

NORWEB plc

Registered number 2366949

FINANCIAL STATEMENTS

For the year ended 31 March 1996



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NORWEB plc

Registered number 2366949

DIRECTORS' REPORT

For the year ended 31 March 1996

The Directors have pleasure in presenting their annual report and the audited accounts of NORWEB plc ("the Company") for the year ended 31 March 1996.

Principal activities

The principal activities of the Company are the distribution and supply of electricity to industrial, commercial and domestic customers. The Company's other main businesses are electricity generation, electrical retailing and service, supplying gas to customers in the over 2,500 therm per annum market and electrical contracting. The Company also has a telecommunications division. In the distribution and supply of electricity the Company is regulated by the terms of licences granted under the Electricity act 1989 and controlled by the Director General of Electricity Supply. The Company carries out electricity generation via a wholly-owned subsidiary which has interests in a number of companies.

On 8 November 1995, the Company was taken over by North West Water Group PLC, which following the acquisition changed its name to United Utilities PLC.

On 28 March 1996 the Board of NORWEB plc announced that it had decided to divest a number of non-core business activities, including Norweb Retail, Norweb Contracting and Norweb Generation. For operational purposes, Norweb Distribution is brought together with the regulated water and waste water businesses of North West Water to form a Regulated Utility Division with the potential to achieve significant synergistic benefits and the ability to exploit its skills, through competition, in non-regulated utility activities elsewhere in the UK. The Company's utility businesses that are, or will by 1998, be open to competition - electricity supply, gas supply and telecommunications, are brought together in the Energy and Telecommunications Division to concentrate the development of the commercial skills needed to win in the opening competitive markets.

As of 1 April 1996, Norweb outsourced its customer service, information technology, accounting, procurement and training services to Vertex Data Science Limited, which was formed by United Utilities PLC for the purpose of providing these services to customers both inside and outside the United Utilities group. At that date, the relevant personnel transferred to Vertex Data Science Limited.

Review of activities

Norweb Distribution

Distribution's turnover fell by £44.6 million to £341.2 million in 1995/96, reflecting the impact of the first distribution price review operative from April 1995. Operating profit before exceptional items fell by only £26.4 million to £132.6 million for the full year, reflecting real savings of 5% in controllable costs.

During the year, the distribution network delivered 22,900 million units of electricity, an overall increase of 3.7% over 1994/95. After taking account of seasonal and other factors, underlying growth was 1.6%.

Norweb Supply

Supply's turnover for the full year decreased £24 million to £1,188.3 million with operating profit before exceptional items for the year of £21.8 million. This performance reflects the fact that electricity costs in 1995/96 have been higher than anticipated when the decision to freeze tariffs in 1995/96 was taken by the Norweb Board.

In the last quarter of 1995/96, Norweb gave each domestic customer a discount on their quarterly bill of £50.56 in connection with the flotation of the National Grid Group plc. In addition, we extended the Progress with Responsibility Initiative to electricity customers with the £10 cold weather payment for senior citizens with off peak supplies.

Norweb Gas Supply

Turnover in 1995/96 reduced from £20.9 million to £17.6 million reflecting the fierce competition in the gas supply sector. The business made an operating loss before exceptional items of £0.6 million compared to a profit of £0.5 million in 1994/95.

Norweb Generation

Strong financial progress was made by Norweb Generation during the year and profit before exceptional items, interest and tax of £4.9 million was achieved, compared to a £2.5 million loss in 1994/95.

Norweb Retail

The Retail business continued to make sound progress with sales growing by 29% to £267 million, despite intense competition and difficult market conditions. Operating profit before exceptional items fell by £2.4 million to £5.7 million. It is now the third largest electrical retailer in the UK.

Norweb Contracting

Norweb Contracting had another successful year, with operating profit before exceptional items of £1.7 million achieved on a level turnover of £25.9 million.

Other businesses

Norweb Communications has made excellent progress in the development of its infrastructure and support network. The business achieved turnover of £2.2 million in 1995/96, its first full year of trading.

Norweb Metering Services competes with around 30 other independent service providers to customers able to choose their meter supplier. Its customers include Makro, Morrisons and BNFL (England).

Norweb Connections was established in 1995 when competition was introduced into the construction of extensions to the existing electricity supply network.

Profit and Dividend

The results for the year set out in the Norweb Group profit and loss account on page 6, show profit before tax of £295.2 million, compared to £205.4 million in 1994/95. The profit for the year attributable to ordinary shareholders amounted to £275.6 million and £197.0 million was transferred from reserves.

The Directors recommend a final dividend of 28.57 pence per share for the year ended 31 March 1996.

A special dividend of £1.50 per share was paid to shareholders of the Company on acquisition by North West Water Group PLC.

Directors and their interests

Details of the Directors who served during the year are shown on pages 13 and 14. Messrs Harvey, Faulkner, McTague and Wilson resigned from the Company on 13 November 1995. Mr A Simmons resigned on 30 November 1995 and Messrs Booth, Salisbury and Green-Armytage and Sir Alan Cockshaw resigned on 16 November 1995.

Sir Desmond Pitcher, Mr B L Staples and Mr J R Tetlow resigned on 1 April 1996. Mr P Appelbe, Mr M G Faulkner, Mr J B Kelly, Mr H Kirkham, Mr K D Lee and Mr R Spedding were appointed directors on 1 April 1996.

The shares and options in note 7 to the accounts (page 13) represent the Directors' beneficial interests including immediate family interests in shares in United Utilities PLC at 31 March 1996. Details of the share option schemes are given in note 17 to the accounts.

During, and as at the end of, the financial year, none of the Directors was materially interested in any contracts, other than service contracts, which were significant in relation to the business of the Company.

Share Capital

The whole of the Company's share capital was acquired by United Utilities PLC during the year resulting in the shares of the Company being delisted by the London Stock Exchange from 10 January 1996.

Payments to Suppliers

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

Charitable donations

NORWEB made charitable donations of £107,484, (1994/95 £126,331) to various organisations. In addition, the Company provided non-financial benefits in kind to a wide range of charitable events.

Political donations

NORWEB made no donations to political organisations during the year.

Equal opportunities

It is NORWEB's policy to give equal consideration to all job applicants and employees, irrespective of gender, race, creed or disability. Applications for jobs are monitored to ensure that this policy is adhered to.

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.

Communications and consultation

We are 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.

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

Regulatory accounts

Under the terms of its Public Electricity Supply Licence (Condition 2) NORWEB is required to produce and publish each year separate accounts for its regulated businesses and deliver them to the Director General of Electricity Supply.

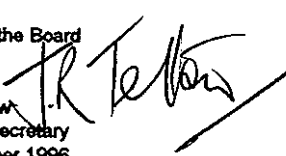
Copies of the regulatory accounts for the year ended 31 March 1996 can be obtained free of charge from Peter Applewhite, Assistant Secretary, or Jane Lawton, Compliance Manager, United Utilities PLC, Dawson House, Warrington WA5 3LW.

Auditors

From 7 May 1996, KPMG were appointed auditors of the Company by written resolution, replacing Price Waterhouse who had held office since July 1995.

By order of the Board

John Tetlow
Company Secretary
24 September 1996



DIRECTORS' RESPONSIBILITIES

In respect of the preparation of financial statements

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the report of the auditors on page 5, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit and loss for the financial year.

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

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

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

Auditors' report

to the members of NORWEB plc

We have audited the financial statements on pages 6 to 23 .

Respective responsibilities of directors and auditors

As described under "Directors' responsibilities" on page 4 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 1996 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG

Chartered Accountants

Registered Auditors

Manchester

24 September 1996

NORWEB plc
GROUP PROFIT AND LOSS ACCOUNT

		Before exceptional items	Exceptional items (note 3)	TOTAL	
		1996 £m	1996 £m	1996 £m	1995 £m
for the year ended 31 March 1996	Note				
Turnover - continuing operations	1	1,545.5	(99.7)	1,445.8	1,510.6
Cost of sales		(1,080.0)	9.1	(1,070.9)	(1,011.3)
Gross Profit / (loss)		465.5	(90.6)	374.9	499.3
Distribution costs		(146.2)	-	(146.2)	(140.0)
Administrative expenses		(157.0)	(95.8)	(252.8)	(160.9)
Operating profit / (loss) - continuing operations	2	162.3	(186.4)	(24.1)	198.4
Share of operating results of associated undertakings		6.4	-	6.4	(1.0)
Profit / (loss) before interest and tax		168.7	(186.4)	(17.7)	197.4
Profit on disposal of fixed assets		-	240.3	240.3	-
Income from fixed asset investments	2	8.2	114.6	122.7	17.0
Net interest payable	4	(22.5)	-	(22.5)	(9.0)
Government debt premium	14	(27.6)	-	(27.6)	-
Profit on ordinary activities before taxation		126.8	168.4	295.2	205.4
Tax on profit on ordinary activities	5	(0.5)	(19.2)	(19.7)	(51.7)
Profit on ordinary activities after taxation		126.3	149.2	275.5	153.7
Minority interests		0.1	-	0.1	(0.1)
Profit for the financial year		126.4	149.2	275.6	153.6
Dividends payable	2	(201.2)	(271.4)	(472.6)	(43.0)
(Loss) / Profit retained	19	(74.8)	(122.2)	(197.0)	110.6

All of the results derive from continuing operations.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 March 1996

	Before exceptional items	Exceptional items (note 3)	TOTAL	
	1996 £m	1996 £m	1996 £m	1995 £m
Profit for the year	126.4	149.2	275.6	153.6
Currency translation differences	0.5	-	0.5	(0.5)
Total recognised gains and losses relating to the year	126.9	149.2	276.1	153.1

NORWES plc
BALANCE SHEETS

		Group		Company	
as at 31 March 1996	Note	1996 £m	1995 £m	1996 £m	1995 £m
Fixed Assets					
Tangible assets	9	678.3	616.0	666.5	611.1
Investments	10	89.6	155.3	311.6	268.6
		<u>767.9</u>	<u>771.3</u>	<u>978.1</u>	<u>879.7</u>
Current Assets					
Stocks	11	54.9	39.9	48.9	39.9
Debtors	12	359.5	281.2	361.1	280.8
Investments	13	239.7	132.8	0.0	6.2
Cash at bank and in hand		39.0	9.7	1.5	0.1
		<u>693.1</u>	<u>463.6</u>	<u>411.5</u>	<u>327.0</u>
Creditors - amounts falling due within one year	14,15	(742.4)	(408.3)	(704.9)	(391.8)
Net current (liabilities) / assets		<u>(49.3)</u>	<u>55.3</u>	<u>(293.4)</u>	<u>(64.8)</u>
Total assets less current liabilities		718.6	826.6	684.7	814.9
Creditors - amounts falling due after more than one year	14,15	(35.8)	(31.3)	-	-
Unsecured bonds	14,15	(194.3)	(153.0)	(194.3)	(153.0)
Provisions for liabilities and charges	16	(89.2)	(50.1)	(89.1)	(49.8)
		<u></u>	<u></u>	<u></u>	<u></u>
Net assets		<u>399.3</u>	<u>592.2</u>	<u>401.3</u>	<u>612.1</u>
Capital and reserves					
Equity share capital	17	78.4	77.9	78.4	77.9
Share premium account	17	4.4	0.9	4.4	0.9
Other reserves	18	8.8	8.8	8.6	8.6
Profit and loss account	19	307.6	504.5	309.9	524.7
Equity shareholders' funds	20	<u>399.2</u>	<u>592.1</u>	<u>401.3</u>	<u>612.1</u>
Equity minority interests		0.1	0.1	-	-
		<u>399.3</u>	<u>592.2</u>	<u>401.3</u>	<u>612.1</u>

The accounts on pages 6 to 23 were approved by the Board of Directors on 24 September 1996, and signed on its behalf by:

Chairman



NORWEB plc
GROUP CASH FLOW STATEMENT

for the year ended 31 March 1996	Note	1996 £m	1995 £m
Net cash inflow from operating activities	22	73.2	160.7
Returns on investments & servicing of finance			
Interest paid		(39.9)	(21.8)
Interest received		17.4	10.1
HMG debt premium		(27.6)	-
Dividends received		111.8	12.9
Dividends paid		(186.1)	(40.3)
Net cash outflow from returns on investments & servicing of finance		(124.4)	(39.1)
Taxation			
Corporation tax paid		(49.7)	(37.9)
Investing activities			
Purchase of tangible fixed assets		(119.5)	(107.9)
Consumer contributions received		11.2	13.7
Sale of tangible fixed assets		52.6	1.2
Joint venture investments		(33.6)	(10.7)
Purchase of fixed asset investments		(14.1)	(57.7)
Disposal of fixed asset investments		13.1	-
Repayment of fixed asset investment loans		1.1	0.8
Net cash outflow from investing activities		(89.3)	(160.6)
Net cash outflow before financing		(190.2)	(76.9)
Financing			
Issue of ordinary share capital		4.0	1.0
Proceeds from bond issue		194.3	-
Issue of commercial paper		311.2	124.4
Repayment of Government debt		(153.0)	-
Purchase of shares		-	(136.6)
Net cash inflow / (outflow) from financing	22	356.5	(11.2)
Increase / (decrease) in cash and cash equivalents	22	166.3	(88.1)

Cash flows from the issue of commercial paper are shown net, the programme is supported by committed back-up facilities, and the paper is being turned over within periods of less than three months.

1 Basis of preparation

(a) The accounts have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

(b) The Group accounts consolidate those of the Company and its subsidiaries, together with the Group's share of the results and retained post-acquisition reserves of associated undertakings, where the directors consider that the Group is in a position to exert significant influence over the associated undertaking. The Group's interest in the net assets of associated undertakings is included in fixed asset investments in the Group balance sheet.

2 Turnover

(a) Turnover represents the value of energy consumption during the year, which includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the year end, and the invoice value of other goods sold and services provided, exclusive of value added tax.

(b) Where there is an overrecovery of supply or distribution business revenues against the regulated maximum allowable amount, revenues are deferred equivalent to the overrecovered amount. The deferred amount is deducted from turnover and included in creditors within accruals and deferred income. Where there is an underrecovery, no account is taken of any potential future recovery.

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

3 Pension costs

Contributions to the Group's defined benefit pension schemes are charged to the profit and loss account so as to spread the cost of pensions over the anticipated service lives of employees. For the Group's defined contribution scheme, contributions are charged to the profit and loss account as they become payable.

No other material post-retirement benefits are granted to employees.

ACCOUNTING POLICIES

continued

4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation.

The charge for depreciation is calculated so as to write down the cost of assets over their estimated useful lives. The lives of each major class of depreciable asset are as follows:

	Years
Operational assets	Between 5 and 40
<i>Non-operational assets:</i>	
Freehold buildings	Up to 60
Leasehold buildings	Lower of lease period or remaining economic life up to 60
Vehicles and mobile plant	Up to 10
Fixtures and equipment	Up to 10

Depreciation on operational assets of 40 year life is charged at 3% for 20 years followed by 2% for the remaining 20 years. Freehold land is not depreciated. Assets with useful lives of 10 years or less are depreciated from the month following acquisition. For all other assets depreciation is charged from the year following acquisition.

Consumers' contributions towards the cost of operational assets are credited to the profit and loss account at the same rate as the assets to which they relate are depreciated, the amount credited being deducted from the depreciation charge. The unamortised value of the contributions is shown as a deduction from tangible fixed assets. This is not in accordance with the Companies Act 1985, which requires fixed assets to be included at their purchase price or production cost and hence the unamortised amount of consumers' contributions would be presented as deferred income. Contributions from consumers relate directly to the cost of fixed assets required to provide electricity supplies and it is the opinion of the directors that the treatment adopted is necessary to give a true and fair view.

The effect of the departure is fully disclosed in note 9.

5 Investments

Investment income is included in the accounts of the year in which it is receivable. Fixed asset investments are stated at either Directors' valuation or at cost less provisions for permanent diminution in value. Current asset investments are stated at the lower of cost and net realisable value.

6 Stocks and work in progress

Stocks are valued at the lower of cost and net realisable value on a first in, first out basis. The valuation of work in progress is based on the cost of labour plus appropriate overheads and the cost of materials. Progress invoices are deducted in arriving at the amounts stated.

7 Deferred taxation

Deferred taxation, in respect of accelerated capital allowances and other timing differences, is accounted for only to the extent that it is probable that a liability or asset will crystallise. Any such provision is made using the liability method.

8 Foreign currency

On consolidation, the balance sheets of overseas subsidiary undertakings are translated into sterling at exchange rates applicable at the year end. The profit and loss accounts are translated into sterling using the average rate. Differences arising from the application of the closing rate to opening net assets, offset by translation differences on foreign currency loans which finance investments in overseas subsidiary undertakings, together with differences between profit and losses translated at average rates and at closing rates, are recorded as movements in reserves.

9 Goodwill

The net assets of companies and businesses acquired are incorporated into the consolidated financial statements at their fair value to the Group and after adjustments to bring the accounting policies of the companies and businesses acquired into alignment with those of the Group. Goodwill is written off against reserves.

10 Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

1 Segmental information

	Turnover before exceptional items		Operating profit before exceptional items		Net assets	
	1996 £m	1995 £m	1996 £m	1995 £m	1996 £m	1995 £m
Distribution	341.2	385.8	132.6	159.0	548.3	536.3
Supply	1,188.3	1,212.3	21.8	30.1	(31.8)	(1.0)
Retail	267.0	207.5	5.7	8.1	189.8	155.4
Other	51.1	51.6	2.2	1.2	(55.7)	34.8
Inter business adjustments	(302.1)	(346.6)	-	-	(251.3)	(133.3)
	<u>1,545.5</u>	<u>1,510.6</u>	<u>162.3</u>	<u>198.4</u>	<u>399.3</u>	<u>592.2</u>

	Turnover after exceptional items		Operating profit after exceptional items	
	1996 £m	1995 £m	1996 £m	1995 £m
Distribution	341.2	385.8	41.9	159.0
Supply	1,188.3	1,212.3	18.1	30.1
Retail	267.0	207.5	4.3	8.1
Other	51.1	51.6	2.2	1.2
National Grid customer discount	(99.7)	-	(90.6)	-
Inter business adjustments	(302.1)	(346.6)	-	-
	<u>1,445.8</u>	<u>1,510.6</u>	<u>(24.1)</u>	<u>198.4</u>

Operating assets and liabilities are allocated or apportioned to the business to which they relate. All cash, investments, borrowings, dividends receivable and payable and taxation items have not been allocated and are included in "Other".

2 Profit and loss account

(a) Operating profit is stated after charging:

	1996 £m	1995 £m
Depreciation	44.0	40.2
Profit on disposal of fixed assets	(4.0)	(1.1)
Auditors' remuneration:		
for audit	0.1	0.1
for other services provided	-	0.4
Operating lease rentals:		
Plant, machinery and equipment	2.2	2.2
Other assets	9.3	6.2

(b) Investment income

	1996 £m	1995 £m
Dividends from The National Grid Group plc	7.6	16.6
Special dividends from The National Grid Group plc (see note 3)	114.5	-
Other	0.6	0.4
	<u>122.7</u>	<u>17.0</u>

(c) Dividends payable

	1996 £m	1995 £m
Interim dividend paid 0.0p per ordinary share (1995 : 8.2p)	-	12.8
Proposed final dividend of 28.57p per ordinary share (1995: 20.2p)	44.8	30.2
Special dividend paid 150p on acquisition	156.4	-
Exceptional dividend paid on distribution of NGH	271.4	-
	<u>472.6</u>	<u>43.0</u>

Dividends totalling £9.3 million have been waived by the trustees of the NORWEB employee share trusts.

3 Exceptional Items

	Associated with the disposal of NGG £m	Other £m	Total £m
Recognised in arriving at operating profit:			
Customer discount granted	(99.7)	-	(99.7)
Reduction in non fossil fuel levy	9.1	-	9.1
Provision against loan to Norweb ESOP Limited	-	(27.2)	(27.2)
Restructuring costs	-	(54.6)	(54.6)
Defence costs	-	(14.0)	(14.0)
	(90.6)	(95.8)	(186.4)
Recognised below operating profit:			
Profit on the sale of National Grid Group plc	240.3	-	240.3
Special dividends received from NGG	114.5	-	114.5
Taxation	(19.2)	-	(19.2)
Special dividends payable on the sale of NGG	(271.4)	-	(271.4)
	(26.4)	(95.8)	(122.2)

National Grid Group (NGG)

At an Extraordinary General Meeting held on 8 December 1995, shareholders approved the distribution in specie of the Company's interest in NGG plc, the holding company of The National Grid Company plc, which owns and operates the high voltage electricity transmission system in England and Wales.

The major transactions associated with the disposal are as follows:

- each Norweb domestic customer received a one-off discount of £54.60 (including VAT credit) during the early part of 1996;
- the company received a number of one-off dividends from NGG as part of its capital reorganisation prior to flotation, including a specie dividend of approximately 8.2% of the shares of PSB Holding Limited, the holding company of First Hydro Limited, which owned and operated two pumped storage power stations in Wales;
- the company reinvested £14.1m of the above dividends to take up its entitlement under a rights issue made by NGG;
- the company received an interim dividend from NGG of £7.1m (including the associated tax credit)
- Subsequent to the distribution, First Hydro Limited was sold by PSB Holding Limited and PSB Holding Limited entered into a members voluntary liquidation. An initial distribution of £46.9m was paid by the liquidator in March 1996.

There were no exceptional items in 1995.

4 Interest

	1996 £m	1995 £m
Interest payable:		
On bank loans, overdrafts and other loans wholly repayable within 5 years	(31.7)	(12.4)
On loans wholly repayable after five years	(8.0)	(9.4)
	(39.7)	(21.8)
Interest receivable	17.2	12.8
Net interest payable	(22.5)	(9.0)

5 Taxation

(a) Tax on profit on ordinary activities

	1996 £m	1995 £m
Corporation tax at 33% (1994 33%)	-	48.4
Overseas tax	0.5	-
Tax credit on franked investment income	19.2	3.3
	19.7	51.7

Had the effect of those timing differences for which no deferred taxation provision or asset is considered appropriate been accounted for, the taxation charge would have been increased by £26.9m (1995: £8.1m).

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 1996

(b) Deferred taxation

No provision for deferred tax has been made at 31 March 1996 (1995: £Nil). Total potential deferred tax, computed at 33% is as follows:

	Group	Company	Group and Company
	1996	1996	1995
	£m	£m	£m
Capital allowances in excess of depreciation	169.6	162.8	146.7
Other timing differences	(13.8)	(13.4)	(17.9)
	<u>155.7</u>	<u>149.4</u>	<u>128.8</u>

6 Directors' emoluments

(i) The Directors' emoluments during the year were:

	1996	1994
	£k	£k
Fees to Non-executive Directors	46.6	70.0
Remuneration as Executives:		
Basic salary	534.9	610.0
Performance related payments	168.2	119.8
Benefits	114.9	65.0
Compensation for loss of office	660.1	-
Pension contributions	576.1	490.0
	<u>2,099.8</u>	<u>1,354.8</u>

The Chairman up to 13 November 1995, (who was also the highest paid Director) received remuneration of £610,248, which included a performance related bonus in respect of the previous year of £54,562 (1995: £233,589 and £34,380 respectively), and compensation for loss of office of £407,300. In addition, pension contributions paid on behalf of the Chairman were £378,369 (1995: £22,500).

The Chairman after 13 November 1995 received no remuneration from the Company.

The directors received remuneration, excluding pension contributions, in the ranges:

	1996	1995
£0 - £5,000	5	-
£ 10,001 - £ 15,000	4	2
£ 15,001 - £ 20,000	-	2
£ 50,001 - £ 55,000	-	1
£110,001 - £115,000	-	1
£120,001 - £125,000	1	-
£125,001 - £130,000	-	2
£140,001 - £145,000	1	1
£145,001 - £150,000	1	-
£170,001 - £175,000	1	-
£225,001 - £230,000	1	-
£230,001 - £235,000	-	1

7 Directors and their interests

(a) The directors who served during the year were:

K G Harvey	(resigned 13 November 1995)
M G Faulkner	(resigned 13 November 1995)
G P McTague	(resigned 13 November 1995)
A Simmons	(resigned 30 November 1995)
B J Wilson	(resigned 13 November 1995)
A T Booth @	(resigned 16 November 1995)
Sir Alan Cockshaw @	(resigned 16 November 1995)
J M Green-Armytage @	(resigned 16 November 1995)
P L Salsbury @	(resigned 16 November 1995)
Sir Desmond Pitcher *	(appointed 13 November 1995)
B L Staples *	(appointed 13 November 1995)
R J Ferguson *	(appointed 13 November 1995)
D Green *	(appointed 13 November 1995)
J R Tetlow	(appointed 13 November 1995)

@ Non executive Director, NORWEB plc.

* Director, United Utilities PLC.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 1996

- (b) At 31 March 1996, the directors and their immediate families had the following interests, all of which were beneficial, 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			On appointment		
	Ordinary shares	Share options		Ordinary shares	Share options	
		Executive option scheme	Employee sharesave scheme		Executive option scheme	Employee sharesave scheme
J R Tetlow	5,533	62,840	4,929	6,300	56,840	7,383

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 and exercised for ordinary shares during the year are as follows:

	Options granted during the year	Options exercised during the year	Exercise price per share	First date exercisable	Last date exercisable	Market price at date of exercise
J R Tetlow	6,000		584.5p	20/12/98	20/12/05	
	2,151		481.0p	02/02/01	01/08/01	
		4,605	244.6p			596.0p

8 Employees

(a) Number of employees

The average number of employees, including Directors, during the year was:

	1996		1995	
	Number	Full time equivalent	Number	Full time equivalent
Electricity	4,580	4,453	4,935	4,783
Retail	2,909	2,311	2,529	2,053
Contracting	420	419	457	455
Other	286	285	326	326
	8,195	7,468	8,247	7,617

(b) Employment costs

	1996 £m	1995 £m
Wages and salaries	133.6	137.5
Social Security costs	11.0	11.4
Other pension costs	12.3	13.3
Provision against loan to Norweb ESOP Limited	27.2	-
	184.1	162.2
Less: charged as capital expenditure	(24.5)	(28.7)
Charged to the profit and loss account	159.6	133.5

(c) Pensions

The Group operates three pension schemes. Most employees who joined prior to 1 October 1991 are members of the Electricity Supply Pension Scheme (ESPS), a defined benefit scheme. This scheme is now closed to new employees of the Group. Eligible employees joining after 30 September 1991 may join either the Group's new defined benefit scheme or the Group's defined contribution scheme. Membership of the latter gives a limited right to transfer to the former. There is no corresponding right to transfer in the opposite direction. The new schemes are not material at the present time.

The latest full actuarial valuation of the Group's section of the ESPS was carried out by Bacon & Woodrow, consulting actuaries, as at 31 March 1995. The attained age method was used for the valuation, and the principal actuarial assumptions adopted for average annual growth rates were investment returns 9%, salary increases (exclusive of merit awards) 6.5%, pension increases 5%, and equity dividend growth 4.5%.

The valuation showed that the actuarial value of the assets of the Group's section of the ESPS as at 31 March 1995 represented 112.8% of the actuarial value of the accrued benefits. This is within the statutory maximum. The accrued benefits include all benefits for pensioners and other former members as well as benefits based on service completed to date for active members, allowing for future salary rises.

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

The pension cost to the Group for the year was £15.3 million (1995: £14.0 million).

The assets of all the Group's pension schemes are held in separate trustee-administered funds. In the case of the ESPS, the assets are held in the name of Electricity Pension Trustee Limited (EPTL). Day-to-day control of the Scheme's assets rests with an investment manager appointed by EPTL.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 1996

9 Tangible fixed assets

Group	Operational £m	Non- Operational land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Generation £m	Deduct consumers' contri- butions £m	Total £m
Cost							
At 1 April 1995	1,006.6	98.3	117.1	36.3	4.7	(177.4)	1,085.6
Additions	79.5	4.7	22.7	8.4	3.8	(10.5)	108.4
Disposals	(17.9)	(2.2)	(1.8)	(5.0)	-	-	(26.9)
At 31 March 1996	1,068.2	100.8	138.0	39.7	8.3	(187.9)	1,167.1
Depreciation							
At 1 April 1995	397.6	19.4	78.6	21.4	0.8	(48.2)	468.6
Disposals	(17.9)	(0.7)	(1.5)	(4.7)	-	-	(24.8)
Charge for the year	26.7	2.4	14.0	5.2	0.8	(5.1)	44.0
At 31 March 1996	406.4	21.1	91.1	21.9	1.6	(53.3)	488.8
Net book amount							
At 31 March 1996	661.8	79.7	46.9	17.8	6.7	(134.6)	678.3
At 31 March 1995	609.0	78.9	38.5	14.9	3.9	(129.2)	616.0
Company							
	Operational £m	Non- Operational land and buildings £m	Fixtures and equipment £m	Vehicles and mobile plant £m	Generation £m	Deduct consumers' contri- butions £m	Total £m
Cost							
At 1 April 1995	1,006.6	97.3	116.9	36.3	-	(177.4)	1,079.7
Additions	79.5	4.7	18.0	8.3	-	(10.5)	100.0
Disposals	(17.9)	(2.2)	(1.7)	(5.0)	-	-	(26.8)
At 31 March 1996	1,068.2	99.8	133.2	39.6	-	(187.9)	1,152.9
Depreciation							
At 1 April 1995	397.6	19.4	78.6	21.4	-	(48.2)	468.8
Disposals	(17.9)	(0.7)	(1.4)	(4.7)	-	-	(24.7)
Charge for the year	26.7	2.4	13.1	5.2	-	(5.1)	42.3
At 31 March 1996	406.4	21.1	90.3	21.9	-	(53.3)	486.4
Net book amount							
At 31 March 1996	661.8	78.7	42.9	17.7	-	(134.6)	666.6
At 31 March 1995	609.0	77.9	38.3	14.9	-	(129.2)	610.9

On 5 June 1995, NORWEB, through its wholly owned subsidiary South West Stores Limited, acquired 18 superstores and a licence to operate 16 High Street shops from SWEB Retail Limited, a subsidiary of South Western Electricity plc, for a consideration of £4.3 million.

Operational assets include land and buildings, the net book amount of which comprises:	1996 £m	1995 £m
Freehold	37.7	32.3
Long leasehold	2.9	2.7
Short leasehold	0.3	0.3
	40.9	35.3
The net book amount of non-operational land and buildings comprises:	1996 £m	1995 £m
Freehold	68.8	68.1
Long leasehold	4.9	5.0
Short leasehold	6.0	5.8
	79.7	78.9

Included in fixed assets at 31 March 1996 are assets in the course of construction amounting to £66.7 million (1995 £60.2 million) and land with an original cost of £7.1 million (1994: £6.9 million) which is not depreciated.

Capital expenditure authorised by the Directors at 31 March	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Contracted for	17.6	27.8	17.6	12.8
Not contracted for	63.5	60.8	63.5	60.8
	81.1	88.6	81.1	73.6

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 1996

10 Fixed asset investments

Group	Associated undertakings		Other investments				Total £m
	Unlisted £m	Loans £m	Unlisted £m	Loans £m	Listed £m	Own Shares £m	
At 1 April 1995 - at cost or valuation	8.8	0.8	64.1	4.0	30.9	46.7	155.3
Additions	15.4	18.2	14.1	-	-	-	47.7
Disposals	-	-	(78.0)	-	(13.1)	-	(91.1)
Disposal of shares	-	-	-	46.7	-	(46.7)	-
Amounts written off	(0.1)	-	-	(27.2)	-	-	(27.3)
Repayment of Loan	-	-	-	(1.1)	-	-	(1.1)
Transfer to subsidiary	(0.1)	(0.6)	-	-	-	-	(0.7)
Exchange adjustments	0.4	-	-	-	-	-	0.4
Share of profits	6.4	-	-	-	-	-	6.4
At 31 March 1996	30.8	18.4	0.2	22.4	17.8	-	89.6

Company	Subsidiary undertakings		Other Investments		Total £m
	Shares £m	Loans £m	Unlisted £m	Loans £m	
At 1 April 1995 - at cost or valuation	32.5	125.3	64.1	46.7	268.6
Additions	18.0	116.3	14.1	-	148.4
Amounts written off	-	-	-	(27.2)	(27.2)
Disposals	-	-	(78.0)	(0.2)	(78.2)
At 31 March 1996	50.5	241.6	0.2	19.3	311.6

Included within other investments are:

- (a) A 20% interest in Lakeland Power Limited. In the opinion of the Directors they are unable to exercise significant influence (as defined by SSAP 1) over this company and accordingly it is accounted as a trade investment.
- (b) listed investments all held by Carefree Insurance Limited which had a market value of £17.9 million at 31 March 1996.
- (c) Own shares at 1 April 1995 comprised 6,448,491 ordinary shares of the Company held in ESOP trusts (see note 17(c)). These shares were disposed of at the time of acquisition.

During the year, CPS (Central) Limited became a subsidiary on the acquisition by the Group of a further 50% of its ordinary share capital.

11 Stocks

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Raw materials and consumables	7.5	7.5	7.3	7.5
Goods for resale	47.4	32.2	41.6	32.2
Work in progress	-	0.2	-	0.2
	54.9	39.9	48.9	39.9

12 Debtors

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Amounts falling due within one year :				
Trade debtors	64.6	99.6	63.3	101.9
Unbilled consumption	91.0	59.3	87.9	54.6
Credit sales instalments not yet due	58.3	51.5	58.3	51.5
Advance corporation tax recoverable	84.7	-	84.7	-
Dividends receivable	-	8.9	-	8.9
Other debtors	29.9	13.5	27.1	11.8
Amounts owed by associated undertakings	2.2	2.2	2.2	2.2
Amounts owed by subsidiary undertakings	-	-	7.9	4.2
Prepayments and accrued income	9.4	12.9	7.8	11.1
	340.1	247.9	339.2	246.2
Amounts falling due after more than one year :				
Credit sales instalments not yet due	19.4	17.2	19.4	17.2
Amounts owed by associated undertakings	-	2.2	1.2	2.2
Amounts owed by subsidiary undertakings	-	-	1.3	1.3
Advance corporation tax recoverable	-	13.9	-	13.9
	19.4	33.3	21.9	34.6
	359.5	281.2	361.1	280.8

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 1996

13 Investments

	Group		Company	
	1996	1995	1996	1995
	£m	£m	£m	£m
Money market investments	239.7	132.8	-	6.2
Commercial paper	-	-	-	-
	<u>239.7</u>	<u>132.8</u>	<u>-</u>	<u>6.2</u>

14 Creditors

Amounts falling due within one year :

	Group		Company	
	1996	1995	1996	1995
	£m	£m	£m	£m
Payments received on account	10.5	24.8	10.3	24.4
Commercial paper	435.6	124.4	425.8	124.4
Bank loans and overdrafts	8.0	38.1	8.0	38.1
Trade creditors : power purchases	68.9	56.5	68.9	56.5
Other trade creditors	59.2	48.2	56.2	46.0
Amounts owed to subsidiary undertakings	-	-	(0.7)	2.6
Corporation tax	10.1	31.5	6.9	31.2
Advance corporation tax	57.3	14.3	57.3	14.3
Other taxes and social security	3.8	4.8	3.8	4.8
Other creditors	15.5	10.0	14.2	9.1
Accruals and deferred income	28.2	25.5	8.9	10.2
Proposed dividend	45.3	30.2	45.3	30.2
	<u>742.4</u>	<u>408.3</u>	<u>704.9</u>	<u>391.8</u>

Amounts falling due after more than one year:

Accruals and deferred income	35.8	31.3	-	-
	<u>35.8</u>	<u>31.3</u>	<u>-</u>	<u>-</u>

Unsecured bonds (notes (a) and (b))

	<u>194.3</u>	<u>153.0</u>	<u>194.3</u>	<u>153.0</u>
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(a) Unsecured bonds of £153 million were held by HM Treasury and comprised £77 million at 12.661% due 1999 and £76 million at 12.365% due 2008. These bonds were repaid early on 9 February 1996, and a premium of £27.6 million was paid on redemption.

(b) On 3 August 1995, the Company issued £200 million 8.875% bonds, due 2026. The proceeds of the issue are to be used to assist the growth of the Group. The amount shown above is net of issue costs.

15 Borrowings

	Loans and overdrafts	
	1996	1995
	Total	Total
	£m	£m
Group		
Within one year	443.6	162.5
Between two and five years	-	77.0
After more than five years	194.3	76.0
	<u>637.9</u>	<u>315.5</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 1996

16 Provisions for liabilities and charges

Group		At 1 April 1995 £m	Transfer from/(to) profit and loss account £m	Utilised £m	At 31 March 1996 £m
Employee costs	- Pensions	10.3	(7.7)	-	2.6
	- Other	34.0	54.6	(18.7)	69.9
Miscellaneous		5.8	12.3	(1.4)	16.7
		<u>50.1</u>	<u>59.2</u>	<u>(20.1)</u>	<u>89.2</u>
Company		At 1 April 1995 £m	Transfer from/(to) profit and loss account £m	Utilised £m	At 31 March 1996 £m
Employee costs	- Pensions	10.3	(7.7)	-	2.6
	- Other	34.0	54.6	(18.7)	69.9
Miscellaneous		5.5	12.3	(1.2)	16.6
		<u>49.8</u>	<u>59.2</u>	<u>(19.9)</u>	<u>89.1</u>

17 Share capital

Authorised		1996 £	1995 £
250,000,000 ordinary shares of 50p each		125,000,000	125,000,000
Special rights redeemable preference share of £1		1	1
		<u>125,000,001</u>	<u>125,000,001</u>
Allotted and fully paid		1996 £	1995 £
156,821,342 (1995: 155,839,330) ordinary shares of 50p each		78,410,671	77,919,665
Special rights redeemable preference share of £1		-	-
		<u>78,410,671</u>	<u>77,919,665</u>
	Shares million	Share capital £m	Share premium £m
At 1 April 1995	155.8	77.9	0.9
Issued under share option and sharesave schemes	1.0	0.5	3.5
At 31 March 1996	<u>156.8</u>	<u>78.4</u>	<u>4.4</u>

- (a) The special rights redeemable preference share was redeemed at par to the holder, HM Government, on 31 March 1995.
- (b) The Company had two employee share option schemes - a Sharesave Scheme and an Executive Share Option Scheme. Under the terms of the schemes 982,012 ordinary shares of 50p were issued during the year for a total consideration of £4m.

The Sharesave Scheme was available to Executive Directors and eligible employees. The scheme was based on SAYE contracts, and the first offer under it was made at the time of privatisation. Options were granted on 11 December 1990, for a five year period in respect of fully paid ordinary shares at a price of 175p. A second offer was made in December 1994 and options were granted on 12 January 1995 for a five year period in respect of fully paid ordinary shares at a price of 628p, which was equivalent to 80% of the market valuation of the shares at the date of grant. Options are exercisable within a six month period from the conclusion of the five year savings period.

17 (b) (continued)

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

Options outstanding	Exercise price	Normal date of exercise
7,245,672	85.91p	1996
5,790,077	308.28p	2000

Between conversion of the options and 31 March 1996, no options have been granted under the NORWEB sharesave scheme and at 20 September options over 5,349,813 shares remained outstanding under the NORWEB sharesave scheme.

In 1993, two independently managed ESOP trusts were formed to purchase NORWEB shares to be used to meet some of the future obligations under the NORWEB employee share option schemes. As part of the process of the acquisition of NORWEB by United Utilities PLC, the trustee sold the NORWEB shares then held and part of the proceeds were used to purchase United Utilities shares to be held similarly to meet obligations under the NORWEB sharesave scheme. Since 1 March 1996 and up to 20 September 1996, 7,150,746 ordinary shares of United Utilities PLC have been transferred out of one trust to NORWEB employees on the exercise of options. The balance of trust assets will be used to satisfy some of the options still outstanding under the NORWEB sharesave scheme. All finance costs and administration expenses connected with the operation of the trusts are written off to the profit and loss account as they accrue. The number of shares held in the ESOP at 31 March 1996 was 314,046 with a market value of £1,940,804.28 based on the mid-market price of a share at that date of 618.0 pence. All dividends have been waived in accordance with a deed of waiver between NORWEB plc and Norweb ESOP Limited as trustee. All shares held in the ESOP are under option to employees of NORWEB plc.

(c) Under the Executive Share Option Scheme, options have been granted as follows:

Date of Grant	Option Price	Ordinary shares granted	Ordinary shares not exercised
25 February 1991	311p	315,111	-
12 December 1991	333p	126,124	-
1 July 1992	420p	153,684	-
1 July 1993	493p	246,987	-
30 January 1995	813p	126,796	-

The scheme was available to Executive Directors and senior staff of the Company. All options were exercised as part of the acquisition of the Company by North West Water Group PLC.

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 1996

18 Other reserves

Company Capital Redemption Reserve £m	Statutory Reserve £m	Group Total £m
<u>8.6</u>	<u>0.2</u>	<u>8.8</u>

At 1 April 1995 and 31 March 1996

The non distributable statutory reserve has been established in a subsidiary to comply with Isle of Man insurance regulations.

19 Profit and loss account

Group 1996 £m	Company 1996 £m
<u>504.5</u>	<u>524.7</u>
<u>(197.0)</u>	<u>(216.1)</u>
<u>(0.4)</u>	<u>-</u>
<u>0.5</u>	<u>0.3</u>
<u>307.6</u>	<u>309.9</u>

At 1 April 1995

Retained profit for the year

Goodwill written-off

Currency translation differences

At 31 March 1996

As permitted by Section 230 (1) of the Companies Act 1985, the Company has not presented its own profit and loss account. The profit for the year dealt with in the accounts of the Company was £257.5 million (1995 £150.6 million).

Cumulative goodwill written off against the profit and loss account amounts to £28.4 million. (1995 £28.0 million).

20 Reconciliation of movements in total shareholders' funds

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Profit for year	275.6	153.8	257.5	150.6
Dividends	(472.6)	(43.0)	(472.6)	(43.0)
	<u>(197.0)</u>	<u>110.6</u>	<u>(215.1)</u>	<u>107.6</u>
New share capital subscribed	4.0	1.0	4.0	1.0
Goodwill written off	(0.4)	(15.3)	-	-
Purchase of own shares	-	(136.6)	-	(136.6)
Currency translation differences	0.5	(0.5)	0.3	(0.3)
Net (reduction)/addition to total shareholders' funds	<u>(192.9)</u>	<u>(40.8)</u>	<u>(210.8)</u>	<u>(28.3)</u>
Opening total shareholders' funds	<u>592.2</u>	<u>633.0</u>	<u>612.1</u>	<u>640.4</u>
Closing total shareholders' funds	<u>399.3</u>	<u>592.2</u>	<u>401.3</u>	<u>612.1</u>

NOTES TO THE ACCOUNTS (continued)
for the year ended 31 March 1996

21 Lease obligations

There are the following annual commitments under operating leases which expire:
Equipment and vehicles:

Within one year
In the second to fifth year inclusive

Land and buildings:
Within one year
In the second to fifth year inclusive
In more than five years

Group and Company	
1996	1995
£m	£m
0.3	0.3
1.8	2.2
2.1	2.5
0.9	0.4
0.4	0.5
7.6	4.6
8.9	5.5

22 Notes to the cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	1996	1995
	£m	£m
Operating profit after exceptional items	(24.1)	196.4
Depreciation	44.0	40.2
Profit on sale of fixed assets	(4.0)	(1.1)
Movement in Stock	(15.0)	(7.1)
Debtors	(17.2)	(21.4)
Creditors	50.4	(55.8)
Provisions for liabilities and charges	39.1	7.5
Net cash inflow from operating activities	73.2	160.7

(b) Analysis of cash and cash equivalents :

	Short term investments £m	Cash at bank and in hand £m	Bank loans and overdrafts £m	Net Cash £m
At 1 April 1994	171.7	21.1	-	192.8
Net cash outflow	(38.9)	(11.1)	(38.1)	(88.1)
Exchange rate adjustments	-	(0.3)	-	(0.3)
At 1 April 1995	132.8	9.7	(38.1)	104.4
Net cash outflow	106.9	29.3	30.1	166.3
At 31 March 1996	239.7	39.0	(8.0)	270.7

(c) Analysis of changes in financing during the year:

	Share capital (including share premium) £m	Loans £m	Government Bonds £m	Other Bonds £m	Total £m
At 1 April 1994	86.4	-	153.0	-	239.4
Cash inflow/ (outflow) from financing	(8.0)	124.4	-	-	116.4
At 1 April 1995	78.4	124.4	153.0	-	355.8
Cash inflow/ (outflow) from financing	4.0	311.2	(153.0)	194.3	356.5
At 31 March 1996	82.4	435.6	-	194.3	712.3

In addition to the above, £128 million was set off against profit and loss reserves in 1994/95 in connection with the purchase of own shares.

NOTES TO THE ACCOUNTS (continued)

^a for the year ended 31 March 1996

23 Ultimate parent undertaking

On 8 November 1995, the Company was acquired by North West Water Group PLC, which following the acquisition changed its name to United Utilities PLC which the directors regard as the ultimate parent undertaking. The results of the Company and Group are consolidated within the Group accounts of United Utilities PLC and copies of those accounts can be obtained from:

The Company Secretary
United Utilities PLC
Dawson House
Great Sankey
Warrington
WAS 3LW.

24 Post balance sheet event

On 4 April 1996, NORWEB, through its wholly owned subsidiary Norweb Power Services (No 1) Limited, acquired a 50% interest in the assets of a 150MW gas fired combined cycle generating plant in Auburndale, Florida, USA.

25 Current cost information

The Group is required to prepare financial statements on a current cost basis for submission to the regulatory authority. This basis of accounting is an attempt to recognise in financial statements the effects of inflation on a business. It requires that fixed assets and stock are shown in the balance sheet at their current replacement cost. This in turn has the effect that a higher depreciation charge is made in the profit and loss account and that the cost of sales is increased.

A further adjustment, the monetary working capital adjustment, is made to the operating profit to take account of the change, as a result of inflation, in the amount of working capital required to support the Group's day to day operations.

Adjustments to tangible fixed assets are calculated by applying appropriate indices to historical costs or, in the case of certain land & buildings, by periodic professional revaluations. Adjustments to fixed asset investments are based on Directors' valuations made annually.

A gearing adjustment reduces the effect on profit of the adjustments referred to above by taking account of the benefit to shareholders of partially financing the business by net borrowings.

The above adjustments affect Group profit as follows:

	1996 £m	1995 £m
Historical cost profit before taxation	295.2	205.4
Current cost adjustments:		
Depreciation	(48.3)	(43.6)
Cost of sales	0.1	(0.5)
Monetary working capital	(0.1)	(1.3)
Gearing	7.5	2.5
Current cost profit before taxation	254.4	162.5

The taxation charge for the year is unaffected by the current cost adjustments.

The Group current cost net assets are as follows:

	1996 £m	1995 £m
FIXED ASSETS		
Tangible assets	1,118.8	1,104.6
Investments	89.6	363.5
	1,208.4	1,468.1
NET CURRENT ASSETS	(49.3)	55.3
Creditors (amounts falling due after more than one year)	(35.8)	(31.3)
Unsecured bonds	(194.3)	(153.0)
Provisions for liabilities and charges	(89.2)	(50.1)
NET ASSETS	839.8	1,289.0

The Group's principal operating companies are set out below. Except where indicated, all are incorporated in Great Britain, registered in England and Wales and operate within the United Kingdom.

	<u>Proportion of ordinary share capital owned</u>	<u>Nature of Business</u>
<u>Subsidiary undertakings</u>		
Carefree Insurance Limited * #	100%	Provision of re-insurance services
Talbot Insurance Limited * #	100%	Provision of insurance services
Northern Hydro Limited	100%	Electricity generation
Norweb Generation Limited #	100%	Investment in electricity generation
Norweb - CPS Limited	100%	Installation and sale of combined heat and power equipment
CPS (Central) Limited	100%	Installation and sale of combined heat and power equipment
Norweb Gas Limited	75%	Sale of gas
South West Stores Limited #	100%	Investment in retailing
<u>Associated undertakings</u>		
Keadby Power Limited	50%	Electricity generation
Norweb Land Fill Gas Limited	50%	Electricity generation
The Combined Heat and Power Company Ltd	50%	Installation and sale of combined heat and power equipment.
Combined Power Systems Ltd	29.9%	Installation and sale of combined heat and power equipment.
Gordonsville Energy Limited Partnership @	50%	Electricity generation

* Incorporated and operating in the Isle of Man

Direct subsidiary of NORWEB plc. All others are held through an intermediate company.

@ Limited partnership operating in the United States of America