

Contents

- 1 Managing Director's statement
- 3 Financial review

Statutory information

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

Regulatory accounting information

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

Front cover:

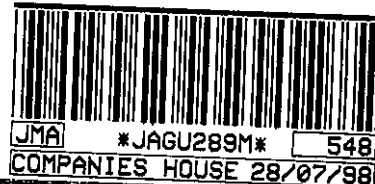
'Backwater' taken at Grasmere, in the Lake District National Park by Vince Rooker.
A highly commended entry in the Mersey River Festival 1998
Photographic competition, special section, which is supported by North West Water.

North West Water Limited

Registered Office:

PO Box 14, 410 Birchwood Boulevard,
Birchwood, Warrington WA3 7GA.

Registered in England and Wales Registered No. 2366678



Managing Director's statement



We continue to make sustained progress in meeting our declared aims of providing an efficient and environmentally

responsible service which exceeds our customers' expectations.

We have delivered substantial improved benefits to all our stakeholders. Solid financial performance over the year has been underpinned by record levels of customer satisfaction with the service we provide. All key regulatory outputs have been met and employee satisfaction continues to show year on year improvement. This all round improvement in our performance is clear evidence of our success in changing our approach to business planning and performance management.

I now believe we have a truly performance focused culture throughout the company.

We have set clear goals and each of us know what we need to do to deliver on these.

This approach has been successful this year, and I am confident that it will ensure we meet the key challenges facing us in the year ahead.

Key achievements At the year end, opinion research showed an 81 per cent domestic customer satisfaction rating, the highest level yet achieved.

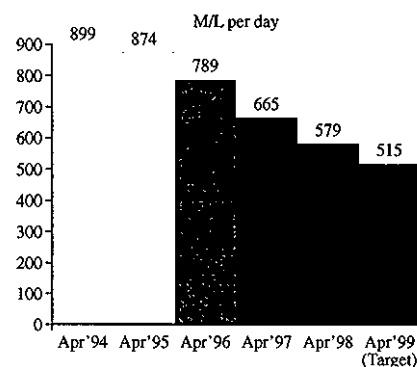
We have improved against all the key customer service standards set by Ofwat, including those for low pressure, unplanned interruptions, complaints, and our overall telephone response.

In the recent review of efficiency by Ofwat, we were ranked as above average efficiency on operating costs, and as one of the most efficient water and wastewater companies when comparing operating costs and capital maintenance together. We continue to

share the benefits of our efficiency, paying a £6.50 rebate to our customers.

Our programme of works to minimise the impact of any future drought has largely been completed. We ended the year not only with very healthy stocks of water, but also with a much more resilient system better able to cope with peak demands and periods of dry weather.

Our progress in reducing leakage was commended by Ofwat. This year we achieved our agreed target to cut leakage to 580 million litres a day, and we are confident we can meet Ofwat's mandatory target of 515 million litres a day for 1998/99.



28,708 customers have now taken advantage of our free leak repair service, saving around 50 million litres of water a day. We have more than halved the time to repair a leak, from an average of 7.3 days at the start of the year to 3.1 days by March 1998.

Success comes from putting people first. We believe that you can have the best equipment, the best systems, the best services and the best products, but it's the quality of the people that matters to convert all of that into a successful business.

We have introduced a new and extended performance review system to ensure our people receive the development and training they need, not just to do their current job but to enable them to get to where they want and deserve to be. Progress in making the work environment safer is illustrated by our incidence rate for

accidents, which was once poor, but is now the best in the water industry, meriting a gold award from RoSPA.



We are a recognised business leader in the strategy we have adopted to invest in our local communities in the North West. We are committed to working in partnership for the benefit of the environment, education, the economy and people with extra needs.



This includes an award winning approach to annual consultation with our stakeholders to

ensure that we are meeting their expectations on our social responsibilities, and actively encouraging our employees to contribute their skills and knowledge to their local community. We also provide a network of Environmental Education Centres which offer students in the North West the opportunity to learn about water and our business.

Drinking water quality has been maintained at a consistently high standard, with 99.54 per cent of all measurements meeting the required quality standards at customers' taps. Compliance with the quality standards for iron (98.0 per cent) and manganese (99.5 per cent), which can give rise to discoloured water, have shown significant improvement as a result of our continuing investment to replace old and corroding iron mains. Compliance with the lead standard (96.9 per cent) continues to cause problems due to the large number of lead pipes in the region. However, we have made very considerable improvements through extensive phosphate dosing and replacement of lead pipes owned by the company.

We refurbished or replaced 1,508 kilometres of old water mains, improving water quality at customers' taps and reducing mains bursts. 48,842 properties were given new water supply pipes, mainly replacing old lead pipes. 8,126 properties have been relieved of low-pressure problems.

This year we completed our £500 million capital investment programme agreed with the Environment Agency, to help improve the quality of bathing waters in the region. The assets constructed are operating satisfactorily and meeting the standards set by the Agency. The Environment Agency recently directed that an additional programme of work, estimated at over £100 million, should be undertaken to further reduce storm water discharges, and to upgrade a number of wastewater treatment works to meet new, higher environmental standards. Discharges from these works had not previously been considered by the Agency to have any effect on bathing waters. Subject to Ofwat approval, this work will be carried out in the near future, aiming to complete a substantial part by the 1999 bathing season.

Our £400 million Mersey Estuary pollution alleviation scheme is also now complete. A new 28 kilometre interceptor sewer runs the length of the north bank, closing the old outfalls and taking the flows of wastewater to Liverpool wastewater treatment works.

Our major sludge processing centre at Shell Green, near Widnes is nearing completion and we remain on schedule to stop the disposal of sludge at sea by the end of 1998. We refurbished or replaced a further 73 kilometres of derelict sewers, and improved or closed 40 unsatisfactory sewer overflows.



Looking forward, we have launched a new initiative, *Growing our Business*. This is aimed at finding new, creative and innovative ways of sustaining and generating profit. Over the next two years, we will be reviewing the products

and services we provide, the way we provide them and the benefits they offer to the business.

Key challenges in the year ahead In 1999, Ofwat will set new price limits for water and wastewater bills for the five years after 2000. As part of this Periodic Review process, we have carried out major research and consultation with customers and other interested parties on the key issues: drinking water quality, river and sea water quality, meeting demand for water, and levels of customer service.

Our view is that we should continue raising standards, but at a pace that will not lead to a real increase in prices.

The coming year is also a critical period within which to solve any outstanding Year 2000 problems – the threat to business continuity of computer systems failure due to the “millennium bug”. The impact of the year 2000 is a serious threat to all businesses, and there can be no assurance that the steps taken by any company will successfully eliminate vulnerabilities of its software and systems. As a provider of an essential public service, we have been actively addressing this issue and will do all that is necessary to ensure continued high levels of service to our customers.

Harry Croft
Managing Director
North West Water Limited

Financial review

Capital investment programme

During 1997/98 we achieved our compliance programme targets with an investment of £502.3 million – comparable to the previous year's expenditure of £504.6 million. We continue to meet our obligations to maintain service levels and substantially enhance water and wastewater quality. In addition, our partnership with Bechtel continued to deliver efficiency savings in our larger capital projects, maximising the returns on the investment.

The areas of expenditure for 1997/98 were £153 million on maintaining and supplementing the water mains network; £117 million on the sewer network; £154 million on wastewater treatment and disposal; £45 million on water treatment and supply and £33 million on quality and efficiency.

Key outputs were:

- improvements at key water treatment works to reduce the risk of cryptosporidium
- 763 kilometres of water mains cleaned to improve water quality
- the enhanced leakage reduction programme continued throughout the year. Leakage levels reduced from 666 to 580 million litres per day
- 28,706 leaks repaired
- 131 kilometres of new sewers added to the network
- 40 unsatisfactory sewage outflows closed, improved or replaced to reduce the risk of river pollution
- 73 kilometres of derelict sewers replaced or refurbished
- major new treatment works opened at Morecambe and Heysham
- completion of the Mersey Estuary Pollution Alleviation Scheme (MEPAS)
- the construction of a major sludge processing centre at Shell Green, Widnes nearing completion. This site will enable the end of disposal of sludge to sea.

Discretionary investment We invested £63.9 million over and above the statutory and regulatory requirements,

including drought-related expenditure and schemes to enhance the level of service to our customers. An additional 48,842 properties were given new communication pipes to replace old, mainly lead, pipes. 8,126 properties were relieved of low water pressure, and 607 properties relieved of sewage flooding problems. Work was completed at 4 wastewater treatment sites to address odour problems, and we continued a programme of projects at 18 other sites.

Turnover The increased turnover from the previous year of £914.1 million before rebates included a permitted price increase of 5.27 per cent. The company earned £260.9 million profit after taxation.

Industrial consumption reduced during 1997/98 by 0.2 per cent, compared to 1.8 per cent in 1996/97, and 1.1 per cent in 1995/96.

A total of 20,000 new domestic properties were added to our metered customer base during the year. In addition, 7,800 more customers opted to have a water meter installed.

The underlying trend in trade effluent volumes was also down by 2.4 per cent, mainly due to increased customer pre-treatment.

Operating costs During 1997/98, total operating costs including customer rebates increased by 5.9 per cent (£28.8 million) to £516.5 million.

We spent £27.4 million operating expenditure as part of fulfilling our commitments to customers.

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

No further charge has been necessary for business restructuring. The current provision, £8.6 million, is intended to cover planned restructuring for the remaining two year period to 2000.

The infrastructure renewals charge, relating to the maintenance of the mains and sewer network, increased by £3.6 million to £71.2 million. The historic cost prepayment of £25.5 million at 31 March 1998 compares with a prepayment of £21.7 million at the previous year-end.

Capital structure and treasury policy

Net borrowings increased to £1,374.2 million, analysed by source in the chart below. Net interest payable increased by £16.7 million reflecting both the increase in average net borrowings and average interest rates for the year.

The company continues to be supported by the European Investment Bank (EIB) in the funding of its large investment programme to improve the environmental infrastructure and meet the compliance directives of the European Union. The new £200 million borrowing facility granted in the last financial year was fully drawn down in the year.

Short term debt is more than fully supported by medium term committed borrowing facilities. We continued our policy of maintaining a high volume of fixed rate debt. The current volume of fixed debt of £977.6 million represents over 70 per cent of total borrowing.

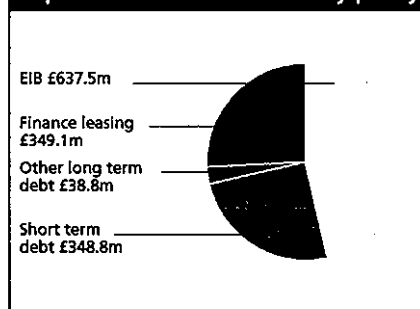
Our borrowing strategy is designed to secure interest stability within the regulatory price formula. Standard and Poors issued a long term credit rating of AA- during the year. The short term rating remains unchanged at A1+.

During the year, we issued £18.3 million non-equity preference share capital. The proceeds were used to reduce overall borrowings.



Martin Bradbury
Finance Director
North West Water Limited.

Capital structure and treasury policy



Directors' report

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

The Managing Director's statement and the financial review to be read in conjunction with this report appear on pages 1 to 4.

Profits and dividends The results for the year, set out in the profit and loss account on page 7, show that turnover for the year ended 31 March 1998 rose to £914.1 million, an increase of 4.7 per cent over the previous year. Profit for the year after tax was £260.9 million (1997 – £309.6 million).

An interim dividend of 12.39 pence per share was paid on 16 February 1998. The directors recommend a final dividend of 26.26 pence per share for the year to 31 March 1998.

A special dividend of £129.8 million (30.05 pence per share) was paid on 31 March 1998 in respect of the first instalment of the windfall tax.

Regulation As required by paragraph 3.1 of condition K of the licence, the directors state that they are satisfied that as at 31 March 1998, if a special administration order had been made under section 23 of the Water Industry Act 1991 in respect of North West Water Limited, the company would have had available to it sufficient rights and assets (not including financial resources) to have enabled the special administrator to manage the affairs, business and property of the company that the purpose of the order could have been achieved.

Employment policies Employees are key to achieving our business strategy. We are fully committed to improving the skills of our employees and to extending Investor in People accreditation throughout the company. 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. Employees involvement is further encouraged through means such as the 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.

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

Payments to suppliers The company's policy is normally to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the company seeks to adhere to the payment terms providing the relevant goods and services have been supplied in accordance with the contracts. In accordance with SI 1997 No. 571 The Companies Act 1985 (Directors' Report) (Statement of Payment Practice) Regulations 1997, the company had 54 days of purchases outstanding at the end of the financial year.

Directors The directors of the company during the year ended 31 March 1998 are set out below. All were directors for the whole year except where otherwise indicated.

*D Green, Chairman.

H R Croft, Managing Director.

R D Armstrong, Deputy Managing Director.

M F Bradbury, Finance Director.

R G Bradbury, Commercial Director.

P G S Entwistle, Non-executive director.

*R J Ferguson, United Utilities PLC Finance Director.

E Harper, Quality Regulation Director – resigned 31 July 1997.

P E McCloskey, Corporate Services Director.

D E Morton JP, Non-executive director.

C H Elphick, Planning Director – appointed 1 October 1997.

R R Ford, Quality Director – appointed 1 October 1997.

M G Faulkner, Director – resigned 1 October 1997.

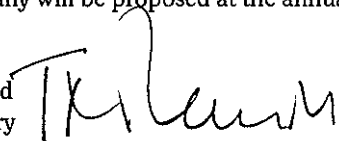
*Director, United Utilities PLC.

Details of directors' interests in ordinary shares of United Utilities PLC are set out in note 5 to the accounts.

At no time in the year did any director have a material interest in any contract or arrangement which was significant in relation to the company's business.

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

By order of the Board
Tim Rayner Secretary
10 July 1998



Directors' responsibilities

in respect of the preparation of financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of North West Water Limited at the end of the financial year and of the profit or loss for the financial year. The company is also required to prepare accounting statements each year which comply with the requirements of Condition F of the Instrument of Appointment of the company as a water and sewerage undertaker under the Water Industry Act 1991. The accounting statements may be combined with the financial statements.

The directors consider that in preparing the financial statements on pages 7 to 32, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards and all Regulatory Accounting Guidelines issued by the Office of Water Services which they consider to be applicable to these financial statements have been followed.

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

In addition, the directors have responsibility for ensuring that the company keeps proper accounting records sufficient to enable the historical cost and current cost information required by Condition F of the Instrument of Appointment to be prepared, having regard to all relevant Regulatory Accounting Guidelines.

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

The directors are required to confirm in the accounting statements that, in their opinion, the company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment relating to the availability of rights and assets, at the end of the financial year.

Auditors' report

to the members of North West Water Limited

We have audited the financial statements on pages 7 to 22.

Respective responsibilities of directors and auditors

As described under "Directors' responsibilities" on page 6 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company as at 31 March 1998 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester
10 July 1998

KPMG Audit Plc

Profit and loss account

For the year ended 31 March 1998	Note	1998 £m	1997 £m
Turnover	1(b)	914.1	872.7
Net operating costs	3	(498.2)	(459.4)
Customer rebates		(18.3)	(28.3)
Operating profit		397.6	385.0
Net interest payable	7	(85.1)	(68.4)
Profit on ordinary activities before taxation		312.5	316.6
Tax on profit on ordinary activities	8	(51.6)	(7.0)
Profit for financial year		260.9	309.6
Dividends	9	(298.4)	(353.9)
Transfer from reserves	19	(37.5)	(44.3)

All of the results derive from continuing operations.

The company has no recognised gains or losses other than the profit for the year.

Reconciliation of movements in shareholders' funds

For the year ended 31 March 1998	1998 £m	1997 £m
Profit for the financial year	260.9	309.6
Dividends	(298.4)	(353.9)
Transfer from reserves	(37.5)	(44.3)
Issue of preference shares	18.3	38.5
Net movement in shareholders' funds for the year	(19.2)	(5.8)
Opening shareholders' funds	2,147.5	2,153.3
Closing shareholders' funds	2,128.3	2,147.5

Balance sheet

At 31 March 1998	Note	1998 £m	1997 £m
Fixed assets			
Tangible assets	10	3,983.7	3,494.0
Investments	11	0.3	0.5
		3,984.0	3,494.5
Current assets			
Stores		1.4	1.0
Debtors	12	279.5	269.9
Cash at bank and in hand		–	8.9
		280.9	279.8
Creditors			
Amounts falling due within one year	13	(1,212.7)	(849.7)
Net current liabilities		(931.8)	(569.9)
Total assets less current liabilities		3,052.2	2,924.6
Creditors:			
Amounts falling due after more than one year	14	(912.8)	(749.1)
Provisions for liabilities and charges	16	(11.1)	(28.0)
Net assets		2,128.3	2,147.5
Capital and reserves			
Equity share capital	18	431.9	431.9
Share premium account	18	647.8	647.8
Profit and loss account	19	991.8	1,029.3
Equity shareholders' funds		2,071.5	2,109.0
Non-equity share capital	18	56.8	38.5
Shareholders' funds		2,128.3	2,147.5

Approved by the Board of directors on 10 July 1998 and signed on its behalf by

Martin F Bradbury
Finance Director



Cash flow statement

For the year ended 31 March 1998	1998 £m	1998 £m	1997 £m	1997 £m
Net cash inflow from operating activities		567.4		438.4
Returns on investments and servicing of finance				
Interest received	9.9		17.6	
Interest paid	(89.2)		(71.3)	
Interest element of finance lease repayments	(10.2)		(9.8)	
Net cash outflow from returns on investment and servicing of finance		(89.5)		(63.5)
Taxation		-		(1.2)
Capital expenditure				
Purchase of tangible fixed assets	(565.7)		(390.9)	
Grants and contributions received	4.1		4.0	
Disposal of tangible fixed assets	2.1		191.0	
Net cash outflow for capital expenditure		(559.5)		(195.9)
Dividends paid		(288.6)		(341.2)
Cash outflow before use of liquid resources		(370.2)		(163.4)
Financing				
Issue of preference share capital	18.3		38.5	
Increase in debt	334.2		135.9	
Net cash inflow from financing		352.5		174.4
(Decrease)/increase in cash		(17.7)		11.0

Notes to the cash flow statement are detailed in note 24.

Notes to the accounts

1 Accounting policies

(a) Basis of preparation of accounts

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and, except for the treatment of certain grants and contributions (note (e) below), with the Companies Act 1985 ("the Act").

(b) Turnover

Turnover represents the income receivable in the ordinary course of business for services provided and excludes VAT.

(c) Research and development

Expenditure on research and development is written off against profit in the year in which it is incurred.

(d) Tangible fixed assets

Tangible fixed assets comprise infrastructure assets (mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) and other assets (including properties, overground plant and equipment).

(i) Infrastructure assets

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions, which are included at cost after deducting related grants and contributions.

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost. No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

Charges for infrastructure renewals expenditure take account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying the company's investment programme. The timing of the investment programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations between actual and planned expenditure.

(ii) Other assets

Additions are included at cost.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives which are principally as follows:

Buildings	30-60 years
Operational structures	10-80 years
Fixtures, fittings, tools and equipment	3-40 years
Pre-1974 assets	22-27 years

Capitalised computer software costs are depreciated over 3-10 years. Assets in the course of construction with an estimated economic life of greater than 20 years are not depreciated until the year following commissioning.

(e) Grants and contributions

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

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

Notes to the accounts continued

(f) Leased assets

Assets financed by leasing arrangements which transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in the balance sheet and the corresponding capital cost is shown as an obligation to the lessor. Leasing repayments comprise both a capital and a finance element. The finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease.

Operating lease rentals are charged to the profit and loss account as incurred.

(g) Fixed asset investments

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

(h) Stores

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

(i) Pensions

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

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

(j) Deferred taxation

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

(k) Financial instruments

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

2 Segmental information

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

Notes to the accounts continued

3 Net operating costs

	1998 £m	1997 £m
Employee costs:		
Wages and salaries	93.9	81.3
Social security costs	6.9	7.8
Pension contributions (note 20)	8.6	10.1
	109.4	99.2
Less recharges:		
Capital schemes	(28.2)	(23.7)
Infrastructure renewals	(9.0)	(6.1)
	72.2	69.4
Depreciation:		
Owned fixed assets	66.8	52.3
Fixed assets held under finance leases	5.5	6.7
	72.3	59.0
Infrastructure renewals	71.2	67.6
Other operating costs include:		
Other operating costs	263.3	246.7
Raw materials and consumables	18.6	17.2
Auditors' remuneration	0.1	0.1
Research and development	2.1	2.4
Operating leases		
– hire of plant and machinery	2.0	1.8
– land and buildings	1.7	1.5
Other income (note 4)	(5.3)	(6.3)
	282.5	263.4
Total net operating costs	498.2	459.4

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

Fees payable to the auditor and its associates for non-audit services in 1998 were £40,000 (1997 – £37,000)

4 Other income

	1998 £m	1997 £m
Profit on disposal of fixed assets	1.0	1.2
Net rents receivable	2.2	2.0
Other	2.1	3.1
	5.3	6.3

5 Directors

The aggregate emoluments of directors in 1998 amounted to £926,546 (1997 – £1,068,000). Emoluments comprise salaries, fees, taxable benefits and the value of short term incentive awards. The emoluments of the highest paid director (H Croft) in 1998 amounted to £229,366 (D. Green, 1997 – £292,000).

With the exception of P G S Entwistle and D E Morton who, as non-executive directors, do not participate in pension arrangements, all directors are members of and contribute to the United Utilities Pension Scheme (UUPS), a defined benefits pension scheme which provides an entitlement on retirement at age 60 equal to between 1/30th and 1/45th of pensionable remuneration for each completed year of service but subject to an overall maximum of 20/30ths. The normal retirement age is 60 but early retirement is possible from age 50 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 directors who have joined the company since 1989 on the same basis as pensions for directors who joined the company before that date. In line with many other companies, the company has established separate arrangements. Accordingly, on the retirement of D. Green, the company has undertaken to pay the difference between the pension entitlement based on his relevant proportion of the final salary and the maximum amount payable under the rules of the UUPS. At the present time, this separate arrangement remains unfunded. This undertaking will not result in any greater or additional benefits for the director than would have been payable had it been possible for their pension to be provided fully within the UUPS on the same basis as for directors who had joined the company prior to 1989.

The accrued pension at 31 March 1998 for H Croft was £83,729 per annum (1997 – £72,013 per annum).

Notes to the accounts continued

5 Directors continued

At 31 March, the directors and their immediate families had the following interests, all of which were beneficial interests, in the ordinary shares and options to subscribe for ordinary shares in United Utilities PLC (details of the interests of directors of United Utilities PLC are dealt with in that company's accounts).

	1998			1997 or on appointment		
	Share options			Share options		
	Ordinary shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	15,717	12,293	2,556	19,117	12,293	2,556
R G Bradbury	-	27,333	-	-	26,333	-
H R Croft	13,345	28,010	-	14,331	28,010	2,796
P E McCloskey	-	32,227	3,586	-	31,477	3,586
M F Bradbury	14,034	17,637	4,005	10,010	22,926	4,005
P G S Entwistle	90	-	-	90	-	-
R R Ford	-	8,871	3,059	-	8,371	2,427
C H Elphick	12,962	34,872	3,623	14,562	34,872	3,623

Details of the employee sharesave scheme and the executive share option scheme operated by United Utilities PLC are given in that company's accounts.

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

	Options granted during the year	Exercise price per share	Scheme	First date exercisable	Last date exercisable
R G Bradbury	1,000	768.5p	Executive option	23 Dec 2000	23 Dec 2007
P E McCloskey	750	768.5p	Executive option	23 Dec 2000	23 Dec 2007
M F Bradbury	1,750	768.5p	Executive option	23 Dec 2000	23 Dec 2007
R R Ford	500	768.5p	Executive option	23 Dec 2000	23 Dec 2007
R R Ford	632	617.0p	Sharesave	1 Mar 2001	1 Sep 2001

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

	Options exercised during the year	Exercise price per share	Scheme	Market price when exercised	First date exercisable	Last date exercisable
M F Bradbury	775	479.8p	Executive	835.5p	15 Dec 1997	15 Dec 2004
	1,227	275.7p	Executive	835.5p	8 Jan 1997	8 Jan 2002
	1,162	394.2p	Executive	835.5p	6 Jan 1998	6 Jan 2003
	3,488	463.4p	Executive	835.5p	6 Jan 1998	6 Jan 2003
	387	566.9p	Executive	835.5p	20 Jan 1997	20 Jan 2004
H R Croft	1,304	308.3p	Sharesave	714.5p	1 Mar 1995	30 Sep 1997
	1,492	Lapsed				

The mid-market share price on 31 March 1998 was 886.0p.
The range during the year was 621.5p (low) to 886.0 (high).

6 Employees

	1998	1997
Average number of persons employed	4,106	4,140

7 Net interest payable

	1998 £m	1997 £m
Interest payable:		
On bank loans, overdrafts and other loans	75.9	61.2
On finance leases	10.2	14.0
Group undertakings	8.9	11.0
Total interest payable	95.0	86.2
Interest receivable:		
Group undertakings	(7.5)	(17.1)
External	(2.4)	(0.7)
Net interest payable	85.1	68.4

8 Taxation on profit on ordinary activities

	1998 £m	1997 £m
UK Corporation Tax at 31% (1997 – 33%)	51.6	7.0

The full potential deferred tax liability is:

Accelerated tax allowances on buildings, plant and equipment:		
Infrastructure assets	429.8	442.4
Other assets	216.3	221.1
Losses and other timing differences	(21.7)	(48.5)
	624.4	615.0

No deferred tax liability is provided in the company's accounts. A deferred tax asset of £3.2 million is included within debtors amounts falling due after more than one year representing advance corporation tax recoverable against future mainstream corporation tax liabilities.

Notes to the accounts continued

9 Dividends

	1998 £m	1997 £m
Interim dividend of 12.79 pence per share (1997 – 11.66 pence)	55.3	50.4
Final dividend of 26.26 pence per share recommended (1997 – 23.97 pence)	113.4	103.5
Special dividend of 30.05 pence per share (1997 – 46.3 pence)	129.8	200.0
Adjustment to 1996/97 final dividend payment	(0.1)	–
	298.4	353.9

North West Water Limited's licence requires that its dividend policy will not impair the ability of the Appointed Business to finance its functions. In accordance with this policy the total dividend payment from North West Water Limited to United Utilities PLC increased by 6 per cent in real terms in 1997/98. This increase results from:

- a base level of growth consistent with the management of the economic risk of the business.
- a further level of growth to reward efficiency in accordance with the system of incentive regulation.

A special dividend of £129.8 million was paid to United Utilities PLC on 31 March 1998 in respect of the first instalment of the windfall tax. The previous year's special dividend was paid as a result of ongoing performance and in line with our increased benefit sharing with customers.

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

10 Tangible fixed assets

	Land and buildings £m	Infra- structure assets £m	Opera- tional structures £m	Fixtures, fittings, tools and equipment £m	Pre-1974 assets £m	Assets in Course of con- struction £m	Total £m
Cost:							
At 1 April 1997	179.8	1,592.9	1,414.3	207.7	177.4	424.0	3,996.1
Additions	5.8	50.5	52.4	12.8	–	302.5	424.0
Grants and contributions	–	(4.1)	–	–	–	–	(4.1)
Inter-group transfer	–	–	–	176.7	–	61.5	238.2
Transfers	10.2	94.0	70.0	4.7	–	(178.9)	–
Disposals	(2.6)	–	(0.7)	(14.2)	–	–	(17.5)
At 31 March 1998	193.2	1,733.3	1,536.0	387.7	177.4	609.1	4,636.7
Depreciation:							
At 1 April 1997	29.0	–	231.6	114.1	127.4	–	502.1
Charge for the year	5.8	–	44.2	16.5	5.8	–	72.3
Inter-group transfer	–	–	–	95.0	–	–	95.0
Disposals	(2.3)	–	(0.6)	(13.5)	–	–	(16.4)
At 31 March 1998	32.5	–	275.2	212.1	133.2	–	653.0
Net book value:							
At 31 March 1998	160.7	1,733.3	1,260.8	175.6	44.2	609.1	3,983.7
At 31 March 1997	150.8	1,592.9	1,182.7	93.6	50.0	424.0	3,494.0

Inter-group transfers include the transfer of assets from Vertex Data Science Limited under the terms of a finance lease.

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence, the net book value of fixed assets is £77.4 million (1997 – £73.3 million) lower than it would have been had this treatment not been adopted.

10 Tangible fixed assets continued

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

	1998 £m	1997 £m
Cost:		
Operational structures	250.8	250.8
Fixtures, fittings, tools and equipment	183.6	9.3
Assets in course of construction	61.5	-
At 31 March	495.9	260.1
Accumulated depreciation:		
Operational structures	(57.7)	(53.6)
Fixtures, fittings, tools and equipment	(100.5)	(8.0)
At 31 March	(158.2)	(61.6)
Net book value:		
Operational structures	193.1	197.2
Fixtures, fittings, tools and equipment	83.1	1.3
Assets in course of construction	61.5	-
At 31 March	337.7	198.5

The depreciation charge for the year for assets held under finance leases is £5.5 million (1997 - £6.7 million).

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1998. Pre-1974 assets comprise a pool of assets which was transferred to the company from North West Water Authority, which it acquired in 1974 from its predecessors. No analysis by asset category is available. The directors consider that the provision of the above information would incur expense out of proportion to the benefit it would provide to shareholders.

	1998 £m	1997 £m
Capital commitments:		
Contracted but not provided for	307.4	283.9

Notes to the accounts continued

11 Fixed asset investments

	Total £m
Cost:	
At 1 April 1997	0.5
Transfers	(0.2)
At 31 March 1998	0.3

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

Associated undertakings	Description of holding	Proportion held	Nature of business
WRC plc	'A' Ordinary shares of £1 each	11.25%	Water and wastewater research
	8% convertible unsecured loan stock 2014	26.25%	
Utilities Consortium Limited	Ordinary shares of 1 pence each 15% unsecured loan notes 2006	1.23%	Cash collection service

12 Debtors

	1998 £m	1997 £m
Amounts falling due within one year:		
Trade debtors	109.4	94.4
Amounts owed by group undertakings	35.5	48.1
Other debtors	24.4	5.0
Prepayments and accrued income	78.4	79.2
Infrastructure renewals prepayment	5.5	21.7
	253.2	248.4
Amounts falling due after more than one year:		
Other debtors	3.1	6.2
Deferred tax	3.2	15.3
Infrastructure renewals prepayment	20.0	-
	26.3	21.5
Total debtors	279.5	269.9

Amounts owed by group undertakings represent amounts owed by parent and fellow subsidiary undertakings.

13 Creditors: amounts falling due within one year

	1998 £m	1997 £m
Loans	24.9	21.4
Bank overdrafts and temporary borrowings	348.8	325.0
Obligations under finance leases – external	4.0	5.8
Obligations under finance leases – group undertakings	143.5	–
Trade creditors	19.2	19.2
Amounts owed to group undertakings	251.8	84.6
Dividends	113.4	103.5
Other creditors	2.6	2.0
Taxation and social security	23.7	19.3
Accruals and deferred income	280.8	268.9
	1,212.7	849.7

Amounts owed to group undertakings totals £395.3 million (1997 – £84.6 million) in respect of amounts owed to parent and fellow subsidiary undertakings.

14 Creditors: amounts falling due after more than one year

	1998 £m	1997 £m
Loans	651.4	476.3
Obligations under finance leases	201.6	204.8
Amounts owed to group undertakings	3.2	15.3
Other creditors	5.8	7.0
Deferred grants and contributions (note 15)	50.8	45.7
	912.8	749.1

Amounts owed to group undertakings represents amounts owed to parent and fellow subsidiary undertakings.

15 Deferred grants and contributions

	£m
At 1 April 1997	45.7
Received in the year	7.0
Profit and loss account	(1.9)
At 31 March 1998	50.8

16 Provisions for liabilities and charges

	Restructuring £m	Other £m	Total £m
At 1 April 1997	19.8	8.2	28.0
Utilised	(4.2)	(5.7)	(9.9)
Profit and loss account	(7.0)	–	(7.0)
At 31 March 1998	8.6	2.5	11.1

Notes to the accounts continued

17 Borrowings

	Loans and overdrafts £m	Finance leases £m	1998 Total £m	1997 Total £m
Within one year	373.7	147.5	521.2	352.2
Between one and two years	100.2	1.5	101.7	28.1
Between two and five years	92.2	0.4	92.6	167.0
After more than five years	459.0	199.7	658.7	486.0
	1,025.1	349.1	1,374.2	1,033.3

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2005 and 2053.

Interest rates range from 6.55 per cent to 14.83 per cent on £977.6 million and are at floating rates on £396.6 million.

18 Called up share capital and share premium accounts

	1998 £m	1997 £m
Authorised share capital		
650,000,000 ordinary shares of £1 each	650.0	650.0
56,837,000 preference shares of £1 each	56.8	38.5
Allotted and fully paid share capital		
431,930,000 ordinary shares of £1 each	431.9	431.9
56,837,000 preference shares of £1 each	56.8	38.5
Share premium account	647.8	647.8

During the year, 18,300,000 non-voting non-redeemable preference shares were allotted for cash at nominal value in order to reduce overall borrowings. The preference shares have no entitlement to any dividends paid by the company. Preference shareholders are not entitled to receive notice of, attend or vote at any general meeting of the company. However, preference shareholders receive priority to other classes of shareholders on a winding up, liquidation or other return of capital to shareholders of the company.

19 Profit and loss account

	£m
At 1 April 1997	1,029.3
Retained loss for the year	(37.5)
At 31 March 1998	991.8

20 Pensions

The company participates in two defined benefit final salary schemes, the Water Mirror Image Pension Scheme (WMIS) and the Water Pension Scheme (WPS). The assets of these schemes are held in trust funds independent of Group finances.

The employer's contributions and the pension cost under the accounting standard SSAP24 have been assessed in accordance with the advice of a firm of actuaries, William M Mercer Limited, using the projected unit method for the WPS and the attained age method for the WMIS. For this purpose, the main actuarial assumptions adopted are based upon investment growth of 9 per cent per annum, pay growth of 7 per cent per annum and increases to pensions in payment and deferred pensions of 5 per cent per annum.

The last actuarial valuation of the two schemes was carried out as at 31 March 1996. The combined market value of the Group's share of the assets of these two schemes at the valuation date was £521.2 million. The combined actuarial value of the assets represented 107 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24, the surplus in the schemes is being spread over the future working lifetime of the existing members.

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

The total pension cost for the year was £8.6 million (1997 – £10.1 million).

From 1 April 1998, United Utilities PLC introduced a new pension scheme, the United Utilities Pension Scheme (UUPS). United Utilities' share of WMIS and WPS will be merged into the UUPS.

The 1997 Budget removed the ability of pension schemes to reclaim tax deducted from UK equity dividends. This will not cause a substantial change in the pension cost but the effect will be taken into account in the review of assumptions appropriate for the actuarial valuation to be carried out in 1998 for UUPS.

21 Operating leases

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

	Land and buildings £m 1998	Plant and machinery £m 1998	Land and buildings £m 1997	Plant and machinery £m 1997
Leases which expire:				
Within one year	0.2	0.1	0.3	0.5
Between two and five years	0.7	0.8	0.3	49.7
After five years	1.7	–	2.0	–
	2.6	0.9	2.6	50.2

22 Related party transactions

In accordance with the exemption set out in Financial Reporting Standard 8 (FRS8), the company has not disclosed transactions with its ultimate holding company or any subsidiaries within the group. United Utilities PLC is the company's ultimate controlling party as defined by FRS8.

23 Ultimate parent undertaking

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

Copies of the accounts of United Utilities PLC may be obtained from the Company Secretary, United Utilities PLC, P.O. Box 14, Birchwood Boulevard, Warrington WA3 7WB.

Notes to the accounts continued

24 Notes to the cash flow statement

For the year ended 31 March 1998	1998 £m	1997 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	397.6	385.0
Depreciation	72.3	59.0
Profit on disposal of tangible fixed assets	(1.0)	(1.2)
Stocks increase	(0.4)	–
Debtors increase	(21.7)	(38.8)
Creditors increase	120.6	34.4
Net cash inflow from operating activities	567.4	438.4

For the year ended 31 March 1997	1998 £m	1997 £m
Reconciliation of net cash flow to movement in net debt		
Increase/(Decrease) in cash in the year	(17.7)	11.0
Cash inflow from increase in debt and lease financing	(334.2)	(135.9)
Movement in net debt in the year	(351.9)	(124.9)
Net debt at 1 April 1997	(1,055.2)	(930.3)
Net debt at 31 March 1998	(1,407.1)	(1,055.2)

	1998 £m	1998 £m	1997 £m	1997 £m
Analysis of cash flows for headings netted in the cash flow statement				
Financing				
Issue of preference share capital		18.3		38.5
Debt due within a year:				
– repayment of short term external loans	–		(16.4)	
– new/(repayment of) short term group loans	2.1		18.4	
– new short term bank loans	15.0		143.0	
Debt due beyond a year:				
– new loans	200.0		–	
– repayment of long-term external loans	(21.4)		–	
Capital element of finance lease repayments	(5.0)		(9.1)	
New finance leases – inter-group	143.5		–	
		334.2		135.9
Net cash inflow from financing		352.5		174.4

	At 1 April 1997 £m	Cashflow £m	Non-cash movements £m	At 31 March 1998 £m
Analysis of changes in net debt				
Long term loans	(497.7)	(178.6)	–	(676.3)
Finance leases	(210.6)	(138.5)	–	(349.1)
Short term loans	(325.0)	(15.0)	–	(340.0)
Overdrafts	–	(8.8)	–	(8.8)
Borrowings	(1,033.3)	(340.9)	–	(1,374.2)
Cash in hand	8.9	(8.9)	–	–
Parent undertaking loan	(30.8)	(2.1)	–	(32.9)
Net debt	(1,055.2)	(351.9)	–	(1,407.1)

Regulatory accounting information

Introduction

The current cost accounts on pages 24 to 32 have been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services.

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

The historical balance sheet required by the guidelines is included in the statutory accounts which are set out on pages 7 to 22.

Auditors' Contract

The contract of appointment with the auditors satisfies the requirements of paragraph 9.2 of Condition F "namely that the auditors will provide such further explanation or clarification of their reports, and such further information in respect of the matters which are the subject of their reports, as the Director General may reasonably require".

Basis of allocations and apportionments

The revenues, costs, assets and liabilities are directly allocated to the appointed business and any other activity or associated company, except where they relate to common support services. Those relating to common support services are apportioned on the basis of the demands made on each of the support services by each principal service or activity.

Auditors' report

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

We have audited the historical cost financial statements on pages 7 to 22, which have been prepared under the accounting policies set out on pages 10 and 11, and the current cost financial information on pages 24 to 32, which has been prepared under the accounting policies set out on pages 26 and 27.

Respective responsibilities of directors and auditors

As described on page 6 the company's directors are responsible for the preparation of the regulatory financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the regulatory financial statements contain the information for the year to 31 March 1998 required to be published and submitted to you by North West Water Limited ("the Appointee") to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment to the Appointee as a water and sewerage undertaker under the Water Industry Act 1991.

In respect of this information, we report that in our opinion:

- (i) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- (ii) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines numbers 1 to 4 issued by the Office of Water Services;
- (iii) the financial statements on pages 7 to 22 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business and;
- (iv) the current cost financial information on pages 24 to 32 has been properly prepared in accordance with Regulatory Accounting Guideline 1, Accounting for current costs, issued in May 1992 by the Office of Water Services.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester
10 July 1998

KPMG Audit Plc

Historical cost profit and loss account

For the year ended 31 March 1998	1998 £m	1997 £m
Turnover	894.7	844.4
Operating costs	(482.8)	(446.2)
Operating income	2.1	1.2
Operating profit	414.0	399.4
Other income	2.5	3.4
Net interest payable	(104.0)	(86.2)
Profit on ordinary activities before taxation	312.5	316.6
Taxation	(51.6)	(7.0)
Profit for the year	260.9	309.6
Dividends	(298.4)	(353.9)
Retained loss for the year	(37.5)	(44.3)

Current cost profit and loss account

For the year ended 31 March 1998	Note	1998 £m	1997 £m
Turnover	2	894.7	844.4
Current cost operating costs	3	(593.3)	(553.2)
Loss on disposal of fixed assets	2	(3.5)	(7.6)
Working capital adjustment	2	3.1	2.3
Current cost operating profit		301.0	285.9
Other income		2.5	3.4
Net interest payable		(104.0)	(86.2)
Financial adjustment		39.2	25.3
Current cost profit on ordinary activities before taxation		238.7	228.4
Taxation		(51.6)	(7.0)
Current cost profit attributable to shareholders		187.1	221.4
Dividends		(298.4)	(353.9)
Current cost loss retained		(111.3)	(132.5)

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

Current cost balance sheet

At 31 March 1998	Note	1998 £m	1997 £m
Tangible assets	4	33,984.7	32,484.2
Third party contributions since 1989 – 90		(141.1)	(127.9)
Working capital	5	(141.3)	(88.9)
Net operating assets		33,702.3	32,267.4
Cash and investments		0.3	0.5
Non-trade debtors		32.6	67.9
Non-trade creditors due within one year		(738.7)	(465.0)
Creditors due after one year		(861.9)	(703.5)
Provisions for liabilities and charges		(11.1)	(28.0)
Dividends payable		(113.4)	(103.5)
Net assets employed		32,010.1	31,035.8
Capital and reserves			
Called up share capital		488.7	470.4
Share premium account		647.8	647.8
Profit and loss account		117.5	228.8
Current cost reserve		30,756.1	29,688.8
Total capital and reserves		32,010.1	31,035.8

Current cost cash flow statement

For the year ended 31 March 1998	1998 £m	1998 £m	1997 £m	1997 £m
Net cash inflow from operating activities		660.2		555.5
Returns on investments and servicing of finance				
Interest received	9.9		17.6	
Interest paid	(108.1)		(89.1)	
Interest in finance lease rental	(10.2)		(9.8)	
Net cash outflow from returns on investments and servicing of finance		(108.4)		(81.3)
UK corporation tax paid				(1.2)
Capital expenditure				
Gross cost of purchase of fixed assets	(565.7)		(390.9)	
Receipts of grants and contributions	4.1		4.0	
Infrastructure renewals expenditure	(75.0)		(99.3)	
Disposal of fixed assets	3.2		191.0	
Net cash outflow from investing activities		(633.4)		(295.2)
Equity dividends paid		(288.6)		(341.2)
Management of liquid resources				
Sale of short term marketable securities				
Net cash outflow before financing		(370.2)		(163.4)
Financing				
Proceeds from issue of preference share capital	18.3		38.5	
Capital element of finance lease rentals	(5.0)		(9.1)	
New bank loans	195.7		161.4	
New finance leases	143.5			
Repayment of bank loans			(16.4)	
Net cash inflow from financing		352.5		174.4
Increase/(decrease) in cash in period		(17.7)		11.0

Note to the current cost cash flow statement

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

	1998 £m	1997 £m
Current cost operating profit	301.0	285.9
Working capital adjustment	(3.1)	(2.3)
Changes in stocks	(0.4)	-
Receipts from other income	2.5	3.4
Current cost depreciation	174.1	155.6
Current cost loss on disposal of fixed assets	3.5	7.6
Increase in debtors and prepaid expenses	(21.7)	(14.5)
Increase in creditors and accrued expenses	146.3	36.0
Infrastructure renewals expenditure	75.0	99.3
Movement in provisions	(17.0)	(15.5)
Net cash inflow from operating activities	660.2	555.5

The analysis of movement in net debt required by RAG 3.04 is shown in the notes to the historic cost cash flow statement on page 22.

Notes to the current cost accounts

1 Current cost accounting policies

These accounts have been prepared for the total business of North West Water Limited in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business.

The accounting policies used are the same as those adopted in the statutory historical accounts except as set out below.

(a) Tangible fixed assets

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business.

(i) Operational assets

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

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

The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

(ii) Infrastructure assets

Mains, sewers, impounding and raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost determined principally on the basis of data provided by the AMP.

In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

Notes to the current cost accounts continued

1 Current cost accounting policies continued

(iii) Other fixed assets

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

(b) Grants and other third party contributions

Grants, infrastructure charges and other third party contributions received since 31 March 1990 are carried forward to the extent that any balance has not been credited to revenue. The balance carried forward is restated for the change in the RPI for the year and treated as for deferred income.

(c) Real financial capital maintenance adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

(i) Working capital adjustment

This is calculated by applying the change in RPI over the year to the opening total of trade debtors and stock less trade creditors.

(ii) Financing adjustments

This is calculated by applying the change in RPI over the year to the opening balance of net finance which comprises all monetary assets and liabilities other than to equity shareholders, which are not included in working capital.

2 Analysis of turnover and operating income

	1998			1997		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
Turnover						
Measured	127.7	158.7	286.4	128.9	143.8	272.7
Unmeasured	243.9	299.8	543.7	233.8	274.0	507.8
Trade effluent	–	39.4	39.4	–	39.3	39.3
Revenue grants	0.1	–	0.1	0.2	–	0.2
Other sources	4.6	2.9	7.5	4.9	3.5	8.4
Third party services	12.0	5.6	17.6	10.8	5.2	16.0
	388.3	506.4	894.7	378.6	465.8	844.4
Operating costs/income						
Current cost loss on disposal of fixed assets	(1.8)	(1.7)	(3.5)	(1.2)	(6.4)	(7.6)
Working capital adjustment	1.5	1.6	3.1	1.1	1.2	2.3

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

3 Current cost operating costs

For the year ended 31 March 1998

Service analysis

	Water services			Sewerage services			
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewerage treatment £m	Sludge treatment & disposal £m	Sewerage service subtotal £m
Direct costs							
Employment costs	10.4	17.0	27.4	0.6	9.3	6.5	16.4
Power	5.3	5.3	10.6	0.1	7.1	1.4	8.6
Agencies	-	-	-	10.9	-	0.1	11.0
Hired and contracted services	2.8	6.7	9.5	0.6	2.8	7.0	10.4
Materials and consumables	5.1	2.4	7.5	0.1	2.1	0.7	2.9
Service charges EA	9.4	-	9.4	1.3	2.7	-	4.0
Other direct costs	-	1.6	1.6	0.2	-	1.6	1.8
Total direct costs	33.0	33.0	66.0	13.8	24.0	17.3	55.1
General and support expenditure	14.3	27.8	42.1	3.0	14.4	7.7	25.1
Functional expenditure	47.3	60.8	108.1	16.8	38.4	25.0	80.2
Operating expenditure							
Customer services			20.8				20.1
Scientific services			7.8				3.9
Other business activities			0.9				0.9
Total business activities			29.5				24.9
Local authority rates			28.3				12.6
Doubtful debts			11.8				11.4
Exceptional items			(3.8)				(3.2)
Total opex less third party services			173.9				125.9
Third party services – operating expenditure			16.8				5.1
Total operating expenditure			190.7				131.0
Capital maintenance							
Infrastructure renewals expenditure	5.4	16.3	21.7	53.2	-	0.2	53.4
Infrastructure renewals accrual/(prepayment)	(1.4)	21.2	19.8	(14.6)	-	0.1	(14.5)
Current cost depreciation (allocated)	62.2	7.8	70.0	5.0	65.2	11.5	81.7
Amortisation of deferred credits	-	-	(1.3)	-	-	-	(1.0)
Business activities current cost depreciation (non allocated)			20.7				19.9
Capital maintenance excluding third party services			130.9				139.5
Third party services – capital maintenance			0.9				0.3
Total capital maintenance			131.8				139.8
Total operating costs			322.5				270.8
CCA (MEA) values:							
Service activities	2,546.2	9,429.3	11,975.5	19,674.2	1,363.0	724.3	21,761.5
Business activities			78.6				85.1
Total			12,054.1				21,846.6
Services for the third parties			23.5				60.5
Total			12,077.6				21,907.1

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

Notes to the current cost accounts continued

3 Current cost operating costs continued

For the year ended 31 March 1997

Service analysis

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

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

Services	Service analysis								
	Water services				Sewerage				
	Infra-structure assets £m	Operational assets £m	Other tangible assets £m	Sub-total £m	Infra-structure assets £m	Operational assets £m	Other tangible assets £m	Sub-Total £m	Total £m
Gross replacement cost:									
At 1 April 1997	10,311.1	2,591.3	210.7	13,113.1	18,790.6	3,414.5	317.0	22,522.1	35,635.2
RPI adjustment	355.1	89.5	5.1	449.7	651.2	114.0	8.7	773.9	1,223.6
Inter-group transfer	-	-	114.4	114.4	-	-	123.9	123.9	238.3
Disposals	(2.5)	(10.3)	(4.1)	(16.9)	-	(4.3)	(13.3)	(17.6)	(34.5)
Additions	109.2	52.4	30.1	191.7	48.4	151.3	32.6	232.3	424.0
At 31 March 1998	10,772.9	2,722.9	356.2	13,852.0	19,490.2	3,675.5	468.9	23,634.6	37,486.6
Depreciation:									
At 1 April 1997	-	1,438.8	165.8	1,604.6	-	1,406.0	140.4	1,546.4	3,151.0
RPI adjustment	-	50.0	5.8	55.8	-	48.9	4.9	53.8	109.6
Inter-group transfer	-	-	45.6	45.6	-	-	49.4	49.4	95.0
Disposals	-	(8.9)	(3.8)	(12.7)	-	(2.7)	(12.4)	(15.1)	(27.8)
Charge for the year	-	70.1	11.0	81.1	-	81.7	11.3	93.0	174.1
At 31 March 1998	-	1,550.0	224.4	1,774.4	-	1,533.9	193.6	1,727.5	3,501.9
Net book value:									
At 31 March 1998	10,772.9	1,172.9	131.8	12,077.6	19,490.2	2,141.6	275.3	21,907.1	33,984.7
At 31 March 1997	10,311.1	1,152.5	44.9	11,508.5	18,790.6	2,008.5	176.6	20,975.7	32,484.2

Operational assets by service are as follows

Services	Water services			Sewerage		
	Specialised operational assets £m	Non-specialised operational assets £m	Total £m	Specialised operational assets £m	Non-specialised operational assets £m	Total £m
Gross replacement cost:						
At 1 April 1997	2,452.7	138.6	2,591.3	3,263.3	151.2	3,414.5
RPI adjustment	84.7	4.8	89.5	108.7	5.3	114.0
Disposals	(6.2)	(4.1)	(10.3)	(4.3)	(0.1)	(4.4)
Additions	48.0	4.4	52.4	145.5	5.8	151.3
At 31 March 1998	2,579.2	143.7	2,722.9	3,513.2	162.2	3,675.4
Depreciation:						
At 1 April 1997	1,412.2	26.6	1,438.8	1,378.3	27.7	1,406.0
RPI adjustment	49.1	0.9	50.0	47.9	1.0	48.9
Disposals	(5.7)	(3.2)	(8.9)	(2.7)	-	(2.7)
Charge for the year	66.0	4.1	70.1	78.7	3.0	81.7
At 31 March 1998	1,521.6	28.4	1,550.0	1,502.2	31.7	1,533.9
Net book value:						
At 31 March 1998	1,057.6	115.3	1,172.9	2,011.0	130.5	2,141.5
At 31 March 1997	1,040.5	112.0	1,152.5	1,885.0	123.5	2,008.5

Notes to the current cost accounts continued

5 Working capital

	1998 £m	1997 £m
Stores	1.4	1.0
Trade debtors	109.4	94.4
Working cash balances	(8.8)	8.9
Trade creditors	(19.1)	(19.2)
Short term capital creditors	(125.3)	(123.9)
Infrastructure renewals prepayment/(accrual)	(3.4)	1.9
Other trade accruals	(94.2)	(94.5)
Trade payments in advance	2.7	4.1
Payroll related taxation and social security	(2.6)	(9.6)
Group trade debtors/(creditors)	(77.1)	(27.2)
Prepayments and other debtors	75.7	75.2
Total working capital	(141.3)	(88.9)

6 Movement on current cost reserve

	1998 £m	1997 £m
At 1 April 1996	29,688.8	28,920.4
AMP adjustment	-	-
RPI adjustments:		
Fixed assets	1,114.0	798.9
Working capital	(3.1)	(2.3)
Financing	(39.2)	(25.3)
Grants and third party contributions	(4.4)	(2.9)
Total working capital	30,756.1	29,688.8

Five year summary

Current cost profit and loss account

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Turnover	894.7	873.7	863.8	846.8	825.9
Current cost operating costs	(593.3)	(572.4)	(590.2)	(494.1)	(523.8)
Operating income/(expense)	(3.5)	(7.9)	(1.0)	1.5	0.6
Working capital adjustment	3.1	2.4	1.4	2.7	0.9
	301.0	295.8	274.0	356.9	303.6
Other income	2.5	3.5	11.0	2.4	1.6
Net interest	(104.0)	(89.2)	(75.5)	(34.0)	(40.5)
Financing adjustment	39.2	26.2	14.8	18.9	11.0
Current cost profit on ordinary activities before taxation	238.7	236.3	224.3	344.2	275.7
Taxation	(51.6)	(7.2)	(1.3)	(3.8)	-
Current cost profit on ordinary activities after tax	187.1	229.1	223.0	340.4	275.7
Dividends	(298.4)	(366.2)	(143.3)	(564.0)	(131.3)
Current cost profit/(loss) retained	(111.3)	(137.1)	79.7	(223.6)	144.4

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

Current cost balance sheet

	1998 £m	1997 £m	1996 £m	1995 £m	1994 £m
Tangible fixed assets	33,984.7	33,613.0	33,552.9	23,923.9	23,667.2
Third party contributions since 1989/90	(141.1)	(132.3)	(122.7)	(112.0)	(93.1)
Working capital	(141.3)	(92.0)	(94.5)	(52.3)	(78.8)
Net operating assets	33,702.3	33,388.7	33,335.7	23,759.6	23,495.3
Cash and investments	0.3	0.5	0.4	224.2	252.6
Non-trade debtors	32.6	70.3	72.1	54.9	62.0
Non-trade creditors	(852.1)	(588.3)	(405.5)	(633.4)	(235.8)
Creditors due after one year	(861.9)	(727.9)	(758.6)	(683.4)	(684.2)
Provisions	(11.1)	(29.0)	(46.1)	(46.4)	(42.9)
Net assets employed	32,010.1	32,114.3	32,198.0	22,675.5	22,847.0
Capital and reserves					
Called up share capital	488.7	486.7	458.0	469.7	484.9
Share premium account	647.8	670.3	687.0	704.6	727.3
Profit and loss account	117.5	236.8	383.2	311.1	551.6
Current cost reserve	30,756.1	30,720.5	30,669.8	21,190.1	21,083.2
	32,010.1	32,114.3	32,198.0	22,675.5	22,847.0

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