



United Utilities

United Utilities PLC

Annual Report & Accounts 1999

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Operating profit before exceptional items up 15.7% to £691.0 million

Adjusted earnings per share up 18.5% to 91.4 pence

Profit before tax and exceptional items up 12.3% to £487.8 million



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Total dividend of 44.3 pence per share for the year

United Utilities is a group of businesses providing services in water, wastewater, electricity and gas supply, electricity distribution, telecommunications and business process outsourcing.

Our brand names include North West Water, Norweb Energi, Norweb Distribution, Norweb Telecom, Vertex and United Utilities International.

Based in North West England, our businesses also operate nationally and internationally.

The UK's first multi-utility group, we share resources to improve efficiency and are flexible enough to offer customers single or multi-utility services.

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United Utilities is listed on the London Stock Exchange and the New York Stock Exchange. This is the annual report and accounts for the financial year ended 31 March 1999. It complies with English law and includes certain information to satisfy the requirements of the annual report on form 20-F for the Securities and Exchange Commission to meet US regulations.

- Operating profit before exceptional items up 15.7% to £691.0 million
- Profit before tax and exceptional items up 12.3% to £487.8 million
- Adjusted earnings per share up 18.5% to 91.4 pence
- Total dividend of 44.3 pence per share, an increase of 8.6%
- Focused cost control
- Strong growth in non-regulated businesses
- Telecommunications turnover more than doubled to £50 million
- Vertex external order book grew by over £80 million
- Competing successfully and profitably in new energy markets
- International operations moved into profit after development costs

Highlights

	1999	1998 Restated ⁽¹⁾	1997 Restated
Turnover from continuing operations	£2,276.9m	£2,150.2m	£2,102.3m
Operating profit ⁽²⁾	£691.0m	£597.0m	£597.6m
Profit before tax and exceptional items	£487.8m	£434.5m	£430.6m
Adjusted earnings per share	91.4p	77.1p	72.8p
Dividend per share	44.3p	40.8p*	37.2p
Operating cash flow per share	148.3p	127.9p	117.9p
Net debt	£2,387.5m	£2,140.6m	£1,627.0m
Equity shareholders' funds	£2,305.1m	£2,046.9m	£2,212.9m
Gearing	104%	105%	74%
Dividend cover ⁽³⁾	2.1 times	1.9 times	2.0 times
Interest cover ⁽⁴⁾	3.7 times	4.0 times	3.9 times

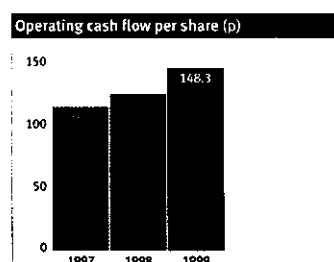
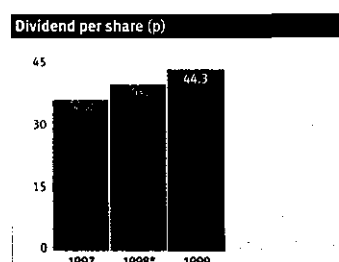
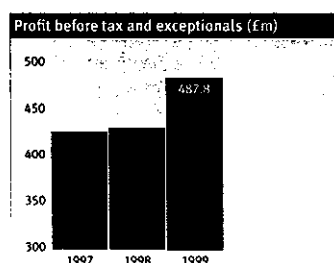
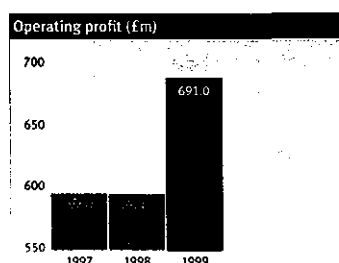
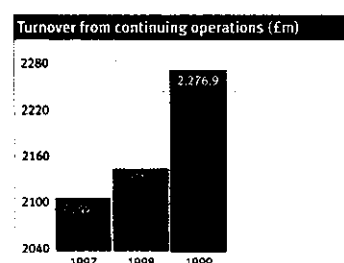
Note:

(1) The previous years' results have been restated as a result of Financial Reporting Standards adopted for the first time during the year. Details are given in note 1 to the accounts.

(2) Operating profit is defined as profit from continuing operations before non-operating items, exceptional items, interest and tax.

(3) Dividend cover is calculated on underlying dividends before exceptional items and the results of discontinued operations.

(4) Interest cover is calculated before exceptional items, the results of discontinued operations and the financing charges related to onerous contract provisions.



*underlying dividend

This annual report and accounts forms one part of an integrated approach to our reporting on our total performance. Other publications in our family of reports are shown below: the annual review, our first social impact report and the environment report. You can also visit our web site for regular updates on our progress: www.mfu-til.co.uk



Chairman's statement

I am pleased to report to you that we have delivered a good financial performance in the year under review and have seen the benefit of our investment and hard work coming through in strong growth in the non-regulated businesses.

These achievements are described more fully in the Chief Executive's review and the business reports that follow.

Corporate citizenship

Investing in and working with the community to make a positive difference is at the heart of our business. Being a good corporate citizen is all about how we behave as a business.

We believe it is important to care about and to be positively involved with the environment, the skills of young people, and people with extra needs.

We work in partnership with the community for mutual benefit, co-ordinating through our Community Forum our impact on society. Our active participation in Education Action Zones and Children for Peace are good examples of

the effective community



partnerships we are continuing to build. I am pleased that this year we will be publishing our first social impact report, together with our third environment report.

Investing in people

During the year, a number of our businesses received the Investor in People award, independent recognition of our commitment to investing in our employees and strengthening the link between training and development and our business goals. These included North West Water, Norweb Distribution, Norweb Energi and Norweb Telecom.

North West Water for the first time also joined Norweb businesses with the award of the Charter Mark, the Government's award scheme for encouraging and recognising excellence in public service.



INVESTOR IN PEOPLE

Corporate responsibilities and the board

In this report, we comment on our comprehensive review of the company's governance regime, following the publication by the Stock Exchange of the new corporate governance combined code. Whilst, broadly, the company's practices already complied with the code's principles and best practice provisions, we have made a number of minor changes to ensure compliance. To complete that process, we are proposing to shareholders at the annual general meeting a change to the company's articles of association in respect of the retirement of directors.



Awarded for excellence

On 1 April 1999, we welcomed Norman Broadhurst to the board as a non-executive director. Norman is finance director of Railtrack and has wide experience as a senior executive in major quoted companies.

Rodney Leach, a founding director of the group in 1989, and Eric Clark, both non-executive directors, are retiring from the board at the annual general meeting. I would like to take this opportunity to record our thanks to them both for their interest, expertise and wise counsel unstintingly given to the company. We wish them and their families the very best for the future.

I am very pleased that John Roberts will be joining the board as our new Chief Executive on 1 September 1999. He has extensive experience in the utility sector and particularly in the multi-utility context. He joins us from Hyder plc where he was a director and chief executive of Hyder Utilities. Previously he had been chief executive of South Wales Electricity, after its acquisition by Hyder, and of Manweb.

Derek Green will remain on the board to ensure continuity through the periodic price review for water and will retire in January 2000, when he will be 60. I would like to pay tribute to the huge contribution Derek has made as Chief Executive to all aspects of the business, and to wish him and his family well for the future.



The future

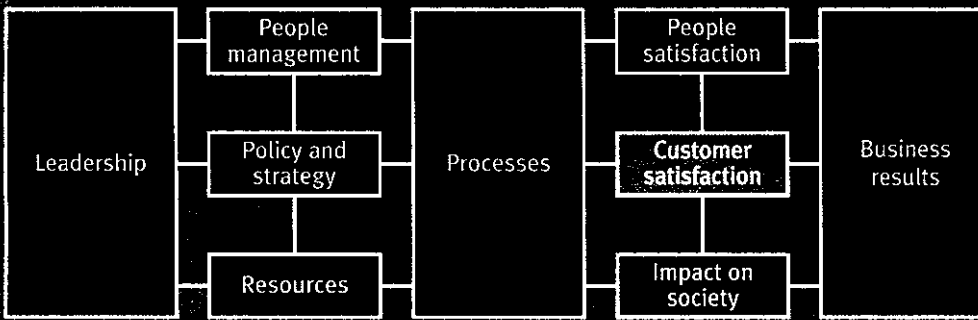
1999 marks the tenth anniversary of our creation as a public company. Many of our shareholders now will have been with us from the outset and many of our employees too. Without the hard work and dedication of our employees we could not have achieved all that we have since 1989, for the benefit of our shareholders, our customers and the communities we serve. I would like to thank you all for your support during the last decade and to wish you every success as we enter the new millennium.

Looking to the future at this important time for the group, we believe we have a firm foundation for delivering long term value for our shareholders. We will continue to examine opportunities for the development of our businesses, and we are confident in the group's ability to meet the expectations of both our investors and our customers.

Sir Christopher Harding *Chairman*

How we run the business

We increasingly rely on our business units and divisions for performance using the business strategy framework. The European Foundation for Quality Management (EFQM) has awarded us the award for excellence.



The pages of this report highlight examples of our performance in each of the four result areas.

PEOPLE SATISFACTION	Measures how well we train, develop and motivate our people.
CUSTOMER SATISFACTION	Measures our performance in delivering what customers expect.
IMPACT ON SOCIETY	Measures the total impact we have on the communities in which we operate.
BUSINESS RESULTS	Measures our business and financial performance and profitability.

Chief Executive's review

Our results for the year show a substantial increase in profitability and earnings per share, demonstrating our ability to manage the cost base whilst developing our non-regulated businesses. Good progress has been made towards achieving the annual cost savings of £40 million outlined eighteen months ago, which are in addition to the synergy savings already delivered following the acquisition of Norweb.

The regulated businesses

Our regulated businesses have performed well. A more cost conscious culture has been established and we will continue to seek to be more efficient and to keep costs under control.

A significant feature of the year for North West Water and Norweb Distribution was the continuing processes of the periodic reviews of prices.

We welcome the Government's commitment to environmental improvement and believe North West Water's continuing investment in water and wastewater services will bring long term benefits to the region. We estimate that £3.7 billion will be required over the five years from April 2000 to meet the obligations set by the quality regulators and the Government. Following research with our customers, we also believe the quality improvements should be carried out at a more measured pace to minimise the impact on customers' bills.

The fundamental issue for Norweb Distribution is the level of investment required to sustain the performance of the ageing network. We will be making representations to the energy regulator about the investment we believe is necessary to maintain our performance for customers and keep costs under control.

The conclusion of both reviews in the second half of this year will bring greater clarity to the prospects for these businesses post 2000. We look forward with confidence to meeting whatever challenges the price reviews present.

The non-regulated businesses

Norweb Energi successfully entered the competitive domestic electricity market on schedule in November 1998. The market opened fully for all customers at the end of May this year. We have strengthened our customer package and believe the alliances we have established, coupled with competitive energy price offerings to customers, represent the best value package currently available in the energy market.

We have established a solid customer base in the deregulated gas supply market. Our marketing effort is targeted at supplying gas to our regional electricity customers, with selective dual fuel marketing outside our region. Over 325,000 customers have signed contracts to buy their gas from Norweb Energi.

Norweb Telecom recorded impressive growth in turnover for the third year in succession. We have invested substantially in our network in North West England, which now extends to almost 1,400 kilometres, and we are continuing to expand nationally by purchasing, leasing or swapping fibre optic cable.

Vertex's external order book grew by over £80 million during the year, with major contracts won in each of our three target markets. Major projects were delivered to internal group customers, including the systems enabling us to meet the requirements of the competitive domestic electricity market.

Our more focused approach to international business has delivered an operating profit after development costs for the first time.

Moving forward

The strategy we outlined last year of seeking to maximise multi-utility synergies and to develop our non-regulated businesses is being delivered. Against a background of uncertainty caused by the regulatory review processes, our financial performance demonstrates the tangible progress we have made with both our regulated and non-regulated businesses.



Our regulated businesses are performing soundly and are well placed to face the challenges beyond 2000. Our non-regulated businesses are poised for further growth. We will continue to pursue a strategy of controlled expansion to maximise the value of these businesses for our shareholders, and will review opportunities that arise to accelerate or improve this process.

Finally, this is the last time I will be contributing to the company's report to shareholders. I would like to express my thanks to all my colleagues on the board and throughout the group for their support since I joined them in 1992 and particularly during the last two years. I wish them, our shareholders and the group continuing success in the future.

Derek Green Chief Executive



Our businesses

Water and wastewater

Turnover up by 6.1% to £960.1 million

Operating profit up by 17.2% to £447.9 million

Meeting all statutory outputs set by the quality regulators

Investor in People and Charter Mark awards

PEOPLE SATISFACTION



North West Water provides water and wastewater services to 2.9 million customer premises (domestic, commercial and industrial) in North West England.

It supplies on average 2,000 megalitres of water every day, delivered through 40,600 kilometres of aqueducts, trunk and distribution mains and 493 service reservoirs. It obtains water from 305 sources, including reservoirs, rivers and aquifers, and operates 147 primary water treatment works.

Wastewater is collected through 39,700 kilometres of sewers with 1,507 pumping stations and treated at 615 wastewater treatment works for return to the environment.

www.nww.co.uk

Electricity distribution

IMPACT ON SOCIETY



Turnover increased by 4.2% to £357.2 million

Operating profit up by 1.9% to £157.5 million

Achieved all overall service standards agreed with Offer

Leading position within the industry maintained for reliability of supply

Norweb Distribution maintains a distribution network extending to 59,000 kilometres – around 14,000 kilometres of overhead lines and 45,000 kilometres of underground cables – and 32,000 substations to deliver electricity from power stations and the National Grid to 2.2 million customer premises in North West England.

It distributes 23,800 GWh of electricity annually to domestic customers, commerce and industry.

www.unitedutilities.com

Energy supply

Competing successfully in new energy markets

Operating profit increased to £55.4 million

Gas supply turnover trebled to over £70 million

Customer satisfaction ratings remain high

Norweb Energi is a brand leader in the UK's emerging competitive markets for electricity and gas supply.

Its core base for electricity supply is the 2.2 million customer premises in North West England. It also markets gas to its electricity customers in the North West and gas, electricity and dual fuel packages outside its traditional region.

Its strategic marketing alliances and competitive energy prices offer a high value package to customers.

Over 325,000 domestic customers have now contracted to buy their gas from Norweb Energi. www.energi.co.uk

BUSINESS RESULTS



Norweb
Telecom

vertex

 **United Utilities
International**

Telecommunications

Turnover more than doubled to £50 million

Switched minutes increased by 129%

Cumulative investment in the network increased to £80 million

Continuing to develop national capability



Norweb Telecom provides voice and data telecommunications services to business customers in North West England, and is continuing to develop a national capability based around purchasing, leasing or swapping fibre optic cable.

It offers a comprehensive range of products and services, including PSTN lines, Centrex, leased lines, ISDN, special rate numbers and internet services.

Digital PowerLine technology, which allows data communications, including internet traffic, to be transmitted over electricity power distribution networks faster than generally available technology, is being developed jointly with Nortel for UK and overseas markets.

www.norwebtelecom.com

Business process outsourcing



New external business in each of our three target markets

External order book grew by over £80 million

Major group projects delivered

National 'Best Value' recognition agreement with UNISON

Vertex provides a wide range of business process outsourcing services to companies in the United Utilities group and markets those services to other organisations. Key markets for Vertex are the private sector, the utilities and the public sector.

Its primary outsourcing focus is in customer relationship management (CRM) which incorporates contact management, customer acquisition, billing and payment services, training and information technology. One of Vertex's key strengths is providing an integrated, end to end CRM managed service portfolio which optimises and synchronises a wide range of customer facing processes.

www.vertex.co.uk

International operations

Operating profit after development costs of £5.1 million

Development cost reductions delivered

Operations exceeding expectations

New project wins in the United States

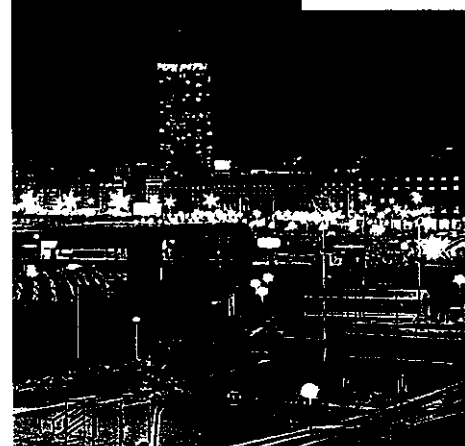
United Utilities International develops and operates contracts around the world utilising the group's core utility services skills.

It seeks water and wastewater operating contracts, as well as electricity distribution and supply opportunities.

It has substantial contracts in Argentina, Australia, Scotland and North America, where US Water, jointly owned with Bechtel, operates water and wastewater systems.

www.unitedutilities.com

BUSINESS RESULTS





United Utilities

IMPACT ON SOCIETY



Investing in business growth

United Utilities Venture Fund was launched to provide small and medium sized manufacturing businesses with capital to grow. We have committed £4 million, creating with other partners a fund of £10 million. To date, 19 investment proposals have been approved leading directly to maintaining or creating 612 jobs. One investment is in Saturn Communications, based in Wigan, which has developed software which is Microsoft-NT based and therefore has global appeal. The software delivers high quality images wherever the customer wants them and whatever presentation platform is required.

Financial review

Our priorities have continued to be effective management of our costs, particularly in our regulated businesses, and development of our non-regulated activities. In both areas, I am pleased to report that good progress has been made and this is reflected in the results for the year. The results of the individual business segments are discussed in detail within the business reports that follow.

New Financial Reporting Standards

We have adopted, for the first time, Financial Reporting Standard (FRS) 9 (Associates and Joint Ventures), FRS 12 (Provisions, Contingent Liabilities and Contingent Assets) and, in part, FRS 15 (Tangible Fixed Assets). The application of these standards is reflected in the year and in the appropriate restatement of the results for the years ended 31 March 1998 and 1997. The adjustments fall into four categories:

- a restatement of the results from joint ventures and associates such that the group's share of turnover, operating profit and interest is disclosed separately rather than as a single line (FRS 9);
- a restatement of provisions to comply with the new standard (FRS 12);
- a change of our accounting policy in respect of accounting for onerous contract provisions (FRS 12); and
- a change in the method of accounting for water infrastructure renewals (FRS 15).

Full details of the adjustments and their effect are given in note 1 to the accounts.

In addition, FRS 10 (Goodwill and Intangible Assets), FRS 11 (Impairment of Fixed Assets and Goodwill), FRS 13 (Derivatives and Other Financial Instruments) and FRS 14 (Earnings per Share) were also adopted for the first time.

Group results

Turnover from continuing operations increased by 5.9 per cent in 1998/99 to £2,276.9 million, compared with an increase of 2.3 per cent in the

previous year. The trend reflects price increases in our regulated businesses and growth in telecommunications and energy supply. Operating profit showed a healthy increase of 15.7 per cent to £691.0 million in 1998/99 as turnover growth, improving margins and effective management of the cost base fed through to profit. It also reflects strong growth in our non-regulated businesses, which accounted for over 12 per cent of operating profit. This is in contrast to the previous year when operating profit remained flat, as improvements from regulated businesses were offset by energy marketing costs, the disposal of joint venture activities in electricity generation, and a reduction in contribution from our property activities.

Eighteen months ago, we outlined a target of delivering additional annual cost savings, over and above the synergy savings from the acquisition of Norweb, of £40 million by the end of 1999. We are well on the way to achieving this target. Savings in the year amounted to £26 million with group operating costs falling in real terms.

Net interest expense for the year increased by £40.7 million to £203.2 million, compared with £162.5 million in 1997/98 and £167.0 million in 1996/97. The increase in net interest in 1998/99 reflected the full impact of the windfall tax paid over the last two years and the capital investment programme, mainly in the regulated businesses, whilst the interest charge fell in the prior year following the divestment of joint venture activities in electricity generation.

Consequently, profit before tax increased by 14.6 per cent in 1998/99 to £455.9 million, after an exceptional charge of £31.9 million in respect of Year 2000 costs. Profit before tax increased by 77.2 per cent in 1997/98 to £397.7 million, and included £6.8 million profit on disposal of businesses and exceptional restructuring costs of £43.6 million. Profit before tax in 1996/97 included a loss on disposal of businesses of £77.1 million (after



Financial highlights

Year to 31 March	1999 £m	1998 Restated £m	1997 Restated £m
Turnover from continuing operations	2,276.9	2,150.2	2,102.3
Operating profit (1)	691.0	597.0	597.6
Profit before tax and exceptional items	487.8	434.5	430.6
Profit before tax	455.9	397.7	224.4
Adjusted earnings per share (2)	91.4p	77.1p	72.8p
Earnings per share	85.6p	(7.4)p	33.5p
Dividend per share (3)	44.3p	40.8p	37.2p
Operating cash flow per share	148.3p	127.9p	117.9p
Interest cover (4)	3.7	4.0	3.9
Dividend cover (5)	2.1	1.9	2.0

- (1) Operating profit is defined as profit from continuing operations before non-operating items, exceptional items, interest and tax.
- (2) Adjusted earnings per share excludes exceptional charges and the results of divested businesses.
- (3) The 1997/98 dividend excludes the 1.36 pence per share enhancement.
- (4) Interest cover is calculated before exceptional items, the results of discontinued operations and the financing charge related to the onerous contract provisions.
- (5) Dividend cover is calculated as adjusted earnings per share divided by dividend per share.

IMPACT ON SOCIETY

Strategy for the North West

Businesses, including United Utilities, have contributed to the formation of a strategy by the new North West Development Agency, covering economic, social and environmental issues. United Utilities' Bob Ferguson chaired the utilities group which proposed that the new Agency should define a long term regional strategy with clear priorities and measures, addressing, amongst other things, the issues of poverty and social inclusion, and creating a skilled workforce through greater collaboration between education and business.



goodwill write back, the details of which are set out in note 4 to the accounts), a provision of £83.0 million against our Bangkok contract, and exceptional restructuring costs of £36.5 million.

Adjusted earnings per share rose by 18.5 per cent to 91.4 pence, compared with a 5.9 per cent increase in the previous year. The increase in adjusted earnings per share (as set out in note 10 to the accounts) reflected the movement in profit before tax and was also helped by a tax credit of £12.0 million.

The windfall tax of £414.8 million was the principal reason for the loss per share of 7.4 pence in 1997/98. Earnings per share was also affected by the exceptional items in the year as discussed above.

Operating cash flow per share increased to 148.3 pence from 127.9 pence in 1997/98 and 117.9 pence in 1996/97. The improvement in 1998/99 reflected the strong increase in operating profit and the continuing emphasis on improving efficiency.

Dividends

The proposed full year dividend of 44.3 pence per share represents an increase of 8.6 per cent over the 1997/98 underlying dividend. Strong earnings growth has resulted in dividend cover improving to 2.1 times.

Taxation

The tax credit for the year arises from ACT savings due to delaying payment of the 1997/98 final and 1998/99 interim dividends, together with a low effective rate of mainstream corporation tax due to the high level of capital investment undertaken by the group.

The effective tax credit of 2.6 per cent for 1998/99 compares with charges of 6.1 per cent and 21.3 per cent in 1997/98 and 1996/97 respectively. The tax charges for 1997/98 and 1998/99 would have been lower but for the planning we assumed in utilising surplus ACT prior to its abolition, with the benefit to be received in 1999/2000 and later. The underlying

rate is expected to remain lower than the current standard corporation tax rate due to the continuing impact of tax allowances on capital expenditure exceeding accounting depreciation.

The exceptional tax charge for 1997/98 related to the windfall tax – a special one off-tax on the privatised utilities introduced by the current Government. The total charge represented a levy of £259.6 million on North West Water and £155.2 million on Norweb. The tax was paid in two equal instalments on 1 December 1997 and 1 December 1998.

Cash flows

Operating cash flow increased to £811.4 million, from £684.1 million in 1997/98 and £618.7 million in 1996/97, reflecting the factors set out above in the discussion of operating cash flow per share. As in 1997/98, tax paid in 1998/99 principally reflected the payment of the windfall tax.

A significant level of capital investment continued, mainly as a result of North West Water's capital investment programme. This investment has been made to secure higher standards of drinking water and cleaner rivers, and includes further investment in bathing water clean-up initiatives. Capital investment in the electricity distribution business also remained comparatively high because of the development of essential IT systems required prior to the introduction of competition in electricity supply.

The deferral of the final dividend for 1997/98 and the interim dividend for 1998/99 resulted in virtually no dividend payments in 1998/99, compared with £114.2 million and £145.8 million in 1997/98 and 1996/97 respectively.

As a result of the above, net borrowings increased by £246.9 million to £2,387.5 million at the year end. Gearing, measured as net debt divided by equity shareholders' funds, fell slightly to 104 per cent at 31 March 1999, compared to 105 per cent and 74 per cent at 31 March 1998 and 1997 respectively. The effect

Turnover from continuing operations

Year to 31 March	1999	1998	1997
	£m	Restated £m	Restated £m
Water and wastewater	960.1	905.3	866.3
Electricity distribution	357.2	342.7	329.8
Energy supply	1,159.1	1,120.9	1,123.8
Telecommunications	49.7	23.4	8.6
Business process outsourcing	162.9	193.8	185.5
International operations	7.5	7.7	6.6
Other activities	52.4	64.5	60.2
	2,748.9	2,658.3	2,580.8
Inter-business eliminations	(472.0)	(508.1)	(477.2)
	2,276.9	2,150.2	2,103.6

Operating profit

Year to 31 March	1999	1998	1997
	£m	Restated £m	Restated £m
Water and wastewater	447.9	382.2	373.3
Electricity distribution	157.5	154.5	132.2
Energy supply	55.4	26.2	48.8
Telecommunications	(5.5)	0.2	(5.1)
Business process outsourcing	11.6	28.6	27.2
International operations	5.1	(5.1)	(3.1)
Other activities	19.0	10.4	25.2
	691.0	597.0	597.2

Operating profit is defined as profit from continuing operations before non-operating items, exceptional items, interest and tax.



United Utilities

BUSINESS RESULTS



Preparing for the millennium

As a member of both the National Infrastructure Forum (part of the Action 2000 initiative) and the Year 2000 Utilities Group, we have been working with other participants to assess the Year 2000 compliance of common suppliers and equipment. More specifically, we have completed our critical supplier investigations and will continue to monitor supplier progress throughout 1999. We will continue to support Action 2000 in their efforts to raise awareness of the Year 2000 issue among small and medium sized enterprises.

Financial review continued

of the windfall tax was the principal reason for the increase in gearing between 31 March 1997 and 31 March 1998.

Year 2000

Last year, we outlined our plan for the work needed to address the issues raised by the millennium date change. Against this plan, we achieved a major milestone with the completion to schedule of our modification work on all business critical IT systems by the end of February. We are on schedule to complete work on our few remaining non-critical IT systems by the end of June, with work on the last of the infrastructure components due by early September.

We have made significant progress with the critical non-IT systems (ie embedded systems, process controllers and monitoring equipment) used to support the water and wastewater services and electricity distribution networks. We have completed our modification work on the main network management system used to control the electricity network, with work on the parallel systems controlling the water distribution network due for completion by the end of June. We are on schedule to conclude work on all remaining critical embedded systems and equipment by September and we are continuing to implement procedures to maintain the on-going millennium compliance of systems and equipment.

Business continuity plans have also been developed. We have now completed the definition of our high priority emergency plans and we have set up two millennium emergency exercises with an external agency to test our millennium plans. The first exercise was held in early May and the second is planned for September.

Despite the progress we have made with testing and contingency plans, there can be no assurance that the steps taken by any company will successfully minimise vulnerabilities of its software and systems, or those of its suppliers,

to the problems associated with the transition to the Year 2000. We will continue to work conscientiously during the remainder of the year to ensure that the risk of interruption to utility services that may be caused by the date change is minimised.

We have charged £31.9 million to the profit and loss account during the year and continue to expect the total costs of the compliance programme to be between £40 million and £45 million. The remainder of the costs will be charged to the profit and loss account in the current financial year.

Treasury policy

Operating within policies and procedures approved by the board, the group's treasury function does not act as a profit centre and does not undertake any speculative trading activity. We ensure sufficient funding is available to meet foreseeable needs and maintain reasonable headroom for contingencies. Long term borrowings are structured or hedged to match earnings which are largely in sterling, indexed to inflation, and subject to regulatory price reviews every five years. Exposure to interest rate movements for the following 12 months is largely eliminated at the start of each financial year using short term hedges. The credit quality of counterparties and individual aggregate exposures are reviewed annually.

Debt financing

During the year, we raised approximately £990 million in new debt finance. This included \$750 million in seven-year and 30-year bonds issued in the United States; €500 million in ten-year bonds issued in Europe; and £200 million in new medium term committed bank facilities. The proceeds of the fixed rate bonds were swapped into floating rate sterling.

The group's \$1,500 million Euro commercial paper programme launched at the end of last year has proved extremely successful in providing attractively priced funding. Revolving

issuance of Euro commercial paper during the year amounted to more than £2,000 million in aggregate with an average balance outstanding in excess of £350 million.

All paper issued under the programme is backed by unutilised committed bank facilities enabling the programme to be rated A1 and P1 respectively by Standard & Poor's Ratings Services and Moody's Investors Service Limited.

In October 1998, we launched a \$2,000 million Euro medium term note issuance programme. Notes may be issued by the company or on behalf of either of its two principal subsidiaries, North West Water and Norweb. North West Water issued its debut public bond using the programme in March 1999 when it launched a €500 million ten-year Eurobond. It is anticipated that the programme will form the platform for all future debt raised in the Eurobond market.

The group's net debt of some £2,388 million at 31 March 1999 comprised £1,412 million of long term bonds, £614 million of loans from the European Investment Bank, £240 million of long term leasing and other loans, and £122 million of medium term bank derived finance. At 31 March 1999, the group had £1,275 million of committed but unutilised medium term bank facilities.

Interest rate management

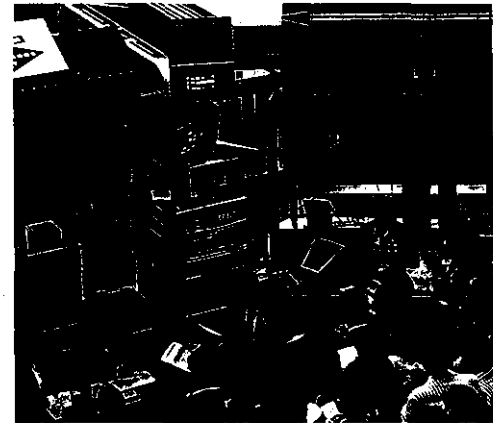
We manage interest rate exposure by seeking to match financing costs as closely as possible with the revenues generated by our assets.

In setting prices, our regulators are required to take account of our cost of capital, including debt capital. As a consequence, our management of interest rate exposure is linked to the regulatory price review periods. In positioning ourselves for the current price reviews, debt fixed for more than one year fell to 46 per cent at 31 March 1999, compared with 64 per cent at 31 March 1998 and 66 per cent at 31 March 1997. The term structure of

BUSINESS RESULTS

Innovative debt financing

European economic and monetary union has created a new major source of debt funding and North West Water was the first UK utility to take advantage of the new market with a €500 million Eurobond issue in March 1999. This builds on United Utilities PLC's position as the leading European utility in the Yankee bond market having issued \$1,250 million in the last eighteen months.



year end net debt illustrates the reducing amount of fixed rate debt.

Our exposure to interest rate fluctuations is managed in the medium term through the use of interest rate swaps and in the short term through the use of financial futures contracts traded on LIFFE.

The weighted average interest rate in the year was 7.9 per cent, based on average net debt of £2.2 billion compared with 7.9 per cent in 1997/98 and 7.7 per cent in 1996/97.

Economic and monetary union

European economic and monetary union (EMU) commenced on 1 January 1999. The UK was not part of this initial stage and has not yet committed itself to an entry date. During this initial stage, the impact of EMU on the group has been minimal due to the geographic nature of our businesses. To ensure the group is adequately prepared in the event that the UK commits itself to entry of EMU, a steering group has been established which is co-ordinating and overseeing the preparations of each of our businesses.

Regulation

The group is facing regulatory price reviews in both its regulated businesses this year. The fundamental business issues arising are discussed in the business reports that follow. We will not know the financial effect on our businesses until the final determinations are published by the regulators towards the end of this calendar year.

During the year, the Government sought views on proposals to separate the existing public electricity supply licences into distinct licenses for distribution and for supply. As part of our strategic planning, we have been considering the implications for our business. In responding to the Government, we stated that we support their proposals to licence our distribution and supply businesses separately. It should be for the market to decide the future

structure of the industry and the degree to which individual companies might choose to separate their businesses further.

We will not be able to assess the financial impact of licence separation until Offer finalises its proposals.

US GAAP results

Under US GAAP, the results after taxation and minority interests and equity shareholders' funds at the year end are shown in the table. Differences result principally from the accounting treatment of pension costs, infrastructure assets, interest incurred on construction projects, goodwill, taxation, deferred taxation and the recognition of the dividend payments. A detailed reconciliation between UK and US GAAP is set out in note 35 to the accounts.

Bob Ferguson Group Finance Director

BUSINESS RESULTS

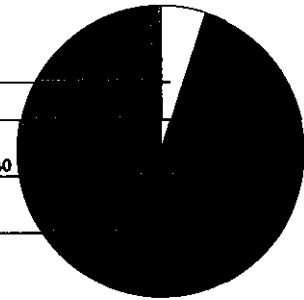
Net debt by source (£m)

Medium term bank derived finance 122

EIB 614

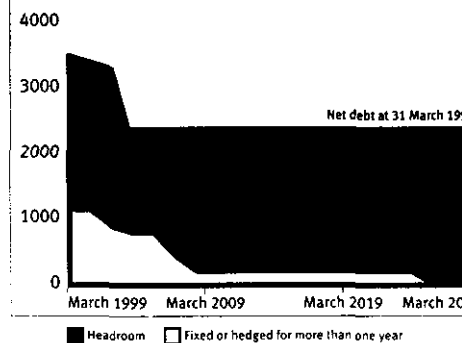
Leasing and other loans 240

Long term bonds 1,412



BUSINESS RESULTS

Term structure of year end net debt (£m)



US GAAP results

	Results for the year		Equity shareholders' funds	
	UK Restated £m	US Restated £m	UK Restated £m	US Restated £m
1997	175.9	93.7	2,212.9	3,031.1
1998	(39.5)	(73.5)	2,046.9	2,851.1
1999	468.3	261.9	2,305.1	2,911.1



Modern sludge processing

New Year's Eve 1998 marked the official end of disposal of sewage sludge to sea, in accordance with European law. In its place, our £100 million processing centre at Widnes, Cheshire, is now on stream. One of the most modern in Europe, it processes 6,000 tonnes of wet sludge daily, which arrives through 87 kilometres of pipeline from wastewater treatment works serving a population of 5.3 million in Liverpool, Manchester and Pennine towns. The output is a dry sludge cake, of which about half is incinerated and the rest used for agriculture and land reclamation.

Water and wastewater

North West Water	1999 £m	1998 £m	1997 £m
Turnover	960.1	905.3	866.7
Operating costs	(512.2)	(523.1)	(493.4)
Operating profit	447.9	382.2	373.3

Highlights

- **turnover up by 6.1% to £960.1 million**
- **operating profit up by 17.2% to £447.9 million**
- **meeting all statutory outputs set by the quality regulators**
- **leakage target met**
- **highest ever levels of customer satisfaction**
- **Charter Mark and Investor in People awards**

Business results

North West Water's turnover grew by 6.1 per cent in 1998/99 to £960.1 million in line with regulatory limits, compared with an increase of 4.5 per cent in 1997/98. Operating profit increased by 17.2 per cent to £447.9 million, compared with an increase of 2.4 per cent in 1997/98.

The growth in operating profit reflected three factors: the increase in turnover, effective cost control and the transfer of application software assets back from Vertex. This transfer took place in order to put Vertex on the same operational basis as other business process outsourcing companies. The asset transfer accounted for £17.4 million of the increase in operating profit. Underlying growth in operating profit, excluding the impact of this item, was 12.6 per cent.

Adjusting for the asset transfer, operating costs increased by 1.2 per cent in 1998/99, compared with 6.0 per cent in 1997/98. The increases reflected general inflationary rises and increased depreciation charges resulting from the substantial capital investment programme, mitigated by effective management of costs. This trend of increase in underlying operating costs, offset by efficiencies and savings, will continue going forward as the significant capital

investment programme continues.

We continue to invest heavily in our water and wastewater networks. Gross capital investment for the year was £521.4 million (£502.3 million the year before), including £34.9 million of discretionary investment. Our total investment in improving water and wastewater services in the North West since privatisation is approximately £4 billion.

Operating performance

Water

To maintain and improve drinking water quality, we have continued to refurbish or replace old water mains, continued our improvements in compliance with the quality standards for iron, lead and manganese, and we are continuing to make improvements to minimise the risk from cryptosporidium at water treatment works. We have also maintained and enhanced water supply and distribution facilities, refurbishing or replacing 757 kilometres of water distribution mains.

As a result of our successful leakage reduction programme, we are abstracting less water from the environment despite the increase in domestic consumption. We met the mandatory target set by Ofwat for 1998/99 to cut leakage to 515 million litres a day, and have reduced leakage by over 45 per cent since 1992/93, consistently making savings year on year. We will continue to reduce leakage, and are confident we will meet the target of 489 million litres a day for 1999/2000.

These savings mean that the company is now in a more robust resource position to face any future water shortage.

Wastewater

We successfully completed our Sea Change programme of wastewater network and treatment projects to meet quality standards for bathing waters in 1997. All our discharges meet or exceed the required consents. Despite this,

certain bathing waters have continued to fail the standards, and we have now started a programme of additional work at the request of our regulators to make further improvements. Ofwat has approved the additional programme of work required by the Environment Agency to reduce further stormwater discharges and upgrade a number of wastewater treatment works. The total cost of this additional work is expected to be £59.0 million.

However, during the 1998 season, 24 out of 37 designated bathing waters in our region passed EU mandatory standards. The variable nature of bathing water performance reflects the complexity of coastal waters in North West England and some other parts of the country. Investigations into these issues are being carried out by the Environment Agency in order to ensure that quality standards are effectively met.

We opened our new £100 million processing centre at Shell Green, Widnes, and ended sludge disposal to sea in December 1998. We are also ahead of target in the Environmental Programme agreed with the Environment Agency to improve the quality of inland rivers and estuaries and significant progress has been made on projects to meet the requirements of the Urban Wastewater Treatment Directive.

North West Water's total investment in the Mersey clean-up programme will top £500 million by the millennium, and we continued our work on the Mersey Estuary pollution alleviation scheme. Construction started at Liverpool, Bromborough and Birkenhead on the extensions to provide secondary treatment for wastewater discharges. The benefits are there for all to see, and can be measured in terms of fish and wildfowl species and in terms of economic regeneration projects along the riverside.

The periodic review of prices

The periodic review of prices is now nearing completion. In April 1999, we submitted North West Water's strategic business plan to Ofwat,

PEOPLE SATISFACTION

Investing in people

North West Water is the first water and wastewater company to win the Investor in People award. All training is linked to the business plan, and this year we delivered 30,000 training days, or 8.5 days training per person. Our managers are trained to 'coach' their team to help individuals improve their performance. Through our performance appraisal scheme, managers and employees agree job related competencies and objectives. Internal communication methods include face-to-face team briefings, electronic mail, in-house newspapers and letters mailed direct to employees' homes.



and the final price limits are due to be announced by the regulator in November 1999. We welcome the Government's commitment to environmental improvement, and believe that our continuing investment will bring long term benefits to the region. But taking account of customers' preferences, we would prefer to deliver the desired improvements over a longer period than five years, to moderate the impact on customers' bills.

To meet the obligations set out by the quality regulators and the Department of the Environment, Transport and the Regions, North West Water has included in its business plan an estimated £3.7 billion investment for the period 2000 to 2005, compared with the £1.8 billion previously allowed in the 1994 price review. This represents the largest investment programme ever undertaken by North West Water, or any other UK water company. Indeed, such is the scale of the investment required in the region that we estimate that £1 out of every £4 due to be invested in drinking water quality and environmental improvements in England and Wales over the next five year regulatory period will be spent in North West England.

To meet these investment obligations, North West Water's business plan envisages no initial price cut and prices having to rise in real terms at the rate of 5.8 per cent a year. This equates to an increase of approximately £13 a year on the average household bill.

Customer satisfaction

We were delighted to hear that we had been awarded the Charter Mark in January 1999. Charter Mark is the government's award scheme for recognising and encouraging excellence in public service.

Our Customer First initiative is continuing to deliver high quality levels of service as measured by Ofwat, and our customer satisfaction index has been maintained at record levels, averaging 81 per cent during the year.

People satisfaction

In September 1998, we were awarded Investor in People status, and became the first of the ten privatised water and wastewater companies in the country to achieve this award. This recognises our commitment to employee investment and the progress made in strengthening the link between training and development and our business goals. Our employees also won the RoSPA Gold award for a first class safety record.

Impact on society

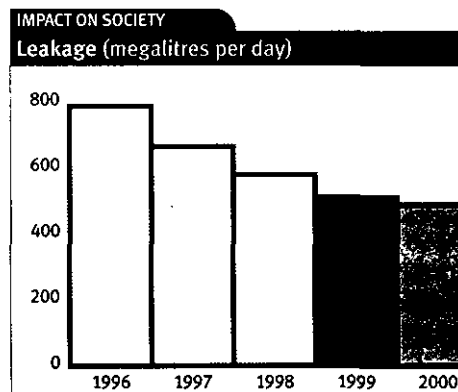
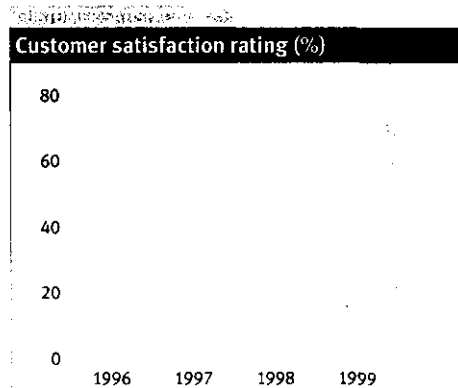
North West Water is committed to the communities it serves, and is regarded as an example of excellence by Business in the Community.

Business in the Community carried out another annual audit of our social investment, for the financial year 1997/98, which showed investment of £2.3 million. This is an increase on the previous year and continues the rising trend.

Our social investment is well targeted on our four focus areas: education, environment, extra needs and enterprise. Education continues to account for the largest share (35 per cent), with environment now a very close second.

This year North West Water launched LandCare in partnership with Groundwork Trust and other environmental bodies. The aim is to help to 'green' derelict land throughout the North West.

North West Water also hosted the launch of the region's first biodiversity audit, with a meeting of over 130 key decision-makers from around the region. The audit has revealed new and important information about the wildlife resources of the North West and the priorities for their protection.





Benchmarking for improvement

During 1998/99, we undertook a major benchmarking project which enabled us to compare ourselves with companies at home and abroad, and to identify the areas where we should focus our attention in order to improve further over the next few years. The project, which examined all aspects of our business, involved almost 50 electricity companies from the UK, Australia, New Zealand, the US and Canada. The project has led to new improvement initiatives. Benchmarking will be carried out again during 1999 to track our progress and to identify any further areas for service improvement and cost reduction.

Electricity distribution

Norweb Distribution	1999 £m	1998 £m	1997 £m
Turnover	357.2	342.7	329.0
Operating costs	(199.7)	(188.2)	(196.9)
Operating profit	157.5	154.5	132.1

Highlights

- turnover increased by 4.2% to £357.2 million
- operating profit increased by 1.9% to £157.5 million
- achieved all overall service standards targets agreed with Offer

Business results

Turnover increased by 4.2 per cent to £357.2 million, a similar increase to the previous year. These increases were primarily as a result of increases in distribution use of system charges and growth in metering and new connections activity.

Operating costs rose by 6.1 per cent in 1998/99, compared with a fall of 4.4 per cent in 1997/98. The increase in 1998/99 resulted mainly from the start of competition in electricity supply. Reflecting movements in turnover and operating costs, operating profit increased by £3.0 million to £157.5 million in 1998/99, an increase of 1.9 per cent, compared with an increase of 17.0 per cent in 1997/98.

Capital investment decreased to £150.0 million in 1998/99, compared with £190.2 million the previous year, reflecting a stable level of expenditure on asset replacement and a lower amount than the previous year on the new IT systems. The capital investment programme continues to improve the reliability of electricity supply to our customers in line with the more demanding targets agreed with Offer. The new IT systems established have enabled the business to manage effectively and efficiently the relationships with the electricity supply companies which, in the emerging competitive market, are now able to serve customers in our distribution area.

Operating performance

We continue to provide some of the best customer service standards of any regional electricity company, and achieved all the overall standards targets agreed with Offer.

Each year we publish a separate Quality of Supply Report which sets out the details of our performance against the targets agreed with Offer, and the report for 1998 confirms how the underlying performance of the network continues to improve. Supply availability continued at 99.99 per cent.

During the year, 1.1 million individual services to customers were covered by guaranteed standards, of which only 63 were not achieved in the guaranteed timescale and resulted in a compensation payment.

The opening of the electricity supply market has brought significant challenges to the business, not least the new relationships with the electricity supply companies which are starting to serve customers in our distribution area.

We established new information systems in preparation for the market opening in our area in November 1998, when household customers around Bolton became the first in our area to be able to buy electricity from other companies. The UK electricity market became open to full competition from the end of May 1999.

In a pioneering multi-utility service concept, Norweb Connections won a two-year £8 million contract at the new Trafford Centre in Manchester. We installed 100 kilometres of duct around the 150 acre shopping, restaurant and entertainment complex, to carry gas, water, high voltage electricity, telecommunications and a management communication system.

The concept of a single organisation being responsible for all utility supplies is set to serve as a blue-print for future contracts. Norweb Energi will supply £2 million of electricity a year to the site.

The periodic review of prices

This year we made several key submissions to Offer as part of the periodic review of prices which will take effect from 1 April 2000, submitting our business plan at the end of 1998. Subsequently, Offer published its key methodology consultation paper. The publication of its framework for regulation gives a clearer picture of those issues facing companies for the forthcoming period.

The fundamental issue for our business is the investment required to sustain the performance of the ageing network. We believe we need to invest nearly £1 billion in the network and its supporting systems in the five years from 2000 to 2005, in order to maintain our performance for customers and keep costs under control.

Our submission to Offer included detailed plans on how we propose to maintain our current performance levels whilst minimising costs, but with an increased rate of replacement investment. We also carried out a comprehensive survey of customer opinion, to identify customers' expectations on prices and our planned investment programme. Overall, customers are prepared to pay extra to make modest improvements in quality. They believe that rural customers should receive a similar service to urban customers. Offer will publish initial price determinations in early August and final price determinations in late November.

Customer satisfaction

We carry out regular customer surveys. The 'customer overall perception monitor' is an annual survey to establish the overall satisfaction of our customers. The 1998 Quality of Supply Report showed that 93 per cent of domestic customers feel satisfied. Both business and domestic customers rated us highly amongst the utilities which serve them.

The 'post-event monitor' is a six-monthly survey which looks at our performance on individual events such as working on customer:

IMPACT ON SOCIETY



Villagers spot the difference

We have a major programme to refurbish our local electricity networks which supply villages throughout the region, replacing overhead lines and poles, with underground cables. Wherever appropriate, we work in partnership with organisations such as the Yorkshire Dales Millennium Trust, National Park authorities and other environmental bodies to produce the best possible solutions for local communities.

premises and restoring supply after faults. Three post-event surveys have been completed to date, and these show an increase in the overall level of satisfaction from 80 per cent to 86 per cent during the period of the survey programme.

In maintaining supplies for customers, we respond to 20,000 low voltage and 2,500 high voltage faults a year. During the year, whenever customers lost supply through unplanned interruptions, we restored 90.7 per cent within three hours.

For the second year running, our employees responded magnificently to restore supplies for customers during the Christmas holiday period. Violent storms hit large parts of Lancashire and Cumbria over the night of 26 December 1998 and throughout the next day, causing extensive damage to our overhead electricity distribution system. At the peak, supplies were lost to more than 130,000 properties. But we restored 71 per cent of supplies within three hours, and 96 per cent within 24 hours.

Through our use of innovative technology, we are able to maintain supplies to customers whilst continuing to carry out essential work on our network. For example, through our state-of-the-art 'live line' working on high voltage cables, we saved some 20,000 customer interruptions. We saved a further 20,000 interruptions in supply for customers through our use of mobile generators.

We developed a number of distribution automation schemes during the year as part of our system automation programme, which we have now begun to commission. These will continue to roll out during the year ahead, and are key projects as part of our programme to continuously improve the performance of the network for customers. Amongst many improvements for business customers, we completed a major system reinforcement scheme for the flagship Reebok Stadium in Bolton.

People satisfaction

We applied for the Investor in People award in March 1999, and are very pleased to have been successful. This is further confirmation of our commitment to our employees. Norweb Connections has also been awarded Investor in People status.

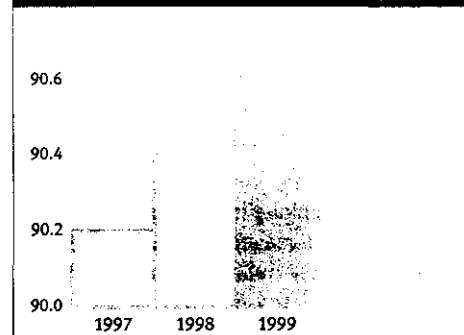
During the year, our industrial workforce attained Lloyd's Register accreditation for quality standards, and we also won the RoSPA Gold Award for the second consecutive year, reflecting an excellent safety record.

Impact on society

As a business, we have a substantial commitment to public safety. We run a major StaySafe campaign in conjunction with police forces and local authorities aimed at primary school children, and during the year some 28,000 children throughout the North West attended one of our StaySafe roadshows.

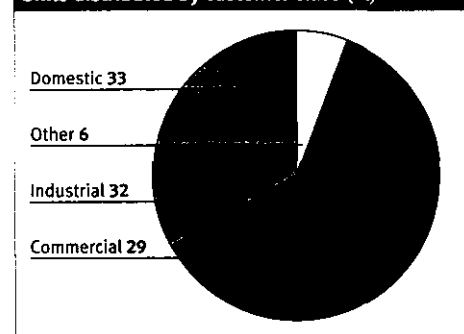
We also participated with the Electricity Association in developing a new safety film for primary school children. The film is available free of charge to all schools in our region.

Customers restored within 3 hours (%)



BUSINESS RESULTS

Units distributed by customer class (%)





Competitive fuel packages

The Manchester Evening News Arena hosts pop concerts, ice shows, exhibitions, sporting events, and is the home venue for both the 1998/99 Super League ice hockey champions Manchester Storm, and the Manchester Giants basketball team. Its heavy and varied use creates a high demand for electricity and gas – for both heating and cooling. Since the building opened in 1995, Norweb Energi has supplied both fuels on a flexible dual fuel contract worth around a quarter of a million pounds a year, which delivers a high level of customer service of great value to the Arena.

Energy supply

Norweb Energi	1999 £m	1998 £m	1997 £m
Turnover	1,159.1	1,120.9	1,123.3
Operating costs	(1,103.7)	(1,094.7)	(1,075.0)
Operating profit	55.4	26.2	48.3

Highlights

- competing successfully in new energy markets
- operating profit increased to £55.4 million
- gas supply turnover trebled to over £70 million
- competitive energy prices and strategic marketing alliances offer high value package to customers
- over 325,000 domestic gas customers now contracted to Norweb Energi
- customer satisfaction ratings remain high

Business results

Electricity supply	1999 £m	1998 £m	1997 £m
Turnover	1,085.5	1,097.1	1,105.3
Operating costs	(1,030.2)	(1,064.6)	(1,059.5)
Operating profit	55.3	32.5	45.8

Price reductions contributed to a 1.1 per cent fall in electricity sales revenue to £1,085.5 million in 1998/99, and a 0.7 per cent fall in 1997/98.

However, operating profit in 1998/99 of £55.3 million was 70.2 per cent higher than the previous year, due to effective management of purchase costs and favourable purchasing conditions. The £13.3 million fall in operating profit in 1997/98 to £32.5 million was attributable to the absence of the £10 million clawback of previously under-recovered income, which benefited 1996/97, and the costs of preparation for full competition in the domestic electricity supply market.

The principal cost associated with the electricity supply business is electricity purchase. Operating costs included £714.5 million in respect of electricity purchase, compared with

£761.1 million and £760.5 million in previous years. Operating profit is highly dependent upon the forecasting and management of electricity purchase costs.

The phased introduction of domestic competition means that all our 2.2 million customers have been able to choose their supplier since the end of May 1999. During the period in which the competitive market establishes itself, the regulator has imposed a revised form of price control based on a price cap. The price cap for Norweb was RPI-3.4 per cent for the year ended 31 March 1999, and is RPI-3.0 per cent for the year ending 31 March 2000.

Gas supply	1999 £m	1998 £m	1997 £m
Turnover	73.6	23.8	18.0
Operating costs	(73.5)	(30.1)	(15.5)
Operating profit/(loss)	0.1	(6.3)	2.5

Domestic gas supply competition was introduced in Norweb's region in February 1998. Building on our position as the leading supplier of utility services in North West England, focused marketing resulted in 157,000 domestic customers signing a Norweb Energi gas contract by March 1998. By May 1999, this had increased to over 325,000 domestic customers. The growth in domestic gas customer numbers is supported by low risk purchase contracts which will underpin gross margins in the medium term.

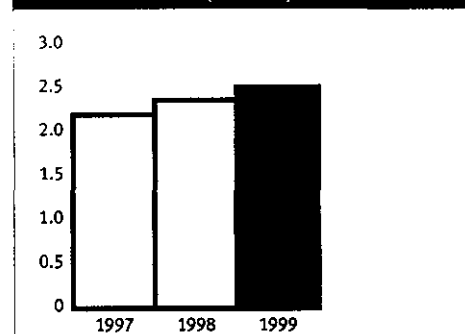
Reflecting the increase in customer numbers, gas supply turnover continued to grow and increased by 209 per cent to £73.6 million in 1998/99, following the increase from £18.0 million to £23.8 million in 1997/98.

The improvement in profitability in 1998/99 reflected an increase in gross profit and a reduction in marketing costs. In 1997/98, the marketing costs and the additional overhead cost of gearing up for an increased customer base resulted in an operating loss of £6.3 million

Customer satisfaction rating (%)



Customer numbers (millions)



IMPACT ON SOCIETY

Energy Champions enlighten schools

Energy Champions was an exciting schools project to help save energy. The first of its kind in the country, it involved a specially-written stage show by children's TV personality Johnny Ball. During the year it was seen by more than 20,000 children from over 30 schools, with performances at theatres throughout the North West. Every pupil who attended received an energy-saving light bulb. These bulbs will alone, during their lifetime, save the equivalent of all the electricity used in a day by more than one million homes in Greater Manchester.



compared with a profit of £2.5 million in 1996/97.

Operating performance

We successfully completed all required testing and preparations and entered the first stages of the competitive electricity market on schedule in November 1998. Our franchise area has opened gradually to competition and all our customers have had a choice of supplier since the market was fully opened to competition at the end of May 1999. During the year, we attracted 34,000 domestic customers out of area predominantly on a dual fuel basis, with 59,000 customers in our area switching supplier.

Our marketing effort is targeted at supplying gas to our regional electricity customers, with selective dual fuel marketing outside our region. In early November, we strengthened our customer package and announced a marketing link with Page & Moy offering Norweb Energi customers discounts of up to 15 per cent on leading brand holidays and savings on a wide range of leisure activities. This is in addition to the existing Tesco Clubcard points promotion. We believe these alliances, coupled with competitive energy price offerings to customers, represent the best value package currently available in the energy market.

We were delighted to have our position as a top utility confirmed when we won the marketing initiative of the year award at the 1998 Utility Industry Achievement Awards, for a direct marketing campaign for selling gas.

Customer satisfaction

State-of-the-art customer systems developed and operated with Vertex allow us to provide top quality customer services. Our customer satisfaction surveys have shown 85 per cent of customers rate our service as good or excellent, up from 79 per cent the previous year.

In addition, the national survey conducted by the Electricity Association ranked us second out of 14 companies for customer satisfaction and

top for brand familiarity. This, combined with our high value package should enable us to meet our targets for customer retention in our area and acquiring additional profitable customers in other selected areas of the country.

Communicating clearly with our customers is essential to delivering satisfaction. We won a Gold Standard award from the Plain English Campaign for a series of 50 customer information publications. We also started the process to reapply for the Government Charter Mark, an award for excellence in public service, which runs for three years and which we have successfully retained for the past six years.

People satisfaction

Norweb Energi won Investor in People status through its commitment to training and development. The award includes Norweb Metering Services as well as Support Services. Norweb Energi also won a RoSPA Gold Award for its safety record.

Impact on society

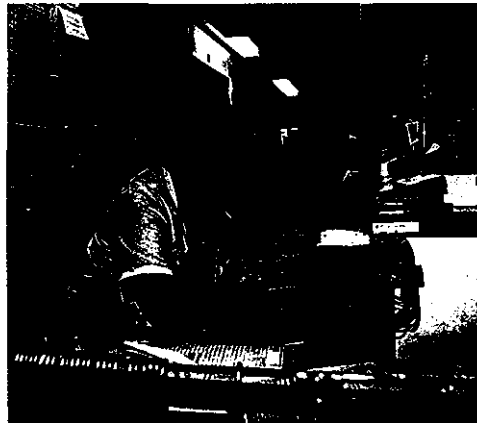
We were the first electricity supplier in the country to meet the energy efficiency targets set by the industry regulator – saving enough electricity to supply 150,000 homes for a year. We have already spent £8.8 million throughout the North West in energy saving projects as part of a four-year national energy saving initiative – the Standard of Performance in Energy Efficiency – which is part of the Government's target to reduce carbon dioxide emissions from fossil fuelled power stations.

We have a range of initiatives to promote energy efficiency, and will be spending more than £4 million on energy saving projects for households throughout the North West over the next two years. Thousands of customers will benefit from a range of efficiency measures including insulation for electrically heated homes, free or discounted low energy light bulb schemes, and projects to replace inefficient electrical appliances.

Norweb Energi customers who receive state benefit, including pensioners, are being given the chance to buy a brand new fridge worth over £120 for £25. Our Fridgesavers scheme is helping them to replace their old fridges with modern, energy-efficient ones – which could also save them over £30 a year in electricity.

We provide advice and testing services for industry, and sponsor the annual North West Business Energy Awards. To win, companies must show how an electrical process or service has enhanced their business performance by increasing output, improving productivity and product quality, benefiting the environment and making savings through more efficient use of energy.

We support a wide range of regional initiatives, including local community ventures and charities. We are actively involved in educational initiatives such as Young Enterprise and Industry Challenge.



TRUSTnet launched

To work together across regional boundaries streamlining operations and pooling resources, hospitals need excellent communications. Working together, Norweb Telecom and some of the largest NHS trusts in the North West have developed TRUSTnet, a virtual private network uniting individual hospitals and health organisations. Providing a secure, cost-efficient network using fibre optic, digital microwave technology and leased lines, it enables each NHS trust to improve facilities while reducing costs. All calls between TRUSTnet sites are free and outgoing calls benefit from a reduced tariff unique to TRUSTnet members.

Telecommunications

Norweb Telecom	1999 £m	1998 £m	1997 £m
Turnover	49.7	23.4	8.2
Operating profit/(loss)			
UK operator	1.2	0.2	(5.2)
DPL technology	(6.7)	-	-
Total	(5.5)	0.2	(5.2)

Highlights

- turnover more than doubled to £50 million
- switched minutes increased by 129%
- cumulative investment in the network increased to £80 million
- continuing to develop national capability

Business results

Strong growth in the year in Norweb Telecom's UK operator business saw turnover grow by 112 per cent to £49.7 million, reflecting a rise in switched minutes of 129 per cent to 498 million. This rapid growth continued the trend shown in previous years. In 1997/98 turnover increased by 185 per cent.

The results for 1998/99 show an operating profit of £1.2 million compared with an operating profit of £0.2 million in 1997/98 and a loss of £5.2 million in 1996/97. This improving trend reflects higher gross profits derived from strong turnover growth, offset by increased operating costs to support and maintain existing rates of expansion.

We maintained our focus on the business market in North West England, where we continue to win new customers. Total investment in the network now stands at £80 million. The substantial investment of £29 million in the year has increased network length by 64 per cent to almost 1,400 kilometres, with new network build to Blackpool, Barrow and Stafford, and enhanced switch capacity. We are planning to invest a further £40 million in network infrastructure in the current year.

We are continuing to expand our national

network capability through purchasing, leasing or swapping fibre optic cable. We are building some 25 points of presence in towns and cities including London, Leeds, Sheffield, Birmingham and Bristol. This, along with the continuing development of a broader product portfolio, improves penetration in the market and should attract new customers with sites outside the North West region.

Operating performance

We sustained our drive to win new business customers by offering the most cost-effective and efficient solutions, and we are continuing to develop our service support capabilities.

We continue to expand our product portfolio. Key areas for product development are intelligent networks and data services.

A growing wholesale revenue stream is being developed taking advantage of spare network capacity. Switched traffic and leased bandwidth are sold to re-sellers, service providers and other telecoms operators.

During the year, we invested in equipment to facilitate the launch of an integrated frame relay/ATM system supporting a range of voice and data services. Norweb Telecom is also an internet service provider offering scalable high bandwidth leased circuits as part of a comprehensive internet package. This investment will increase both competitiveness and the product range on offer.

Two recent software upgrades to the existing System X switches brought on-line an improved Centrex offering, with new features such as last caller ring back.

The ISDN portfolio of services, including Express2 and Express30, have been upgraded to support European telecoms standards. We have further improved the functionality of our VPN service, adding new features including a call-redirection service.

We have invested in a new billing platform which will offer greater flexibility in billing customers for products, offer better statistical

analysis, allow convergent billing and give a choice of formats for bills, from electronic versions to hard copy.

To out-perform national competitors on our home territory, we also launched the lowest ever tariff for local business calls – just 2p a minute which is substantially lower than BT's business day local call rate. Our regional tariff also offers major savings against competitors.

By the end of the year, we had 680 separate customer accounts supplying services to over 1,500 customer sites. Customer wins during the year included Thomas Cook and Alfred McAlpine.

Staffing levels grew in the year by more than 20 per cent in line with the expansion of our customer base and the expansion of the network, with an emphasis on sales and marketing, and customer services.

Customer satisfaction

A key factor in customer acquisition and retention is reliability.

The independent audit of UK business telephone service providers, carried out by the Telecoms Industry Forum in association with Oftel, shows Norweb Telecom is consolidating its position as one of Britain's leading telecommunications companies on quality and reliability of service. The figures for 1998 put Norweb Telecom ahead of all other operators in two categories – complaint handling and billing accuracy.

Overall, Norweb Telecom was ranked third amongst the 16 telecommunications operators surveyed in the comparative performance indicator report, significantly ahead of larger rivals. The study focused on the performance of companies across a number of key areas, including service provision, fault handling and billing accuracy.

CUSTOMER SATISFACTION

Technology solutions

Reviewing its telecommunications, Fujitsu ICL Computers, the world's second largest IT company, wanted the latest technology, including video-conferencing links and digitally-based communications. Norweb Telecom was able to provide the technology it required, including fibre optic connection. Telecommunication links were upgraded from analogue to digital-based, direct line access was installed, and time-saving conferencing links were provided between the operations centre in Warrington, the UK headquarters in Bracknell and other European offices.



People satisfaction

Norweb Telecom also won the Investor in People award during the year, successful independent confirmation of our commitment to our employees.

We were also pleased to receive a RoSPA Gold Award for our safety performance.

Impact on society

Norweb Telecom is an active member of The Mersey Partnership, an initiative aimed at forging strong public/private sector relationships to support regeneration work.

As part of the broader sponsorship by group businesses of the Children for Peace campaign, we host the campaign's web site.

Through the Manchester Investment and Development Agency, we sponsor the Call Centre Forum, which brings together local call centres and aims to promote the region as the UK's top call centre location.

We actively support business/education partnership through our involvement with the Salford and Trafford Education Action Zone.

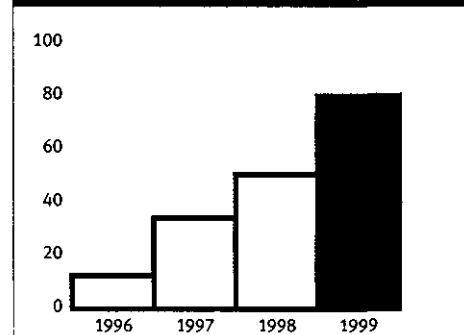
DPL technology

NOR.WEB DPL Limited is a 50:50 joint venture between United Utilities and Nortel which is planning to bring DPL technology to the market. This technology allows high-speed data connections to homes, schools and smaller businesses over the existing electricity cables.

A loss of £5.9 million was incurred in respect of NOR.WEB DPL Limited reflecting our share of the development and other start up costs. In addition, a loss of £0.8 million in the year was incurred in preparation for the potential commercial deployment of the technology in North West England.

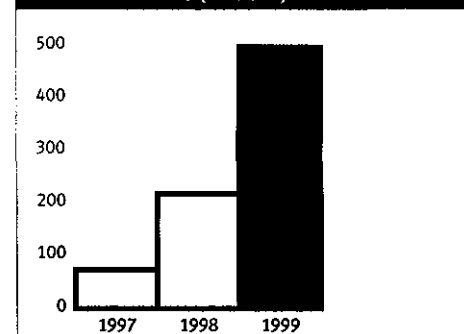
BUSINESS RESULTS

Cumulative investment in network (£m)



BUSINESS RESULTS

Switched minutes (millions)





State-of-the-art customer systems

The Customer/1 system implemented by Vertex for Norweb Energi was the culmination of three and a half years' work for the team who designed and built it, and few other companies have managed to emulate this performance. The system handles all Norweb Energi's customer information and supports 150 major processes. Implementation has been backed by a major training programme for all employees.

Business process outsourcing

Vertex	1999 £m	1998 £m	1997 £m
Turnover	162.9	193.8	185.2
Operating costs	(151.3)	(165.2)	(158.1)
Operating profit	11.6	28.6	27.1

Highlights

- new external business in each of our three target markets
- external order book grew by over £80 million
- major group projects delivered
- national 'Best Value' recognition agreement with UNISON

Business results

During 1998/99, the transfer of application software assets back to our UK regulated utility businesses resulted in Vertex turnover and operating profit decreasing by 15.9 per cent and 59.4 per cent respectively. This transfer took place in order to put Vertex on the same operational basis as other business process outsourcing companies. The contributions lost to turnover and operating profit as a result of this change were £36.1 million and £18.7 million respectively. Excluding the effect of these changes, turnover and operating profit were, respectively, £5.2 million (3.3 per cent) and £1.7 million (17.2 per cent) higher than in 1997/98.

In 1997/98, turnover increased by 4.6 per cent to £193.8 million as major new services were delivered, and operating profit increased by 5.5 per cent to £28.6 million as further efficiency savings were achieved.

A success in each of our target markets (the private sector, the utilities and the public sector) during 1998/99 demonstrated sound progress in our strategy for winning external business. As a result, the external order book grew by over £80 million in the year and external sales tripled to £9.9 million.

Operating performance

Our contracts with companies within the United Utilities group progressed well during the year, including the major Year 2000 compliance project which is being programme managed by Vertex.

We successfully completed a major project to build IT systems to enable Norweb Distribution and Norweb Energi to meet the requirements of the competitive electricity supply market.

These systems complement 'Customer/1', the modern, flexible computer system which handles all Norweb Energi's customer service needs including new customer information, meter reading, billing, a wide range of payment options and debt collection. It enables customer enquiries to be handled swiftly and accurately.

Outside the United Utilities group, we enjoyed success in each of our target markets: the private sector, the utilities and the public sector.

Littlewoods Bet Direct

In May 1998, we secured our first private sector contract with Littlewoods for the provision of call centre, IT and administration services to support the trial of their new telephone betting service, Bet Direct.

We were awarded an extended five-year contract in April 1999 potentially worth in excess of £30 million to expand the service nationally. This secures Vertex as the call centre and IT infrastructure service operator for Bet Direct until 2004.

Independent Energy

In August, we signed a five-year contract worth over £30 million to provide call centre, billing, payment and IT services to assist Independent Energy's entry into the competitive domestic energy supply market.

This involved the rapid development of a new billing and registration system, compressing

a typical four-year design, development and accreditation cycle into less than 12 months, and the opening of our third call centre, Phoenix House at Knowsley in Merseyside. We have renovated a former derelict factory to provide important additional capacity to meet the needs of both Independent Energy and Bet Direct.

London Borough of Ealing

We overcame strong competition from well established outsourcing organisations to be chosen as preferred supplier to the London Borough of Ealing to manage their benefits administration services. A contract worth in excess of £21 million for a seven-year period, which involved the transfer of 100 Ealing employees into Vertex, was signed in November 1998.

Knowsley Council

We have recently been named as the preferred supplier to Knowsley Council to work in partnership with them to create a new model for service delivery for the public sector.

This will be the country's first ever local government contact centre and will enable local residents to access all local services through a single telephone number, with a single point of contact and an immediate solution to their query. The centre will deal with some three million calls to the Council each year.

Vertex Training Services

Vertex Training Services not only maintained our commitment to high standards of training and personal development for employees throughout the group, but also won training and human resources contracts with clients as diverse as the Bahamas Electricity Corporation, Manchester Airport and First National Vehicle Holdings.

We also launched a leading edge on-line

PEOPLE SATISFACTION

Putting 'Best Value' into action

Vertex MD Tom Drury and Keith Sonnet, Assistant General Secretary of UNISON, the UK's largest trade union, have signed a national recognition agreement covering outsourced local authority services. We share a commitment to provide 'Best Value' services through a quality employment framework, and the agreement embodies a partnership approach including a Best Employment Code and key principles of 'Fairness at Work'. It helps address the concerns of employees transferred from the public sector to Vertex, and to focus on the common interest in the success of our business with local authorities such as Ealing.



training package, which provides a wide range of courses in the form of a virtual learning campus. Trainees can choose relevant courses and create their own customised training programmes.

Customer satisfaction

Vertex provides a wide range of customer services operations to both North West Water and Norweb businesses, including call centre services, customer billing and special needs services such as braille bills and secure password access schemes.

Through these services, Vertex played a substantial part in helping those businesses achieve high levels of customer satisfaction and meet regulatory standards, and in helping North West Water to win the Charter Mark award for excellence in public service. Norweb businesses have held the Charter Mark for nearly six years, with standards sustained in part by Vertex.

People satisfaction

Vertex is aiming for Investor in People accreditation following significant effort over the last three years on our employee performance and development initiatives, and strengthening the links between them and the company's business goals and objectives.

Five-year improvement targets have been set for the annual employee opinion survey, to help the company reach an 85 per cent level of overall employee satisfaction, which would bring Vertex to the status of a 'Best in Class' employer. Vertex has already won an 'Award of Excellence' for its employee communications and is committed to continuous improvement.

Vertex was the first company in the UK to sign a national 'Best Value' framework agreement with UNISON that embodies the principles for developing new relationships with employees and trade unions in the local government sector.

Both Vertex Field and Customer Services also won the RoSPA Gold award for their occupational safety records.

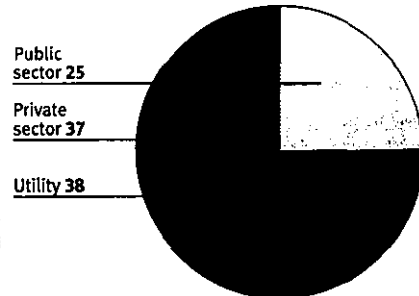
Impact on society

Vertex is a board member of the Inter Regional Information Society initiative, North West, whose mission is to provide awareness, best practice and economic development in matters associated with The Information Society. As part of its membership, Vertex plays an active role in key initiatives aimed at facilitating economic and social regeneration in the North West.

The company also runs schemes such as free computers for schools and a sponsorship scheme for employees where there is a direct benefit to the community.

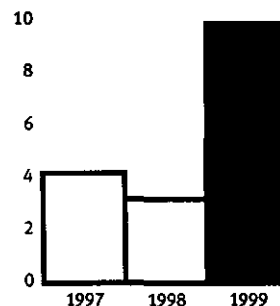
BUSINESS RESULTS

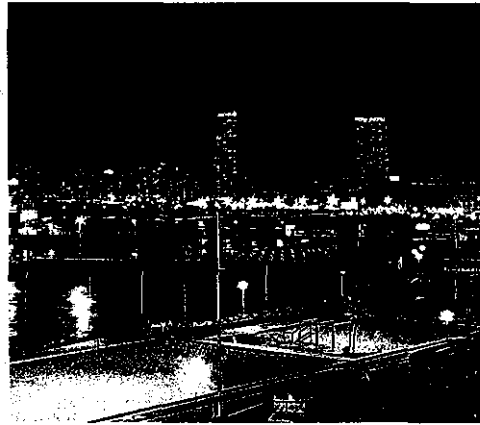
External order book by target market (%)



BUSINESS RESULTS

External sales revenue (£m)





Servicios al cliente

Service for customers is being revolutionised by EDEA in Argentina. Our joint venture operation now has 19 customer centres, with extended service hours, including four new centres in Mar del Plata where 70 per cent of our customers are concentrated. An advanced computer system and new call centre technology are helping our team to respond quickly and efficiently throughout the concession area, and a special service department has been established for large customers.

International operations

United Utilities International	1999 £m	1998 £m	1997 £m
Turnover	7.5	7.7	6.9
Operating profit including associates	14.8	9.9	8.7
Development expenditure	(9.7)	(15.0)	(12.4)
Operating profit/(loss) after development costs	5.1	(5.1)	(3.7)

Highlights

- operating profit after development costs of **£5.1 million**
- development cost reductions delivered
- operations exceeding expectations
- new project wins in the United States

Business results

We consolidated our international operations this year under a new United Utilities International brand, and achieved our first year of profit net of development costs. Results for the year showed an improvement over the previous year, both in operating performance and business development expenditure. The trend of increasing operating profit including associates reflects contributions from new projects, in particular our electricity distribution operations in Argentina with a full year's performance in 1998/99, together with steady improvements from existing activities.

Development costs were reduced to £9.7 million in 1998/99 from £15.0 million in 1997/98 and reflect a more focused and lower cost approach being taken to pursuing opportunities that meet our strict financial and territory criteria. The increase in the previous year reflected the expansion into international electricity contracts. International development projects are inherently speculative and can take several years to come to fruition. Our objective is to secure long term operational

sources of income whilst limiting our financial exposure.

The returns from our investment in Buenos Aires Province continued to improve. Tariffs are denominated in US dollars, providing a high degree of foreign exchange protection.

US Water was awarded a 20-year concession in Camden City, New Jersey, and we also reached preferred bidder stage on three projects, one in Scotland and two in the US.

During the year, managers and other employees from United Utilities International's overseas projects undertook extended secondments to North West Water and Norweb Distribution as part of our skills transfer programme.

Operating performance

Argentina

Last year was a challenging but successful one for EDEA, our joint venture which distributes and supplies electricity to over 400,000 mainly residential customers in the eastern part of the Buenos Aires Province.

We continued to transform this former provincially owned utility into a highly efficient, customer orientated company, and the business performed better than expected with demand reaching record levels and profits ahead of target.

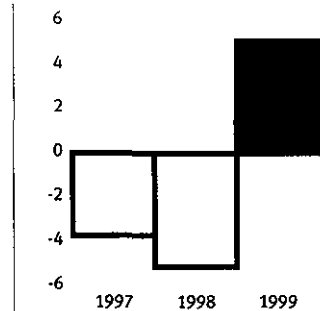
The company's focused capital expenditure programme, assisted by a team of senior engineering managers drawn from Norweb in the UK, is bringing operational and customer service benefits.

Investment in the electricity distribution network and control systems has improved security of supply and system reliability, particularly in the main tourist centre of Mar del Plata. A major meter replacement programme is now helping to further reduce non-technical energy losses.

To improve customer satisfaction and reduce its cost base. EDEA also installed a new billing

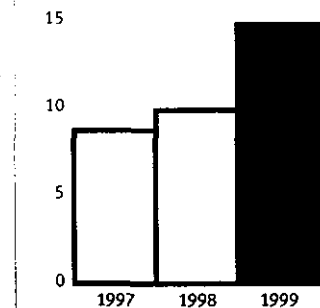
BUSINESS RESULTS

Operating profit after development costs (£m)



BUSINESS RESULTS

Operating profit (£m)



CUSTOMER SATISFACTION

Southern Pines taste test

In North Carolina, the town of Southern Pines contracted Hydro Management Services, a subsidiary of US Water, to tackle taste and odour complaints from its customers. Hydro Management Services eliminated all the problems by modifying chemical feed rates, and also reduced the town's operational expenses. In January 1999, Southern Pines water was judged the best tasting water in North Carolina by the American Water Works Association.



system and developed its own call centre operation serving the needs of customers in the Atlantic coast region.

Although significant progress has been achieved at EDEA since take-over in June 1997, we are planning to introduce additional changes to enhance performance further. Together with our partners and the company's management team, we are focusing on improving operating margins through tighter control of operating expenditure and lower energy purchase costs.

Australia

We have almost completed delivery of the Riverland project in South Australia, with eight of the ten water treatment works now commissioned. These will supply over 90 rural communities, bringing high quality water to households and businesses which previously relied on untreated discoloured river water.

The company successfully achieved the demanding target set in the first three-year period of the South Australian economic development offset programme, which is linked to the Riverland project. This required A\$18 million worth of exports, and has created significant employment opportunities in South Australia.

Our operations in Melbourne and Sydney continued successfully. Alterations to the water treatment works at Yan Yean in Victoria are providing additional treatment for supplies to the Whittlesea area near Melbourne.

In New South Wales, the Macarthur water treatment works continued to be a commercial success, and maintained its high standards of performance.

Manila

After a year which was dominated by the severe drought created by the El Nino weather phenomenon and by the devaluation of the Philippine peso, the Manila Water Company is entering a period of operational stability and financial growth. Successful implementation of

new financial and customer services systems has resulted in improved standards of customer service for the people of Manila.

One of the company's major concerns has been the provision of a clean and safe water supply to depressed areas that are often supplied by illegal and sometimes insanitary connections. We have forged links with local communities to help achieve this, and introduced a comprehensive training programme for operational and customer service staff.

An independent poll in September 1998 showed a 62 per cent satisfaction rating amongst Manila Water's residents, compared with 49 per cent for the city's other concession.

Scotland

Catchment, the consortium formed by United Utilities International, Bechtel and Morrison Construction to bid for Private Finance Initiative projects in Scotland, had a successful year. It achieved preferred bidder status for a new project in Dundee, the Tay wastewater treatment scheme, and successfully completed the wastewater treatment works at Fort William. This is now open and being operated by Caledonian Water, a subsidiary of United Utilities International. A second works is on schedule, to serve Inverness.

These successes give us a firm base in Scotland on which to build future business.

US Water

US Water continued to expand in North America. The US market is now displaying a long awaited upturn, with changes in tax law leading to growth in the number of long term contracts coming to the market, which is expected to continue, and further opportunities arising from economic and environmental pressures on municipalities and industry.

Our 20-year concession to operate the water treatment and distribution system for North Brunswick continued to perform ahead of expectations.

The 20-year concession over operations in Camden City, New Jersey, awarded to US Water in January 1999, has a total lifetime contract value of US\$216 million.

The company has taken advantage of the development of the US market and is currently in the final stages of negotiations on two projects as the nominated and preferred bidder.

In addition, Hydro Management Services, a wholly-owned subsidiary of US Water, was selected to operate water and wastewater services for the town of Dallas, North Carolina.



This page from left to right

Top: Sir Christopher Harding, Derek Green, Bob Ferguson. Below: John Beckett, Gordon Waters.

Facing page from left to right

Top: Eric Clark, Dr Rodney Leach, Sir Richard Evans. Below: Sir Peter Middleton, Jane Newell, John Seed, Norman Broadhurst.



The directors

Sir Christopher Harding (age 59) *Chairman*

Sir Christopher joined United Utilities as a non-executive director and Deputy Chairman in November 1997, becoming non-executive Chairman on 1 April 1998.

He is also non-executive chairman of Legal & General Group Plc (since May 1994) and of Newarthill plc, the holding company for Sir Robert McAlpine Limited. He is a non-executive director of GEC plc.

After graduating from Oxford, where he read History at Corpus Christi College, Sir Christopher joined Imperial Chemical Industries in 1961, where he held a number of senior personnel management positions.

In 1969, he joined Hanson plc, becoming managing director of Hanson Transport Group in 1974 and a non-executive director of Hanson plc in 1979. Following the demerger of Hanson plc, he became a non-executive director of The Energy Group until October 1997. He was appointed vice chairman of Hanson Transport Group Limited in 1991.

He was chairman of British Nuclear Fuels plc from April 1986 until June 1992, and chairman of BET plc from May 1992 to May 1996.

Sir Christopher was knighted in 1991, and is a Freeman of the City of London. He is a member of the Foyer Federation of Youth National Council.

Derek Green (age 59) *Chief Executive*

Derek was appointed Chief Executive of United Utilities in July 1997. He joined North West Water Group PLC in 1992 as Managing Director of the core utility business North West Water Limited. He became executive responsible for the two core utilities Norweb Distribution and North West Water following the formation of United Utilities in January 1996. He is non-executive Chairman of Vertex Data Science Limited.

He is a chartered surveyor with extensive experience in the construction industry, both in the UK and overseas. Between 1969 and 1975, he worked for Holiday Inn Inc. as director of project development Europe, North Africa and the Middle East.

From 1975 to 1988, Derek worked for the Fairclough/AMEC Construction Group, and was appointed to the group executive board. During this time, he held directorships of Fairclough Building and Fairclough (Scotland) Limited. He was chief executive of both AMEC International Construction Limited and AMEC Projects Limited. He was also responsible for the activities of Worley Engineering Limited and Mapel Limited.

In 1988, he joined BTR as group chief executive for the aggregates business, carried out through Tilcon Holdings in the UK and Tilcon Inc. in the USA.

He is a non-executive director of Graham Group.

Bob Ferguson (age 56) *Group Finance Director*

Bob was appointed Group Finance Director of North West Water Group PLC in 1992. Following the acquisition of Norweb in November 1995, he became Group Finance Director of the newly-formed United Utilities.

Bob began his career with Liverpool Corporation in 1959, and trained as a chartered public finance accountant. He held various posts in housing, education, and environmental health and protection, before being promoted to group accountant with Merseyside County Council.

In 1974, he moved to the North West Water Authority as principal accountant, becoming assistant director of finance in 1981, and head of finance in 1987.

He led the privatisation team responsible for preparing the business for its successful flotation in November 1989 and, following privatisation, became Director of Finance for North West Water Limited. He was appointed Deputy Managing Director in 1991, and during that year studied at Harvard Business School on the Programme for Management Development. A year later he was appointed Group Finance Director.

He is also chairman of Investment North West Trust Limited, which manages the £10 million United Utilities Venture Fund. This partnership between investors and the European Regional Development Fund provides venture capital for growing small and medium-sized businesses. The aim is to assist economic regeneration in North West England.

John Beckett (age 51) *Managing Director, energy and telecommunications*

John was appointed to the board in 1995, having joined the group in 1994 as Managing Director Process Equipment.

He was appointed Managing Director of the energy and telecommunications businesses, in April 1997.

He is also chairman of the joint venture company with Nortel, NOR.WEB DPL, formed to develop our Digital PowerLine technology.

John graduated from Birmingham University as a chemical engineer in 1968 and joined ICI as a process engineer. He went on to operate and commission a number of major chemical plants in Fleetwood and Teeside between 1971 and 1981 before returning to Cheshire in techno-commercial and business management roles for a wide range of ICI's regional and international businesses headquartered in the North West.

John managed the successful restructuring of a number of these businesses before being asked to manage the turnaround of ICI's Soda Ash facilities in mid-Cheshire between 1983 and 1987.

John then became marketing manager and ultimately international business manager of ICI's Klea CFC and HFC refrigerants business.

Gordon Waters (age 52) *Managing Director, international operations*

Gordon is responsible for all the group's involvement in both power and water outside England. He joined the group in 1996, and was appointed to the board in 1997. A qualified civil engineer and structural engineer, he graduated from the City University London in 1969. He joined a major UK consulting engineering practice before working for a number of major UK construction companies, involved in large civil engineering projects both in the UK and overseas.

From 1983 to 1987, he worked for Mowlem Construction becoming construction director for their regional civil engineering division based in North West England.

From 1987 to 1996, he worked for Tarmac Construction Limited, becoming managing director of the civil engineering division in 1992, and joining the board of Tarmac Construction Limited in 1993. He was responsible for all their major projects and regional civil engineering companies and specialist companies both in the UK and overseas. In 1995, he joined the board of TBV Power Limited and became additionally responsible for all Tarmac's involvement in power, both internationally and in the UK.



Eric Clark
(age 64)

Eric was appointed a non-executive director in April 1993. He read physics at Durham University and worked with the UK Atomic Energy Authority, before joining Associated Industrial Consultants from 1967 to 1970. He then joined Plessey, becoming managing director of Plessey Controls in 1974, chief executive of Plessey Telecommunications Limited in 1979, and in 1984 managing director of Plessey Telecommunications and Office Systems Limited.

He joined BICC Cables and the board of BICC plc in November 1985. He was appointed chairman and managing director of BICC Cables in 1986. He retired from BICC in 1996. He is a former President of the British Cablemakers Confederation, Eurocabel and the International Cablemakers Federation, the British, European and world-wide cable industry trade associations.

He is a former director of the Merseyside Development Corporation and is currently a non-executive director of the Dana Corporation Inc.

He was awarded the CBE in 1995 for services to the cable industry.

Dr Rodney Leach

(age 67) *Chairman of the Audit Committee*

Rodney became a founding non-executive director of the group in September 1989, having been appointed a member of the North West Water Authority earlier that year.

A Lancastrian by birth and now resident in Cumbria, he is a physics graduate of Birmingham University and worked for nine years on the design, commissioning and operation of UK nuclear power stations. In 1965, he joined McKinsey & Company Inc., where he became a partner. He had a major involvement in developing the concepts underlying worldwide freight containerisation, and subsequently joined P&O in 1974 as head of the European transport division, becoming an executive director and chairman of P&O Cruises.

In 1985, he moved to Vickers Shipbuilding and Engineering Limited, in Cumbria, as chief executive responsible for the UK nuclear submarine construction programme, and as chairman of Cammell Laird Shipbuilders Limited in Birkenhead. He led the successful privatisation of the two companies in 1986, retiring at the end of 1988. He was a non-executive director of Jasmin plc and deputy chairman of an NHS Trust in Cumbria until 1997.

Rodney is a chartered engineer and a Fellow of the Royal Institute of Naval Architects, the Institute of Management, and the Chartered Institute of Marketing. He is a Freeman of the City of London.

Sir Richard Evans

(age 56)

Sir Richard was appointed a non-executive director in September 1997.

Born in North West England, he has worked in the aircraft and aerospace industry for 30 years. He became chief executive of British Aerospace PLC in 1990, and was appointed chairman in May 1998.

He has had a long association, through BAC and BAe, with their Warton division in Lancashire, where he was deputy managing director from 1983 to 1986. He joined the board of British Aerospace in 1987 as marketing director.

He was a director of the programme management companies for the Anglo/French Jaguar aircraft and for the Anglo/German/Italian Tornado aircraft, and a director of the Airbus company.

He is also a non-executive director of National Westminster Bank Plc.

Sir Richard was awarded the CBE in 1986 for services to export, and was knighted in the 1996 Queen's birthday honours. He is a Deputy Lieutenant of Lancashire, an honorary member of the NSPCC Council, and the principal supporter of the BAe Charity Challenge.

Sir Peter Middleton

(age 65) *Vice Chairman*

Sir Peter joined the board as a non-executive director in January 1994.

After National Service, he joined HM Treasury, serving as Permanent Secretary from 1983 to 1991.

He is chairman and chief executive of Barclays PLC and was deputy chairman of Barclays Bank and chairman of Barclays Capital from 1991 to May 1998. He is a non-executive director of Bass Plc.

Sir Peter attended the Universities of Sheffield and Bristol and was a visiting fellow at Nuffield College, Oxford from 1981 to 1989. He has been a member of the Council of the Manchester Business School and the London Business School and is presently a Pro Chancellor of Sheffield University.

Sir Peter is chairman of the Institute of Contemporary British History, is a governor of the National Institute of Economic and Social Research, a governor of the Ditchley Foundation and a board member of the Centre for Economic Policy Research, and the Centre for the Study of Financial Innovation. He is a member of the Financial Reporting Council.

Jane Newell

(age 55)

Jane joined the board as a non-executive director in September 1996. She is Chair of the United Utilities Pension Scheme and the Norweb Group of the Electricity Supply Pension Scheme.

She spent 10 years as an international civil servant before reading French and Linguistics at Victoria University of Wellington, where she won a University Grants Committee doctoral scholarship. After returning to the UK in 1983, she spent eight years as administrator and fundraiser for the

Liverpool School of Tropical Medicine, where she subsequently became a member of the Council, and chairman of Council from 1995 to 1997.

In 1992, Jane was appointed a founder trustee and subsequently chairman of the Maxwell Pensioners Trust by the Secretary of State for Social Security, for which work she was awarded an OBE in 1997. She is also a trustee of the Glaxo Wellcome Pension Plan and of the Dixon Group's Pension Scheme.

She is an external assessor for the Home Office for promotions in the police, prison and fire services, a JP on the South Western Bench in Inner London, and vice chairman of the board of governors of South Bank University.

John Seed

(age 60) *Chairman of the Remuneration Committee*

John joined the board as a non-executive director in March 1996.

John was formerly chief executive of South Western Electricity plc. A chartered engineer, he spent 29 years with Eastern Electricity, holding a number of engineering and general management posts before becoming director of engineering in 1982. He was appointed deputy chairman of South Western Electricity in 1986, becoming managing director at privatisation and then chief executive in 1992.

He is also a non-executive director of Prism Rail plc, British Smaller Companies VCT plc, and chairman of Warre Associates Limited. He was a non-executive director of the Bath Royal United Hospital Trust from 1990 to 1997, and of Rebus Group plc from 1997 to 1999. He was chairman of Great Western Assured Growth plc from 1991 to 1997 and Windelectric Limited from 1996 to 1999.

John is a Fellow of the Institution of Electrical Engineers and a Companion of the Institute of Management. He is also a Fellow of the Royal Society of Arts.

Norman Broadhurst

(age 57)

Norman was appointed a non-executive director in April 1999.

He is finance director of Railtrack Plc, joining the company in 1994 and subsequently working closely on its successful flotation. Before joining Railtrack, he was joint deputy chief executive, finance/commercial, with VSEL Plc and prior to that, finance director.

Norman worked for Platt Saco Lowell Limited for 11 years from 1970, becoming finance director. He joined the China Light and Power Company Limited in Hong Kong in 1981 as financial controller and then divisional manager, finance administration. In 1986, he was appointed finance director of United Engineering Steels Limited. He joined VSEL in 1991.

Born in North West England, Norman is a chartered accountant and is also a non-executive director of Clubhaus Plc, Chloride Plc and Old Mutual Plc.

Directors' report

Principal activities and business review

The group provides a range of utility services, including the planning, design and operation of water, wastewater, electricity distribution and telecommunications systems, and the supply of electricity and gas. In addition, the group provides business process outsourcing services supporting both group businesses and external customers.

The group's principal subsidiary and associated undertakings are listed in note 12 to the accounts.

The Chairman and the Chief Executive's statements, and the operational and financial reviews on pages 2 to 21 report on the group's activities during the year and likely future developments.

Dividend

We recommend a final dividend of 29.9 pence per ordinary share for the year ended 31 March 1999, making a total for the year of 44.3 pence. Subject to approval of the recommendation by shareholders at the annual general meeting, the dividend will be paid on 1 October 1999 to shareholders on the register at close of business on 11 June 1999.

Business at the annual general meeting

Full details of the resolutions to be proposed at the 1999 annual general meeting are set out in the notice of meeting, and there are explanatory notes about the resolutions in the leaflet containing the formal notice, which is enclosed with this report.

Substantial shareholding

At 31 May 1999, the company had been notified by Capital Group of Companies, Inc. and by Prudential Corporation plc that they held interests in 6.99 per cent and 3.45 per cent respectively of the company's issued ordinary share capital.

Directors

The names of present directors and biographical details are given on pages 22 and 23. Details of directors' interests in the company's shares and further information about the directors seeking re-election are included in the report on remuneration on pages 28 to 32.

Employment policies

Employees are key to achieving our business strategy. We are committed to improving the skills of our employees and to extending Investor in People accreditation throughout the group. Through training and development and nurturing a culture in which our employees feel valued, we encourage them to work to their full potential. We respect the dignity and rights of every employee, support employees in performing various roles in society, and challenge prejudice and stereotyping.

We are committed to open and regular communications with our employees about business issues and developments and issues of general interest to them, through both formal and informal processes. We further encourage involvement through means such as the employee sharesave scheme, and suggestion and recognition schemes.

Proper attention to health and safety is an indispensable part of our commitment to high standards in every aspect of our business. The safety performance of the group has improved to its best level since the formation of United Utilities. In terms of lost time injuries per one hundred employees, the current rate of 1.50 represents a 26 per cent improvement on the level achieved in 1996.

Research and development

The group is committed to develop innovative, cost-effective and practical solutions for providing high quality services to our customers. We seek to take maximum advantage of the wide-ranging expertise, abilities and facilities within the group. We also seek to ensure that we properly focus our investment in the development and application of technology, that we have the right skills to employ technology to competitive advantage, and that we continue to be alert to technological opportunities.

Payments to suppliers

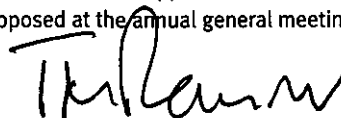
The group does not follow any specific external code or standard on payment practice. Its policy is normally to pay suppliers according to agreed terms of business. These terms are agreed with suppliers on entering into binding contracts and the group's policy is to adhere to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts. In accordance with The Companies Act 1985 (Directors' Report) (Statement of Payment Practice) Regulations 1997, the company had 13 days of purchases outstanding at the end of the financial year.

Charitable donations and political contributions

During the year, we have continued to support a range of charitable projects and to support in other ways the communities of which our businesses are an integral part. Charitable donations in the year amounted to £837,955 (1998 - £576,163). No political contributions were made.

Auditor

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



Signed on behalf of the board of directors
Tim Rayner Secretary
7 June 1999

Corporate governance

Corporate governance, in general terms, is the way in which a company is controlled and directed and, in particular, is concerned with the role of the board of directors, how the board and committees of the board operate, and accountability within a company.

Your board supports the highest standards of corporate governance and is accountable to you for good governance.

The new combined code

In June 1998, the Listing Rules of the London Stock Exchange were revised and now require listed companies to describe how they have complied with a new consolidated code of practice, known as the combined code. This statement, and the report on remuneration on pages 28 to 32, describe how the principles of good governance set out in section 1 of the combined code appended to the Listing Rules, are applied by the company. It also comments on the company's compliance with the code of best practice provisions set out in section 1 of the combined code.

Directors

The board of directors includes a balance of executive and non-executive directors. It currently comprises the non-executive Chairman (Sir Christopher Harding), the Chief Executive (Derek Green), three other executive directors (John Beckett, Bob Ferguson and Gordon Waters) and seven other non-executive directors (Norman Broadhurst, Eric Clark, Sir Richard Evans, Rodney Leach, Sir Peter Middleton, Jane Newell and John Seed), who bring a wide range of business experience and expertise to the board's discussions and decision making. Biographical details of all the directors are set out on pages 22 and 23. Norman joined the board on 1 April 1999, and Eric and Rodney will both be retiring at the annual general meeting.

The positions of Chairman and Chief Executive are held by separate individuals with clearly defined responsibilities, the former primarily responsible for the working of the board and the latter with executive responsibility for running the business and for implementing board strategy and policy.

All the directors are equally accountable under the law for the proper stewardship of the company's affairs. The board acts in a way which allows all directors to bring their independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.

All the non-executive directors are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The current Vice Chairman, Sir Peter Middleton, is the senior independent non-executive director.

All the directors have access to the advice and services of the Company Secretary who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. There is a formal procedure for directors to obtain independent professional advice in the furtherance of their duties should that be necessary, the cost of which would be met by the company.

The board is supplied in a timely manner with all relevant information to assist it in the discharge of its duties. It meets formally at least ten times each year. It focuses on strategy formulation and the strategic direction of the

group, the development of policy and reviews the management and financial performance of the company and the operating businesses.

The board has a formal schedule of matters specifically reserved to it for decision, including business acquisitions and disposals, major capital expenditure and significant financing matters. It has approved a formal structure of authorities for decision making below board level and considerable responsibility is placed on the boards of directors of the company's principal operating subsidiaries, including North West Water Limited, whose board includes two independent non-executive directors, who are not on the company's board.

Some specific responsibilities have been delegated to committees of the board, including the Audit, Nomination and Remuneration Committees, whose terms of reference were reviewed and revised appropriately during the year specifically in the light of the publication and provisions of the combined code. The roles of the Audit and Remuneration Committees are described on pages 26 and 28 respectively.

The Nomination Committee considers and makes recommendations to the board on the composition, balance and membership of the board. Its members are the Chairman (who is chairman of the Committee), the Vice Chairman, the Chief Executive and the chairmen of the Audit and Remuneration Committees, a majority being non-executive directors.

All non-executive directors are appointed for specified terms (normally three years) subject to re-election and to Companies Act provisions relating to the removal of a director, and re-appointment is not automatic. All directors are subject to election by shareholders at the first opportunity after their initial appointment, and to re-election thereafter in accordance with the articles of association. Currently, the articles provide for a third of the directors to retire at each annual general meeting. To comply with the new code of best practice an amendment to the articles is being proposed at this year's annual general meeting to provide that all directors should be subject to re-election at intervals of not more than three years in any event.

Directors' remuneration

How the principles of good governance are applied in respect of directors' remuneration, including the role and membership of the Remuneration Committee, is described in the board's report on remuneration, which has been prepared by the Remuneration Committee on behalf of the board.

Relations with shareholders

The formal interim report, the annual report and the annual review are the substantial means of communicating during the year with all shareholders. The annual report and the annual review give details of how shareholders can obtain further information about the group, its businesses and activities in other printed reports or on our web sites.

The board is always ready, where practicable, to enter into dialogue with institutional shareholders based on the mutual understanding of objectives

The annual general meeting is the major opportunity to meet individual shareholders, to make presentations to them, to encourage their participation through questions on the progress and performance of the business, and to talk to them informally before and after the formal proceedings. The relevant director, where appropriate the chairman of the relevant committee (Audit,

Corporate governance

Nomination and Remuneration), responds to shareholders' questions during the formal proceedings.

Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the report and accounts.

At this year's annual general meeting and future meetings, the level of proxies lodged on each resolution, and the balance for and against the resolution, will be indicated following a show of hands on that resolution.

The company has always complied with Companies Act requirements regarding despatch of the notice of the annual general meeting. This year's notice of meeting was, and future notices will be, sent to shareholders at least 20 working days before the meeting.

Accountability and audit

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 or loss for the financial year. The directors consider that in preparing the financial statements, the group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. All accounting standards which they consider to be applicable have been followed, subject to any departure and explanation set out in the notes to the accounts. The directors have a responsibility at law 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 also 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 auditor's statement about its reporting responsibilities is set out on page 33.

After making enquiries, the directors are of the opinion that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing these financial statements.

The board has overall responsibility for the group's systems of internal control. Monitoring of the effectiveness of internal control systems, including financial, operational and compliance controls and risk management, is undertaken by the Audit Committee on behalf of the board. The group has an internal audit function.

The board considers that the system of internal control is designed to provide reasonable, but not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets. The key elements of internal control operating within the group and throughout the period covered by the financial statements are as follows:

- control environment: the culture and values of the group are communicated through specific policies covering the quality, integrity and ethics of personnel. The group's business units operate within a framework of policies and procedures laid down in organisation and authority manuals and the group's personnel are required to comply with these policies and procedures as relevant to their functions and responsibilities, and are

accountable as such. Policies and procedures cover key issues such as authorisation levels, segregation of duties (wherever practicable), recording of data and physical security;

- identification and evaluation of business risks: the group has annual reporting procedures that identify the major financial, commercial, legal and regulatory and operating risks within the group, and procedures for their regular review, management and insurance of those risks. An annual group risk assessment report is prepared by internal audit and internal audit undertakes regular reviews of the most significant areas of risk and ensures that key control objectives remain in place. Significant risk areas, including those arising from the development of new activities, are subject to consideration by the board;
- information and financial reporting systems: there are comprehensive planning and financial reporting procedures which include detailed operational budgets for the year ahead and projections for subsequent years. These are approved and reviewed by the board. Key performance indicators are also reviewed by the board monthly to assess progress towards objectives. The board reports to shareholders half yearly;
- investment appraisal: there are clear policies and procedures for capital expenditure, which include short and long term budgets, detailed appraisal and review procedures and defined levels of authority; and
- monitoring systems and corrective action: all operating units prepare self-certification risk management and internal control questionnaires which confirm compliance with required standards of risk management and internal control. This document requires business managers to consider their approach to the risks identified in the group risk assessment and to confirm whether or not effective internal controls are in place to address key control objectives. The questionnaires are reviewed and substantively verified by both internal and external auditors as part of their annual statutory audit. Any corrective action which may be necessary is agreed and implemented. The responsibilities of the internal auditors include, specifically, reviewing on behalf of the board (and reporting directly to the Audit Committee on) the group's internal controls and risk management procedures.

The Audit Committee reviews the internal and external audit activities, monitors compliance with statutory requirements for financial reporting, reviews the half year and annual financial statements before they are submitted to the board for approval, and keeps under review throughout the year the effectiveness of the group's internal control systems and makes recommendations to the board. As required by the combined code, it has, on behalf of the board, conducted a review of the effectiveness of the company's system of internal control for 1998/99, covering all controls, including financial, operational and compliance controls and risk management.

In this respect, the company notes the guidance contained in the draft consultation paper on internal control issued by the Turnbull Committee, on behalf of the Institute of Chartered Accountants, and will review its arrangements as necessary in the light of the final guidance when published.

The Audit Committee also keeps under review the scope and results of the audit, its cost effectiveness, the independence and objectivity of the auditor and the nature and extent of non-audit services supplied to the group by the auditor, seeking to balance the maintenance of objectivity and value for money. Its members are Rodney Leach (chairman), Norman Broadhurst (who will succeed Rodney as chairman), Eric Clark, Jane Newell and John Seed, all of whom are independent non-executive directors.

Corporate governance

Compliance with the code of best practice

The principles of good governance and code of best practice in the combined code prepared by the Hampel Committee and now appended to the Listing Rules were published part way through the financial year which is the subject of this report. In its 1998 annual report and prior to the publication of the combined code, the board indicated that whilst it believed that, broadly, the company's practices already complied with both the general principles and also the recommendations in the code, it would undertake a detailed review of the company's corporate governance regime once the combined code was finalised and published. A comprehensive and co-ordinated review of the issues was subsequently conducted and concluded in the year, and included the group's internal controls, the terms of reference and membership of committees, and remuneration policies.

Because of the timing of the publication of the combined code, there are some detailed aspects of section 1 of the code of best practice with which the company was not compliant during the year ended 31 March 1999. Following the board's review, changes have been made to ensure compliance, subject to approval by shareholders of the proposed amendment of the articles of association referred to above (concerning the re-election of directors). In all other respects, the company complied throughout the year with the provisions of the code, having taken note of the Stock Exchange's guidance on reviewing and reporting on the effectiveness of the company's internal controls.

The company was not compliant during the whole of the year in respect of the following provisions (non-compliance in relation to the provisions of the code concerning remuneration is dealt with in the report on remuneration):

- the senior independent director was not identified in the 1998 annual report; the independence of non-executive directors was not explicitly indicated in every case in the 1998 annual report; and the articles of association did not provide for the re-election of directors at intervals of no more than three years;
- the level of proxies lodged and the balance indicated for and against each resolution at the annual general meeting was not indicated following the show of hands; and the notice of meeting for the annual general meeting was sent 18 clear working days before the meeting rather than 20 days; and
- the Audit Committee's terms of reference did not explicitly require it to keep under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the auditor, nor the nature and extent of non-audit services supplied to the group by the auditor, seeking to balance the maintenance of objectivity and value for money, and the Committee's terms of reference were therefore amended during the year.

The board expects the company to be compliant with the code during the whole of the current financial year, which is the company's first full financial year following the publication of the principles and code, except in relation to the re-election of directors which is subject to the amendment of the articles referred to above being approved at this year's annual general meeting.

Remuneration report

Good governance

The group's remuneration policies and the role and responsibilities of the Remuneration Committee were included in the comprehensive review, undertaken by the board during the year, in the light of the publication by the London Stock Exchange of its consolidated combined code on corporate governance, which includes a code of best practice.

This report has been prepared by the Remuneration Committee on behalf of the board and describes the company's arrangements for directors' remuneration in the context of the combined code principles and the provisions of the code of best practice.

The company complied throughout the year with the provisions of the code of best practice which concern directors' remuneration, except in respect of the remit of the Remuneration Committee and executive directors' contracts of service, both of which are more fully described below.

Remuneration policy

The group aims to attract, develop, retain and motivate talented employees at all levels, and seeks to provide competitive salaries and benefits for all its employees. Within that strategy, the board's executive remuneration policy objectives are to ensure that remuneration packages:

- attract, retain and motivate executive directors and other senior executives;
- are directly aligned with the performance of the group and the interests of the shareholders;
- fairly and responsibly reward executives for their contribution to the group's performance; and
- avoid paying more than is necessary for achieving their purpose.

The Remuneration Committee

The Remuneration Committee makes recommendations to the board on the group's framework of executive remuneration and its cost. Its terms of reference were amended to that effect during the year to comply with the new combined code. Prior to that change, the Committee had determined executive remuneration policy, in line with the previous best practice provisions then appended to the London Stock Exchange's Listing Rules.

On the board's behalf, the Committee approves the general recruitment terms, remuneration benefits, employment conditions and severance terms for executive management and determines the specific recruitment terms, remuneration benefits, employment conditions, pension rights, compensation payments and severance terms for the executive directors and other senior executives.

In its deliberations, the Committee gives full consideration to the principles of good governance and the code of best practice within the combined code. It takes professional advice from within and outside the company.

The members of the Committee are Eric Clark, Rodney Leach, Jane Newell and John Seed (chairman). They are all independent non-executive directors. They have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors. They have no conflicts of interest arising from cross directorships and no involvement in the day to day running of the group's businesses.

Although not a member of the Committee, on occasion and for matters not related to himself, the Chief Executive may attend meetings and is consulted

by the Committee on proposals relating to the remuneration of the other executive directors and appropriate senior executives. Sir Christopher Hardin is not a member of the Committee but, as Chairman, may attend meetings and is consulted by the Committee on proposals relating to the remuneration of the Chief Executive. He ensures that the company maintains contact as required with its principal shareholders about remuneration matters.

Remuneration packages for executive directors

In determining the executive directors' total remuneration package and individual elements of it, the Committee assesses where the company should be positioned relative to other companies. It is mindful of the need to make appropriate comparisons and to treat them with caution. A significant proportion of rewards is linked, under the company's incentive plan, to corporate and individual performance.

The remuneration package comprises the following elements:

Salary

Basic salaries are reviewed annually, taking account of company and personal performance. This is supported by independent assessment of market rates based on the practice of a group of appropriate companies in the FTSE 100, other utility companies and companies of a similar size and complexity to the company. Account is also taken of the levels of pay awards elsewhere in the company.

Short term incentive awards

Short term incentive awards to executive directors under the incentive plan are normally made contingently in shares in the company, ownership of which will normally only vest in the executive director after a further two financial years. Awards, up to a maximum of 40 per cent of annual salary, are made in respect of an individual financial year, based on financial performance in that year. All awards are subject to performance criteria which, in the Committee's opinion, are stretching.

Long term incentive awards

The performance measurement period for long term incentive awards under the incentive plan is three consecutive financial years. Two thirds of the value of awards are normally made contingently in shares in the company, ownership of which will normally only vest in the executive after a further period of two financial years. The remaining one third is payable in cash after the end of the performance period.

Awards are based on the company's total shareholder return (TSR) performance relative to that achieved by two comparator groups of companies – the FTSE 100 utility companies, and the remaining FTSE 100 companies excluding the utility companies – measured over the performance period. No award is earned in respect of a comparator group if the company's TSR ranks in the bottom half of that group. The maximum, capped, award is achieved if the company is in the upper quartile against both comparator groups and the company's annual TSR over the performance period reaches an average of 25 per cent or above per annum. At that rate of return, the value of a shareholder's investment would have doubled over that period.

No awards are made if growth in adjusted earnings per share over the performance period does not exceed the increase in the retail prices index over that period by at least 2 per cent per annum.

Remuneration report

Taxable benefits

Taxable benefits comprise, as appropriate, car, travel, telephone allowance, mobile telephone, medical and life insurance.

Pension

Full information about pension arrangements and entitlements is given below.

Share options

Executive directors are eligible to participate in the employee sharesave scheme. As participants in the incentive plan, they do not participate in the group's executive share option scheme. Full details of share options (including options under the executive share option scheme granted prior to the introduction of the incentive plan) are given below.

Share ownership

Share ownership is generally regarded as an effective means of aligning the interests of executives and shareholders. The group promotes greater ownership of shares in the company through the making of incentive awards in shares and through encouraging executive directors to accumulate and hold shares with a value of the order of their annual salary.

Contracts of service and compensation

The review of remuneration policies conducted during the year included the issue of notice periods. A change was made to comply with the combined code and, in future, new executive directors joining the board will normally be offered one year notice periods. An initial longer notice period may be offered where it is considered necessary to recruit an appropriate individual. Where an initial notice period of more than one year is offered, the company would normally look to reduce that period to one year after the initial period.

All the current executive directors serve under contracts which are terminable by the company giving two years' notice. As those periods have previously been reduced from three years by agreement with each of the executive directors concerned and without compensation, it is not intended to seek a further reduction in the case of the current executive directors.

The Committee's policy on termination of contracts is to apply mitigation as far as is fair and reasonable in each circumstance. In so doing, it will have due regard to the best practice provisions of the combined code and the company's legal liability in each instance.

Non-executive directors' remuneration

The remuneration of the Chairman is determined by a committee of the board comprising the Chief Executive and the other non-executive directors. The remuneration of the non-executive directors, other than the Chairman, is determined by a committee of the board comprising the Chairman and the executive directors. In both cases, the committees are supported by independent advice and operate within the provisions of the company's articles of association.

The annual remuneration payable to non-executive directors in the year was a fee of £20,000, £5,000 for chairmanship of a board committee, £1,000 for membership of a board committee, and appropriate amounts for additional and special responsibilities.

The non-executive directors do not have contracts of service, and do not participate in the incentive plan, pension or healthcare arrangements. They are not eligible to be granted options under either the executive share option scheme or the employee sharesave scheme. Taxable benefits comprise, as appropriate, telephone allowance and travel.

Remuneration report

Directors' emoluments

Emoluments comprise salaries, fees, taxable benefits and the value of short term incentive awards. The aggregate emoluments of directors in the year ended 31 March 1999 amounted to £1,548 million (1998 - £2,079 million). Individual directors' emoluments for the financial year were:

	Salary/ Fees		Short term incentive award		Taxable benefits		1999 £'000	1998 £'000
	1999 £'000	1998 £'000	1999 £'000	1998 £'000	1999 £'000	1998 £'000		
Derek Green	311.7	272.7	128.0	120.0	21.5	18.1	461.2	410.0
John Beckett	178.8	167.9	74.0	68.0	17.9	12.0	270.7	247.0
Bob Ferguson	202.8	191.0	82.3	79.4	15.5	14.0	300.6	284.0
Gordon Waters	170.6	134.6	56.8	55.7	12.6	9.0	240.0	199.0
Sir Christopher Harding	100.0	20.8	-	-	0.4	-	100.4	20.0
Eric Clark	23.0	25.7	-	-	-	0.9	23.0	26.0
Sir Richard Evans	20.0	11.7	-	-	-	-	20.0	11.0
Rodney Leach	27.0	26.7	-	-	-	1.2	27.0	27.0
Sir Peter Middleton	41.0	40.7	-	-	-	-	41.0	40.0
Jane Newell	37.0	25.2	-	-	-	-	37.0	25.0
John Seed	27.0	24.5	-	-	-	0.5	27.0	25.0

Notes:

Gordon Waters, Sir Richard Evans and Sir Christopher Harding were appointed directors with effect from 1 June, 1 September and 1 November 1997 respectively. Derek Green was appointed Chief Executive with effect from 21 July 1997. Sir Christopher became Chairman on 1 April 1998. Norman Broadhurst was appointed a director with effect from 1 April 1999.

The value of short term incentive awards under the incentive plan in respect of the year ended 31 March 1999 will be satisfied by the allocation by the trustee of the United Utilities Employee Share Trust to executive directors of ordinary shares in the company, based on a share price of 741 pence being, in accordance with the rules of the plan, the average of the mid market prices of an ordinary share over the 30 business days commencing 15 business days before the year end, with the exception of Derek Green who will retire in January 2000 and whose award will, in accordance with the rules of the plan, be paid in cash.

The highest paid director in the year ended 31 March 1999 was Derek Green.

During the year, the company settled its dispute with Brian Staples, the previous Chief Executive, whose employment with the company terminated on 31 July 1997. The company paid £60,000 (plus VAT) towards Mr Staples' legal fees. Mr Staples was allowed to exercise options granted on 18 September 1995 to subscribe for 124,435 ordinary shares at an exercise price of 530.12p per ordinary share. All other options to subscribe for ordinary shares granted to him subsequently under the executive share option scheme, and options granted to him under the employee sharesave scheme, lapsed. The mid market price of a share on the day of exercise was 895 pence. Mr Staples was reimbursed for previously incurred relocation expenses of £34,142 (inclusive of VAT) in accordance with the company's relocation policy. Pursuant to that policy, that amount was grossed up to take account of higher rate income tax payable by Mr Staples on receipt of that payment.

Long term incentive awards

For the year under review, executive directors' interests in long term incentive awards were as follows:

	Award in respect of	Contingent interest in shares at 1 April 1998	Award made during the year				Contingent interest in shares added during the year	Shares vested during the year	Contingent interest shares at 31 March 1999	
			Aggregate value	Cash	Contingent interest in shares				No.	Va £'000
					Value £'000	No.				
Derek Green	1998	-	101.7	33.9	67.8	7,975	407	-	8,382	62
John Beckett	1998	-	64.6	21.5	43.1	5,067	258	-	5,325	39
Bob Ferguson	1998	-	75.4	25.1	50.3	5,916	301	-	6,217	46
Gordon Waters	1998	-	47.0	15.7	31.3	3,688	187	-	3,875	28

In accordance with the rules of the plan, awards are due shortly to be made to executive directors in respect of 1999 as follows:

	Aggregate value	Cash	Contingent interest in shares	
	£'000	£'000	Value £'000	No.
Derek Green	72.0	72.0	-	-
John Beckett	33.3	11.1	22.2	2,900
Bob Ferguson	37.1	12.4	24.7	3,300
Gordon Waters	31.2	10.4	20.8	2,800

Notes:

In accordance with the rules of the plan, the awards in respect of 1998 were made after two years and performance was measured over the two financial years to 31 March 1998. The plan provided that no long term incentive awards were to be made in respect of 1997 and that, accordingly, the awards made in respect of 1998 were doubled.

The number of ordinary shares in the company allocated by the trustee of the United Utilities Employee Share Trust to executive directors is based on a share price determined by taking the average of the mid market prices of an ordinary share over the 30 business days commencing 15 days before the 31 March on which the award year ends, the share prices in respect of the

1998 and the 1999 awards being 850 pence and 741 pence respectively. The mid market price of a share on 31 March 1999 was 740 pence.

The vesting dates for the 1998 and 1999 awards will normally be March 2000 and March 2001 respectively. In accordance with the rules, Derek Green's award for 1999 will be paid wholly cash and his award for 1998 will vest on his retirement in January 2000 when he will receive cash payment based on the price at that time of the shares in which he has a contingent interest.

Contingent interest in shares added during the year represents the value of dividends paid in the year on shares awarded contingently.

Remuneration report

Details of directors' interests in the company's shares

At 31 March, the directors and their immediate families had the following interests, all of which were beneficial interests, in ordinary shares in the company and options to subscribe for ordinary shares:

	1999						1998 or appointment
	Share options			Ordinary shares	Share opti		Share opti
	Ordinary shares	Executive option scheme	Employee sharesave scheme		Ordinary shares	Executive option scheme	
Derek Green	7,944	9,184	-	17,944	50,854		
John Beckett	2,593	41,112	3,586	2,593	41,112	3,586	
Bob Ferguson	25,295	65,374	4,005	40,295	65,374	4,005	
Gordon Waters	1,152	-	3,623	1,117	-	3,623	
Sir Christopher Harding	10,172	-	-	10,172	-	-	
Eric Clark	7,049	-	-	7,049	-	-	
Sir Richard Evans	245	-	-	245	-	-	
Rodney Leach	14,079	-	-	14,079	-	-	
Sir Peter Middleton	4,574	-	-	4,574	-	-	
Jane Newell	3,153	-	-	3,379	-	-	
John Seed	3,917	-	-	3,907	-	-	

Further details of directors' options to subscribe for ordinary shares, including details of options exercised by directors during the year, are as follows:

	Share options as at 31 March 1998 or on appointment	Options granted during the year	Exercise price per share	First date exercisable	Last date exercisable	Options exercised during the year	Ma price exerc
<i>Employee sharesave scheme</i>							
Derek Green	-	-	-	-	-	-	-
John Beckett	3,586	-	481.0p	2/2/2001	1/8/2001	-	-
Bob Ferguson	2,556	-	404.8p	2/3/2000	1/9/2000	-	-
	1,449	-	476.0p	2/2/2002	1/8/2002	-	-
Gordon Waters	3,623	-	476.0p	2/2/2002	1/8/2002	-	-
<i>Executive option scheme</i>							
Derek Green	38,182	-	334.2p	18/6/1997	18/6/2002	38,182	859.
	4,522	-	482.2p	20/1/1999	20/1/2004	-	-
	3,488	-	479.8p	15/12/1997	15/12/2004	3,488	859.
	1,162	-	408.2p	15/12/1999	15/12/2004	-	-
	3,500	-	584.5p	20/12/1998	20/12/2005	-	-
John Beckett	28,362	-	408.2p	15/12/1999	15/12/2004	-	-
	12,750	-	584.5p	20/12/1998	20/12/2005	-	-
Bob Ferguson	6,008	-	394.2p	6/1/1998	6/1/2003	-	-
	19,382	-	566.9p	20/1/1997	20/1/2004	-	-
	6,460	-	482.2p	20/1/1999	20/1/2004	-	-
	17,831	-	479.8p	15/12/1997	15/12/2004	-	-
	5,943	-	408.2p	15/12/1999	15/12/2004	-	-
	9,750	-	584.5p	20/12/1998	20/12/2005	-	-
Gordon Waters	-	-	-	-	-	-	-

Notes:

Derek Green's interest in ordinary shares at 31 March 1999 includes 200 ordinary shares held in the form of American Depositary Receipts.

The mid market price of a share on 31 March 1999 was 740.0 pence and the range in the year was 727.0 pence to 957.0 pence.

On his appointment as a director, Norman Broadhurst had a beneficial interest in 91 shares in the company.

The aggregate notional gain made by directors on the exercise of share options during the year (based on the difference between the mid market price of a share on the day on which options were exercised and the exercise price) was £213,593.48 (1998 - £360,138.94). Details of individual executive directors' notional gains are:

	Notional gains	
	1999 £'000	1998 £'000
Derek Green	213.6	22.4
John Beckett	-	337.7

Under the terms and conditions of the employee sharesave scheme, for every month (up to no more than six months) savings are behind, the last date exercisable will be delayed by one month.

No option held by the directors as shown above lapsed during the year.

Each executive director of the company is a member of the class of discretionary beneficiary of the United Utilities Employee Share Trust and the United Utilities Qualifying Employee Share Ownership Trust and is therefore treated as having an interest in the ordinary shares held by United Utilities Employee Share Trust Limited as trustee of the United Utilities Employee Share Trust (56,000 shares at 31 March 1999) and in the ordinary shares held by United Utilities QUEST Trustee Limited as trustee of the United Utilities Qualifying Employee Share Ownership Trust (183,341 shares at 31 March 1999). As at 31 May 1999, United Utilities Employee Share Trust Limited held 37,845 shares and United Utilities QUEST Trustee Limited held 141,042 shares.

Save as mentioned above, no director had any interest in any share capital of any other group company or in any debenture of any group company.

From the end of the financial year until 31 May 1999 there have been no changes in the beneficial interests, except that on 27 May 1999 the trustee of the United Utilities Employee Share Trust in accordance with the rules of the incentive plan transferred 7,066 shares to Derek Green and 11,089 shares to John Beckett in respect of short term incentive awards and Derek Green disposed of 2,833 shares at a price of 738 pence.

Remuneration report

Pension arrangements

All the current executive directors are members of and have made contributions to the United Utilities Pension Scheme (UUPS), which is a defined benefit pension scheme providing an entitlement on retirement at age 60 equal to 1/30th of pensionable remuneration for each completed year of service but subject to an overall maximum of 20 years. The normal retirement age is 60 but early retirement is possible from age 50 with the agreement of the company.

As a consequence of changes made by the Finance Act 1989, the company is unable to provide pensions from the UUPS for its executive directors who have joined the company since 1989 on the same basis as pensions for directors who joined the company before that date. In line with many other companies, the company has therefore established separate arrangements for these executive directors. Accordingly, on the retirement of John Beckitt, Derek Green and Gordon Waters, together with former directors in this

category, the company has undertaken to pay the difference between their pensionable entitlements based upon the relevant proportion of their final pensionable remuneration and the maximum amount payable under the rules of the UUPS. At the present time these 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 in the UUPS on the same basis as directors who had joined the company prior to 1989. In accordance with these separate unfunded arrangements, the company has made payments of £48,081 in total in the year ended 31 March 1999.

Awards under the incentive plan are not pensionable and, in order to protect the contractual entitlements of those executive directors whose previous annual bonus payments had been pensionable, pension calculations have been adjusted. New executive directors will be recruited on the basis that pensionable remuneration equals basic salary only.

Details of the pension benefits calculated as having been earned by each executive director are:

	Increase in accrued pension during the year £'000 pa	Transfer value equivalent of increase £'000	Accumulated total accrued pension at year end £'000 p
Derek Green	20.2	354.5	92.
John Beckitt	7.6	93.8	77.
Bob Ferguson	6.7	96.2	163.
Gordon Waters	8.0	98.9	22.

Notes:

The accumulated total accrued pension at year end is that which would be paid annually on retirement based on service to 31 March 1999.

The increase in accrued pension during the year excludes any increase for inflation.

The transfer value equivalent of increase has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions.

Neither the contributions nor the resulting benefits from any additional voluntary contributions paid are reflected in the above table.

The non-executive directors do not receive any pension contributions nor participate in any of the group's pension schemes.

The accumulated total accrued pension at 31 March 1998 in respect of the highest paid director (Derek Green) was £70,550.

Directors standing for re-election

Norman Broadhurst and John Seed are standing, and are recommended by the board, for re-election at the 1999 annual general meeting. As non-executive directors, Norman and John do not have contracts of service.

Auditor's report

Auditor's report to the members of United Utilities PLC

We have audited the financial statements on pages 34 to 64.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report and 20-F, including as described on page 26 of the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Standards generally accepted in the United Kingdom and in the United States, the Listing Rules of the London Stock Exchange, the regulations of the United States Securities and Exchange Commission, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the company is not disclosed.

We review whether the statement on page 27 reflects the company's compliance with those provisions of the combined code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's corporate governance procedures or its internal controls.

We read the other information contained in the annual report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with auditing standards generally accepted in the United Kingdom and in the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the

preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

United Kingdom opinion

In our opinion, the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 March 1999 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

United States opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 March 1999 and 1998 and the results of its operations and cash flows for each of the years in the three year period ended 31 March 1999 in conformity with generally accepted accounting principles in the United Kingdom. Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected net income for each of the years in the three year period ended 31 March 1999 and consolidated shareholders' equity at 31 March 1999 and 1998 to the extent summarised in note 35 to the accounts.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester

7 June 1999

KPMG Audit

Consolidated profit and loss account

For the year ended 31 March 1999	Continuing operations			Continuing operations		Discontinued operations	Continuing operations			Discontinued operations		1998 Total Restated £	
	Note	Before exceptional items £m	Exceptional items £m	1999 Total £m	Before exceptional items Restated £m		Exceptional items Restated £m	1998 Total Restated £m	Before exceptional items Restated £m	Exceptional items Restated £m	Before exceptional items Restated £m		Exceptional items Restated £m
Turnover: group and share of joint ventures		2,350.1	-	2,350.1	2,227.7	-	-	2,227.7	2,157.3	-	274.9	-	2,432.6
Less: share of joint venture turnover		(73.2)	-	(73.2)	(77.5)	-	-	(77.5)	(55.0)	-	-	-	(55.0)
Group turnover	2	2,276.9	-	2,276.9	2,150.2	-	-	2,150.2	2,102.3	-	274.9	-	2,377.4
Net operating costs	3	(1,588.0)	(31.9)	(1,619.9)	(1,559.4)	(43.6)	-	(1,603.0)	(1,527.2)	(107.9)	(284.5)	(11.6)	(1,931.1)
Group operating profit		688.9	(31.9)	657.0	590.8	(43.6)	-	547.2	575.1	(107.9)	(9.6)	(11.6)	446.1
Share of operating profits of joint ventures	2, 12	2.1	-	2.1	6.3	-	-	6.3	23.2	-	-	-	23.2
Share of operating losses of associated undertakings	2, 12	-	-	-	(0.1)	-	-	(0.1)	(0.7)	-	-	-	(0.8)
Profit before non-operating items, interest and tax	2	691.0	(31.9)	659.1	597.0	(43.6)	-	553.4	597.6	(107.9)	(9.6)	(11.6)	468.5
Profit/(Loss) on disposal of businesses	4	-	-	-	-	-	6.8	6.8	-	0.9	(78.0)	-	(77.3)
Profit on ordinary activities before interest		691.0	(31.9)	659.1	597.0	(43.6)	6.8	560.2	597.6	(107.0)	(87.6)	(11.6)	391.2
Net interest payable and other similar charges:													
Group	7			(194.4)				(155.2)					(144.4)
Joint ventures	7, 12			(8.8)				(7.3)					(22.1)
	7			(203.2)				(162.5)					(167.1)
Profit on ordinary activities before taxation	8			455.9				397.7					224.1
Taxation on profit on ordinary activities	8			12.0				(24.2)					(47.1)
Profit on ordinary activities after taxation				467.9				373.5					177.0
Exceptional taxation - windfall tax				-				(414.8)					(414.8)
				467.9				(41.3)					135.6
Minority interest				0.4				1.8					2.2
Profit/(Loss) for the financial year				468.3				(39.5)					128.3
Dividends	9			(243.6)				(228.8)					(472.4)
Transfer to/(from) reserves	23			224.7				(268.3)					(44.3)
Earnings/(Loss) per share	10			85.6p				(7.4)p					33.5p
Adjusted earnings per share	10			91.4p				77.1p					72.8p
Diluted earnings/(loss) per share	10			84.5p				(7.3)p					33.2p
Adjusted diluted earnings per share	10			90.3p				76.2p					72.1p

See accompanying notes to the accounts.

There were no material differences between reported profits and historical cost profits on ordinary activities before taxation in any of the above financial years.

The 1998 and 1997 figures have been restated to comply with new Financial Reporting Standards. Details are given in note 1 to the accounts.

Balance sheets


At 31 March 1999

	Note	Group		1999 £m	1998 Restated £m	1999 £m	1998 £m
		1999 £m	1998 Restated £m				
Fixed assets							
Tangible assets	11	5,797.1	5,322.3	6.1			
Investments in subsidiary undertakings	12	-	-	3,367.1		2,957.1	
Investments in joint ventures:							
- share of gross assets		243.3	194.2	-			
- share of gross liabilities		(176.9)	(126.8)	-			
	12	66.4	67.4	-			
Other investments including associated undertakings	12	49.7	49.1	4.4			
		5,913.2	5,438.8	3,377.6		2,957.1	
Current assets							
Stocks	13	11.9	13.6	-			
Debtors	14	474.4	429.6	1,103.3		771.1	
Investments	15	73.6	313.5	20.0		10.0	
Cash at bank and in hand		164.8	11.9	124.0			
		724.7	768.6	1,247.3		791.1	
Creditors:							
Amounts falling due within one year	16	(1,715.8)	(2,199.7)	(999.8)		(881.1)	
Net current (liabilities)/assets		(991.1)	(1,431.1)	247.5		(8.0)	
Total assets less current liabilities		4,922.1	4,007.7	3,625.1		2,877.1	
Creditors:							
Amounts falling due after more than one year	17	(2,376.5)	(1,681.6)	(815.7)		(361.1)	
Provisions for liabilities and charges	19	(242.1)	(280.4)	(6.6)		(6.6)	
Net assets		2,303.5	2,045.7	2,802.8		2,500.0	
Capital and reserves							
Called up share capital	23	549.9	544.8	549.9		544.8	
Share premium account	23	642.1	633.8	642.1		633.8	
Profit and loss account	23	1,113.1	868.3	1,610.8		1,331.1	
Equity shareholders' funds		2,305.1	2,046.9	2,802.8		2,509.7	
Minority interest		(1.6)	(1.2)	-		-	
Capital employed		2,303.5	2,045.7	2,802.8		2,500.0	

See accompanying notes to the accounts.

The 1998 figures have been restated to comply with new Financial Reporting Standards. Details are given in note 1 to the accounts.

Approved by the board of directors on 7 June 1999 and signed on its behalf by


Sir Christopher Harding
Chairman


Bob Ferguson
Group Finance Director

Consolidated cash flow statement

For the year ended 31 March 1999

	Note	1999 £m	1998 Restated £m	1997 Restated £m
Net cash inflow from operating activities	27	811.4	684.1	618.
Returns on investments and servicing of finance	28	(161.7)	(137.3)	(121.)
Taxation		(248.6)	(236.3)	29.
Capital expenditure and financial investment	29	(649.3)	(696.7)	(616.)
Acquisitions and disposals	30			
Acquisitions		(7.6)	(53.8)	
Disposals		0.8	29.5	357.
		(6.8)	(24.3)	357.
Equity dividends paid		(0.2)	(114.2)	(145.)
Cash (outflow)/inflow before use of liquid resources and financing		(255.2)	(524.7)	122.
Management of liquid resources	31	245.8	1.5	(57.)
Financing				
Issues of shares	32	9.9	9.3	10.
Increase/(Decrease) in debt	32, 33	152.3	509.3	(109.)
Increase/(Decrease) in cash		152.8	(4.6)	(34.)

Reconciliation of net cash flow to movement in net debt

For the year ended 31 March 1999

	Note	1999 £m	1998 £m	1997 £m
Increase/(Decrease) in cash		152.8	(4.6)	(34.)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing		(152.3)	(509.3)	109.
Cash (inflow)/outflow from management of liquid resources		(245.8)	(1.5)	57.
Change in net debt resulting from cash flows		(245.3)	(515.4)	132.
Exchange adjustments		(1.6)	1.8	11.
Movement in net debt		(246.9)	(513.6)	143.
Opening net debt		(2,140.6)	(1,627.0)	(1,770.)
Net debt at 31 March	33	(2,387.5)	(2,140.6)	(1,627.)

See accompanying notes to the accounts.

The 1998 and 1997 figures have been restated to comply with new Financial Reporting Standards. Details are given in note 1 to the accounts.

Statements of total recognised gains and losses

For the year ended 31 March 1999

	Note	Group			1999 £m	1997 Restated £m
		1999 £m	1998 Restated £m	1997 Restated £m		
Profit/(Loss) for financial year:						
Group		475.4	(37.0)	176.2	496.1	194.1
Joint ventures		(7.1)	(2.4)	0.4	-	-
Associated undertakings		-	(0.1)	(0.7)	-	-
		468.3	(39.5)	175.9	496.1	194.1
Exchange adjustments (group)		(3.9)	3.9	0.6	-	-
Total recognised gains and losses for the financial year		464.4	(35.6)	176.5	496.1	194.1
Prior year adjustment	1, 23	1.4				
Total gains and losses recognised since last annual report		465.8				

Reconciliations of movements in equity shareholders' funds

For the year ended 31 March 1999

	Note	Group			1999 £m	1997 Restated £m
		1999 £m	1998 Restated £m	1997 Restated £m		
Profit/(Loss) for financial year		468.3	(39.5)	175.9	496.1	194.1
Dividends	9	(243.6)	(228.8)	(195.3)	(243.6)	(228.8)
Retained profit/(loss) for the financial year		224.7	(268.3)	(19.4)	252.5	(34.7)
Goodwill on disposals	4	-	-	126.2	-	-
Adjustment in respect of shares issued in lieu of cash dividends	23	28.0	76.1	16.0	28.0	76.1
New share capital issued	23	13.4	27.0	13.5	13.4	27.0
Capitalisation of reserves in respect of shares issued via QUEST	23	(4.0)	(4.7)	-	-	-
Goodwill on acquisitions		-	-	(46.6)	-	-
Exchange adjustments	23	(3.9)	3.9	0.6	-	-
Net increase/(decrease) in equity shareholders' funds for the year		258.2	(166.0)	90.3	293.9	68.4
Opening equity shareholders' funds		2,046.9	2,212.9	2,122.6	2,508.9	2,440.5
Equity shareholders' funds at 31 March		2,305.1	2,046.9	2,212.9	2,802.8	2,508.9

See accompanying notes to the accounts.

The 1998 and 1997 figures have been restated to comply with new Financial Reporting Standards. Details are given in note 1 to the accounts.

Notes to the accounts

1 Accounting policies

The following accounting policies have been applied consistently, except as noted below, in dealing with items which are considered material in relation to the group's financial statements.

(a) Basis of preparation of financial statements

The consolidated financial statements of United Utilities PLC and its subsidiaries (the group) set out on pages 34 to 64 have been prepared under the historical cost convention, in accordance with applicable accounting standards (including the partial adoption of Financial Reporting Standard 15) and the Companies Act 1985 except as noted below under item (h).

The group has adopted for the first time Financial Reporting Standard 9 (Associates and Joint Ventures), Financial Reporting Standard 12 (Provisions, Contingent Liabilities and Contingent Assets), and, in part, Financial Reporting Standard 15 (Tangible Fixed Assets). The application of these standards is reflected in the results for the years ended 31 March 1999, 1998 and 1997, the prior years having been restated accordingly. The adjustments fall into four categories:

- restatement of the results from joint ventures and associates such that the group's share of turnover, operating profit and interest is disclosed separately rather than as a single line (Financial Reporting Standard 9). This adjustment has not altered profit before tax, but has increased profit before interest and similarly increased the interest charge. The adjustments amount to £8.8 million, £7.3 million and £22.1 million respectively for the years ended 31 March 1999, 1998 and 1997;
- restatement of provisions to comply with Financial Reporting Standard 12. The effect of this standard is to change the allocation of restructuring costs between previous reporting periods. Costs previously provided for did not meet the stringent criteria for recording a liability now embodied in Financial Reporting Standard 12. Consequently, the results of previous periods have been amended to reflect the requirements of the new standard and the results for the year ended 31 March 1998 have been reduced by £55.6 million and for the year ended 31 March 1997 have been reduced by £46.5 million. These adjustments reflect the profile of the utilisation of the original provisions. There has been no material impact on the results for the year ended 31 March 1999 in respect of these adjustments;
- a change of our accounting policy in respect of onerous contract provisions (Financial Reporting Standard 12). On the acquisition of NORWEB plc, provision was made for electricity contracts in relation to long term power purchase agreements. These power purchase agreements contain annual commitments to purchase electricity which were considered onerous compared to the conditions that existed at the date of acquisition. The provision was calculated on a discounted cash flow basis. Before Financial Reporting Standard 12, these provisions would have been utilised through operating profit over the life of the onerous contracts, beginning in the year ended 31 March 1999. Guidance within Financial Reporting Standard 12 requires that the discount element of onerous contract provisions be charged as a financing cost. The effect of this is to increase the interest charge from the date the provision was made, and to increase operating profit in the

periods over which the provision is utilised. The interest charges for the years ended 31 March 1999, 1998 and 1997 have been increased by £15.0 million, £14.0 million and £13.0 million respectively; and

- a change in the method of accounting for water infrastructure renewals (Financial Reporting Standard 15). Expenditure on maintaining the operating capability of the water infrastructure network is now treated as additions to fixed assets. The effect of the change in policy has been to increase tangible fixed assets and reduce prepayments and accrued income by £53.9 million and £25.5 million respectively in the years ended 31 March 1999 and 1998. The effect on the cash flow has been to increase net cash inflow from operating activities and corresponding cash outflow related to capital expenditure and financial investment by £75.0 million in 1998 and £99.4 million in 1997. There is no effect on the profit and loss account other than to reclassify the infrastructure renewals charge as depreciation.

Financial Reporting Standard 10 (Goodwill and Intangible Assets), Financial Reporting Standard 11 (Impairment of Fixed Assets and Goodwill), Financial Reporting Standard 13 (Derivatives and Other Financial Instruments: Disclosure) and Financial Reporting Standard 14 (Earnings per Share) also apply to the year ended 31 March 1999 and have been adopted. However, Financial Reporting Standards 10 and 11 have no material impact on the financial position or results of the group.

The group provides a range of utility services including planning, design and operation of water and wastewater, electricity distribution and telecommunication systems, and the supply of electricity and gas. In addition, the group provides business operations outsourcing services supporting both the group businesses and external customers.

The results of businesses acquired during the year are included from the date of acquisition, being the date that effective control passes. Unless otherwise stated, the acquisition method of accounting has been adopted. The results of businesses sold in the year are included to the date of divestment.

The preparation of financial statements in conformity with generally accepted accounting principles in the United Kingdom requires management to make estimates and assumptions that affect the:

- reported amounts of assets and liabilities;
- the disclosure of contingent assets and liabilities at the date of the financial statements; and
- the reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates.

(b) Cash

In the consolidated cash flow statement and related notes, cash includes cash at bank, deposits repayable on demand and overdrafts; deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Notes to the accounts

(c) Turnover

Turnover, except for the electricity supply and distribution businesses, represents the income receivable in the ordinary course of business for goods or services provided and excludes value added tax and foreign sales tax.

In relation to the electricity supply and distribution businesses, 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, exclusive of value added tax.

In relation to the electricity distribution business, where there is an over-recovery of revenues against the regulated maximum allowable amount, revenues are deferred equivalent to the over-recovered amount. The deferred amount is deducted from turnover and included in creditors within accruals and deferred income. Where there is an under-recovery, no account is taken of any potential future recovery.

(d) Research and development

Expenditure on research and development is expensed as incurred.

(e) International development costs

Costs incurred in the development of international activities are either written off or, where appropriate, capitalised and fully provided against until their recovery is considered to be secured by profitable contracts. Such capitalised costs are amortised over the expected life of the contract.

(f) Goodwill

In accordance with Financial Reporting Standard 7, the net assets of companies and businesses acquired are included in 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. Prior to the introduction of Financial Reporting Standard 10, goodwill arising on acquisition, being the excess of the fair value of consideration over the fair value of net assets acquired, was written off directly against reserves on consolidation. Goodwill arising on acquisitions after 1 April 1998 will be amortised over its useful economic life. Where goodwill that was previously eliminated against reserves as a matter of accounting policy remains eliminated against reserves on implementation of Financial Reporting Standard 10, this goodwill would be charged to the profit and loss account on the subsequent disposal of the business to which it related.

(g) 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 and electricity operational assets).

(i) Infrastructure assets

Infrastructure assets comprise a network of water and wastewater systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with defined

standards of service is treated as an addition, which is included at cost after deducting related grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the company's independently certified asset management plan.

It has been necessary to change the method of accounting for infrastructure maintenance expenditure following the introduction of Financial Reporting Standard 15 as it is no longer possible to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment. As a consequence, the balance sheet has been restated to take account of necessary changes since the year ended 31 March 1989, when renewals accounting was first adopted in the accounts, and any previous provisions or prepayments have been subsumed into fixed assets. Further information is given in note 11. This change of accounting policy has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation.

Employee costs incurred in implementing the capital schemes of the group are capitalised within fixed assets.

(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 assets	5-80 years
Fixtures, fittings, tools and equipment	3-40 years
Pre-1974 assets of North West Water Limited	25-27 years
Capitalised computer software costs	3-10 years
Assets in the course of construction principally with an estimated economic life of greater than 20 years are not depreciated until the year following commissioning.	

(h) Grants and contributions

Capital contributions towards infrastructure assets are deducted from the cost 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 the profit and loss account over the useful life of the corresponding assets. The directors are of the opinion that, although provision is made for depreciation of infrastructure assets (see note (g) above), these assets have no finite economic lives 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 group's effective investment in infrastructure assets. The financial effect of this accounting policy is set out in note 11.

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

Notes to the accounts

(i) 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 consolidated 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. Where the lease is of a fixed interest rate nature, 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. Where the lease is of a floating interest rate nature, the finance element written off to the profit and loss account reflects the floating interest rate charge incurred during the period 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 on a straight line basis over the period of the lease.

(j) Fixed asset investments

Fixed asset investments, except for investments in associated undertakings and joint ventures, are stated at the lower of cost and recoverable amount. The consolidated profit and loss account includes the group's share of the profits less losses and taxation of associated *undertakings and joint ventures*. The group balance sheet includes the investment in associated undertakings and joint ventures at the group's share of their net assets in accordance with Financial Reporting Standard 9.

(k) Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

(l) Stocks

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

Finished goods and goods for resale are stated at the lower of cost, including appropriate production overheads, and net realisable value.

(m) Pensions

The group operates a number of defined benefit schemes, which are independent of the group's finances, for the substantial majority of its employees. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. In any intervening years, the actuaries review the continuing appropriateness of the contribution rates.

The cost of providing pensions is expensed over employees' working lives. Variations from regular cost are allocated over the average remaining service lives of current employees. Any difference between the charge to the profit and loss account in respect of funded plans and the contributions payable to each plan is recorded in the consolidated balance sheet as a prepayment or provision.

Details of pension arrangements and funding are set out in note 24.

(n) Foreign currency

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions, adjusted for the effects of any hedging arrangements. Assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the consolidated balance sheet date.

On consolidation, the balance sheets of overseas subsidiaries 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. Exchange differences resulting from the translation of such balance sheets at rates ruling at the beginning and end of the year, together with the differences between profit and loss accounts translated at average rates and rates ruling at 31 March, are dealt with as movements on group reserves.

Where net investments in overseas subsidiaries are matched in whole or in part by foreign currency borrowings, the exchange differences arising on the re-translation of such borrowings are also recorded as movements on group reserves and any excess taken to the profit and loss account.

(o) Deferred taxation

The charge for taxation is based on the profits for the year and takes into account *taxation deferred, using the liability method, in respect of timing differences* to the extent that it is probable that a liability will crystallise in the foreseeable future. Such timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and the depreciation of fixed assets.

(p) Associated undertakings

The appropriate share of the results of associated undertakings is recognised in the consolidated profit and loss account where the directors consider that the group is in a position to exert significant influence over the associated undertaking. Such influence normally is presumed to exist for investments in undertakings in which the group's direct ownership or indirect ownership is between 20 per cent and 50 per cent.

(q) Financial instruments

Debt instruments

New borrowings are stated at net proceeds received after deduction of issue costs. The issue costs of debt instruments are amortised at a constant rate over the life of the instrument.

Interest rate swaps and financial futures

Interest rate swap agreements and financial futures are used to manage interest rate exposure. Instruments that are designed as a hedge of a debt are accounted for on an accruals basis, with amounts payable or receivable in respect of these instruments being recognised as adjustments to interest expense of the designated liability.

Realised gains and losses that occur from the early termination of such instruments designated as a hedge are deferred and are amortised to interest expense over the period of the hedged position, to the extent that the originally designated liability remains outstanding.

In order to qualify for hedge accounting, the notional amount of the group's interest rate swaps and financial futures must not exceed the

Notes to the accounts

amount of its existing variable rate debt, must change the interest rate characteristics of the underlying debt and the contractual maturities cannot exceed the maturities of the debt.

Currency swaps

The group enters into currency swaps to manage its exposure to fluctuations in currency rates. Principal amounts are revalued at exchange rates ruling at the date of the group balance sheet and included in the sterling value of debt. Exchange gains and losses are taken directly to reserves and are included in the statement of total recognised gains and losses in accordance with SSAP 20.

In order to qualify for hedge accounting, the forward contract/currency swap must relate to an existing asset, liability or firm commitment, be in the same currency as the hedged item and reduce the risk of foreign currency exchange movements on the group's operations.

Contracts for differences (CfDs)

The group records the cost and income attributable to CfDs in its accounting records when settlement is made. Where the settlement date for a CfD does not fall on the period end, then accrual accounting is used to reflect the known variances between the contract strike prices and Pool prices (see note 22).

(r) Stock based compensation arrangements

The company has two continuing share option schemes, an employee sharesave scheme and an executive share option scheme.

Shares issued as a result of the exercise of options granted in accordance with the rules of the schemes (see note 23) are recorded in share capital and share premium at their exercise price at the date the option is exercised. No compensation expense is recorded for the difference between the exercise price and the stock price at the date of grant or exercise.

The cost of short term and long term incentive awards to executive directors in accordance with the incentive plan (see the remuneration report) are expensed on a straight line basis over the period in which performance is measured. The amount to be expensed is based upon management's estimate of the probability that the performance criteria will be met.

(s) Environmental remediation

Environmental expenditures that relate to current or future revenues are expensed or capitalised as appropriate. Expenditures that relate to an existing condition caused by past operations and that do not contribute to current or future earnings are expensed.

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of actions or, if earlier, on divestment or on closure of inactive sites.

Notes to the accounts

2 Segmental information

Group turnover, profit before non-operating items, interest and tax and net operating assets for each class of business and by geographical origin are:

	Note	Group turnover			Profit before non-operating items, interest and tax			Net operating assets		
		1999 £m	1998 £m	1997 £m	1999 £m	1998 Restated £m	1997 Restated £m	1999 £m	1998 £m	1997 £m
Continuing businesses:										
Water and wastewater		960.1	905.3	866.7	447.9	382.2	373.3	4,230.3	3,910.2	3,387.1
Electricity distribution		357.2	342.7	329.0	157.5	154.5	132.1	1,219.3	1,170.0	1,050.0
Energy supply		1,159.1	1,120.9	1,123.3	55.4	26.2	48.3	67.3	73.5	29.3
Telecommunications		49.7	23.4	8.2	(5.5)	0.2	(5.2)	64.8	43.3	33.3
Business process outsourcing		162.9	193.8	185.2	11.6	28.6	27.1	46.2	(1.2)	212.2
International operations		7.5	7.7	6.9	5.1	(5.1)	(3.7)	17.1	14.3	6.1
Other activities		52.4	64.5	60.9	19.0	10.4	25.7	(68.4)	(55.7)	(14.1)
		2,748.9	2,658.3	2,580.2	691.0	597.0	597.6	5,576.6	5,154.4	4,704.1
Inter-business eliminations	(2)	(472.0)	(508.1)	(477.9)	-	-	-	-	-	-
		2,276.9	2,150.2	2,102.3	691.0	597.0	597.6	5,576.6	5,154.4	4,704.1
Divested businesses:										
Process equipment		-	-	106.8	-	-	(1.2)	-	-	-
Norweb retail		-	-	164.3	-	-	(6.3)	-	-	(19.1)
Norweb generation		-	-	3.8	-	-	(2.1)	-	-	7.1
		2,276.9	2,150.2	2,377.2	691.0	597.0	588.0	5,576.6	5,154.4	4,692.1
Exceptional provision: Bangkok	(5)	-	-	-	-	-	(83.0)	-	-	-
Business restructuring	(5)	-	-	-	-	(43.6)	(36.5)	-	-	-
Year 2000 costs	(5)	-	-	-	(31.9)	-	-	-	-	-
		2,276.9	2,150.2	2,377.2	659.1	553.4	468.5	5,576.6	5,154.4	4,692.1
By geographical origin:										
United Kingdom	(3)	2,269.4	2,120.0	2,273.5	651.7	546.2	546.6	5,563.7	5,147.1	4,700.1
Europe		0.3	0.4	12.0	-	-	(0.9)	-	-	-
The Americas		1.2	1.0	75.4	4.3	4.6	2.7	5.9	0.2	1.1
Rest of the world		6.0	28.8	16.3	3.1	2.6	(79.9)	7.0	7.1	(9.1)
		2,276.9	2,150.2	2,377.2	659.1	553.4	468.5	5,576.6	5,154.4	4,692.1

The major activities of each class of business are as follows:

Business	Activity
Water and wastewater	Provision of water and wastewater services to customer premises in North West England.
Electricity distribution	Maintenance of a distribution network to deliver electricity from power stations and the National Grid to customer premises in North West England.
Energy supply	Supply of electricity and gas to customer premises throughout the UK.
Telecommunications	Provision of voice and data telecommunications services to the business community.
Business process outsourcing	Provision of a wide range of business process outsourcing services to group businesses and other organisations.
International operations	Development and operation of contracts based on the group's core utility service skills.
Other activities	Includes insurance companies, Norweb contracting business, property and other miscellaneous non-regulated businesses.

The accounting policies for each segment are the same as those appearing on pages 38 to 41.

Notes to the accounts

Total assets, tangible fixed assets, capital expenditure and depreciation for each class of business and by geographical origin are:

	Note	Total assets		Tangible fixed assets		Capital expenditure		Depreciat	
		1999	1998	1999	1998	1999	1998 Restated	1999	
		£m	£m	£m	£m	£m	£m	£m	
Continuing businesses:									
Water and wastewater		4,587.0	4,221.7	4,347.9	4,015.5	519.1	498.4	168.4	143
Electricity distribution		1,340.6	1,261.1	1,306.2	1,218.8	152.3	158.5	41.8	36
Energy supply		188.0	138.7	0.8	7.0	2.3	40.5	0.2	0
Telecommunications		87.2	55.3	75.3	48.8	29.9	18.5	2.8	1
Business process outsourcing		72.9	36.6	64.0	25.8	21.8	23.6	12.4	27
International operations		114.4	107.2	0.4	0.5	0.2	0.2	0.2	0
Other activities		247.8	386.8	2.5	5.9	0.5	2.0	1.1	1
		6,637.9	6,207.4	5,797.1	5,322.3	726.1	741.7	226.9	210
By geographical origin:									
	(3)								
United Kingdom		6,526.9	6,098.4	5,796.8	5,321.9	725.9	741.5	226.7	210
The Americas		69.2	78.6	-	-	-	-	-	-
Rest of the world		41.8	30.4	0.3	0.4	0.2	0.2	0.2	0
		6,637.9	6,207.4	5,797.1	5,322.3	726.1	741.7	226.9	210

(1) Profit before non-operating items, interest and tax comprises group operating profit amounting to £657.0 million (1998 – £547.2 million; 1997 – £446.0 million) and share of operating profits of joint ventures and associated undertakings of £2.1 million (1998 – £6.2 million; 1997 – £22.5 million). The share of joint venture turnover not included in the above segmental analysis is £73.2 million (1998 – £77.5 million; 1997 – £55.0 million).

(2) The inter-business eliminations totalling £472.0 million (1998 – £508.1 million; 1997 – £477.9 million) include £298.5 million (1998 – £303.1 million; 1997 – £273.5 million) between the electricity distribution and the energy supply operations and £153.0 million (1998 – £190.6 million; 1997 – £180.9 million) from business process outsourcing primarily to the water and wastewater, electricity distribution and energy supply operations.

Inter-business sales made by the process equipment businesses are eliminated prior to disclosure in the above segmental analysis. If the businesses' inter-business sales were included above the amounts shown for process equipment sales would be increased by £26.1 million to £132.9 million in 1997 and nil thereafter. The inter-business eliminations would be increased by an equal amount.

(3) The geographical destination of turnover does not differ materially from the geographical origin analysis above.

(4) Net operating assets comprise fixed assets and net current liabilities excluding net borrowings, investments, taxation and dividends.

(5) The exceptional Year 2000 costs of £31.9 million in 1999 relates to the work needed to address the millennium date change. Business restructuring costs in 1998 of £43.6 million comprise £36.3 million relating to the integration of NORWEB plc, and £7.3 million relating to the ongoing quality and efficiency restructuring of North West Water Limited. In 1997 the exceptional provision of £83.0 million, relating to other activities, is the Bangkok contract. 1997 business restructuring costs comprise £24.9 million on continuing operations, £15.8 million relating to the integration of NORWEB plc, £9.1 million relating to the quality and efficiency restructuring of North West Water Limited, and £11.6 million on discontinued operations relating to the process equipment businesses.

For US GAAP purposes, these exceptional items would be classified as a component of operating profit of the appropriate business segment.

Notes to the accounts

3 Net operating costs

	1999	1998	1997	1997	
	Continuing operations Total Restated £m	Continuing operations Total Restated £m	Continuing operations Restated £m	Discontinued operations £m	Total Restated £m
Employee costs:					
Wages and salaries	235.3	230.4	213.5	54.7	268.2
Social security costs	19.6	18.8	22.0	6.8	28.8
Pension contributions (note 24)	24.4	21.3	23.6	2.6	26.2
	279.3	270.5	259.1	64.1	323.2
Capital schemes	(57.4)	(65.9)	(63.0)	-	(63.0)
	221.9	204.6	196.1	64.1	260.2
Depreciation:					
Owned fixed assets	222.1	203.3	181.6	7.4	189.0
Fixed assets held under finance leases	4.8	7.4	8.9	-	8.9
	226.9	210.7	190.5	7.4	197.9
Other operating costs:					
Auditor's remuneration	0.3	0.3	0.2	-	0.2
Research and development	4.8	3.2	2.4	2.3	4.7
Operating leases:					
- hire of plant and machinery	4.6	3.6	2.8	1.1	3.9
- land and buildings	6.9	2.6	2.0	0.2	2.2
Electricity purchases	714.5	761.1	760.5	-	760.5
Cost of sales	139.5	111.7	115.0	182.0	297.0
Rent and rates	67.6	57.8	60.5	-	60.5
Customer rebates	18.3	18.3	28.3	-	28.3
General and administration costs and other	188.5	191.3	174.2	27.4	201.6
	1,145.0	1,149.9	1,145.9	213.0	1,358.9
Other income (note 5)	(5.8)	(5.8)	(5.3)	-	(5.3)
Net operating costs before exceptional items	1,588.0	1,559.4	1,527.2	284.5	1,811.7
Other operating costs - exceptional items:					
- Bangkok	-	-	83.0	-	83.0
- business restructuring	-	43.6	24.9	11.6	36.5
- Year 2000 costs	31.9	-	-	-	-
Total net operating costs	1,619.9	1,603.0	1,635.1	296.1	1,931.2

Fees payable to KPMG Audit Plc and its associates for non-audit services in 1999 were £0.7 million (1998 - £0.7 million; 1997 - £0.9 million). During the year, KPMG received no fees for management consultancy within the United Kingdom. The audit fee for 1999 in relation to the company amounted to £75,000 (1998 - £75,000).

Employee costs are included above on a gross basis before removing those components in connection with the group's capital schemes. The adjustments made in the above table for 'Capital schemes' are capitalised during the relevant period and included within tangible fixed asset additions.

Information relating to the emoluments, long-term incentives, share options and pension entitlements of the directors is contained in the remuneration report.

Notes to the accounts

4 Profit/(Loss) on disposal of businesses

	1999 £m	1998 £m	
Process equipment:			
Profit on disposal of businesses, before goodwill write back	-	2.9	4
Goodwill write back	-	-	(12)
Net profit/(loss) on disposal of process equipment businesses	-	2.9	(7)
Other:			
Net profit on disposal of other businesses	-	3.9	
Total profit/(loss) on disposal of businesses	-	6.8	(7)

The tax arising on the disposals in 1997 was £19.9 million of which £13.4 million was taken account of in the acquisition balance sheet of NORWEB plc.

5 Other income (continuing operations)

	1999 £m	1998 £m	
Profit on disposal of fixed assets	2.8	1.6	
Net rents receivable	2.3	2.4	
Management fees	0.6	0.5	
Other	0.1	1.3	
	5.8	5.8	

6 Employees

	1999	1998	
Average number of persons employed by the group during the year	10,128	9,902	12,2
Water and wastewater	4,132	4,106	4,1
Electricity distribution	1,761	1,777	1,9
Energy supply	308	329	3
Telecommunications	277	249	2
Business process outsourcing	3,160	2,809	2,3
International operations	77	91	
Other activities	413	541	5
Divestments:			
Process equipment	-	-	1,3
Norweb retail	-	-	1,3
Norweb generation	-	-	

7 Net interest payable and other similar charges

	1999 £m	1998 Restated £m	Res
Interest payable:			
Group:			
- on bank loans, overdrafts and other loans	187.4	158.0	13
- on finance leases	7.0	10.2	1
- finance element of onerous contract provision	15.0	14.0	1
Joint ventures	8.8	7.3	2
Total interest payable	218.2	189.5	18
Interest receivable (group)	(15.0)	(27.0)	(1)
Net interest payable and other similar charges	203.2	162.5	16

Notes to the accounts

8 Taxation on profit on ordinary activities

	1999 £m	1998 £m	1997 £m
UK corporation tax at 31% (1998 – 31%, 1997 – 33%)	(57.3)	(84.0)	(28.8)
Overseas tax	0.7	(1.6)	(7.7)
Advance corporation tax (unrelieved)/utilised	31.3	62.8	(10.7)
Advance corporation tax written back	37.7	–	–
Share of joint venture tax	(0.4)	(1.4)	(0.7)
	12.0	(24.2)	(47.9)

The tax credit/(charge) is analysed between continuing and discontinued operations as follows:

	£m	£m	£m
Continuing operations	12.0	(25.6)	(42.6)
Discontinued operations	–	1.4	(5.3)
	12.0	(24.2)	(47.9)

Profit on ordinary activities before taxation (including exceptional items), as shown in the consolidated profit and loss account, is analysed over its component parts as follows:

	£m	Restated £m	Restated £m
Income before taxes on income:			
– United Kingdom	459.0	405.6	396.3
– Overseas	(3.1)	(7.9)	(171.9)
	455.9	397.7	224.4

The table below reconciles the notional charge at the UK corporation tax rate for the year to the actual credit/(charge) for taxation:

	%	Restated %	Restated %
UK corporation tax rate	(31.0)	(31.0)	(33.0)
Deferred tax not provided on non-current assets	5.6	(11.2)	35.8
Deferred tax not provided on current assets	37.1	21.3	(0.4)
Movement in unprovided deferred tax arising from change in UK corporation tax rate	5.1	11.4	–
Movement in unprovided deferred tax arising from change in accounting policies	(2.1)	–	–
Bangkok project	–	5.1	(12.2)
Sale of process equipment businesses	–	–	(14.2)
Adjustment in relation to the abolition of ACT	(10.6)	–	–
Other	(1.5)	(1.7)	2.7
Actual tax rate	2.6	(6.1)	(21.3)

An analysis of the deferred tax balance is provided in note 20.

9 Dividends

	1999 £m	1998 £m	1997 £m
Interim dividend of 14.40 pence (1998 – 13.16 pence; 1997 – 12.0 pence)	79.1	70.8	61.8
Underlying final dividend of 29.90 pence recommended (1998 – 27.64 pence; 1997 – 25.2 pence)	164.5	150.6	133.5
Enhancement to final dividend of nil pence recommended (1998 – 1.36 pence; 1997 – nil pence)	–	7.4	–
	243.6	228.8	195.3

Provision is made for the proposed final dividends on the basis that the dividends will be fully settled in cash. The adjustments required to reflect the take-up of the dividends in the form of new shares in 1998 and 1997 were accounted for in the subsequent financial year.

Notes to the accounts

10 Earnings/(Loss) per share

	1999	1998 Restated	1997 Restated
Profit/(Loss) for financial year attributable to ordinary shareholders	£468.3m	£(39.5)m	£175.9m
Earnings/(Loss) per ordinary share	85.6p	(7.4)p	33.5p
Diluted earnings/(loss) per ordinary share	84.5p	(7.3)p	33.2p
	£m	£m	£m
Adjusted earnings per share:			
Profit/(Loss) for financial year attributable to ordinary shareholders	468.3	(39.5)	175.9
Adjustments:			
Windfall tax	-	414.8	-
Exceptional items:			
- Bangkok	-	-	83.1
- business restructuring	-	43.6	36.2
- Year 2000 costs	31.9	-	-
(Profit)/Loss on disposal of businesses	-	(6.8)	77.1
Results of divested businesses	-	-	9.1
Adjusted profit for financial year attributable to ordinary shareholders	500.2	412.1	382.1
Adjusted earnings per ordinary share	91.4p	77.1p	72.8p
Adjusted diluted earnings per ordinary share	90.3p	76.2p	72.1p

The adjustment to profit and earnings per ordinary share has been made to eliminate the impact of non-recurring items and, by the adjustment for the results of divested businesses, to disclose the underlying earnings of continuing operations.

Earnings per ordinary share and the adjusted earnings per ordinary share have been calculated by dividing profit and the adjusted profit for the financial year attributable to ordinary shareholders by 547.2 million, being the

weighted average number of shares in issue during the year (1998 - 534.7 million; 1997 - 524.8 million). Diluted earnings per ordinary share and adjusted diluted earnings per ordinary share have been calculated by dividing profit and the adjusted profit for the financial year attributable to ordinary shareholders by 554.1 million, being the revised weighted average number of shares in issue during the year including dilutive shares (1998 - 541.0 million; 1997 - 530.2 million).

The weighted average number of shares can be reconciled to the weighted average number of shares including dilutive shares as follows:

	1999 million	1998 million	1997 million
Average number of ordinary shares in issue - basic	547.2	534.7	524.8
Average number of ordinary shares under option	17.3	17.5	17.5
Number of ordinary shares that would have been issued at fair value	(10.4)	(11.2)	(12.5)
Average number of ordinary shares in issue - diluted	554.1	541.0	530.2

Notes to the accounts

11 Tangible fixed assets

Group	Land and buildings £m	Infra-structure assets Restated £m	Operational assets £m	Fixtures, fittings, and tools equipment £m	Pre-1974 assets £m	Assets in course of construction £m	Total Restated £m
Cost:							
At 1 April 1998	270.1	2,453.5	3,029.6	590.3	177.4	758.1	7,279.0
Additions	4.1	189.0	134.3	179.6	–	219.1	726.1
Grants and contributions	–	(3.8)	–	–	–	–	(3.8)
Transfers	(8.2)	87.0	243.0	118.3	–	(452.9)	(12.8)
Disposals	(4.8)	–	(2.8)	(21.9)	–	(1.7)	(31.2)
At 31 March 1999	261.2	2,725.7	3,404.1	866.3	177.4	522.6	7,957.3
Depreciation:							
At 1 April 1998	53.2	694.8	737.5	338.0	133.2	–	1,956.7
Charge for the year	6.9	72.9	74.9	66.5	5.7	–	226.9
Transfers	(0.5)	–	–	–	–	–	(0.5)
Disposals	(2.5)	–	(0.8)	(19.6)	–	–	(22.9)
At 31 March 1999	57.1	767.7	811.6	384.9	138.9	–	2,160.2
Net book value:							
At 31 March 1999	204.1	1,958.0	2,592.5	481.4	38.5	522.6	5,797.1
At 31 March 1998	216.9	1,758.7	2,292.1	252.3	44.2	758.1	5,322.3

Infrastructure assets have been restated in accordance with Financial Reporting Standard 15 and that has resulted in a reclassification between debtors and tangible fixed assets. The effect has been to increase the opening cost and depreciation of infrastructure assets by £720.3 million and £694.8 million respectively. Additions to infrastructure assets are £101.3 million higher under the revised treatment, and the depreciation charge for infrastructure assets £72.9 million higher. As a consequence, the net book value of fixed assets is £53.9 million higher than it would have been had this treatment not been adopted.

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 (accounting policy note 1(h)). As a consequence, the net book value of fixed assets is £81.2 million (1998 – £77.4 million) lower than it would have been had this treatment not been adopted.

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

	1999 £m	1998 £m
Cost:		
Operational assets	250.8	250.8
Fixtures, fittings, tools and equipment	5.4	17.1
At 31 March	256.2	267.9
Accumulated depreciation:		
Operational assets	63.7	57.1
Fixtures, fittings, tools and equipment	5.0	16.1
At 31 March	68.7	73.2
Net book value:		
Operational assets	187.1	193.7
Fixtures, fittings, tools and equipment	0.4	1.0
At 31 March	187.5	194.7

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

Pre-1974 assets comprise a pool of assets which was transferred to the group from North West Water Authority, which the group acquired in 1974 from its predecessors.

Notes to the accounts

	1999 £m	1998 £m
Capital commitments:		
Contracted but not provided for	443.2	38.2
Company		
Cost:		
At 1 April 1998		11.1
Additions		(0.1)
Disposals		(0.1)
At 31 March 1999		10.9
Depreciation:		
At 1 April 1998		2.1
Charge for the year		(0.1)
Disposals		(0.1)
At 31 March 1999		1.9
Net book value:		
At 31 March 1999		9.0
At 31 March 1998		9.0

12 Fixed asset investments

Group	Joint ventures			Other Investments including associated undertakings				
	Unlisted £m	Loans £m	Total £m	Unlisted £m	Loans £m	Listed £m	Total £m	
Cost:								
At 1 April 1998	61.1	6.3	67.4	26.0	0.8	22.3	49.1	118.6
Additions	5.3	2.7	8.0	5.5	-	-	5.5	124.1
Share of losses	(7.1)	-	(7.1)	-	-	-	-	(121.1)
Disposals	(2.2)	-	(2.2)	(0.9)	-	(3.3)	(4.2)	(125.3)
Loan repayment	-	-	-	-	(0.7)	-	(0.7)	(126.0)
Exchange adjustments	0.2	0.1	0.3	-	-	-	-	(125.7)
At 31 March 1999	57.3	9.1	66.4	30.6	0.1	19.0	49.7	116.1

A list of the group's principal operating subsidiaries and associated undertakings is shown on page 50.

Share of losses comprises share of operating profits £2.1 million, interest charge £8.8 million and taxation charge £0.4 million.

Included within other investments are:

- (i) a 20 per cent interest in Lakeland Power Limited; in the opinion of the directors they are unable to exercise significant influence over this company and accordingly it is accounted for as a trade investment;
- (ii) the listed investments held by Carefree Insurance Limited, which had a market value of £19.0 million at 31 March 1999.

Company	Shares in subsidiary undertakings £m	Other investments £m	
Cost:			
At 1 April 1998	2,952.1	1.8	2,953.9
Additions	415.0	2.6	3,371.5
At 31 March 1999	3,367.1	4.4	3,371.5

Notes to the accounts

Details of principal operating subsidiary undertakings and joint ventures, all of which are unlisted, are set out below. These undertakings are included within the consolidated group financial statements.

	Class of share capital held	Proportion of share capital owned/voting rights	Nature of business
Subsidiary undertakings:			
Great Britain:			
North West Water Limited	Ordinary	100%	Water supply and sewerage services
NORWEB plc	Ordinary	100%	Provision of energy and related services
Norweb Gas Limited	Ordinary	75%*	Sale of gas
Vertex Data Science Limited	Ordinary	100%	Business process outsourcing
United Utilities International Limited	Ordinary	100%	Consulting services and project management
North West Water (Scotland) Limited	Ordinary	100%*	Technical, consulting and project management services
Isle of Man:			
Carefree Insurance Limited	Ordinary	100%*	Provision of re-insurance services
Talbot Insurance Limited	Ordinary	100%*	Provision of insurance services
Australia:			
United Utilities Australia Pty Limited	Ordinary	100%*	Technical and management services
Malaysia:			
North West Water (Malaysia) SDN BHD	Ordinary	100%*	Technical and management services
Joint ventures:			
Great Britain:			
NOR.WEB DPL Limited	Ordinary	50%*	Provision of products and services for powerline communication
USA:			
US Water LLC	Ordinary	50%*	Contract operations and maintenance services
Argentina:			
Inversora Electrica de Buenos Aires SA	Ordinary	45%*	Electricity supply and distribution
Australia:			
Yan Yean Water Pty Limited	Ordinary	50%*	Water treatment operations
NWT Water Pty Limited	Ordinary	50%*	Water treatment operations
Riverland Water Pty Limited	Ordinary	50%*	Water treatment operations
Mexico:			
Agua de Mexico SA de CV	Ordinary	49%*	Technical and management services

The country under which each undertaking appears is both the country of its incorporation and of its principal operations. Shares are held directly by United Utilities PLC except where marked with an asterisk where they are held by subsidiary undertakings.

A full list of the company's subsidiary undertakings is included within the company's annual return.

13 Stocks

	1999 £m	1998 £m
Stores	9.2	11.1
Work in progress	2.7	1.1
	11.9	12.2

Notes to the accounts

Details of principal operating subsidiary undertakings and joint ventures, all of which are unlisted, are set out below. These undertakings are included within the consolidated group financial statements.

	Class of share capital held	Proportion of share capital owned/voting rights	Nature of business
Subsidiary undertakings:			
Great Britain:			
North West Water Limited	Ordinary	100%	Water supply and sewerage services
NORWEB plc	Ordinary	100%	Provision of energy and related services
Norweb Gas Limited	Ordinary	75%*	Sale of gas
Vertex Data Science Limited	Ordinary	100%	Business process outsourcing
United Utilities International Limited	Ordinary	100%	Consulting services and project management
North West Water (Scotland) Limited	Ordinary	100%*	Technical, consulting and project management services
Isle of Man:			
Carefree Insurance Limited	Ordinary	100%*	Provision of re-insurance services
Talbot Insurance Limited	Ordinary	100%*	Provision of insurance services
Australia:			
United Utilities Australia Pty Limited	Ordinary	100%*	Technical and management services
Malaysia:			
North West Water (Malaysia) SDN BHD	Ordinary	100%*	Technical and management services
Joint ventures:			
Great Britain:			
NOR.WEB DPL Limited	Ordinary	50%*	Provision of products and services for powerline communication
USA:			
US Water LLC	Ordinary	50%*	Contract operations and maintenance services
Argentina:			
Inversora Electrica de Buenos Aires SA	Ordinary	45%*	Electricity supply and distribution
Australia:			
Yan Yean Water Pty Limited	Ordinary	50%*	Water treatment operations
NWT Water Pty Limited	Ordinary	50%*	Water treatment operations
Riverland Water Pty Limited	Ordinary	50%*	Water treatment operations
Mexico:			
Agua de Mexico SA de CV	Ordinary	49%*	Technical and management services

The country under which each undertaking appears is both the country of its incorporation and of its principal operations. Shares are held directly by United Utilities PLC except where marked with an asterisk where they are held by subsidiary undertakings.

A full list of the company's subsidiary undertakings is included within the company's annual return.

13 Stocks

	1999 £m	1998 £m
Stores	9.2	11.4
Work in progress	2.7	1.1
	11.9	12.5

Notes to the accounts

14 Debtors

	Group		1999 £m	Company 1999 £m
	1999 £m	1998 Restated £m		
Amounts falling due within one year:				
Trade debtors	234.1	223.9	-	-
Provisions for doubtful debts	(76.8)	(69.2)	-	-
Unbilled debtors	157.3	154.7	-	-
	244.2	197.1	-	-
	401.5	351.8	-	-
Amounts owed by subsidiary undertakings	-	-	1,096.4	777.0
Other debtors	44.6	59.5	6.0	-
Prepayments and accrued income	27.3	14.3	0.9	0.0
Amounts recoverable under contracts	1.0	0.9	-	-
	474.4	426.5	1,103.3	777.0
Amounts falling due after more than one year:				
Other debtors	-	3.1	-	-
Total debtors	474.4	429.6	1,103.3	777.0

Unbilled debtors represent the sales of the electricity supply and water businesses not invoiced at the balance sheet date.

15 Current asset investments

	Group		1999 £m	Company 1999 £m
	1999 £m	1998 £m		
Managed funds and short term deposits	50.4	296.2	-	-
Other current asset investments	23.2	17.3	20.0	16.0
	73.6	313.5	20.0	16.0

16 Creditors: amounts falling due within one year

	Group		1999 £m	Company 1999 £m
	1999 £m	1998 £m		
Loans	107.3	33.8	-	8.0
Bank overdrafts and temporary borrowings	337.1	944.7	55.9	242.0
Obligations under finance leases	1.7	4.0	-	-
Trade creditors	135.1	148.1	-	-
Amounts owed to subsidiary undertakings	-	-	512.0	242.0
Dividends	370.4	158.5	370.4	158.0
Taxation and social security	169.3	177.9	16.2	34.0
Windfall tax	-	207.4	-	129.0
Accruals and deferred income	594.9	480.3	45.3	27.0
Advance corporation tax	-	45.0	-	45.0
	1,715.8	2,199.7	999.8	883.0

17 Creditors: amounts falling due after more than one year

	Group		1999 £m	Company 1999 £m
	1999 £m	1998 £m		
Loans	1,956.6	1,264.6	815.7	36.0
Obligations under finance leases	200.0	201.6	-	-
Other creditors	12.6	21.9	-	-
Deferred grants and contributions (note 18)	207.3	193.5	-	-
	2,376.5	1,681.6	815.7	36.0

Notes to the accounts

18 Deferred grants and contributions

At 1 April 1998	193
Received in the year	18
Credit to profit and loss account for the year	(4)
At 31 March 1999	207

19 Provisions for liabilities and charges

	Group					Total Restated £m	Compa
	Restructuring Restated £m	Onerous contracts Restated £m	Bangkok £m	Retail divestment £m	Other £m		
At 1 April 1998	38.8	192.9	20.8	21.2	6.7	280.4	8
Utilised	(23.5)	(8.0)	(2.2)	(0.7)	(3.9)	(38.3)	(1)
At 31 March 1999	15.3	184.9	18.6	20.5	2.8	242.1	6

Certain provisions have been restated in accordance with Financial Reporting Standard 12. Further detail is provided in note 1(a).

Restructuring

The restructuring provisions relate primarily to:

- the cost of completing the reorganisation of North West Water operations;
- the cost of completing the voluntary redundancy programme established by NORWEB plc prior to the acquisition; and
- the cost of reorganising the group following the acquisition of NORWEB plc (including an expansion of the Norweb voluntary redundancy programme outlined above).

Onerous contracts

On the acquisition of NORWEB plc, provision was made for gas and electricity contracts mainly in relation to long term power purchase agreements. These power purchase agreements contain annual commitments to purchase electricity and the longest contracts expire in the year ended 31 March 2011.

The contract conditions were considered onerous compared to the condition that existed at the date of acquisition when the fair valuation was made.

During the year, £23.0 million of onerous contracts provision was utilised and the associated financing cost was £15.0 million.

Bangkok

In February 1997, as a result of continuing disputes relating to the contract in Bangkok, an additional provision of £83.0 million was made against losses expected on the contract. In March 1998, the contract was formally terminated. The provision continues to reflect management's best estimate of the expected liabilities remaining in respect of this contract based on the circumstances prevailing at the balance sheet date.

Retail divestment

Provisions of £68.1 million were created on the disposal of the retail business. This provision reflects the liabilities remaining with the group.

20 Deferred taxation

The full potential deferred tax liability, none of which is provided, is:

	1999 £m	1998 Restated £m
Deferred tax liabilities:		
Accelerated tax allowances:		
– infrastructure assets	431.4	429
– other assets	466.4	442
	897.8	872
Deferred tax assets:		
Advance corporation tax recoverable	–	(138)
Operating losses carried forward	(3.8)	(2)
Other	(111.4)	(142)
	(115.2)	(284)
Net deferred tax liabilities	782.6	588
Of which all relates to the United Kingdom:		
Current	(115.2)	(284)
Non-current	897.8	872
	782.6	588

No deferred tax asset or liability arises in the company's accounts under UK GAAP.

No provision is made for taxation in respect of liabilities which might arise on the distribution of earnings retained overseas.

Notes to the accounts

21 Borrowings

	1999 £m	1998 £m
Bank overdrafts and temporary borrowings	337.1	944.1
Term loans	2,063.9	1,298.4
Finance leases	201.7	205.1
	2,602.7	2,448.6

Repayments fall due as follows:

	Year	1999 £m	Year	1998 £m
After five years	2005+	1,907.9	2004+	1,152.1
From four to five years	2004	34.0	2003	30.1
From three to four years	2003	30.9	2002	129.1
From two to three years	2002	131.2	2001	51.1
From one to two years	2001	52.6	2000	101.1
After more than one year		2,156.6		1,466.6
Within one year	2000	446.1	1999	98.2
		2,602.7		2,448.6

Bank overdrafts and temporary borrowings

The bank overdrafts and temporary borrowings are repayable in less than one year. The weighted average rate of interest on bank overdrafts and temporary borrowings was 7.3 per cent (1998 – 7.7 per cent). The group had available committed bank facilities of £1,275.0 million (1998 – £1,415.0 million) of which £1,275.0 million was unutilised at 31 March 1999 (1998 – £745.0 million). The amounts currently unutilised expire in more than two years.

Term loans

Amounts repayable after more than five years comprise bank and other loans repayable between 2005 and 2053. Interest rates range from 4.875 per cent to 14.83 per cent on £1,679.5 million (1998 – £905.2 million) and are at floating rates on £31.5 million (1998 – £47.5 million).

On total borrowings, interest rates range from 4.875 per cent to 14.83 per cent on £1,840.0 million and are at floating rates on £762.7 million.

The analysis of net debt prior to the effect of off balance sheet instruments is as follows:

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed		Weighted average period for which interest is fixed	
	1999 £m	1998 £m	1999 %	1998 %	1999 Years	1998 Years
Fixed rate borrowings						
Sterling	687.1	694.1	8.3	8.4	15.6	16.1
United States dollars	774.8	319.5	6.6	6.6	14.5	9.1
Euro	378.1	42.6	5.4	9.3	9.2	3.1
	1,840.0	1,056.2	7.0	7.9	13.8	14.1
Floating rate borrowings						
Sterling	719.5	1,353.7				
United States dollars	43.2	38.8				
	762.7	1,392.5				
Floating rate investments						
Sterling (including cash)	(215.2)	(308.1)				
Net debt at 31 March	2,387.5	2,140.6				

Based on the floating rate net debt of £547.5 million at the year end, a 1 per cent change in interest rates would result in a £5.5 million change in profit before tax for the year.

The fair values of the group's financial instruments are shown on page 56.

Company

Excluding amounts owed to subsidiary undertakings, the company has borrowings totalling £871.6 million (1998 – £612.3 million) of which

£55.9 million falls due within one year. The remaining loans totalling £815.7 million comprise £62.6 million repayable in 2001, £212.1 million repayable in 2005, £298.5 million repayable in 2008 and £242.5 million repayable in 2028. The loans repayable in 2001 comprise £42.6 million at a fixed rate of interest of 9.31 per cent and £20.0 million at 11.625 per cent. The loan repayable in 2005 is at a fixed rate of interest of 6.25 per cent, and the loan repayable in 2008 is at a fixed rate of interest of 6.45 per cent. The loan repayable in 2028 is at a fixed rate of interest of 6.875 per cent.

Notes to the accounts

Taking into account off balance sheet instruments, net debt can be analysed as follows:

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed		Weighted average period for which interest is fixed	
	1999 £m	1998 £m	1999 %	1998 %	1999 Years	1998 Years
Fixed rate borrowings						
Sterling	1,299.3	1,296.5	8.2	8.3	10.0	11.1
United States dollars	65.2	64.4	8.6	8.6	3.3	4.4
	1,364.5	1,360.9	8.2	8.3	9.7	10.0
Floating rate borrowings						
Sterling	1,238.2	1,087.8				
	1,238.2	1,087.8				
Floating rate investments						
Sterling (including cash)	(215.2)	(308.1)				
Net debt at 31 March	2,387.5	2,140.6				

Floating interest rates are based on LIBOR.

22 Financial instruments and risk management

The primary financial risks faced by the group are interest rate risk and exchange rate risk.

The board has reviewed and agreed policies for managing each of these risks as summarised below. The board has also approved all of the classes of financial instruments used by the group. The group's treasury function, which is authorised to conduct the day-to-day treasury activities of the group, reports at least annually to the board.

The group uses a variety of financial instruments, including derivatives, to raise finance for its operations and to manage the risks arising from those operations.

The group borrows in the major global debt markets in a range of currencies at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective currency profile and interest basis. The effect of the use of derivatives is illustrated in note 21.

Under an interest rate swap, the group agrees with another party to exchange at specific intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The notional principal of these instruments reflects the extent of the group's involvement in the instruments, but does not represent its exposure to credit risk which is assessed by reference to the fair value.

Under a currency swap, the group agrees with another party to exchange the principal amount of two currencies together with interest amounts in the two currencies agreed by reference to a specific interest rate basis and the principal amount. The principal of these instruments reflects the extent of the group's involvement in the instruments, but does not represent its exposure to credit risk which is assessed by reference to the fair value.

All transactions are undertaken to manage the risks arising from underlying business activities and no speculative trading is undertaken. The counterparties to these instruments generally consist of financial institutions and other bodies with good credit ratings. Although the group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. The group does not believe it is exposed to any material concentrations of credit risk.

As noted above, the group uses derivatives to manage its exposure to currency risk on its borrowings. Subsidiary undertakings make no significant sales or purchases in currencies other than that of the country in which they operate. Accordingly, the group has no material unhedged foreign currency exposures.

Notes to the accounts

Financial instruments utilised by the group can be summarised as follows:

Interest rate swaps

Interest rate swaps are used solely to manage floating rate borrowings in order to reduce the financial risk to the group from potential future changes in medium term interest rates.

Financial futures

Financial futures are used solely to manage the group's exposure to possible future changes in short term interest rates.

Forward contracts

The group generally hedges foreign exchange transaction exposures up to one year forward. Hedges are put in place using forward contracts at the time that the forecast exposure becomes reasonably certain.

Currency swaps

The group uses currency swaps to hedge currency exposure where debt is raised in one currency to fund in a different currency.

Contracts for differences

Almost all electricity generated in England and Wales must be sold to the electricity Pool, and electricity suppliers must buy electricity from the Pool for resale to their customers. The Pool was established at the time of privatisation for bulk trading of electricity in England and Wales between generators and suppliers. The Pool is operated under a Pooling and Settlement Agreement to which all licensed generators and suppliers of electricity in Great Britain are party.

The group has procedures in place to minimise exposure to Pool price variations, that is, the possibility that a change in Pool prices will increase the cost of electricity purchased from the Pool. These procedures involve Norweb entering into Contracts for Differences (CfDs). In general, CfDs are commonly settled in arrears by reference to actual half-hourly Pool prices. The group's

use of such derivative instruments relates directly to the underlying purchase of electricity from the Pool. Norweb's ability to manage both its purchase and its sales price risk depends, in part, on the continuing availability of properly priced risk management mechanisms such as CfDs.

A CfD is typically a contract between two parties (for example, a generator and a regional electricity company) that requires each party to either make or receive payments daily, weekly, monthly or at other intervals over a specific term based on the difference between an agreed price (the bilaterally determined strike price) and the actual Pool calculated price (that is, the reference price), applied to an agreed quantity of electricity (that is, number of MWh). The duration for the contracts entered into by Norweb is commonly one to two years, but may be up to a maximum of 15 years.

At 31 March 1999, the group was committed to hedging 67 million MWh (1998 - 73 million MWh; 1997 - 91 million MWh) under CfDs. The average Pool purchase price for 1999 was £24.61 per MWh (1998 - £25.32 per MWh; 1997 - £23.69 per MWh). The maximum Pool purchase price for 1999 was £244.77 per MWh (1998 - £497.42 per MWh; 1997 - £591.00 per MWh). The minimum Pool purchase price for 1999 was £nil per MWh (1998 - £7.00 per MWh; 1997 - £5.02 per MWh).

The fair values of outstanding CfDs are shown on page 56.

These CfDs involve a degree of credit risk. This is the risk that the counterparty to the CfD defaults on settlement. The group controls credit risk arising from entering into the CfDs through credit approvals, limits and monitoring procedures.

Currently the Government, together with the Electricity Regulator (Offer), is carrying out a review of the electricity pool arrangements as part of wider reforms of the electricity industry. The Government aims to deliver the Revised Electricity Trading Arrangements during 2000.

Notes to the accounts

Fair values of financial instruments

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined precisely. Changes in assumptions could significantly affect the estimates.

At 31 March

	1999		Book value £m	1998 Current value £m
	Book value £m	Current value £m		
Short term debt and current portion of long term debt	446.1	446.1	982.5	982.5
Long term debt	2,156.6	2,343.0	1,466.2	1,572.2
	2,602.7	2,789.1	2,448.7	2,554.7
Interest rate swaps	-	47.0	-	35.0
Foreign exchange contracts and swaps	-	(45.7)	-	2.7
Total borrowings	2,602.7	2,790.4	2,448.7	2,592.4

The gross contract amount of interest rate swaps outstanding at 31 March 1999 was £991.2 million (1998 – £779.6 million). The gross contract amount of foreign exchange contracts and swaps at 31 March 1999 was £1,131.2 million (1998 – £341.1 million).

Fair values have been estimated using the following methods and assumptions:

Long term investments

The fair value of listed investments of £19.0 million is based on year end quoted market prices. For other investments for which there are no quoted market prices, the fair values approximate to the carrying value of £97.1 million.

The only significant assets denominated in foreign currency relate to International operations. International operations' total assets are £114.4 million as shown in note 2, the majority of which are denominated in currencies linked to the United States dollar.

Current assets and liabilities

Financial instruments included within current assets and liabilities (excluding cash and borrowings) are generally short term in nature and accordingly their fair values approximate to their book values.

Long term receivables and liabilities

The fair values of financial instruments included within long term receivables and liabilities (excluding borrowings) are based on discounted cash flows using appropriate market interest rates.

Net borrowings and non-equity interests (excluding foreign exchange contracts)

The carrying values of cash and short term borrowings and current asset investments approximate to their fair values because of the short term maturity of these instruments. The fair value of quoted long term borrowings and guaranteed preferred securities is based on year end mid-market quoted prices. The fair value of other long term borrowings is estimated by discounting the future cash flows to net present values using appropriate market interest rates prevailing at the year end.

Currency and interest rate swaps

The group enters into currency and interest rate swaps in order to manage its foreign currency and interest rate exposures.

The fair value of these financial instruments was estimated by discounting the future cash flows to net present values using appropriate market interest rates prevailing at the year end. The carrying and fair values of currency and interest rate swaps include the related accrued interest receivables and payables.

Hedges

Unrecognised gains and losses on financial assets and liabilities for which hedge accounting has been used at the balance sheet date were £47.9 million and £235.6 million respectively (1998 – £3.4 million and £147.7 million).

The group anticipates that £11.7 million of these gains and £42.2 million of these losses will be realised in the forthcoming financial year. Of the unrecognised gains and losses on hedges as at 1 April 1998 the net loss recognised in the period's profit and loss account was £11.4 million.

Contracts for differences

The fair value of outstanding CfDs at 31 March 1999 was £(258.2) million (1998 – £(299.6) million). The approximate effect on the fair value of CfDs from a 10% increase in average pool purchase price is £104.3 million (1998 – £112.7 million). The approximate effect on the fair value of CfDs from a 10% decrease in average pool purchase price is £(104.3) million (1998 – £(112.7) million). The movement in fair values of CfDs will not result in any immediate changes to the group's financial statements since fair values are not recognised on the group's balance sheet.

The fair values of outstanding CfDs were based on the difference between projected Pool prices and agreed contract prices, discounted at an appropriate cost of capital. The calculation of fair value takes into account a number of complex factors, including future Pool prices, plant availability, plant operating costs and inflation indices. The principal influence on the fair value is the projected Pool price. For the purposes of these calculations the projected Pool price is based on historic data.

Notes to the accounts

23 Called up share capital, share premium account and profit and loss account

The movements in shareholders' equity are as follows:

	Group and company			Group		Company	
	Ordinary shares authorised £m	Called up share capital £m	Share premium account £m	Profit and loss account Restated £m	Total Restated £m	Profit and loss account £m	
At 1 April 1996	660.0	523.1	615.0	984.5	2,122.6	1,120.8	2,258.4
Profit for financial year	-	-	-	175.9	175.9	343.5	343.5
Dividends on ordinary shares	-	-	-	(195.3)	(195.3)	(195.3)	(195.3)
Increase in authorised share capital	60.0	-	-	-	-	-	-
Shares issued net of costs	-	3.0	7.0	-	10.0	-	10.0
Shares issued in lieu of cash dividend	-	3.5	-	-	3.5	-	3.5
Goodwill	-	-	-	79.6	79.6	3.7	3.7
Adjustment in respect of shares issued in lieu of cash dividend	-	-	-	16.0	16.0	16.0	16.0
Exchange adjustments	-	-	-	0.6	0.6	-	-
At 31 March 1997	720.0	529.6	622.0	1,061.3	2,212.9	1,288.7	2,440.6
(Loss)/Profit for financial year	-	-	-	(39.5)	(39.5)	194.3	194.3
Dividends on ordinary shares	-	-	-	(228.8)	(228.8)	(228.8)	(228.8)
Shares issued net of costs	-	2.2	11.8	-	14.0	-	14.0
Shares issued in lieu of cash dividend	-	13.0	-	-	13.0	-	13.0
Capitalisation of reserves in respect of shares issued via QUEST	-	-	-	(4.7)	(4.7)	-	-
Adjustment in respect of shares issued in lieu of cash dividend	-	-	-	76.1	76.1	76.1	76.1
Exchange adjustments	-	-	-	3.9	3.9	-	-
At 31 March 1998	720.0	544.8	633.8	868.3	2,046.9	1,330.3	2,508.6
Profit for financial year	-	-	-	468.3	468.3	496.1	496.1
Dividends on ordinary shares	-	-	-	(243.6)	(243.6)	(243.6)	(243.6)
Shares issued net of costs	-	1.6	8.3	-	9.9	-	9.9
Shares issued in lieu of cash dividend	-	3.5	-	-	3.5	-	3.5
Capitalisation of reserves in respect of shares issued via QUEST	-	-	-	(4.0)	(4.0)	-	-
Adjustment in respect of shares issued in lieu of cash dividend	-	-	-	28.0	28.0	28.0	28.0
Exchange adjustments	-	-	-	(3.9)	(3.9)	-	-
At 31 March 1999	720.0	549.9	642.1	1,113.1	2,305.1	1,610.8	2,802.9

Prior years' results have been restated to comply with new Financial Reporting Standards (see note 1). The figures above can be reconciled to those previously stated as follows:

	Profit and loss account £m	Company T
At 31 March 1996 as previously stated	854.0	1,992.0
Cumulative prior year adjustment	130.5	130.5
At 31 March 1996 as restated	984.5	2,122.5
At 31 March 1997 as previously stated	990.3	2,141.0
Cumulative prior year adjustment	71.0	71.0
At 31 March 1997 as restated	1,061.3	2,212.0
At 31 March 1998 as previously stated	866.9	2,049.0
Cumulative prior year adjustment	1.4	1.4
At 31 March 1998 as restated	868.3	2,046.0

Notes to the accounts

Underlying dividends per ordinary share are 44.30 pence (recommended) in 1999, 40.8 pence in 1998 and 37.2 pence in 1997. In 1998, an enhancement to the final dividend of 1.36 pence was paid.

As allowed by section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The amount of group profit for the financial year dealt with in the company's profit and loss account is £496.1 million (1998 – £194.3 million; 1997 – £343.5 million) after accounting for dividends receivable from subsidiary undertakings of £423.4 million (1998 – £403.1 million; 1997 – £412.6 million).

The cumulative amount of goodwill resulting from acquisitions during the years ended 1999, 1998, 1997 and prior years, net of goodwill attributable to subsidiaries or businesses demerged or disposed of prior to 31 March 1999, amounts to £1,124.5 million (1998 – £1,124.5 million; 1997 – £1,124.5 million). The cumulative amount of negative goodwill included in the goodwill reserve is £nil at 31 March 1999 (1998 – £nil; 1997 – £nil). Consolidated retained earnings at 31 March 1999 include retained earnings of joint ventures and associated undertakings of £4.8 million (1998 – £11.9 million; 1997 – £14.4 million). The cumulative amount of exchange adjustments included within consolidated retained earnings is £(5.7) million (1998 – £(1.8) million; 1997 – £(5.7) million). The taxation effect of the exchange adjustments posted directly to retained earnings in the year is £nil (1998 – £0.6 million charge; 1997 – £nil).

Apart from dividends from North West Water Limited and NORWEB plc, which are subject to certain regulatory restrictions, there are no significant statutory or contractual restrictions on the distribution of current profits of subsidiary or associated undertakings; undistributed profits of prior years are, in the main, permanently employed in the businesses of these undertakings. The undistributed profits of group undertakings overseas may be liable to

overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends. No provision has been made in respect of potential taxation liabilities on realisation of assets at restated or revalued amounts or on realisation of joint ventures and associated undertakings at equity accounted value.

The authorised share capital at 31 March 1996 was £660,000,001 divided into 660,000,000 ordinary shares of £1 each and one special rights redeemable preference share of £1. Resolutions were passed at the annual general meeting on 26 July 1996 such that the special rights redeemable preference share was cancelled and the authorised ordinary share capital was increased to £720,000,000 by the creation of 60,000,000 new ordinary shares of £1 each.

The allotted and fully paid share capital of the company at 31 March 1999 was 549,869,126 ordinary shares (544,810,508 ordinary shares at 31 March 1998; 529,596,168 ordinary shares at 31 March 1997).

1,573,675 ordinary shares were allotted during the year ended 31 March 1999 (1998 – 2,205,762 ordinary shares; 1997 – 3,042,273 ordinary shares) for the exercise of options in accordance with the rules of the employee sharesave schemes and the executive share option scheme for a total consideration of £10.0 million (1998 – £14.3 million; 1997 – £10.2 million).

On 1 October 1998, 3,484,943 ordinary shares were issued to ordinary shareholders who elected to receive shares instead of cash for the final dividend for the year ended 31 March 1998.

Since 31 March 1999, 14,463 shares have been allotted on the exercise of options and at 31 May 1999, the company's issued share capital, credited as fully paid, was 549,883,589.

Notes to the accounts

The company has two continuing share option schemes – an employee sharesave scheme available to all eligible employees and an executive share option scheme for senior executives (excluding, with effect from the introduction of the group's incentive plan, executive directors and other executives participating in the plan). The former is based on SAYE savings contracts with options exercisable within a six-month period from the conclusion of a three, five or seven year period as appropriate from the date of grant. Under the terms and conditions of this scheme, for every month

(up to no more than six months) an employee fails to contribute the agreed monthly amount determined under the rules of the scheme, the last date exercisable will be delayed by one month. Options under the latter scheme are exercisable in a period beginning no earlier than three years (five years discounted options, which are no longer granted) and ending no later than years from the date of grant. Options outstanding under the two share option schemes at 31 March, together with their exercise prices and dates, were:

	1999	1998	Exercise price	Normal date of exercise
Employee sharesave scheme	–	20,693	244.3p (1)	1997 or 1998
	19,815	352,056	269.9p (1)	1998 or 1999
	190,992	219,867	369.5p (1)	1999 or 2000
	193,760	557,489	440.6p (1)	1999 or 2000
	858,626	899,559	404.8p (1)	2000 or 2001
	1,125,575	1,189,692	481.0p (1)	2000 or 2001
	3,460,440	3,721,613	476.0p (1)	2001 or 2002
	2,153,773	2,258,676	616.5p (1)	2001 or 2002
	1,623,061	–	707.5p (1)	2002 or 2003
Executive share option scheme	–	14,213	268.9p (3)	1993 to 2000
	12,146	15,505	305.2p (3)	1993 to 2000
	32,432	46,968	324.1p (3)	1996 to 2000
	64,394	110,979	275.7p (2)	1998 to 2000
	50,587	50,587	392.7p (3)	1996 to 2000
	20,542	69,056	334.2p (2)	1998 to 2000
	93,590	115,856	463.4p (3)	1997 to 2000
	64,013	69,941	394.2p (2)	1999 to 2000
	8,138	13,443	446.9p (3)	1997 to 2000
	16,205	83,637	380.2p (2)	1999 to 2000
	205,976	286,376	566.9p (3)	1998 to 2000
	143,017	155,665	482.2p (2)	1999 to 2000
	61,006	219,161	530.1p (3)	1998 to 2000
	49,796	91,273	450.8p (2)	1999 to 2000
	116,729	225,796	479.8p (3)	1998 to 2000
	130,688	142,307	408.2p (2)	1999 to 2000
	56,205	63,763	564.0p (3)	1999 to 2000
	21,252	21,252	479.8p (2)	2000 to 2001
	275,950	307,750	584.5p (3)	1999 to 2000
	651,889	699,684	544.5p (3)	1999 to 2000
	493,000	516,000	628.0p (3)	2000 to 2001
	322,942	358,946	632.0p (3)	2000 to 2001
	635,510	636,760	768.5p (3)	2001 to 2002
	187,636	–	886.0p (3)	2001 to 2002
	327,500	–	868.0p (3)	2001 to 2002
	13,667,185	13,534,563		

- (1) The exercise price represents 80 per cent of the market price as at the date the option was granted.
- (2) The exercise price represents 85 per cent of the market price as at the date the option was granted.
- (3) The exercise price equalled the market price at the date the option was granted.

An opportunity to join the employee sharesave scheme was offered during years ended 31 March 1999 and 31 March 1998, and options were also granted under the executive share option scheme (and overseas executive share option scheme). In the year ended 31 March 1999, options were granted under the two option schemes in respect of a total of 2,152,373 ordinary shares (1998 – 3,318,716 ordinary shares), options for 1,536,653 ordinary shares (1998 – 1,871,259 ordinary shares) were exercised and options for 483,098 ordinary shares (1998 – 805,456 ordinary shares) lapsed or were cancelled.

Notes to the accounts

No options have been granted under the Norweb employee sharesave scheme since the acquisition of Norweb. Participating employees were given 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 31 March, together with their exercise price and date, were:

	1999	1998	Exercise price pence	Normal date of exercise
	3,552,961	3,802,735	308.29	2000

United Utilities established a Qualifying Employee Share Ownership Trust ('QUEST') in 1998, an employee benefit trust complying with requirements of the Finance Act 1989. The QUEST trustee assumed the obligation to satisfy options granted under the existing United Utilities' sharesave scheme and the Norweb sharesave scheme. It is intended that the QUEST will satisfy all future grants under the continuing United Utilities' sharesave scheme. All finance costs and administration expenses connected with the operation of the QUEST are written off to the profit and loss account as they accrue. The number of shares held in the QUEST at 31 March 1999 was 183,341 with a

market value of £1,356,723 based on the mid-market price of a share at that date of 740.0 pence. All dividends have been waived in accordance with the trust deed between United Utilities PLC and United Utilities QUEST Trustee Limited as trustee. All shares held in the QUEST, subject to the trustee's discretion, are used to satisfy options granted to employees of the group under sharesave schemes. The QUEST is not leveraged.

24 Pensions

The group participates in a number of pension schemes principally in the UK. The major schemes are funded defined benefit schemes – the United Utilities Pension Scheme (UUPS) and the Electricity Supply Pension Scheme (ESPS), of which the ESPS is closed to new employees. The assets of these schemes are held in trust funds independent of group finances.

For UUPS and ESPS, 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 this purpose, the actuarial assumptions adopted are based upon investment growth of 6.5 per cent per annum, pay growth of 4.5 per cent per annum and increases to pensions in payment and deferred pensions of 3 per cent per annum. The actuarial value of the assets was taken as 89 per cent of the market value of the assets as at 31 March 1998.

The last actuarial valuations of the two schemes were carried out as at 31 March 1998. The combined market value of the group's share of the assets of the two schemes at the valuation date was £1,718.5 million. Using the assumptions adopted for SSAP24 the combined actuarial value of the assets represented 115 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.

For ESPS, the employer's contributions have been assessed in accordance with the advice of a firm of actuaries, Bacon and Woodrow, using different assumptions and methods to those described above. For UUPS, the employer's contributions have been assessed in accordance with the advice of William M Mercer Limited using the assumptions and methods described above.

The group 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 set out above.

The total pension cost for the period was £24.4 million (1998 – £21.3 million; 1997 – £26.2 million).

Information about the pension arrangements for executive directors is contained in the remuneration report.

Notes to the accounts

25 Lease commitments

Subsidiary undertakings are committed to making the following payments under operating leases during the year ending:

	31 March 2000		31 March 1999	
	Land and buildings £m	Plant and machinery £m	Land and buildings £m	Plant and machinery £m
Leases which expire:				
Within one year	1.6	1.0	0.3	
Between two and five years	0.9	5.3	1.1	
After five years	2.9	—	4.8	
	5.4	6.3	6.2	

Minimum future lease payments under capital leases and minimum rental commitments under non-cancellable leases of property, plant and equipment at 31 March 1999 were as follows:

	Finance leases £m	Operating leases £m
2000	1.7	1.1
2001	0.4	
2002	—	
2003	—	
2004	2.7	
Thereafter	196.9	12.1
Total	201.7	13.2

26 Contingent liabilities

The company and certain of its subsidiary undertakings have, in the ordinary course of business, entered into performance bonds of which £53.5 million were outstanding at 31 March 1999.

The company also guaranteed certain loans and overdrafts of group undertakings up to a maximum amount of £726.9 million, including £613.8 million relating to North West Water Limited's loans from the European Investment Bank.

27 Net cash inflow from operating activities

	1999 £m	1998 Restated £m	1997 Restated £m
Group operating profit	657.0	547.2	441.1
Exceptional charges within group operating profit	31.9	43.6	11.1
Group operating profit before exceptional items	688.9	590.8	561.2
Depreciation	226.9	210.7	191.1
Profit on disposal of tangible fixed assets	(2.8)	(1.6)	(1.1)
Stocks decrease/(increase)	1.7	(5.1)	(1.1)
Debtors increase	(33.7)	(34.1)	(6.1)
Creditors and provisions (decrease)/increase	(28.8)	(18.7)	2.1
Outflow related to exceptional items	(40.8)	(57.9)	(8.1)
	811.4	684.1	611.1

The outflow related to exceptional items comprises spend on Year 2000 costs, business restructuring and Bangkok.

Notes to the accounts

28 Returns on investments and servicing of finance

	1999 £m	1998 £m	1997 £m
Interest received	14.6	21.0	15.5
Interest paid	(162.8)	(149.7)	(127.0)
Interest paid on finance leases	(13.5)	(8.6)	(9.8)
	(161.7)	(137.3)	(121.3)

29 Capital expenditure and financial investment

	1999 £m	1998 Restated £m	1997 Restated £m
Purchase of tangible fixed assets, net of grants and contributions	(661.6)	(722.9)	(639.4)
Sale of tangible fixed assets	11.1	3.8	7.1
Purchase of fixed asset investments	(5.9)	(21.2)	(24.7)
Sale of fixed asset investments other than associated undertakings or joint ventures	7.1	43.6	40.6
	(649.3)	(696.7)	(616.4)

30 Acquisitions and disposals

	Acquisitions			Disposals		
	1999 £m	1998 £m	1997 £m	1999 £m	1998 £m	1997 £m
Tangible fixed assets	-	-	5.9	-	6.4	48.4
Investments	(7.6)	(53.8)	(87.4)	-	21.6	36.7
Net current assets/liabilities	-	-	61.1	-	(0.1)	234.7
Creditors due after more than one year	-	-	-	-	-	(6.8)
Provisions for liabilities and charges	-	-	67.0	-	(6.8)	(6.8)
Fair value of net assets acquired	(7.6)	(53.8)	46.6	-	-	-
Book value of net assets disposed	-	-	-	-	21.1	305.6
Goodwill acquired/written back on disposal	-	-	(46.6)	-	-	86.7
Consideration for undertakings acquired	(7.6)	(53.8)	-	-	-	-
Profit/(Loss) on disposals	-	-	-	-	6.8	(77.1)
	(7.6)	(53.8)	-	-	27.9	315.2
Less:						
- Cash included in undertakings acquired/disposed	-	-	-	-	(1.3)	(3.1)
- Deferred consideration	-	-	-	0.8	2.9	(2.9)
- Deferred costs	-	-	-	-	-	48.1
Cash consideration	(7.6)	(53.8)	-	0.8	29.5	357.1
Comprising:						
- (Outflow)/Inflow arising on:						
- current year's acquisitions/disposals	(7.6)	(53.8)	-	-	23.4	358.1
- previous year's acquisitions/disposals	-	-	-	0.8	6.1	(0.1)
	(7.6)	(53.8)	-	0.8	29.5	357.1

Notes to the accounts

31 Management of liquid resources

	1999 £m	1998 £m
(Decrease)/Increase in bank deposits and certificates of deposit	(245.8)	(1.5)

32 Financing

	Financing - shares			Financing - debt			Total £m	
	Share capital £m	Share premium £m	Total £m	Loans £m	Short term borrowings other than overdrafts £m	Finance leases £m		
At 1 April 1996	(523.1)	(615.0)	(1,138.1)	(849.9)	(970.5)	(219.9)	(2,040.3)	(3,178.8)
Exchange adjustments	-	-	-	4.2	6.9	-	11.1	11.1
Financing:								
- New finance	(3.0)	(7.0)	(10.0)	-	-	-	-	(10.0)
- Finance repaid	-	-	-	20.5	79.8	9.3	109.6	109.6
Cash flow	(3.0)	(7.0)	(10.0)	20.5	79.8	9.3	109.6	99.6
Shares issued in lieu of cash dividends	(3.5)	-	(3.5)	-	-	-	-	(3.5)
At 31 March 1997	(529.6)	(622.0)	(1,151.6)	(825.2)	(883.8)	(210.6)	(1,919.6)	(3,071.2)
Exchange adjustments	-	-	-	1.0	1.9	-	2.9	2.9
Financing:								
- New finance	(2.2)	(7.1)	(9.3)	(499.1)	(40.1)	-	(539.2)	(548.5)
- Finance repaid	-	-	-	24.9	-	5.0	29.9	29.9
Cash flow	(2.2)	(7.1)	(9.3)	(474.2)	(40.1)	5.0	(509.3)	(518.6)
Other non-cash movement - shares issued via QUEST	-	(4.7)	(4.7)	-	-	-	-	(4.7)
Shares issued in lieu of cash dividends	(13.0)	-	(13.0)	-	-	-	-	(13.0)
At 31 March 1998	(544.8)	(633.8)	(1,178.6)	(1,298.4)	(922.0)	(205.6)	(2,426.0)	(3,604.4)
Exchange adjustments	-	-	-	(1.8)	-	-	(1.8)	(1.8)
Financing:								
- New finance	(1.6)	(8.3)	(9.9)	(789.9)	-	-	(789.9)	(799.8)
- Finance repaid	-	-	-	26.2	607.5	3.9	637.6	637.6
Cash flow	(1.6)	(8.3)	(9.9)	(763.7)	607.5	3.9	(152.3)	(162.3)
Shares issued in lieu of cash dividends	(3.5)	-	(3.5)	-	-	-	-	(3.5)
At 31 March 1999	(549.9)	(642.1)	(1,192.0)	(2,063.9)	(314.5)	(201.7)	(2,580.1)	(3,772.2)

Loans repaid	Repayment dates	Currency	Rate %	Amc
European Investment Bank	various	£	various	23
Loan notes	18 September, 18 March	£	floating	1
Local authority	30 September, 31 March	£	various	0

Notes to the accounts

33 Analysis of net debt

	Cash		Loans			Financing – debt		Current asset investments	Net debt
	£m	Due after one year £m	Due within one year £m	Short term borrowings other than overdrafts £m	Finance leases £m	Total £m	£m	£m	
At 1 April 1996	29.6	(833.2)	(16.7)	(970.5)	(219.9)	(2,040.3)	240.4	(1,770.0)	
Exchange adjustments	–	4.2	–	6.9	–	11.1	–	11.1	
Cash flow	(34.7)	–	20.5	79.8	9.3	109.6	57.3	132.2	
Other non-cash changes	–	25.2	(25.2)	–	–	–	–	–	
At 31 March 1997	(5.1)	(803.8)	(21.4)	(883.8)	(210.6)	(1,919.6)	297.7	(1,627.0)	
Exchange adjustments	(1.1)	1.0	–	1.9	–	2.9	–	1.8	
Cash flow	(4.6)	(502.3)	28.1	(40.1)	5.0	(509.3)	(1.5)	(515.9)	
Other non-cash changes	–	40.5	(40.5)	–	–	–	–	–	
At 31 March 1998	(10.8)	(1,264.6)	(33.8)	(922.0)	(205.6)	(2,426.0)	296.2	(2,140.0)	
Exchange adjustments	0.2	(1.8)	–	–	–	(1.8)	–	(1.6)	
Cash flow	152.8	(789.9)	26.2	607.5	3.9	(152.3)	(245.8)	(245.8)	
Other non-cash changes	–	99.7	(99.7)	–	–	–	–	–	
At 31 March 1999	142.2	(1,956.6)	(107.3)	(314.5)	(201.7)	(2,580.1)	50.4	(2,387.0)	

Cash and short term borrowings

	Cash at bank	Short term borrowings			Net total	Cash (at bank and overdrafts)
	£m	Overdrafts £m	Other £m	Total £m	£m	£m
At 1 April 1996	40.1	(10.5)	(970.5)	(981.0)	(940.9)	29.2
Exchange adjustments	–	–	6.9	6.9	6.9	6.9
Cash flow	(10.7)	(24.0)	79.8	55.8	45.1	(34.7)
At 31 March 1997	29.4	(34.5)	(883.8)	(918.3)	(888.9)	(5.1)
Exchange adjustments	(1.1)	–	1.9	1.9	0.8	(1.1)
Cash flow	(16.4)	11.8	(40.1)	(28.3)	(44.7)	(4.6)
At 31 March 1998	11.9	(22.7)	(922.0)	(944.7)	(932.8)	(10.8)
Exchange adjustments	0.2	–	–	–	0.2	0.2
Cash flow	152.7	0.1	607.5	607.6	760.3	152.8
At 31 March 1999	164.8	(22.6)	(314.5)	(337.1)	(172.3)	142.2

34 Related party transactions

The following information is provided in accordance with Financial Reporting Standard 8 (Related Party Transactions) as being the only material transaction with related parties during the year:

United Utilities PLC indirectly owns 75 per cent of the ordinary share capital of Norweb Gas Limited. The remaining shareholding of 25 per cent is owned by

Utilicorp UK Limited. During the year, Utilicorp UK Limited charged Norweb Gas Limited £63.4 million in respect of gas supply, transportation and other costs which represented an arm's length transaction. Of this amount, £9.5 million was included in creditors at the year end.

Notes to the accounts

35 Summary of differences between UK and US Generally Accepted Accounting Principles

The group's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United Kingdom (UK GAAP), which differ in certain respects from generally accepted accounting principles in the United States (US GAAP). Differences which have a significant effect on the consolidated net income and shareholders' equity of the group are set out below. While this is not a comprehensive summary of all differences between UK and US GAAP, other differences would not have a significant effect on the consolidated net income or shareholders' equity of the group.

As referred to in note 1, the group has adopted certain UK Financial Reporting Standards since the last financial statements. Accordingly, certain comparative figures within the amounts in accordance with UK GAAP have been restated. These adjustments are explained in further detail below.

(a) Pensions

Under UK and US GAAP, pensions costs are determined on a systematic basis over the length of service of employees. US GAAP is more prescriptive in the application of the actuarial method, actuarial assumptions to be applied in the calculation of pensions costs and the allocation of costs to accounting periods.

(b) Infrastructure renewals costs

Following the introduction of FRS 15, under UK GAAP expenditure on infrastructure assets relating to increases in capacity or enhancement of the network, and on maintaining the operating capability of the network in accordance with defined standards of service is now treated as an addition to fixed assets. Under US GAAP, only expenditure relating to increases in capacity or enhancement of the network is capitalised. This is then depreciated in accordance with paragraph (c) below.

Under UK GAAP the charge to the profit and loss account for depreciation reflects the planned level of expenditure for infrastructure renewals. The charge is adjusted under US GAAP to reflect actual expenditure in the year.

(c) Depreciation of infrastructure assets

Following the introduction of FRS 15, under UK GAAP, the depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the company's independently certified asset management plan. Under US GAAP, depreciation is charged on infrastructure assets in equal annual instalments over a period of 100 years, being the estimated economic life under US GAAP.

(d) Provisions

Following the introduction of FRS 12, referred to in note 1 there has been a change for UK GAAP in the allocation of provisions between previous reporting periods. The changes to the criteria for recording a provision under UK GAAP means that the basis used is now substantially the same as that for US GAAP.

(e) Capitalisation of interest

Under UK GAAP, the capitalisation of interest is not required. Under US GAAP, interest is required to be capitalised on qualifying assets during

the time required to prepare them for their intended use. The capitalised interest should be amortised over the life of the asset.

(f) Goodwill

Under UK GAAP, goodwill arising on acquisitions after 1 April 1998 will be treated in accordance with Financial Reporting Standard 10 and capitalised and amortised as it would be in accordance with US GAAP. Prior to that date, the goodwill arising on acquisition was and remains written off against retained earnings in the consolidated balance sheet in the year of acquisition. Under US GAAP, goodwill is capitalised on the balance sheet and amortised by charges against income over its estimated useful life, not to exceed 40 years. For US GAAP, goodwill has been amortised over periods varying between 20 and 40 years.

Under UK GAAP, the profit or loss on disposal of all or part of a previously acquired business is calculated after taking account of the gross amount of any goodwill previously eliminated directly against reserves. Under US GAAP, an adjustment to profit or loss on disposal is required in respect of goodwill previously amortised.

(g) Retail and generation results

As part of the acquisition of NORWEB plc in November 1995, the group undertook a strategic review of its existing and recently acquired operations. As a consequence of this review, the group identified that the newly acquired retail and generation operations would not form part of the future activities of the group and would be sold. The fair value exercise completed after the acquisition, and updated during the year ended 31 March 1997 in accordance with UK GAAP, adjusted the value of the assets held to the amounts realised on disposal. For US GAAP, the adjustments to the value of assets resulting from these transactions were treated as adjustments to goodwill. For US GAAP, the operating results of these businesses have been eliminated from net income.

Under UK GAAP, the profit and loss accounts of operations acquired in a business combination are consolidated unless plans to dispose of those businesses are sufficiently well progressed to require such businesses to be shown as current asset investments. Under US GAAP, those profit and loss accounts would not be consolidated and the cash flows from those operations to be disposed of would be considered in the purchase price allocation. The difference between the carrying value of those operations to be disposed of at the date of sale and the proceeds from the sale result in a reallocation of the purchase price.

There was no significant difference between the profit or loss generated by these businesses during the holding period and the earnings received or losses funded by the group during that period.

(h) Deferred taxes

Under UK GAAP, deferred taxes are accounted for to the extent that it is considered probable that a liability or asset will crystallise in the foreseeable future. Under US GAAP, deferred taxes are accounted for on timing differences and a valuation allowance is established in respect of those deferred tax assets where it is more likely than not that some portion will remain unrealised. Deferred tax also arises in relation to the tax effect of the other US GAAP adjustments.

Notes to the accounts

The change in the rate of UK corporation tax from 1 April 1999, reduced to 30 per cent from 31 per cent, resulted in a £25.7 million reduction in the deferred tax liability at this date under US GAAP.

(i) Ordinary dividends

Under UK GAAP, the proposed dividends on ordinary shares, as recommended by the directors, are deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under US GAAP, such dividends are only deducted from shareholders' equity at the date of declaration of the dividend.

(j) Earnings per share (EPS)

Under UK GAAP, primary EPS is based on the weighted average number of ordinary shares outstanding during the period. Earnings per share is the profit in pence attributable to each equity share, based on the profit for the financial year attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year and ranking for dividend in respect of the period. This method is also used for basic EPS under US GAAP. In the UK, it is acceptable to disclose an additional earnings per share provided that it is calculated on a consistent basis over time. The adjustment to profit and earnings per share has been made to eliminate the impact of 'non-recurring' items and, by the adjustment for

the results of divested businesses, to disclose the underlying earnings of continuing operations.

As introduced by Financial Reporting Standard No 14 (Earnings per Share) under UK GAAP diluted EPS must now be disclosed. This is based on net income and computed using the weighted average number of shares in issue during the year and the dilutive effect of all share options and ordinary share equivalents. This method is similar to the treasury stock method used for US GAAP purposes.

Under UK GAAP, the weighted average number of ordinary shares in issue during the year should exclude the shares held by Employee Share Ownership Plans (ESOP) in respect of which dividends have been waived. Under US GAAP, all shares held by a non-leveraged ESOP should be treated as outstanding in computing earnings per share. As the number of shares held by the Norweb ESOP trust was approximately 300,000 in 1997 and 1996, of a total issued share capital of approximately 530 million and 523 million in 1997 and 1996 respectively, such shares have not been included in the weighted average number of shares outstanding because the impact on earnings per share would be immaterial. The ESOP was discontinued in the year ended 31 March 1998.

Earnings per share computed in accordance with US GAAP has been based on the following number of shares:

	1999 Number (in millions)	1998 Number (in millions)	1997 Number (in millions)
Weighted average number of shares under US GAAP – basic EPS	547.2	534.7	524.7
Common stock equivalents – dilutive share options	3.3	–	3.3
Weighted average number of shares under US GAAP – diluted EPS	550.5	534.7	528.0

Notes to the accounts

(k) Effect on net income of differences between UK and US GAAP

For the year ended 31 March 1999

	Note	1999 £m	1998 Restated £m	1997 Restated £m
Net income/(loss) in accordance with UK GAAP		468.3	(39.5)	175.1
US GAAP adjustments:				
- Pension costs	35(a)	11.3	(4.7)	(15.1)
- Infrastructure renewals costs	35(b)	(20.5)	3.9	(26.1)
- Depreciation of infrastructure assets	35(c)	(18.2)	(16.6)	(14.1)
- Provisions	35(d)	(17.1)	14.0	13.1
- Capitalisation of interest	35(e)	57.9	55.1	43.1
- Amortisation of capitalised interest	35(e)	(6.5)	(5.9)	(4.1)
- Amortisation of goodwill	35(f)	(29.3)	(28.9)	(34.1)
- Goodwill disposed of on sale of businesses	35(f)	-	-	35.1
- Retail and generation results	35(g)	-	-	8.1
- Deferred taxes	35(h)	(194.6)	(58.7)	(104.1)
- Income taxes on US GAAP adjustments	35(h)	10.6	7.8	17.1
Net income/(loss) in accordance with US GAAP		261.9	(73.5)	93.1
Net income/(loss) from continuing operations in accordance with US GAAP		261.9	(81.7)	176.1
Net income/(loss) of discontinued operations in accordance with US GAAP		-	8.2	(83.1)
Net income/(loss) per £1 ordinary share (pence) in accordance with US GAAP basic method from:				
Continuing operations		47.9	(15.2)	33.1
Discontinued operations		-	1.5	(15.1)
Total	35(i)	47.9	(13.7)	17.1

Net income/(loss) per £1 ordinary share (pence) in accordance with US GAAP diluted method from:

Continuing operations		47.6	(15.2)	33.1
Discontinued operations		-	1.5	(15.1)
Total	35(i)	47.6	(13.7)	17.1

(l) Cumulative effect on shareholders' equity of differences between UK and US GAAP

At 31 March 1999

	Note	1999 £m	1998 Restated £m
Shareholders' equity in accordance with UK GAAP	23	2,305.1	2,046.1
US GAAP adjustments:			
- Pensions	35(a)	(39.9)	(51.1)
- Infrastructure renewals costs	35(b)	35.3	51.1
- Depreciation of infrastructure assets	35(c)	(125.6)	(107.1)
- Provisions	35(d)	32.0	41.1
- Capitalisation and amortisation of interest	35(e)	302.1	251.1
- Goodwill	35(f, g)	1,070.5	1,091.1
- US GAAP adjustments on goodwill calculation	35(f)	23.0	21.1
- Deferred taxes	35(h)	(782.6)	(581.1)
- Income taxes on US GAAP adjustments	35(h)	(68.4)	(71.1)
- Dividends	35(i)	164.5	151.1
Shareholders' equity in accordance with US GAAP		2,916.0	2,851.1

Notes to the accounts

(m) Classification differences between UK and US GAAP

Provisions for liabilities and charges

Provisions for liabilities and charges under UK GAAP include £56.7 million (1998 – £53.5 million) which are due within one year and which would be reclassified to current liabilities under US GAAP. The remainder of the provisions would be reclassified as long term liabilities under US GAAP.

Grants

Under UK GAAP, grants are disclosed within deferred grants and contributions as creditors in the balance sheet. Under US GAAP, these amounts would be set against the assets to which they relate, and £207.3 million (1998 – £193.5 million) would be reclassified from long term liabilities to tangible fixed assets.

Exceptional items

Under UK GAAP, profits on disposal of businesses may be disclosed as exceptional items, after operating profit.

Under US GAAP, all exceptional items would have been reflected within operating profit. In 1999, a profit of £nil (1998 – profit of £6.8 million; 1997 – loss of £77.1 million) would have been included within operating profit.

(n) Cash flows

Under UK GAAP, the Group complies with Financial Reporting Standard 1 (Revised) (Cash Flow Statements) (FRS 1), the objective and principles of

which are similar to those set out in Statement of Financial Accounting Standards No. 95 (Statement of Cash Flows) (SFAS 95). The principal difference between the two standards is in respect of classification. Under FRS 1 (Revised), the group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) capital expenditure and financial investment; (e) acquisition and disposals; (f) dividends to ordinary shareholders; (g) management of liquid resources; and (h) financing activities. SFAS 95 requires only three categories of cash flow activity (a) operating; (b) investing; and (c) financing.

Cash flows arising from taxation and returns on investments and servicing of finance under FRS 1 (Revised) would be included as operating activities under SFAS 95; dividend payments would be included as a financing activity under SFAS 95 and cash flows from capital expenditure, long term investments, acquisitions and disposals would be included as investing activities under SFAS 95. In addition, under FRS 1 (Revised), cash represents cash at bank and in hand less bank overdrafts; cash equivalents (i.e. liquid resources) are not included with cash. Movements of liquid resources are included under a separate heading. Under US GAAP, cash and cash equivalents are not offset by bank overdrafts repayable within twenty four hours from the date of the advance. Such overdrafts are classified within financing activities under US GAAP.

Set out below, for illustrative purposes, is a summary consolidated statement of cash flows under US GAAP:

	1999 £m	1998 Restated £m	1997 Restated £m
Net cash provided by operating activities	401.1	310.5	526.1
Net cash used in investing activities	(656.1)	(721.0)	(258.1)
Net cash provided/(used) by financing activities	407.7	394.1	(278.1)
Effect of exchange rate changes on cash	0.2	(1.1)	0.1
Net increase/(decrease) in cash and cash equivalents	152.9	(17.5)	(10.0)
Cash and cash equivalents at beginning of year	11.9	29.4	40.4
Cash and cash equivalents at end of year	164.8	11.9	29.4

Notes to the accounts

36 Additional US GAAP disclosures

(a) Deferred tax

The components of the estimated net deferred tax liability that would be recognised under US GAAP are as follows:

	1999 £m	1998 £m
Deferred tax liabilities:		
– Accelerated tax allowances	977.5	942.1
Deferred tax assets:		
– ACT recoverable	–	(138.1)
– Operating losses	(22.1)	(20.1)
– Other temporary differences	(122.7)	(133.1)
	(144.8)	(292.1)
Less valuation allowance	18.3	17.1
	(126.5)	(275.1)
Net deferred tax liability	851.0	667.1
Of which all relates to the United Kingdom:		
– Current	(126.5)	(275.1)
– Non current	977.5	942.1
	851.0	667.1

£3.8 million of operating losses carried forward have no expiration dates and will be offset against future taxable profits.

The remaining components of the deferred tax assets are primarily short term timing differences.

Management consider that it is more likely than not that the results of future operations will generate sufficient taxable income to realise the deferred tax assets.

(b) Pension disclosures

The net periodic pension cost under Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) (SFAS 87) and SFAS No. 132 (Employers' Disclosures about Pensions and Other Post-Retirement Benefits) (SFAS 132) is as follows:

	1999 £m	1998 £m	1997 £m
Service cost	33	26	21
Interest cost	91	98	91
Actual return on assets	(85)	(341)	(131)
Net amortisation and deferral	(20)	234	31
Net periodic pension cost	19	17	21
Termination benefits	5	9	1
Employer contributions	(28)	(26)	(21)
(Decrease)/Increase in accrual	(4)	–	1

The assumptions used for the SFAS 87 AND SFAS 132 calculations are as follows:

	1999 %	1998 %	1997 %
Discount rate	6.00	7.75	8.50
Salary growth	4.50	5.75	6.50
Long term return on assets	7.50	8.50	8.50
Pension increases	3.00	4.00	4.50

Notes to the accounts

The funded status of the plans under SFAS 87 and SFAS 132 is as follows:

	1999 £m	1998 £m
Vested benefit obligation	(1,491)	(1,431)
Accrued benefit obligation	(1,491)	(1,431)
Projected benefit obligation	(1,594)	(1,511)
Plan assets	1,779	1,722
Excess plan assets over projected benefit obligation	185	200
Unrecognised transition obligation	10	10
Unrecognised prior service cost	5	5
Other unrecognised gain	(221)	(251)
Accrued pension cost under US GAAP	(21)	(21)
Change in benefit obligations		
Benefit obligation at beginning of year	1,513	1,261
Employer service cost	33	28
Member contributions	12	12
Termination benefits	5	5
Interest cost	91	91
Actuarial loss	8	17
Benefits paid	(68)	(71)
Benefit obligation at end of year	1,594	1,511
Reconciliation of plan assets		
Fair value at beginning of year	1,722	1,431
Actual return on assets	85	34
Employer contributions	28	28
Member contributions	12	12
Benefits paid	(68)	(71)
Fair value at end of year	1,779	1,722

(c) Stock compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (Accounting for Stock-Based Compensation) (SFAS 123), which encouraged the use of a fair value based method of accounting for compensation expense associated with stock options and similar plans. For US GAAP purposes, the company has elected to continue to use the intrinsic value based method prescribed by Accounting Principles Board Opinion No. 25

(Accounting for Stock Issued to Employees), as permitted by SFAS 123. SFAS 123 requires additional disclosures, including pro forma calculation of net earnings and earnings per share as if the fair value method of accounting prescribed by SFAS 123 had been applied in 1999, 1998 and 1997. The pro forma data presented below is not representative of the effects on reported amounts for future years, since SFAS 123 does not apply to awards prior to 1995 and additional awards are expected in the future.

	1999		1998		1997	
	As reported	Pro forma	As reported	Pro forma	As reported	Pro forma
Profit/(Loss) for the financial year (£ million)	468.3	464.9	(39.5)	(43.0)	175.9	175.9
Average shares outstanding (millions)	547.2	547.2	534.7	534.7	524.8	524.8
Earnings/(Loss) per share (pence)	85.6	84.9	(7.4)	(8.0)	33.5	33.5
Average fair values of grants during the year (£)	-	1.16	-	1.56	-	1.16
Black Scholes option pricing models assumptions:						
- Risk free interest rate		5.5%		6.6%-7.5%		7.6%-8.1%
- Expected life (years)		3-10		3-10		3-10
- Volatility		33%		21%		21%

The additional information required by paragraph 47(a) of SFAS 123 is set out below:

	1999		1998		1997	
	No (m)	Price (p)	No (m)	Price (p)	No (m)	Price (p)
Outstanding at beginning of year	13.5	514	12.9	459	11.2	441
Granted during the year	2.2	748	3.3	647	5.3	514
Exercised during the year	(1.5)	403	(1.9)	393	(3.1)	311
Forfeited during the year	(0.5)	488	(0.8)	475	(0.5)	441
Outstanding at end of year	13.7	561	13.5	514	12.9	441
Exercisable at end of year	1.3	490	1.3	458	2.9	311

No options lapsed during any of the years under review.

Notes to the accounts

(d) Discontinued operations

During the years ended 31 March 1998 and 1997, the group sold its investment in the process equipment businesses. The results of these operations under US GAAP are shown below.

For US GAAP purposes, the trading results of the retail and generation disposals are eliminated from the income statement.

	1999 £m	1998 £m	1997 £m
Revenue	-	-	106
Net operating costs	-	-	(120)
Operating loss before exceptional items	-	-	(13)
Profit/(Loss) on disposal of businesses	-	2.9	(42)
Operating profit/(loss) after exceptional items	-	2.9	(56)
Income from investments in associated undertakings	-	-	-
Profit/(Loss) on ordinary activities before interest	-	2.9	(56)
Net interest payable	-	-	(11)
Profit/(Loss) on ordinary activities before taxation	-	2.9	(67)
Taxation on profit on ordinary activities	-	-	(15)
Profit/(Loss) for financial year	-	2.9	(83)

(e) Newly adopted US accounting standards

SFAS 130 (Reporting Comprehensive Income)

Statement of Financial Accounting Standards No. 130 (Reporting Comprehensive Income) (SFAS 130) was adopted in 1999. Reclassification of financial statements for earlier periods provided for comparative purposes is required. It requires that all items that are required to be recognised under accounting standards as components of comprehensive income should be reported in a financial statement that is displayed with the same prominence as other financial statements. It requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. Required disclosures have been made in the group's financial statements in the statement of total recognised gains and losses and note 23. The effect of adopting SFAS 130 was not material.

SFAS 131 (Disclosure about Segments of an Enterprise and Related Information)

Statement of Financial Accounting Standards No. 131 (Disclosure about Segments of an Enterprise and Related Information) (SFAS 131) was adopted in 1999. It requires that companies disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance. It also requires entity-wide disclosures about the products and services an entity provides, the material countries in which it holds assets and reports revenues and its major customers. The required disclosures have been made and comparative information for earlier years has been restated.

SFAS 132 (Pension and other postretirement benefit disclosures)

Statement of Financial Accounting Standards No. 132 (Employers' Disclosure About Pensions and other Postretirement Benefits) (SFAS 132) was adopted in 1999. SFAS 132 revises disclosure requirements about employers' pension and other postretirement benefit plans. The required disclosures have been made and comparative information for earlier years has been restated.

(f) Recent US accounting pronouncements

Statement of Position (SOP) 98-1

The American Institute of Certified Public Accountants issued SOP 98-1 (Accounting for the cost of computer software Developed or Obtained for Internal Use) in March 1998 and it is effective for fiscal years beginning after 15 December 1998. It provides guidance on accounting for the costs of computer software developed or obtained to meet a company's internal needs. The group has not determined the impact that SOP 98-1 will have on its financial statements.

SFAS 133 (Accounting for Derivative Instruments and Hedging Activities)

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 (Accounting for Derivative Instruments and Hedging Activities) (SFAS 133). SFAS 133 established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives), and for hedging activities. It requires that an entity recognise all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement is effective for all fiscal quarters of fiscal years beginning after 15 June 1999. Management has not determined the effect of the adoption of SFAS 133.

Five year summary

Profit and loss accounts	1995 Restated £m	1996 Restated £m	1997 Restated £m	1998 Restated £m	1999 Restated £m
Turnover	1,012	1,839	2,377	2,150	2,271
Net operating costs	(683)	(1,414)	(1,931)	(1,603)	(1,622)
Operating profit	329	425	446	547	649
Income from investments in joint ventures and associated undertakings	5	19	23	6	10
(Loss)/Profit on disposal of businesses	(13)	7	(77)	7	10
Net interest payable and other similar charges	(48)	(87)	(167)	(162)	(200)
Profit on ordinary activities before taxation	273	364	225	398	459
Tax (charge)/credit on profit on ordinary activities	(25)	(48)	(48)	(24)	1
Profit on ordinary activities after taxation	248	316	177	374	460
Exceptional taxation – windfall tax	–	–	–	(415)	–
	248	316	177	(41)	460
Minority interest	–	–	(1)	2	–
Profit for financial year	248	316	176	(39)	460
Dividends	(94)	(164)	(195)	(229)	(240)
Transfer to/(from) reserves	154	152	(19)	(268)	220
Balance sheets					
Fixed assets	3,087	4,519	4,906	5,439	5,911
Net current assets/(liabilities)	3	(848)	(1,098)	(1,431)	(950)
Creditors falling due after more than one year	(789)	(1,268)	(1,235)	(1,682)	(2,370)
Provisions for liabilities and charges	(15)	(280)	(358)	(280)	(240)
Net assets	2,286	2,123	2,215	2,046	2,351
Equity share capital and share premium	380	1,138	1,152	1,179	1,190
Reserves and retained profits	1,906	985	1,062	868	1,161
Minority interest	–	–	1	(1)	–
Capital employed	2,286	2,123	2,215	2,046	2,351

Shareholder information

Financial calendar

The 1999 annual general meeting will be held on Friday, 30 July 1999 at 10.30 am at the Bridgewater Hall, Manchester. The notice of meeting and explanatory notes about the resolutions to be proposed are set out in the leaflet enclosed with this report.

Other forthcoming events are:

- final payment of interest on and redemption of the unsecured floating rate loan notes, on 18 September 1999;
- payment of the 1999 final dividend, on 1 October 1999;
- announcement of the half year results, in November 1999;
- payment of the 2000 interim dividend, in February 2000;
- preliminary announcement of the full year results, in May 2000;
- publication of the annual report and accounts, the annual review and summary financial statement, and form 20-F, in June 2000; and
- the annual general meeting, in July 2000.

Enquiries about your shareholding

If you wish to enquire about or need any information about your shareholding, please contact the company's registrar, Lloyds TSB Registrars, 54 Pershore Road South, Birmingham B22 1AD (telephone: 0121 433 8000). If you have received more than one copy of this annual report, there may be more than one account in your name on the company's register of members. To amalgamate your holdings, please contact the registrar giving details of the accounts concerned and how you wish them to be amalgamated.

Payment of dividends by BACS

Payment of the company's dividends direct to a shareholder's bank or building society account is made through the BACS (Bankers' Automated Clearing Service) system. The benefit to shareholders is that tax vouchers are sent direct to them rather than their bank or building society. If you have not already arranged to have your dividends paid direct to your bank or building society account and would like to do so, please contact the company's registrar, at the address given above.

Low cost share dealing service

Details of the simple postal service for dealing in the company's shares at an attractive commission rate are available from NatWest Stockbrokers, Corporate and Employee Services, 55 Mansell Street, London E1 8AN.

Individual savings account

The United Utilities corporate ISA (a Maxi or Mini shares-only individual savings account), managed by Halifax Share Dealing Limited, can offer a tax efficient way of holding United Utilities shares. For more information and to register an interest, telephone 0990 336644.

American depositary receipts

United Utilities ordinary shares are listed on the New York Stock Exchange in the form of American depositary shares (ADSs), evidenced by American depositary receipts, and trade under the symbol UU. Each ADS represents two ordinary shares. The Bank of New York is the depositary and their address for enquiries is The Bank of New York, Shareholder Relations, PO Box 11258, Church Street Station, New York NY 10286-1258 (telephone: 1 (888) BNY-ADRS (US toll free) and outside the US, 212-815-5204).

Publications

There are a range of reports, leaflets and factsheets dealing in greater detail with aspects of the group's businesses. For further information, please contact John Drummond, Group Director of Communications, at Dawson House, Great Sankey, Warrington WA5 3LW (telephone: 01925 234000).

ADR holders may obtain a copy of the annual report on form 20-F, which must be filed with the Securities and Exchange Commission in the US, from the depositary. Other shareholders may obtain a copy from Jane Lawton, Compliance Manager, at the Group Corporate Centre, Birchwood Point Business Park, Birchwood Boulevard, Birchwood, Warrington WA3 7WB (telephone: 01925 285000).

Copies of the separate regulatory accounts for the year ended 31 March 1999 for North West Water and for Norweb, which are filed respectively with the Director General of Water Services and the Director General of Electricity Supply, are available free of charge. If you would like copies, please contact Jane Lawton.

Web site

Further information about United Utilities can also be found on our web site at www.unitedutilities.com.

Unsolicited mail

The law obliges the company to make its register of members available to other organisations. Because of this, you may receive mail you have not asked for. If you wish to limit the amount of personally addressed unsolicited mail you receive, please write for information and an application form to the Mailing Preference Service, Freepost 22, London W1E 4EZ.

The 1999 annual report to shareholders has been printed on Evolve Silk, a recyclable and bio-degradable paper containing a minimum of 75% de-inked post consumer recycled waste. No chlorine compound is used in the bleaching process. It contains a combination of ECF (Elemental Chlorine Free) and TCF (Total Chlorine Free) pulps. Evolve Silk is a NAPM approved recycled grade and has TSO accreditation (75).

Designed and produced by Addison.
Typeset and printed by Polestar Corporate Print Limited, Bradford and London.



United Utilities

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