated to comply with Financial Reporting Standard 1 (Revised) Cash Flow Statements.

Notes to the cash flow statement are detailed in note 23.

Notes to the accounts

1 Accounting policies

(a) Basis of preparation of accounts

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

In October 1996, the Accounting Standards Board published Financial Reporting Standard 8 - Related Party Disclosures and a revision to Financial Reporting Standard 1 - Cash Flow Statements; both standards are adopted in these accounts.

(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 normally written off against profit 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

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

Grants receivable in respect of other tangible fixed assets are treated as deferred income, which is credited to the profit and loss account over 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) Stores

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

(i) Pensions

Most of the company's employees belong to pension schemes which provide for defined benefits based on final pensionable pay. Pension costs are charged against profits over the estimated remaining service lives of employees.

Details of pension arrangements and funding are set out in note 20.

(j) Deferred taxation

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

(k) Financial derivatives

The notional interest on interest rate swaps and forward rate agreements to manage interest rate exposures on the company's net borrowings are included with the interest flows of the underlying net borrowings. These financial derivatives in the above circumstances are not revalued to their open market value, but, on realisation, gains and losses are spread over the period of the hedged position.

2 Segmental information

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

3 Net operating costs

	1997 £m	1996 £m
Employee costs:		
Wages and salaries	81.3	95.6
Social security costs	10.1	9.1
Pension contributions (note 20)	7.8	11.9
	99.2	116.6
Capital schemes	(23.7)	(24.3)
Infrastructure renewals	(6.1)	(4.9)
	69.4	87.4
Depreciation:		
Owned fixed assets	52.3	66.3
Fixed assets held under finance leases	6.7	9.0
	59.0	75.3
Infrastructure renewals	67.6	66.4
Other operating costs include:		
Other operating costs	246.7	194.3
Raw materials and consumables	17.2	19.9
Auditors' remuneration	0.1	0.1
Research and development	2.4	4.6
Operating leases		
- hire of plant and machinery	1.8	1.9
- land and buildings	1.5	3.5
Other income (note 4)	(6.3)	(4.5)
	263.4	219.8
Total net operating costs	459.4	448.9

Managed service fees and asset charges from group undertakings are contained within other operating costs.

Fees payable to the auditor and its associates for non-audit services in 1997 were £37,000 (1996 - £21,000).

4 Other income

	1997 £m	1996 £m
Profit on disposal of fixed assets	1.2	1.1
Net rents receivable	2.0	3.2
Other	3.1	0.2
	6.3	4.5

Notes to the accounts continued

5 Directors

The aggregate emoluments of directors in 1997, together with the value of short term incentive awards and performance related annual bonuses as appropriate in respect of that year and pension contributions amounted to £1,068,000 (1996, together with bonuses paid in respect of that year and pension contributions - £937,000). Emoluments comprise salaries, fees and taxable benefits. The emoluments of the highest paid director (Derek Green) in 1997, together with the value of the short term incentive awards in respect of that year and pension contribution amounted to £292,000 (1996, together with bonus paid in respect of that year and pension contribution - £315,000).

With the exception of P G S Entwistle and D E Morton who, as non-executive directors, do not participate in pension arrangements and Malcolm Faulkner, all directors are members of and contribute to the Water Pension Scheme (WPS), a defined benefits pension scheme which provides an entitlement on retirement at age 60 equal to between 1/30th and 1/45th of pensionable remuneration for each completed year of service but subject to an overall maximum of 20/30ths. The normal retirement age is 60 but early retirement is possible from age 50.

As a consequence of changes made by the Finance Act 1989, the company is unable to provide pensions from the WPS for 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 directors, the company has undertaken to pay the difference between their pension entitlements based on the relevant proportion of their final salaries and the maximum amount payable under the rules of the WPS. At the present time, these separate arrangements remain unfunded. This undertaking will not result in any greater or additional benefits for these directors than would have been payable had it been possible for their pensions to be provided fully within the WPS on the same basis as for directors who had joined the company prior to 1989.

Malcolm Faulkner is a member of and contributes to the Electricity Supply Pension Scheme, a defined benefit pension scheme and which provides an entitlement on retirement at age 60 equal to 2/3rds of basic pay.

The accrued pension at 31 March 1997 for Derek Green was £48,000 per annum (1996 - £34,000 per annum).

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 United Utilities PLC (details of the interests of directors of United Utilities PLC are dealt with in that company's accounts).

	1997			1996 or on appointment		
	Share options			Share options		
	Ordinary shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	19,117	12,293	2,556	6	43,626	5,334
R G Bradbury	-	26,333	-	-	26,333	-
H R Croft	14,331	28,010	2,796	81	36,667	12,974
P E McCloskey	-	31,477	3,586	-	30,727	3,586
M F Bradbury	10,010	22,926	4,005	7,309	7,926	5,334
P G S Entwistle	90	-	-	-	-	-
E Harper	24,278	6,428	2,151	28,541	6,428	4,929

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	Scheme	First date exercisable	Last date exercisable
P E McCloskey	750	628.0p	Executive option	9 Jan 2000	9 Jan 2007
M F Bradbury	1,449	476.0p	Employee sharesave	2 Feb 2002	1 Aug 2002
	13,250	544.5p	Executive option	19 June 1999	19 June 2006
	1,750	628.0p	Executive option	9 Jan 2000	9 Jan 2007

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

	Options exercised during the year	Exercise price per share	Scheme	Mid-market price when exercised	First date exercisable	Last date exercisable
R D Armstrong	2,778	269.9p	Sharesave	668.5p	1 Feb 1997	31 July 1997
	6,719	305.2p	Executive	617.5p	3 Dec 1993	3 Dec 2000
	20,738	324.1p	Executive	617.5p	8 Jan 1995	8 Jan 2002
	3,876	463.4p	Executive	617.5p	6 Jan 1996	6 Jan 2003
M Bradbury	2,778	269.8p	Sharesave	668.5p	1 Feb 1997	31 July 1997
H Croft	2,778	269.9p	Sharesave	668.5p	1 Feb 1997	31 July 1997
	7,400	170.3p	Sharesave	661.0p	1 Mar 1997	31 Aug 1997
	2,067	305.2p	Executive	605.5p	3 Dec 1993	3 Dec 2000
	6,590	324.1p	Executive	605.5p	8 Jan 1995	8 Jan 2002
E Harper	2,778	269.9p	Sharesave	688.5p	1 Feb 1997	31 July 1997

The mid-market share price on the last business day before 31 March 1997 was 628.0p. The range during the year was 530.0p (low) to 693.0p (high).

Notes to the accounts continued

6 Employees

	1997	1996
Average number of persons employed	4,140	4,770

7 Net interest payable

	1997 £m	1996 £m
Interest payable:		
On bank loans, overdrafts and other loans:		
Repayable within five years	22.2	7.3
Repayable wholly or partly in more than five years	39.0	33.4
	61.2	40.7
On finance leases	14.0	17.8
Group undertakings	11.0	24.0
Total interest payable	86.2	82.5
Interest receivable:		
Group undertakings	(17.1)	(3.0)
External	(0.7)	(8.3)
Net interest payable	68.4	71.2

8 Taxation on profit on ordinary activities

	1997 £m	1996 £m
UK Corporation Tax at 33%	7.0	1.2

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	442.4	395.0
Other assets	221.1	192.7
Losses and other timing differences	(48.5)	(68.3)
	615.0	519.4

No deferred tax liability is provided in the company's accounts as forecast levels of capital expenditure indicate that no liability will arise in the foreseeable future. A deferred tax asset of £15.3 million is included within debtors amounts falling due after more than one year representing advance corporation tax recoverable against future mainstream corporation tax liabilities.

9 Dividends

	1997 £m	1996 £m
Interim dividend of 11.66 pence per share (1996 – 10.26 pence)	50.4	44.3
Final dividend of 23.97 pence per share recommended (1996 – 21.03 pence)	103.5	90.8
Special dividend of 46.30 pence per share	200.0	–
	353.9	135.1

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 1996/97. This increase results from:

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

As a result of ongoing performance and in line with our increased benefit sharing with customers, a special dividend of £200 million was paid to United Utilities PLC on 27 March 1997.

These dividend payments are consistent with the company's strategy for sharing the benefits between customers and shareholders in advance of the Periodic Review.

10 Tangible fixed assets

	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
Cost:							
At 1 April 1996	172.2	1,392.0	1,159.6	353.8	177.4	604.7	3,859.7
Additions	3.6	46.3	49.0	13.1	–	288.5	400.5
Grants and contributions	–	(4.0)	–	–	–	–	(4.0)
Transfers	5.0	158.6	206.1	2.0	–	(371.7)	–
Disposals	(1.0)	–	(0.4)	(161.2)	–	(97.5)	(260.1)
At 31 March 1997	179.8	1,592.9	1,414.3	207.7	177.4	424.0	3,996.1
Depreciation:							
At 1 April 1996	24.4	–	196.3	170.7	122.0	–	513.4
Charge for the year	5.1	–	35.3	13.2	5.4	–	59.0
Disposals	(0.5)	–	–	(69.8)	–	–	(70.3)
At 31 March 1997	29.0	–	231.6	114.1	127.4	–	502.1
Net book value:							
At 31 March 1997	150.8	1,592.9	1,182.7	93.6	50.0	424.0	3,494.0
At 31 March 1996	147.8	1,392.0	963.3	183.1	55.4	604.7	3,346.3

Disposals include the sale of assets to Vertex Data Science Limited.

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 £73.3 million (1996 – £69.3 million) lower than it would have been had this treatment not been adopted.

Notes to the accounts continued

10 Tangible fixed assets continued

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

	1997 £m	1996 £m
Cost:		
Operational structures	250.8	250.8
Fixtures, fittings, tools and equipment	9.3	21.6
At 31 March	260.1	272.4
Accumulated depreciation:		
Operational structures	(53.6)	(47.1)
Fixtures, fittings, tools and equipment	(8.0)	(15.4)
At 31 March	(61.6)	(62.5)
Net book value:		
Operational structures	197.2	203.7
Fixtures, fittings, tools and equipment	1.3	6.2
At 31 March	198.5	209.9

The depreciation charge for the year for assets held under finance leases is £6.7 million (1996 - £9.0 million)

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1997. 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.

	1997 £m	1996 £m
Capital commitments:		
Contracted but not provided for	283.9	408.1
Authorised but not yet contracted for	316.5	110.4

11 Fixed asset investments

	Total £m
Cost:	
At 1 April 1996	0.4
Additions	0.1
At 31 March 1997	0.5

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	'A' Ordinary shares of £1 each	19.68%	Water and wastewater research
	8% convertible unsecured loan stock 2014	26.25%	
WPF Holdings Limited	Ordinary shares of £1 each	18.44%	Pension fund services
Utilities Consortium Limited	Ordinary shares of 1 pence each 15% unsecured loan notes 2006	1.23%	Cash collection services

12 Debtors

	1997 £m	1996 £m
Amounts falling due within one year:		
Trade debtors	94.4	83.9
Amounts owed by group undertakings	48.1	41.7
Other debtors	5.0	17.1
Prepayments and accrued income	79.2	61.5
Infrastructure renewals prepayment	21.7	-
	248.4	204.2
Amounts falling due after more than one year:		
Other debtors	6.2	9.6
Deferred tax	15.3	-
	21.5	9.6
Total debtors	269.9	213.8

Amounts owed by group undertakings comprise £48.1 million (1996 - £41.7 million) in respect of amounts owed by parent and fellow subsidiary undertakings.

Notes to the accounts continued

13 Creditors: amounts falling due within one year

	1997 £m	1996 £m
Loans	21.4	18.6
Bank overdrafts and temporary borrowings	325.0	182.0
Obligations under finance leases	5.8	9.1
Trade creditors	19.2	24.0
Amounts owed to group undertakings	84.6	28.6
Dividends	103.5	90.8
Other creditors	2.0	2.2
Taxation and social security	19.3	4.8
Infrastructure renewals accrual	-	10.1
Accruals and deferred income	268.9	238.9
	849.7	609.1

Amounts owed to group undertakings comprise £84.6 million (1996 - £28.6 million) in respect of amounts owed to parent and fellow subsidiary undertakings.

14 Creditors: amounts falling due after more than one year

	1997 £m	1996 £m
Loans	476.3	497.7
Obligations under finance leases	204.8	210.6
Amounts owed to group undertakings	15.3	-
Other creditors	7.0	6.9
Deferred grants and contributions (note 15)	45.7	40.4
	749.1	755.6

Amounts owed to group undertakings comprise £15.3 million (1996 - £nil) owed to parent and fellow subsidiary undertakings.

15 Deferred grants and contributions

	£m
At 1 April 1996	40.4
Received in the year	7.0
Profit and loss account	(1.7)
At 31 March 1997	45.7

16 Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 April 1996	24.6	18.9	43.5
Utilised	(4.8)	(6.7)	(11.5)
Profit and loss account	-	(4.0)	(4.0)
At 31 March 1997	19.8	8.2	28.0

17 Borrowings

	loans and overdrafts £m	Finance leases £m	1997 Total £m	1996 Total £m
Within one year	346.4	5.8	352.2	209.6
Between one and two years	24.8	3.3	28.1	27.2
Between two and five years	161.6	5.4	167.0	160.2
After more than five years	289.9	196.1	486.0	520.9
	822.7	210.6	1,033.3	917.9

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2002 and 2053.

Interest rates range from 6.65 per cent to 16.33 per cent on £787.2 million and are at floating rates on £246.1 million.

18 Called up share capital and share premium accounts

	1997 £m	1996 £m
Authorised share capital		
650,000,000 ordinary shares of £1 each	650.0	650.0
38,537,000 preference shares of £1 each	38.5	-
Allotted and fully paid share capital		
431,930,000 ordinary shares of £1 each	431.9	431.9
38,537,000 preference shares of £1 each	38.5	-
Share premium account	647.8	647.8

During the year, 38,537,000 non-voting non-redeemable preference shares were allotted for cash at nominal value in order to reduce overall borrowings. The preference shares have no entitlement to any dividends paid by the company. Preference shareholders are not entitled to receive notice of, attend or vote at any general meeting of the company. However, preference shareholders receive priority to other classes of shareholders on a winding up, liquidation or other return of capital to shareholders of the company.

19 Profit and loss account

	£m
At 1 April 1996	1,073.6
Retained loss for the year	(44.3)
At 31 March 1997	1,029.3

Notes to the accounts continued

20 Pensions

The company is a participant in United Utilities PLC'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 SSAP24 have been assessed in accordance with the advice of a firm of actuaries, 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 1996. The combined market value of the group's share of the assets of these two schemes at the valuation dates was £521.1 million. The combined actuarial value of the assets represented 107 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24, the surplus in the schemes is being spread over the future working lifetime of the existing members.

The company also operates a series of unfunded unapproved retirement benefit schemes. The cost of the unfunded unapproved retirement benefit schemes is included in the total pension cost on a basis consistent with SSAP24 and the assumptions used for WPS.

The total pension cost for the year was £7.8 million (1996 - £11.9 million).

21 Operating leases

The company is committed to making the following payments during the year:

	Land and buildings £m 1997	Plant and machinery £m 1997	Land and buildings £m 1996	Plant and machinery £m 1996
Leases which expire:				
Within one year	0.3	0.5	0.2	0.4
Between two and five years	0.3	49.7	1.4	1.8
After five years	2.0	-	1.0	-
	2.6	50.2	2.6	2.2

22 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, P.O. Box 14, 410 Birchwood Boulevard, Warrington WA3 7GA.

23 Notes to the cash flow statement

For the year ended 31 March 1997	1997 £m	1996 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	385.0	365.6
Depreciation	59.0	75.3
Profit on disposal of tangible fixed assets	(1.2)	(1.1)
Stocks decrease	-	(0.1)
Debtors increase	(38.8)	(15.6)
Creditors increase	34.4	0.2
Net cash inflow from operating activities	438.4	424.3

For the year ended 31 March 1997	1997 £m	1996 £m
Reconciliation of net cash flow to movement in net debt		
Increase/(Decrease) in cash in the year	11.0	(10.0)
Cash inflow from increase in debt and lease financing	(135.9)	(264.6)
Cash inflow from decrease in liquid resources	-	(205.7)
Movement in net debt in the year	(124.9)	(480.3)
Net debt at 1 April 1996	(930.3)	(450.0)
Net debt at 31 March 1997	(1,055.2)	(930.3)

	1997 £m	1997 £m	1996 £m	1996 £m
Analysis of cash flows for headings netted in the cash flow statement				
Financing				
Issue of preference share capital		38.5		-
Debt due within a year:				
- repayment of short term external loans	(16.4)		(0.9)	
- new/(repayment of) short term group loans	18.4		(12.0)	
- new short term bank loans	143.0		182.0	
Debt due beyond a year:				
- new loans	-		103.5	
Capital element of finance lease repayments	(9.1)		(8.0)	
		135.9		264.6
Net cash inflow from financing		174.4		264.6

	At 1 April 1996 £m	Cashflow £m	Non-cash movements £m	At 31 March 1997 £m
Analysis of changes in net debt				
Long term loans	(514.1)	(5.0)	21.4	(497.7)
Finance leases	(219.7)	9.1	-	(210.6)
Short term loans	(182.0)	(121.6)	(21.4)	(325.0)
Overdrafts	(2.1)	2.1	-	-
Borrowings	(917.9)	(115.4)	-	(1,033.3)
Cash in hand	-	8.9	-	8.9
Parent undertaking loan	(12.4)	(18.4)	-	(30.8)
Net debt	(930.3)	(124.9)	-	(1,055.2)

Regulatory accounting information

Introduction

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 6 to 21.

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.

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 6 to 21, 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 has been prepared under the accounting policies set out on pages 25 and 26.

Respective responsibilities of directors and auditors

As described on page 5 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 company'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 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 1997 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 numbers 1 to 4 issued by the Office of Water Services;
- (iii) the financial statements on pages 6 to 21 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 Audit Plc
Chartered Accountants
Registered Auditor
Manchester
30 June 1997

KPMG Audit Plc

Historical cost profit and loss account

For the year ended 31 March 1997	1997 £m	1996 £m
Turnover	844.4	814.5
Operating costs	(446.2)	(453.4)
Operating income	1.2	1.1
Operating profit	399.4	362.2
Other income	3.4	10.5
Net interest payable	(86.2)	(71.2)
Profit on ordinary activities before taxation	316.6	301.5
Taxation	(7.0)	(1.2)
Profit for the year	309.6	300.3
Dividends	(353.9)	(135.1)
Retained (loss)/profit for the year	(44.3)	165.2

Current cost profit and loss account

For the year ended 31 March 1997	Note	1997 £m	1996 £m
Turnover	2	844.4	814.5
Current cost operating costs	3	(553.2)	(556.6)
Operating expense	2	(7.6)	(0.9)
Working capital adjustment	2	2.3	1.3
Current cost operating profit		285.9	258.3
Other income		3.4	10.5
Net interest payable		(86.2)	(71.2)
Financing adjustment		25.3	14.0
Current cost profit before taxation		228.4	211.6
Taxation		(7.0)	(1.2)
Current cost profit attributable to shareholders		221.4	210.4
Dividends		(353.9)	(135.1)
Current cost (loss)/profit retained		(132.5)	75.3

The cost of services provided by Vertex Data Science Limited, an associated company of North West Water Limited, has been analysed across operating cost and interest as if the services were carried out by North West Water Limited, in accordance with RAG4 guidelines.

Current cost balance sheet

At 31 March 1997	Note	1997 £m	1996 £m
Tangible assets	4	32,484.2	31,639.0
Third party contributions since 1989 - 90		(127.9)	(115.7)
Working capital	5	(88.9)	(89.1)
Net operating assets		32,267.4	31,434.2
Cash and investments		0.5	0.4
Non-trade debtors		67.9	68.0
Non-trade creditors due within one year		(465.0)	(291.6)
Creditors due after one year		(703.5)	(715.3)
Provisions for liabilities and charges		(28.0)	(43.5)
Dividends payable		(103.5)	(90.8)
Net assets employed		31,035.8	30,361.4
Capital and reserves			
Called up share capital		470.4	431.9
Share premium account		647.8	647.8
Profit and loss account		228.8	361.3
Current cost reserve	6	29,688.8	28,920.4
Total capital and reserves		31,035.8	30,361.4

Current cost cash flow statement

For the year ended 31 March 1997	1997 £m	1997 £m	1996 (restated) £m	1996 (restated) £m
Net cash inflow from operating activities		555.5		496.4
Returns on investments and servicing of finance				
Interest received	17.6		10.5	
Interest paid	(89.1)		(27.6)	
Interest in finance lease rental	(9.8)		(28.4)	
Net cash outflow from returns on investments and servicing of finance		(81.3)		(45.5)
UK corporation tax paid		(1.2)		-
Capital expenditure				
Gross cost of purchase of fixed assets	(390.9)		(347.1)	
Receipts of grants and contributions	4.0		10.0	
Infrastructure renewals expenditure	(99.3)		(72.1)	
Disposal of fixed assets	191.0		1.6	
Net cash outflow from investing activities		(295.2)		(407.6)
Equity dividends paid		(341.2)		(523.6)
Management of liquid resources				
Sale of short term marketable securities		-		205.7
Net cash outflow before financing		(163.4)		(274.6)
Financing				
Proceeds from issue of preference share capital	38.5		-	
Capital element of finance lease rentals	(9.1)		(8.0)	
New bank loans	161.4		285.5	
Repayment of bank loans	(16.4)		(12.9)	
Net cash inflow from financing		174.4		264.6
Increase/(decrease) in cash in period		11.0		(10.0)

Note to the current cost cash flow statement

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

	1997 £m	1996 £m
Current cost operating profit	285.9	258.3
Working capital adjustment	(2.3)	(1.3)
Charges in stocks	-	(0.1)
Receipts from other income	3.4	3.4
Current cost depreciation	155.6	169.3
Current cost loss on disposal of fixed assets	7.6	0.9
Increase in debtors and prepaid expenses	(14.5)	(15.6)
Increase in creditors and accrued expenses	36.0	8.5
Infrastructure renewals expenditure	99.3	72.1
Movement in provisions	(15.5)	0.9
Net cash inflow from operating activities	555.5	496.4

The analysis of movement in net debt required by RAG 3.04 is shown in the notes to the historic cost cash flow statement on page 21.

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.

(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 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 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

	1997			1996		
	Water services £m	Sewerage Services £m	Total £m	Water services £m	Sewerage Services £m	Total £m
Turnover						
Measured	128.9	143.8	272.7	124.6	131.1	255.7
Unmeasured	233.8	274.0	507.8	230.2	261.0	491.2
Trade effluent	-	39.3	39.3	-	39.7	39.7
Revenue grants	0.2	-	0.2	0.1	-	0.1
Other sources	4.9	3.5	8.4	7.1	1.1	8.2
Third party services	10.8	5.2	16.0	15.5	4.1	19.6
	378.6	465.8	844.4	377.5	437.0	814.5
Operating costs/income						
Current cost (loss)/profit on disposal of fixed assets	(1.2)	(6.4)	(7.6)	(0.7)	(0.2)	(0.9)
Working capital adjustment	1.1	1.2	2.3	0.6	0.7	1.3

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

3 Current cost operating costs

For the year ended 31 March 1997

	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
Direct costs							
Employment costs							
Power	9.1	16.6	25.7	0.6	8.6	6.1	15.3
Agencies	5.2	5.7	10.9	0.2	7.0	1.4	8.6
Hired and contracted services	-	-	-	12.8	-	0.1	12.9
Materials and consumables	3.7	4.3	8.0	0.4	2.5	3.7	6.6
Service charges EA	4.9	2.5	7.4	-	1.9	0.7	2.6
Other direct costs	9.0	-	9.0	1.2	2.6	-	3.8
	-	1.3	1.3	0.2	-	1.6	1.8
Total direct costs							
General and support expenditure	31.9	30.4	62.3	15.4	22.6	13.6	51.6
Functional expenditure	11.4	20.6	32.0	1.9	13.0	5.9	20.8
	43.3	51.0	94.3	17.3	35.6	19.5	72.4
Operating expenditure							
Customer services							
Scientific services			23.0				22.3
Other business activities			8.1				4.0
			0.9				0.9
Total business activities							
			32.0				27.2
Local authority rates							
Doubtful debts			29.3				10.6
Exceptional items			8.4				8.1
			(4.0)				-
Total opex less third party services							
Third party services - operating expenditure			160.0				118.3
			19.4				4.2
Total operating expenditure							
			179.4				122.5
Capital maintenance							
Infrastructure renewals expenditure							
Infrastructure renewals accrual/(prepayment)	5.5	51.9	57.4	38.4	-	3.5	41.9
Current cost depreciation (allocated)	(1.5)	(15.5)	(17.0)	(4.4)	-	0.3	(4.1)
Amortisation of deferred credits	59.0	7.4	66.4	4.2	57.1	10.1	71.4
Business activities current cost depreciation (non-allocated)	-	-	(1.0)	-	-	-	(0.8)
			17.2				18.7
Capital maintenance excluding third party services							
Third party services - capital maintenance			123.0				127.1
			0.9				0.3
Total capital maintenance							
			123.9				127.4
Total operating costs							
			303.3				249.9
CCA (MEA) values:							
Service activities							
Business activities	2,473.7	8,944.3	11,418.0	18,940.8	1,286.0	666.5	20,893.3
			67.1				72.7
Total							
			11,485.1				20,966.0
Services for third parties			23.4				9.7
Total							
			11,508.5				20,975.7

The depreciation charge from an associated company has been reclassified as business activities capital costs in accordance with RAG4.

Notes to the current cost accounts continued

3 Current cost operating costs - continued

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
Direct costs							
Employment costs							
Power	9.1	18.8	27.9	0.7	8.2	5.6	14.5
Agencies	5.7	9.1	14.8	0.3	7.0	1.2	8.5
Hired and contracted services	-	-	-	12.3	0.1	-	12.4
Materials and consumables	1.5	6.7	8.2	0.2	2.3	2.1	4.6
Service charges EA	4.4	3.8	8.2	-	1.5	0.6	2.1
Other direct costs	8.8	-	8.8	-	3.9	-	3.9
	-	1.3	1.3	0.2	(0.4)	0.7	0.5
Total direct costs	29.5	39.7	69.2	13.7	22.6	10.2	46.5
General and support expenditure	11.3	20.6	31.9	2.8	12.3	6.8	21.9
Functional expenditure	40.8	60.3	101.1	16.5	34.9	17.0	68.4
Operating expenditure							
Customer services							
Scientific services			21.3				20.6
Other business activities			8.6				4.2
			0.9				0.9
Total business activities			30.8				25.7
Local authority rates							
Doubtful debts			27.3				11.9
Exceptional items			6.9				6.6
			15.0				-
Total opex less third party services			181.1				112.6
Third party services - operating expenditure			14.3				3.7
Total operating expenditure			195.4				116.3
Capital maintenance							
Infrastructure renewals expenditure							
Infrastructure renewals accrual/(prepayment)	5.0	31.4	36.4	35.6	-	0.1	35.7
Current cost depreciation (allocated)	(0.5)	3.4	2.9	(0.5)	-	1.1	0.6
Business activities current cost depreciation (non-allocated)	58.6	6.6	65.2	4.1	54.5	9.6	68.2
			16.7				18.1
Capital maintenance excluding third party services			121.2				122.6
Third party services - capital maintenance			0.8				0.3
Total capital maintenance			122.0				122.9
Total operating costs			317.4				239.2
CCA (MEA) values:							
Service activities							
Business activities	2,400.4	8,661.5	11,061.9	18,403.3	1,259.4	650.0	20,312.7
			111.5				120.8
Total			11,173.4				20,433.5
Services for the third parties							
			22.9				9.2
Total			11,196.3				20,442.7

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

For the year ended 31 March 1997

Services	Service analysis									
	Water services					Sewerage				
	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
Gross replacement cost:										
At 1 April 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
RPI adjustment	256.1	63.1	3.9	323.1		469.2	72.5	11.1	552.8	875.9
Disposals	-	(1.5)	(42.6)	(44.1)		-	(1.2)	(227.1)	(228.3)	(272.4)
Additions	57.4	48.6	28.7	134.7		69.2	165.5	31.1	265.8	400.5
At 31 March 1997	10,311.1	2,591.3	210.7	13,113.1		18,790.6	3,414.5	317.0	22,522.1	35,635.2
Depreciation:										
At 1 April 1996	-	1,341.2	161.9	1,503.1		-	1,300.8	188.3	1,489.1	2,992.2
RPI adjustment	-	34.5	4.1	38.6		-	33.5	4.9	38.4	77.0
Disposals	-	(0.9)	(11.4)	(12.3)		-	(0.9)	(60.6)	(61.5)	(73.8)
Charge for the year	-	64.0	11.2	75.2		-	72.6	7.8	80.4	155.6
At 31 March 1997	-	1,438.8	165.8	1,604.6		-	1,406.0	140.4	1,546.4	3,151.0
Net book value:										
At 31 March 1997	10,311.1	1,152.5	44.9	11,508.5		18,790.6	2,008.5	176.6	20,975.7	32,484.2
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

Operational assets by service are as follows

For the year ended 31 March 1997

Services	Water services						Sewerage		
	Specialised operational assets £m	Non-specialised operational assets £m	Total £m	Specialised operational assets £m	Non-specialised operational assets £m	Total £m			
									Total £m
Gross replacement cost:									
At 1 April 1996									
RPI adjustment		2,346.0	135.1	2,481.1		3,031.3	146.4	3,177.7	
Disposals		59.6	3.5	63.1		68.8	3.7	72.5	
Additions		(0.1)	(1.4)	(1.5)		-	(1.2)	(1.2)	
At 31 March 1997		47.2	1.4	48.6		163.2	2.3	165.5	
		2,452.7	138.6	2,591.3		3,263.3	151.2	3,414.5	
Depreciation:									
At 31 March 1997									
RPI adjustment		1,317.9	23.3	1,341.2		1,275.5	25.3	1,300.8	
Disposals		33.9	0.6	34.5		32.8	0.7	33.5	
Charge for the year		(0.1)	(0.8)	(0.9)		-	(0.9)	(0.9)	
At 31 March 1997		60.5	3.5	64.0		70.0	2.6	72.6	
		1,412.2	26.6	1,438.8		1,378.3	27.7	1,406.0	
Net book value:									
At 31 March 1997		1,040.5	112.0	1,152.5		1,885.0	123.5	2,008.5	
At 31 March 1996		1,028.1	111.8	1,139.9		1,755.8	121.1	1,876.9	

Notes to the current cost accounts continued

5 Working capital

	1997 £m	1996 £m
Stores		
Trade debtors	1.0	1.0
Working cash balances	94.4	83.9
Trade creditors	8.9	(2.2)
Short term capital creditors	(19.2)	(24.0)
Infrastructure renewals prepayment/(accrual)	(123.9)	(114.3)
Other trade accruals	1.9	(19.3)
Trade payments in advance	(94.5)	(69.3)
Payroll related taxation and social security	4.1	5.5
Group trade debtors/(creditors)	(9.6)	(4.8)
Prepayments and other debtors	(27.2)	(1.6)
	75.2	56.0
Total working capital	(88.9)	(89.1)

6 Movement on current cost reserve

	1997 £m	1996 £m
At 1 April 1996		
AMP adjustment	28,920.4	19,483.2
RPI adjustments:	-	8,635.4
Fixed assets		
Working capital	798.9	819.9
Financing	(2.3)	(1.3)
Grants and third party contributions	(25.3)	(14.0)
	(2.9)	(2.8)
At 31 March 1997	29,688.8	28,920.4

Five year summary

Current cost profit and loss account

	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover	844.4	834.0	823.0	798.9	765.0
Current cost operating costs	(553.2)	(569.9)	(480.2)	(506.6)	(514.4)
Operating income/(expense)	(7.6)	(0.9)	1.5	0.5	3.0
Working capital adjustment	2.3	1.3	2.6	0.9	1.5
Other income	285.9	264.5	346.9	293.7	255.1
Net interest	3.4	10.7	2.3	1.6	1.4
Financing adjustment	(86.2)	(72.9)	(33.1)	(39.2)	(24.8)
	25.3	14.3	18.4	10.6	5.5
Current cost profit before taxation	228.4	216.6	334.5	266.7	237.2
Taxation	(7.0)	(1.2)	(3.7)	-	-
Current cost profit on ordinary activities	221.4	215.4	330.8	266.7	237.2
Dividends	(353.9)	(138.3)	(548.2)	(127.1)	(110.2)
Current cost profit retained	(132.5)	77.1	(217.4)	139.6	127.0

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

Current cost balance sheet

	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Tangible fixed assets	32,484.2	32,461.6	23,184.6	22,998.9	22,724.8
Third party contributions since 1989/90	(127.9)	(118.8)	(108.6)	(90.4)	(67.0)
Working capital	(88.9)	(91.4)	(50.7)	(76.6)	(39.6)
Net operating assets	32,267.4	32,251.4	23,025.3	22,831.9	22,618.2
Cash and investments	0.5	0.4	217.2	245.5	169.7
Non-trade debtors	67.9	69.8	53.2	60.2	63.8
Non-trade creditors	(568.5)	(392.4)	(613.8)	(229.1)	(169.8)
Creditors due after one year	(703.5)	(733.9)	(662.2)	(664.9)	(570.4)
Provisions	(28.0)	(44.6)	(45.0)	(41.7)	(42.2)
Net assets employed	31,035.8	31,150.7	21,974.7	22,201.9	22,069.3
Capital and reserves					
Called up share capital	470.4	443.2	455.2	471.2	482.0
Share premium account	647.8	664.6	682.8	706.7	722.9
Profit and loss account	228.8	370.7	301.4	536.0	404.8
Current cost reserve	29,688.8	29,672.2	20,535.3	20,488.0	20,459.6
	31,035.8	31,150.7	21,974.7	22,201.9	22,069.3

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

