



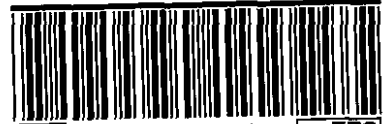
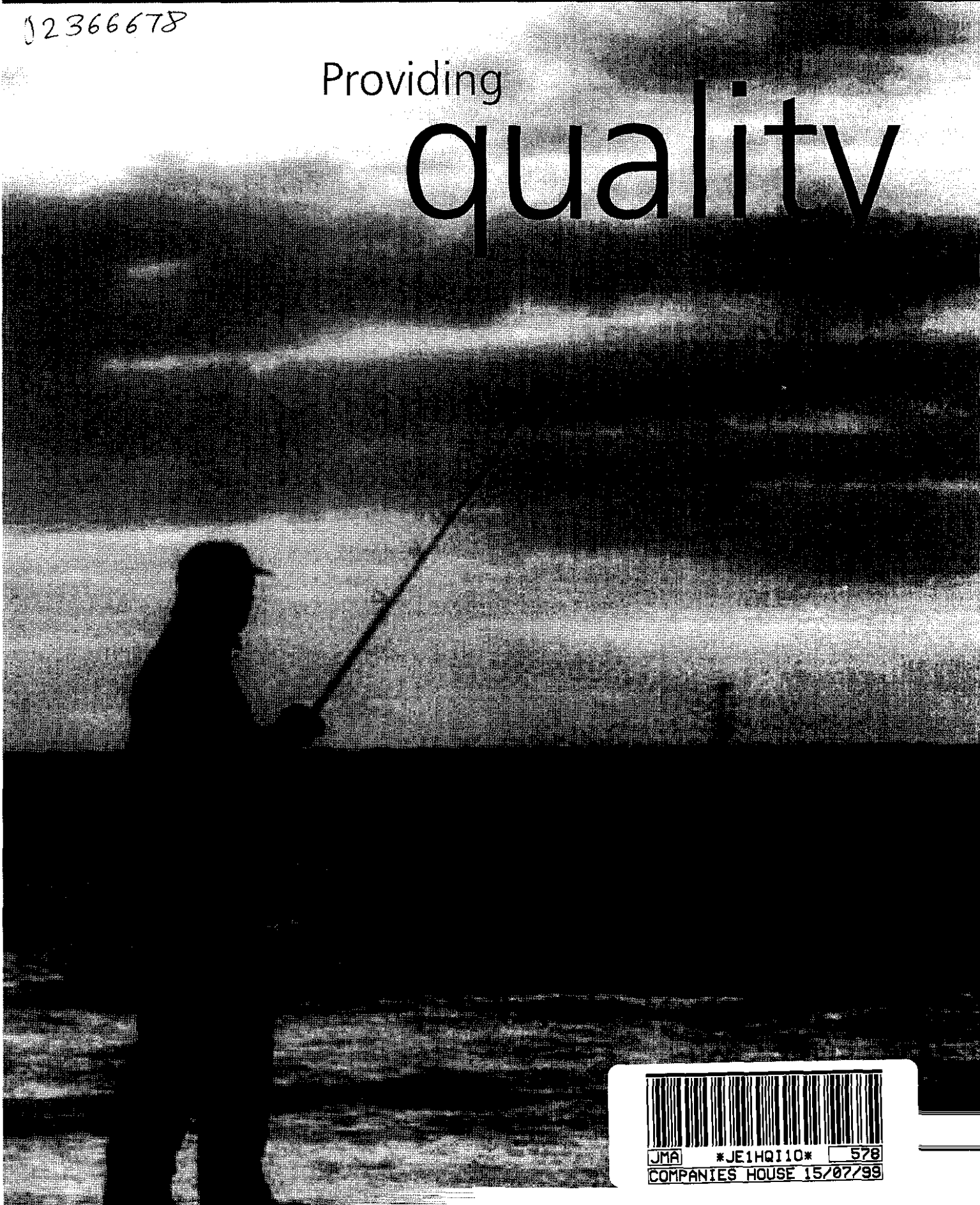
North  
West  
Water

Report & Accounts 1999

02366678

Providing

# quality



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COMPANIES HOUSE 15/07/99

## Contents

- 1 Managing Director's statement
- 4 Financial review

### **Statutory information**

- 6 Directors' report
- 7 Directors' responsibilities
- 7 Auditors' report
- 8 Consolidated profit and loss account
- 8 Reconciliations of movements in shareholders' funds
- 9 Balance sheets
- 10 Consolidated cash flow statement
- 10 Notes to the cash flow statement
- 12 Notes to the accounts

### **Regulatory accounting information**

- 26 Introduction
- 27 Auditors' report to the Director General
- 28 Historical cost profit and loss account
- 29 Historical cost balance sheet
- 30 Current cost profit and loss account
- 30 Current cost balance sheet
- 31 Current cost cash flow statement
- 32 Note to the current cost cash flow statement
- 32 Notes to the current cost accounts
- 40 Five year summary

#### **Front cover**

Gordon Thornes of Wirral Match Anglers at Perch Rock, New Brighton, fishing the evening tide for Bass, Plaice and Flounder.

North West Water is a major partner in the Mersey Basin Campaign. Launched in 1985 the Campaign aims to improve river water quality to support fish and stimulate waterside development.

The impact has been dramatic with the number of fish species in the Mersey rising from around 7 in the 1960s to 35 at the last count.



# Providing quality services

A statement by Harry Croft, Managing Director

Since becoming Managing Director of North West Water Limited, I have made a number of changes in my management team and their responsibilities. I am confident that we have committed and able people throughout the organisation focused on delivering the highest quality services to our customers, and I am delighted to be able to report on the following as evidence of this.

## Operating performance

Turnover and operating profit grew by 5.8% and 12.0% respectively. We have maintained pressure on costs, with total operating costs decreasing in real terms over the year, after taking into account asset transfers.

We continue to invest heavily in our water and wastewater networks and plant. Gross capital investment in the year was £521.4 million, compared with £502.3 million in the previous year. Excluding drought related expenditure we made £33.6 million of discretionary investment in the year. This brings the total investment in improving water and wastewater services in the North West to approximately £4.0 billion since privatisation.

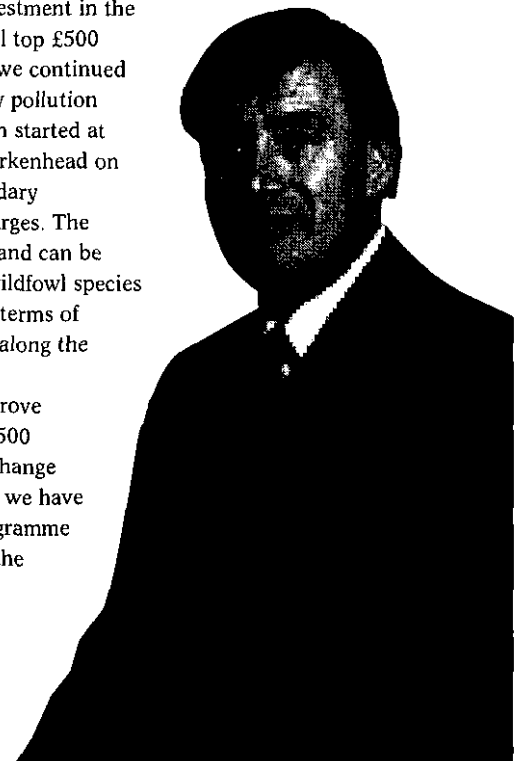
As a result of our successful leakage reduction programme, we are abstracting less water from the environment than in any year since the mid-1960s, despite the increase in domestic consumption. We met the mandatory target set by Ofwat for 1998/99 of 515Ml/d and have reduced leakage by over 45% since 1992/93. We are confident we will meet the target of

489Ml/d for 1999/2000. These savings mean that the business is now in a more robust resource position to face any future drought.

In December 1998 we opened our new £100 million biosolids processing centre at Shell Green, Widnes, and ended sludge disposal to sea. We are 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 both in and on the river, and in terms of economic regeneration projects along the riverside.

We continue to invest to improve bathing waters. Following the £500 million investment in our Sea Change Programme, completed in 1997, we have substantially completed the programme of additional work agreed with the



## Main achievements in 1999

**£967m**

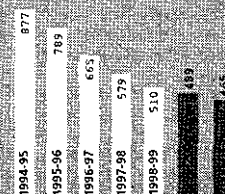
Turnover

Turnover increased by 5.8% to £967 million

**£431.8m**

Operating profit

Operating profit increased by 12.0% to £431.8 million



Leakage reduction

We met our target for 1998-99 of 515 million litres per day

## Managing Director's statement (continued)

*Environment Agency which includes additional storm water storage and UV treatment at key wastewater sites. All our discharges meet or exceed the required consents.*

*During the 1998 season, 24 out of 37 designated bathing waters in our region passed EU mandatory standards. This includes three new inland bathing waters on Windermere. A record total of 10 beaches also won the sought-after Seaside Award, with six flying the distinctive yellow and blue flag for the first time.*

*The variable nature of bathing water performance reflects the complexity of coastal waters in North West England and some other parts of the country. More investigation is needed by the Environment Agency to understand coastal water impacts and ensure compliance with required standards.*

### **Customer service**

*We are improving levels of service as measured by Ofwat and our customer satisfaction index has been maintained at record levels, averaging 81% during the year. North West Water was awarded the Charter Mark in January 1999, independently confirming our commitment to excellence in customer service.*

### **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 achievement is unique, especially as the standards of the award have been achieved across the full range of our complex and extensive business operations. 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.*

*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. Our social investment in the environment rose this year from 21 per cent to 32 per cent of the total, and the resources we allocate make us a leading investor in the environment and conservation.*

### **The Periodic Review**

*The Periodic Review of prices is now nearing completion. In April 1999, we submitted North West Water's strategic business plan to Ofwat, and the final price settings are due to be announced in November 1999. We continue to seek the right balance, which will ensure benefits both for our customers and for the North West environment. To meet the obligations set out by our quality regulators and the Department of the Environment, Transport and the Regions will require an estimated £3.7 billion investment for the period 2000 to 2005, compared with the £1.8 billion previously allocated in the 1994 price review. This represents the largest investment programme*



### **Water quality**

*Meeting all quality obligations set by the regulators*



### **Customer satisfaction**

*Highest ever level of customer satisfaction*

ever undertaken by North West Water, or any other UK water company.

To meet these investment obligations, North West Water's business plan envisages 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.

We welcome the Government's commitment to environmental improvement, and believe that our continuing investment will bring long term benefits to the region. But we would prefer to deliver the desired improvements over a longer period than five years, to moderate the impact on customers' bills.

**The future**

I am confident that we will rise to the challenge posed by the Price Review and continue to deliver benefits to all our stakeholders through our focus on cost control and sales.

*Harry Croft*

**Harry Croft**  
 Managing Director  
 North West Water Limited



Awarded for excellence



INVESTOR IN PEOPLE



GOLD Award

**Awarded for excellence**  
 We have obtained the Charter Mark, Investor in People and RoSPA awards



# Financial review

## Capital investment programme

We continue to invest heavily in our water and wastewater networks. Gross capital investment for the year was £521.4 million (1998 – £502.3 million). This brings the total investment in improving water and wastewater services in the North West to approximately £4 billion since privatisation.

## Financial Reporting Standards (FRS)

Three standards issued during the year have been adopted in the presentation of the financial statements, namely FRS12 Provisions, Contingent Liabilities and Contingent Assets, FRS13 Derivatives and other Financial Instruments and, in part, FRS15 Tangible Fixed Assets. The application of these standards is reflected in both the current and prior year financial statements.

## Turnover

North West Water's turnover grew by 5.8 per cent in 1998/99 to £967.0 million, compared to an increase of 4.7 per cent in 1997/98. This increase is in line with regulatory price limits.

## Operating profit

Operating profit increased by 12.0 per cent to £431.8 million, compared to £385.6 million in 1997/98. Excluding Year 2000 costs, the operating profit increases by 16.9 per cent. The growth in operating profit reflects the increase in turnover and effective cost control.

## Operating costs

Operating costs increased by £6.7 million (1.3 per cent) in 1998/99. This reflects general inflationary rises and increased depreciation charges resulting from the substantial capital investment programme. This trend of increase in underlying operating costs, offset by efficiencies, will continue going forward as the significant capital investment programme continues.

## Profit before tax

The profit before tax for the year increased to £314.7 million (4.7 per cent) in 1998/99 compared to £300.5 million the previous year.

## Year 2000 costs

The Year 2000 compliance programme has been a major priority for the business during the year. We completed our work on all our critical application systems on schedule by February 1999. We are on schedule to complete our few remaining non-critical systems by the end of June 1999 and to conclude work on all embedded systems and equipment by the end of September 1999. We have established procedures to ensure that millennium compliant systems and equipment remain so. All our critical supplier audits were completed by the end of December 1998 and we will continue to monitor supplier progress throughout 1999. Business continuity plans have also been developed and tested.

We have charged £19.0 million to the profit and loss account during the year. The remainder of the costs will be charged to the profit and loss account in 1999/00.

**Capital structure and treasury policy**

Net borrowings increased by £403.4 million to £1,777.6 million. Net interest payable increased by £32.0 million reflecting the increase in borrowings and the movements in interest rates.

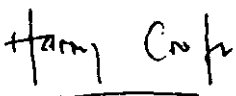
During the year, we issued £148.3 million non-equity preference share capital and the proceeds were utilised to reduce overall borrowings.

The company continues to be supported by the European Investment Bank in the funding of the investment programme to improve the environmental infrastructure and meet compliance directives of the European Union.

Borrowings at 31 March 1999 comprise:

	£m
EIB loans	613.7
Finance leases	201.7
Inter company – US \$ bonds	454.5
Euro bonds	335.5
Commercial paper and other	117.5
Other long term debt	37.8
Other short term debt	16.9
<b>Total borrowings</b>	<b>1,777.6</b>

Our funding strategy is designed to secure interest stability within the regulatory price formula. Standard and Poors have issued a long term credit rating of A+ and the short term rating of A1.



**Harry Croft**  
Managing Director  
North West Water Limited

# Directors' report

## Principal activities

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

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

## Profits and dividends

The results for the year, set out in the profit and loss account on page 8, show that turnover for the year ended 31 March 1999 rose to £967.0 million, an increase of 5.8 per cent over the previous year. Profit for the year after tax was £225.1 million (1998 – £248.9 million).

An interim dividend of 14.00 pence per share was paid on 19 February 1999. The directors recommend a final dividend of 28.31 pence per share for the year to 31 March 1999.

A special dividend of £129.8 million (30.05 pence per share) was paid on 1 December 1998 in respect of the final instalment of the windfall levy.

## 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 1999, 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. 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. Employee 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 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 58 days of purchases outstanding at the end of the financial year.

## Directors

The directors of the company during the year ended 31 March 1999 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**, Operations Director  
**R G Bradbury**, Commercial Director  
**P G S Entwistle**, Non-executive director  
**R J Ferguson**, United Utilities PLC Finance Director\*  
**P E McCloskey**, Corporate Services Director  
**D E Morton JP**, Non-executive director  
**C H Elphick**, Planning Director  
**R R Ford**, Quality Director  
**C South**, Wastewater Services Director (appointed 21 January 1999)  
**J A Barnes**, Water Services Director (appointed 21 January 1999)

\* 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.

## Auditor

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  
 5 July 1999





# 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 Licence 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 of pages 8 to 40 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 Licence 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 Licence 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 8 to 25.

## Respective responsibilities of directors and auditors

As described under 'Directors' responsibilities' above, 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 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.

*KPMG Audit Plc*

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
Manchester  
5 July 1999

## Consolidated profit and loss account

For the year ended 31 March 1999

	Note	1999 £m	1998 £m (restated)
<b>Turnover</b>	1(b)	<b>967.0</b>	914.1
Net operating costs* (including exceptional Year 2000 costs of £19.0m)	3	<b>(516.9)</b>	(510.2)
Customer rebate		<b>(18.3)</b>	(18.3)
<b>Operating profit</b>		<b>431.8</b>	385.6
Net interest payable	7	<b>(117.1)</b>	(85.1)
<b>Profit on ordinary activities before taxation</b>		<b>314.7</b>	300.5
Tax on profit on ordinary activities	8	<b>(89.6)</b>	(51.6)
<b>Profit for the financial year</b>		<b>225.1</b>	248.9
Dividends	9	<b>(317.2)</b>	(298.4)
<b>Transfer from reserves</b>	19	<b>(92.1)</b>	(49.5)

All of the results derive from continuing operations.

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

\*The 1998 figure has been amended following the adoption of FRS12 (see note 3); restated from £498.2m to £510.2m.

## Reconciliations of movements in shareholders' funds

For the year ended 31 March 1999

	Group		Company	
	1999 £m	1998 £m (restated)	1999 £m	1998 £m (restated)
Profit for the financial year	<b>225.1</b>	248.9	<b>225.1</b>	248.9
Dividends	<b>(317.2)</b>	(298.4)	<b>(317.2)</b>	(298.4)
Transfer from reserves	<b>(92.1)</b>	(49.5)	<b>(92.1)</b>	(49.5)
Issue of preference shares	<b>148.3</b>	18.3	<b>148.3</b>	18.3
Net movement in shareholders' funds for the year	<b>56.2</b>	(31.2)	<b>56.2</b>	(31.2)
Opening shareholders' funds	<b>2,128.3</b>	2,159.5	<b>2,128.3</b>	2,159.5
<b>Closing shareholders' funds</b>	<b>2,184.5</b>	2,128.3	<b>2,184.5</b>	2,128.3

The opening shareholders' funds for 1998 were originally £2,147.5m, for both the company and group, before the £12.0m prior year adjustment following the adoption of FRS12.

## Balance sheets

At 31 March 1999

	Note	Group		Company	
		1999 £m	1998 £m (restated)	1999 £m	1998 £m (restated)
<b>Fixed assets</b>					
Tangible assets	10	<b>4,347.9</b>	4009.2	<b>4,347.9</b>	4,009.2
Investments	11	<b>0.3</b>	0.3	<b>0.4</b>	0.3
		<b>4,348.2</b>	4,009.5	<b>4,348.3</b>	4,009.5
<b>Current assets</b>					
Stocks		<b>2.3</b>	1.4	<b>2.3</b>	1.4
Debtors	12	<b>342.3</b>	254.0	<b>341.6</b>	254.0
		<b>344.6</b>	255.4	<b>343.9</b>	255.4
<b>Creditors</b>					
Amounts falling due within one year	13	<b>(902.3)</b>	(1,212.7)	<b>(901.7)</b>	(1,212.7)
<b>Net current liabilities</b>		<b>(557.7)</b>	(957.3)	<b>(557.8)</b>	(957.3)
<b>Total assets less current liabilities</b>		<b>3,790.5</b>	3,052.2	<b>3,790.5</b>	3,052.2
<b>Creditors</b>					
Amounts falling due after more than one year	14	<b>(1,602.9)</b>	(912.8)	<b>(1,602.9)</b>	(912.8)
<b>Provisions for liabilities and charges</b>	16	<b>(3.1)</b>	(11.1)	<b>(3.1)</b>	(11.1)
<b>Net assets</b>		<b>2,184.5</b>	2,128.3	<b>2,184.5</b>	2,128.3
<b>Capital and reserves</b>					
Equity share capital	18	<b>431.9</b>	431.9	<b>431.9</b>	431.9
Share premium account	18	<b>647.8</b>	647.8	<b>647.8</b>	647.8
Profit and loss account	19	<b>899.7</b>	991.8	<b>899.7</b>	991.8
<b>Equity shareholders' funds</b>		<b>1,979.4</b>	2,071.5	<b>1,979.4</b>	2,071.5
<b>Non-equity share capital</b>	18	<b>205.1</b>	56.8	<b>205.1</b>	56.8
<b>Shareholders' funds</b>		<b>2,184.5</b>	2,128.3	<b>2,184.5</b>	2,128.3

Approved by the Board of directors on 5 July 1999 and signed on its behalf by

Harry Croft

Managing Director



## Consolidated cash flow statement

For the year ended 31 March 1999

	1999 £m	1999 £m	1998 £m	1998 £m (restated)
<b>Net cash inflow from operating activities</b>		<b>403.7</b>		638.6
<b>Returns on investments and servicing of finance</b>				
Interest received	7.3		9.9	
Interest paid	(112.9)		(89.2)	
Interest element of finance lease repayments	(15.8)		(10.2)	
Net cash outflow from returns on investment and servicing of finance		<b>(121.4)</b>		(89.5)
<b>Taxation</b>		<b>(65.0)</b>		-
<b>Capital expenditure</b>				
Purchase of tangible fixed assets	(477.9)		(636.9)	
Grants and contributions received	7.1		4.1	
Disposal of tangible fixed assets	4.7		2.1	
Net cash outflow for capital expenditure		<b>(466.1)</b>		(630.7)
<b>Dividends paid</b>		<b>(308.3)</b>		(288.6)
<b>Cash outflow before use of liquid resources</b>		<b>(557.1)</b>		(370.2)
<b>Financing</b>				
Issue of preference share capital	148.3		18.3	
Increase in debt	401.5		334.2	
Net cash inflow from financing		<b>549.8</b>		352.5
<b>Decrease in cash</b>		<b>(7.3)</b>		(17.7)

## Notes to the cash flow statement

For the year ended 31 March 1999

	1999 £m	1998 £m (restated)
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit	<b>431.8</b>	385.6
Depreciation	<b>168.4</b>	143.5
Profit on disposal of tangible fixed assets	<b>(2.6)</b>	(1.0)
Stocks increase	<b>(0.9)</b>	(0.4)
Debtors increase	<b>(90.9)</b>	(21.7)
Creditors (decrease)/increase	<b>(102.1)</b>	132.6
Net cash inflow from operating activities	<b>403.7</b>	638.6

The 1998 operating profit figure has been amended from £397.6m to £385.6m and creditors from £120.6m to £132.6m due to the adoption of FRS12.

## Notes to the cashflow statement (continued)

	1999 £m	1998 £m
<b>Reconciliation on net cash flow to movement in net debt</b>		
Decrease in cash in the year	(7.3)	(17.7)
Cash inflow from increase in debt and lease financing	(401.5)	(334.2)
<b>Movement in net debt in the year</b>	<b>(408.8)</b>	<b>(351.9)</b>
<b>Net debt at 1 April 1998</b>	<b>(1,407.1)</b>	<b>(1,055.2)</b>
<b>Net debt at 31 March 1999</b>	<b>(1,815.9)</b>	<b>(1,407.1)</b>

	1999 £m	1999 £m	1998 £m	1998 £m
<b>Analysis of cash flows for headings netted in the cash flow statement</b>				
<b>Financing</b>				
Issue of preference share capital		148.3		18.3
Debt due within a year:				
– new short term group loans	5.4		2.1	
– (repayment of)/new short term bank loans	(221.9)		15.0	
Debt due beyond a year:				
– new loans	790.0		200.0	
– repayment of long-term external loans	(24.6)		(21.4)	
Capital element of finance lease repayments	(3.9)		(5.0)	
(Repaid)/new inter group finance leases	(143.5)		143.5	
		401.5		334.2
<b>Net cash inflow from financing</b>		<b>549.8</b>		<b>352.5</b>

	At 1 April 1998 £m	Cashflow £m	Non-cash movements £m	At 31 March 1999 £m
<b>Analysis of changes in net debt</b>				
Long term loans	(676.3)	(765.4)	–	(1,441.7)
Finance leases	(349.1)	147.4	–	(201.7)
Short term loans	(340.0)	221.9	–	(118.1)
Overdrafts	(8.8)	(7.3)	–	(16.1)
<b>Borrowings</b>	<b>(1,374.2)</b>	<b>(403.4)</b>	<b>–</b>	<b>(1,777.6)</b>
Cash in hand	–	–	–	–
Parent undertaking loan	(32.9)	(5.4)	–	(38.3)
<b>Net debt</b>	<b>(1,407.1)</b>	<b>(408.8)</b>	<b>–</b>	<b>(1,815.9)</b>



## Notes to the accounts

### 1 Accounting policies

#### (a) Basis of preparation of financial statements

The consolidated financial statements of North West Water Limited and its subsidiary (the Group) 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. During the year we adopted for the first time, *Financial Reporting Standards FRS12, Provisions, Contingent Liabilities and Contingent Assets, FRS13 Derivatives and other Financial Instruments, and, in part, FRS15 Tangible Fixed Assets*. The application of these standards is reflected in the full year financial statements and in the prior year financial statements.

The effect of FRS12 is to change the allocation of restructuring costs between previous reporting periods. Costs previously provided for did not meet the criteria for recording a provision 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 £12.0 million. There has been no material impact on the results for the year ended 31 March 1999 in respect of this adjustment.

#### (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 enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition and included at cost after deducting 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 FRS15 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 to 31 March 1989, when renewals accounting was first adopted in the accounts, and any previous provisions or prepayments have been subsumed into fixed assets. This change of accounting policy has no effect on the profit and loss account other than to reclassify the renewals charge as depreciation.

##### (ii) Other assets (including properties, overground plant and equipment)

Other assets are included at cost less accumulated depreciation. Additions are included at cost.

Freehold land is not depreciated. Assets in the course of construction with an estimated economic life of greater than 20 years are not depreciated until the year following commissioning.

Other assets are depreciated evenly over their estimated economic lives which are principally as follows:

---

Buildings 30-60 years

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Operational assets 5-80 years

---

Fixtures, fittings, tools and equipment 3-40 years

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Pre-1974 assets 25-27 years

---

Capitalised computer software costs 3-10 years

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#### (e) Grants and contributions

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with the Companies Act 1985 which requires tangible fixed assets to be shown at cost and hence grants and contributions as deferred income. This departure from the requirements of the Companies Act 1985 is, in the opinion of the Directors, necessary for the financial statements to show a true and fair view as while a provision is made for depreciation of infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this treatment on the value of tangible fixed assets is disclosed in note 10.

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.

#### (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) Stocks

Stocks 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.

## 3 Net operating costs

	1999 £m	1998 £m (restated)
<b>Employee costs:</b>		
Wages and salaries	91.4	93.9
Social security costs	8.2	6.9
Pension contributions (note 20)	10.3	8.6
	<b>109.9</b>	109.4
Capital schemes	<b>(27.2)</b>	(28.2)
Infrastructure renewals	<b>(6.7)</b>	(9.0)
	<b>76.0</b>	72.2
<b>Depreciation:</b>		
Owned fixed assets	90.7	66.8
Fixed assets held under finance leases	4.8	5.5
Non-infrastructure depreciation	95.5	72.3
Infrastructure depreciation	72.9	71.2
	<b>168.4</b>	143.5
<b>Other operating costs include:</b>		
Other operating costs – Including Exceptional Year 2000 costs of £19.0m	251.5	263.3
Other operating costs – FRS12 adjustment	–	12.0
Raw materials and consumables	21.7	18.6
Auditors' remuneration	0.1	0.1
Research and development	2.3	2.1
Operating leases:		
– hire of plant and machinery	1.7	2.0
– land and buildings	2.1	1.7
Other income (note 4)	<b>(6.9)</b>	(5.3)
	<b>272.5</b>	294.5
<b>Total net operating costs</b>	<b>516.9</b>	510.2

The 1998 total of £498.2m has been amended by £12.0m due to the adoption of FRS12.

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 1999 were £281,000 (1998 – £40,000).

## Notes to the accounts (continued)

**4 Other income**

	1999 £m	1998 £m
Profit on disposal of fixed assets	2.6	1.0
Net rents receivable	2.2	2.2
Other	2.1	2.1
	<b>6.9</b>	<b>5.3</b>

**5 Directors**

The aggregate emoluments of directors in 1999 amounted to £1,106,627 (1998 – £926,546). Emoluments comprise salaries, fees, taxable benefits and the value of short term incentive awards. The emoluments of the highest paid director (H Croft) in 1999 amounted to £212,023 (1998 – £229,366).

With the exception of P Entwistle and D 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 age at 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, C Elphick and P McCloskey the company has undertaken to pay the difference between the pension entitlement based on their 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 1999 for H Croft was £101,736 per annum (1998 – £83,729 per annum).

## 5 Directors (continued)

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

	1999 Share options			1998 or on appointment Share options		
	Ordinary shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	12,717	12,293	3,675	15,717	12,293	3,675
R G Bradbury	–	28,083	–	–	27,333	–
H R Croft	11,813	28,010	–	13,345	28,010	–
P E McCloskey	–	32,977	3,586	–	32,227	3,586
M F Bradbury	10,922	23,137	4,005	14,034	17,637	4,005
P G S Entwistle	90	–	–	90	–	–
R R Ford	–	9,621	3,059	–	8,871	3,059
C H Elphick	9,798	23,636	3,623	12,962	34,872	3,623
J A Barnes	4,950	12,249	3,600	4,950	9,749	3,600
C South	32,565	3,581	4,005	32,565	2,831	4,005

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
J A Barnes	2,500	868.0p	Executive option	3 Dec 2001	3 Dec 2008
M F Bradbury	5,500	868.0p	Executive option	3 Dec 2001	3 Dec 2008
R G Bradbury	750	868.0p	Executive option	3 Dec 2001	3 Dec 2008
P E McCloskey	750	868.0p	Executive option	3 Dec 2001	3 Dec 2008
R R Ford	750	868.0p	Executive option	3 Dec 2001	3 Dec 2008
C South	750	868.0p	Executive option	3 Dec 2001	3 Dec 2008

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

	Options exercised during the year	Exercise price per share	Scheme	Exercise date	Mid-market price when exercised	First date exercisable	Last date exercisable
C H Elphick	580	479.8p	Executive	7 July 1998	894.0p	15 Dec 1997	15 Dec 2004
	9,303	275.7p	Executive	7 July 1998	894.0p	8 Jan 1997	8 Jan 2002
	193	394.2p	Executive	7 July 1998	894.0p	6 Jan 1998	6 Jan 2003
	580	463.4p	Executive	7 July 1998	894.0p	6 Jan 1996	6 Jan 2003
	580	566.9p	Executive	7 July 1998	894.0p	20 Jan 1997	20 Jan 2004

The mid-market share price on 31 March 1999 was 740.0p.  
The range during the year was 727.0p (low) to 957.0p (high).

## Notes to the accounts (continued)

**6 Employees**

	1999	1998
Average number of persons employed	<b>4,135</b>	4,106

**7 Net interest payable**

	1999 <i>£m</i>	1998 <i>£m</i>
<b>Interest payable:</b>		
On bank loans, overdrafts and other loans	<b>74.5</b>	75.9
On finance leases	<b>7.0</b>	10.2
Group undertakings	<b>48.1</b>	8.9
Total interest payable	<b>129.6</b>	95.0
<b>Interest receivable:</b>		
Group undertakings	<b>(11.2)</b>	(7.5)
External	<b>(1.3)</b>	(2.4)
Net interest payable	<b>117.1</b>	85.1

**8 Taxation of profit on ordinary activities**

	1999 <i>£m</i>	1998 <i>£m</i>
UK Corporation Tax at 30% (1998 – 31%)	<b>89.6</b>	51.6
The full potential deferred tax liability is:		
Accelerated tax allowances on buildings, plant and equipment:		
Infrastructure assets	<b>431.4</b>	429.8
Other assets	<b>201.1</b>	216.3
Other timing differences	<b>(20.3)</b>	(21.7)
	<b>612.2</b>	624.4

No deferred tax liability is provided in the company's accounts.

**9 Dividends**

	1999 <i>£m</i>	1998 <i>£m</i>
Interim dividend of 14.00 pence per share (1998 – 12.79 pence)	<b>60.5</b>	55.3
Final dividend of 28.31 pence per share recommended (1998 – 26.30 pence)	<b>122.3</b>	113.4
Special dividend 30.05 pence per share (1998 – 30.05 pence)	<b>129.8</b>	129.8
Preference share dividend 3.49 pence per share	<b>4.5</b>	–
Adjustment to prior year final dividend	<b>0.1</b>	(0.1)
	<b>317.2</b>	298.4

The company'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 the company to United Utilities PLC increased by 6 per cent in real terms in 1998/99. This increase results from:

- a base level of growth consistent with the management of the economic risk of the business; and
- 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 1 December 1998 in respect of the final instalment of the windfall levy.



## 10 Tangible fixed assets

Group and company	Land and buildings £m	Infra-structure assets £m (restated)	Operational structures £m	Fixtures, fittings, tools and equipment £m	Pre-1974 assets £m	Assets in course of construction £m	Total £m (restated)
Cost:							
At 1 April 1998	193.2	2,453.5	1,536.0	387.7	177.4	609.1	5,356.9
Additions	3.7	189.2	53.6	117.5	–	155.3	519.3
Grants and contributions	–	(3.8)	–	–	–	–	(3.8)
Inter-group transfer	–	–	–	(3.2)	–	(22.5)	(25.7)
Transfers	5.8	86.9	221.1	9.2	–	(323.0)	–
Disposals	(3.6)	(1.2)	(0.2)	(8.8)	–	–	(13.8)
<b>At 31 March 1999</b>	<b>199.1</b>	<b>2,724.6</b>	<b>1,810.5</b>	<b>502.4</b>	<b>177.4</b>	<b>418.9</b>	<b>5,832.9</b>
Depreciation:							
At 1 April 1998	32.5	694.7	275.2	212.1	133.2	–	1,347.7
Charge for the year	6.2	72.9	47.3	36.4	5.6	–	168.4
Inter-group transfer	–	–	–	(19.4)	–	–	(19.4)
Disposals	(2.1)	(1.2)	(0.1)	(8.3)	–	–	(11.7)
<b>At 31 March 1999</b>	<b>36.6</b>	<b>766.4</b>	<b>322.4</b>	<b>220.8</b>	<b>138.8</b>	<b>–</b>	<b>1,485.0</b>
Net book value:							
<b>At 31 March 1999</b>	<b>162.5</b>	<b>1,958.2</b>	<b>1,488.1</b>	<b>281.6</b>	<b>38.6</b>	<b>418.9</b>	<b>4,347.9</b>
At 31 March 1998	160.7	1,758.8	1,260.8	175.6	44.2	609.1	4,009.2

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence, the net book value of fixed assets is £61.5 million (1998 – £58.6 million) lower than it would have been had this treatment not been adopted.

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1999. 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.

It has been necessary to change the method of accounting for infrastructure maintenance expenditure following the introduction of FRS15. Fixed assets have been restated for expenditure on infrastructure renewals since 31 March 1989, when renewals accounting was first used. The tables that follow provide the details of the 1998 restatements and the current year infrastructure renewals movements.

	Infrastructure assets £m	Total £m
Cost:		
1998 figures	1,733.3	4,636.7
Prior year infrastructure renewals adjustment	720.2	720.2
<b>Restated – 31 March 1998</b>	<b>2,453.5</b>	<b>5,356.9</b>
Depreciation:		
1998 figures	–	653.0
Prior year infrastructure renewals adjustment	694.7	694.7
<b>Restated – 31 March 1998</b>	<b>694.7</b>	<b>1,347.7</b>
Net book value:		
1998 figures	1,733.3	3,983.7
Prior year infrastructure renewals adjustment	25.5	25.5
<b>Restated – 31 March 1998</b>	<b>1,758.8</b>	<b>4,009.2</b>

## Notes to the accounts (continued)

**10 Tangible fixed assets (continued)****Infrastructure renewals**

	<i>£m</i>
Excess expenditure over depreciation at 1 April 1998 on maintaining the operating capability of the network	25.5
Expenditure on maintaining the network in the year	101.3
Depreciation for the year	(72.9)
<b>Excess expenditure over depreciation at 31 March 1999</b>	<b>53.9</b>

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

	1999 <i>£m</i>	1998 <i>£m</i>
Cost:		
Operational structures	<b>250.8</b>	250.8
Fixtures, fittings, tools and equipment	<b>5.4</b>	183.6
Assets in course of construction	-	61.5
At 31 March	<b>256.2</b>	495.9
Accumulated depreciation:		
Operational structures	<b>(63.7)</b>	(57.7)
Fixtures, fittings, tools and equipment	<b>(5.0)</b>	(100.5)
At 31 March	<b>(68.7)</b>	(158.2)
Net book value:		
Operational structures	<b>187.1</b>	193.1
Fixtures, fittings, tools and equipment	<b>0.4</b>	83.1
Assets in course of construction	-	61.5
At 31 March	<b>187.5</b>	337.7

The depreciation charge for the year for assets held under finance leases is £4.8 million (1998 – £5.5 million).

	1999 <i>£m</i>	1998 <i>£m</i>
Capital commitments:		
Contracted but not provided for	<b>349.7</b>	307.4

**11 Fixed asset investments**

			Investments £m
<b>Group</b>			
Cost:			
At 1 April 1998 and 31 March 1999			0.3
<hr/>			
	Shares in subsidiary undertakings £m	Other investments £m	Total £m
<b>Company</b>			
Cost:			
At 1 April 1998	–	0.3	0.3
Additions	0.1	–	0.1
At 31 March 1999	0.1	0.3	0.4

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

Subsidiary undertakings	Description of holding	Proportion held	Nature of business
North West Water Finance plc	Ordinary shares of £1 each	100%	Raising finance
<hr/>			
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	26.54%	
Paypoint Network Limited	Ordinary shares of 1 pence each	0.06%	Cash collection service
	'F' ordinary shares of 1 pence each	1.23%	

## Notes to the accounts (continued)

**12 Debtors**

	Group		Company	
	1999 £m	1998 £m (restated)	1999 £m	1998 £m (restated)
<b>Amounts falling due within one year:</b>				
Trade debtors	133.9	109.4	133.9	109.4
Amounts owed by Group undertakings	98.1	35.5	98.1	35.5
Other debtors	15.3	24.4	15.3	24.4
Prepayments and accrued income	95.0	78.4	94.3	78.4
	<b>342.3</b>	247.7	<b>341.6</b>	247.7
<b>Amounts falling due after more than one year:</b>				
Other debtors	–	3.1	–	3.1
Deferred tax	–	3.2	–	3.2
	–	6.3	–	6.3
<b>Total debtors</b>	<b>342.3</b>	254.0	<b>341.6</b>	254.0

Amounts owed by Group undertakings represent amounts owed by parent and fellow subsidiary undertakings. The 1998 figure has been restated from £279.5 to £254.0 following the adoption of FRS15 in which the infrastructure renewals prepayment of £25.5m is now shown as a tangible fixed asset – see notes 1(d)(i) and 10.

**13 Creditors: amounts falling due within one year**

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Loans	100.1	24.9	100.1	24.9
Bank overdrafts and temporary borrowings	134.2	348.8	16.1	348.8
Obligations under finance leases – external	1.7	4.0	1.7	4.0
Obligations under finance leases – group undertakings	–	143.5	–	143.5
Trade creditors	21.2	19.2	21.2	19.2
Amounts owed to group undertakings	169.2	251.8	286.7	251.8
Dividends	122.3	113.4	122.3	113.4
Other creditors	1.9	2.6	1.9	2.6
Taxation and social security	30.6	23.7	30.6	23.7
Accruals and deferred income	321.1	280.8	321.1	280.8
	<b>902.3</b>	1,212.7	<b>901.7</b>	1,212.7

Amounts owed to Group undertakings totals £169.2 million (1998 – £395.3 million) in respect of amounts owed to parent and fellow subsidiary undertakings.

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

	1999 £m	1998 £m
Group and company		
Loans	551.6	651.4
Obligations under finance leases	200.0	201.6
Amounts owed to group undertakings	790.0	3.2
Other creditors	5.5	5.8
Deferred grants and contributions (note 15)	55.8	50.8
	<b>1,602.9</b>	912.8

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

**15 Deferred grants and contributions**

	£m
Group and company	
At 1 April 1998	50.8
Received in the year	7.1
Profit and loss account	(2.1)
<b>At 31 March 1999</b>	<b>55.8</b>

**16 Provisions for liabilities and charges**

	Restructuring £m	Other £m	Total £m
Group and company			
At 1 April 1998	8.6	2.5	11.1
Utilised	(4.7)	(2.5)	(7.2)
Profit and loss account	(0.8)	-	(0.8)
<b>At 31 March 1999</b>	<b>3.1</b>	<b>-</b>	<b>3.1</b>

**17 Borrowings**

	1999 £m	1998 £m
Bank overdrafts and temporary borrowings	<b>134.2</b>	348.8
Term loans	<b>1,441.7</b>	676.3
Finance leases	<b>201.7</b>	349.1
	<b>1,777.6</b>	1,374.2

**Repayments fall due as follows:**

	Year	1999	Year	1998
After five years	<b>2005+</b>	<b>1,414.7</b>	2004+	658.7
From four to five years	<b>2004</b>	<b>33.9</b>	2003	30.9
From three to four years	<b>2003</b>	<b>30.9</b>	2002	31.3
From two to three years	<b>2002</b>	<b>31.3</b>	2001	30.5
From one to two	<b>2001</b>	<b>30.8</b>	2000	101.7
After more than one year		<b>1,541.6</b>		853.1
Within one year	<b>2000</b>	<b>236.0</b>	1999	521.1
		<b>1,777.6</b>		1,374.2

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2005 and 2053. Interest rates range from 4.88 per cent to 14.83 per cent on £972.3 million and are at floating rates on £805.3 million.

**Bank overdrafts and temporary borrowings**

The Group had available committed bank facilities of £415 million (1998 – £415 million) of which £415 million was unutilised at 31 March 1999 (1998 – £110 million). The amounts currently unutilised expire in more than two years.



## Notes to the accounts (continued)

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	972.3	977.6	8.6	8.5	8.6	9.4
Floating rate borrowings – sterling	805.3	396.6				
	<b>1,777.6</b>	1,374.2				
Floating rate parent undertaking loan – sterling	38.3	32.9				
Net debt at 31 March	<b>1,815.9</b>	1,407.1				

Floating rate borrowings are based on LIBOR.

#### Financial instruments and risk management

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

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 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. Accordingly, the Group has no material unhedged foreign currency exposures.

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

#### a) 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.

#### b) Financial futures

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

#### c) 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.

#### d) Currency swaps

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

### 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.

	1999 Book value £m	1999 Current value £m
Short term debt and current portion of long term debt	236.0	236.0
Long term debt	1,541.6	1,630.6
	<b>1,777.6</b>	<b>1,866.6</b>
Interest rate swaps	–	1.8
Foreign exchange contracts and swaps	–	(30.3)
<b>Total financial instruments</b>	<b>1,777.6</b>	<b>1,838.1</b>

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

#### 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 approximated 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 £52.2 million and £112.6 million respectively.

The Group anticipates that £25.2 million of these gains and £30.2 million of these losses will be realised in the forthcoming financial year.

## Notes to the accounts (continued)

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

	1999 £m	1998 £m
Authorised share capital		
650,000,000 ordinary shares of £1 each	<b>650.0</b>	650.0
205,137,000 preference shares of £1 each	<b>205.1</b>	56.8
Allotted and fully paid share capital		
431,930,000 ordinary shares of £1 each	<b>431.9</b>	431.9
205,137,000 preference shares of £1 each	<b>205.1</b>	56.8
Share premium account	<b>647.8</b>	647.8

During the year 130,000,000 non-voting non-redeemable 7% dividend preference shares were allotted for cash at nominal value in order to reduce overall borrowings.

Also 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**

	Group £m	Company £m
At 1 April 1998	991.8	991.8
Loss for the year	(92.1)	(92.1)
At 31 March 1999	899.7	899.7

As allowed by section 230 of the Companies Act 1985, the company has not presented its own profit and loss account.

## 20 Pensions

The company participates in the United Utilities PLC's (the Group) two funded defined benefits 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 the Group's finances.

For UUPS and ESPS, the pension cost under the accounting standard SSAP24 has 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 £10.3 million (1998 – £8.6 million).

## 21 Operating leases

	<b>Land and buildings 1999 £m</b>	<b>Plant and machinery 1999 £m</b>	<b>Land and buildings 1998 £m</b>	<b>Plant and machinery 1998 £m</b>
The company is committed to making the following payments during the year:				
<i>Leases which expire:</i>				
Within one year	<b>1.4</b>	<b>0.3</b>	0.2	0.1
Between two and five years	<b>0.9</b>	<b>2.4</b>	0.7	0.8
After five years	<b>0.7</b>	–	1.7	–
	<b>3.0</b>	<b>2.7</b>	2.6	0.9

## 22 Related party transactions

The company has disclosed transactions with its ultimate holding company and associated companies within the Group in note 7 of the Regulatory Accounts.

## 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, PO Box 14, Birchwood Boulevard, Warrington WA3 7WB.

## Regulatory accounting information

### **Introduction**

The current cost accounts on pages 28 to 40 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.

### **Auditors' contract**

The contract of appointment with the auditors satisfies the requirements of paragraph 9.2 of Condition F of the Licence "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 8 to 25, which have been prepared under the accounting policies set out on pages 12 and 13, and the current cost financial information on pages 28 to 40, which has been prepared under the accounting policies set out on pages 32 and 33.

### Respective responsibilities of directors and auditors

As described on page 7 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 1999 required to be published and submitted to you by North West Water Limited ("the Appointee") to comply with Condition F of the Licence 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 Licence;
- (ii) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Licence 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 8 to 25 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;
- (iv) the summarised accounts on pages 28 and 29 have, as explained on page 29, been properly prepared from the financial statements on pages 8 to 25 to reflect the adoption of infrastructure renewals accounting as required by the Regulatory Accounting Guidance and, except for the effect of the departure from accounting standards inherent in this requirement, give, under the historical cost convention and together with the information in the financial statements on pages 8 to 25, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business; and
- (v) the current cost financial information on pages 28 to 40 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*

**KPMG Audit Plc**  
Chartered Accountants  
Registered Auditor  
Manchester  
5 July 1999

## Summarised company – historical cost profit and loss account

For the year ended 31 March 1999

	1999 £m	1998 £m (restated)
<b>Turnover</b>	<b>948.7</b>	894.7
Operating costs* (including exceptional Year 2000 costs of £19.0m)	<b>(520.4)</b>	(494.8)
Operating income	<b>2.6</b>	2.1
<b>Operating profit</b>	<b>430.9</b>	402.0
Other income	<b>2.2</b>	2.5
Net interest payable	<b>(118.4)</b>	(104.0)
<b>Profit on ordinary activities before taxation</b>	<b>314.7</b>	300.5
Taxation	<b>(89.6)</b>	(51.6)
<b>Profit for the year</b>	<b>225.1</b>	248.9
Dividends	<b>(317.2)</b>	(298.4)
<b>Retained loss for the year</b>	<b>(92.1)</b>	(49.5)

\*The 1998 figure has been amended from £482.8m to £494.8m due to the adoption of FRS12.

## Summarised company – historical cost balance sheet

At 31 March 1999

	1999 £m	1998 £m
<b>Fixed assets</b>		
Tangible fixed assets	4,294.0	3983.7
Investments	0.4	0.3
	<b>4,294.4</b>	3984.0
<b>Current assets</b>		
Stocks	2.3	1.4
Debtors	395.5	279.5
	<b>397.8</b>	280.9
<b>Creditors: amounts falling due within a year</b>		
Borrowings	(235.4)	(611.2)
Dividends payable	(122.3)	(113.4)
Other creditors	(544.0)	(488.1)
	<b>(901.7)</b>	(1,212.7)
<b>Net current liabilities</b>	<b>(503.9)</b>	(931.8)
<b>Creditors: amounts falling due after more than one year</b>		
Borrowings	(1,541.6)	(853.0)
Other creditors	(5.5)	(9.0)
	<b>(1,547.1)</b>	(862.0)
Provision for liabilities and charges	(3.1)	(11.1)
Deferred income	(55.8)	(50.8)
<b>Net assets employed</b>	<b>2,184.5</b>	2,128.3
<b>Capital and reserves</b>		
Called up share capital	637.0	488.7
Share premium	647.8	647.8
Profit and loss account	899.7	991.8
Other reserves	–	–
<b>Capital and reserves</b>	<b>2,184.5</b>	2,128.3

The above historical cost balance sheet is prepared in accordance with infrastructure renewals accounting for regulatory purposes. However, the historical cost accounting balance sheet stated on page 9 reflects the adoption of FRS15, Tangible Fixed Assets, for the financial year 1998/99 and restates the prior year. The infrastructure renewals prepayments of £53.9m in 1999 (£25.5m – 1998) is therefore shown within fixed assets, not within debtors.

## Current cost profit and loss account

For the year ended 31 March 1999

	Note	1999 £m	1998 £m (restated)
<b>Turnover</b>	2	<b>948.7</b>	894.7
Current cost operating costs*	3	<b>(633.4)</b>	(605.3)
Loss on disposal of fixed assets	2	<b>(3.1)</b>	(3.5)
Working capital adjustment	2	<b>2.9</b>	3.1
<b>Current cost operating profit</b>		<b>315.1</b>	289.0
Other income		<b>2.2</b>	2.5
Net interest payable		<b>(118.4)</b>	(104.0)
Financing adjustment		<b>32.4</b>	39.2
<b>Current cost profit on ordinary activities before taxation</b>		<b>231.3</b>	226.7
Taxation		<b>(89.6)</b>	(51.6)
<b>Current cost profit attributable to shareholders</b>		<b>141.7</b>	175.1
Dividends		<b>(317.2)</b>	(298.4)
<b>Current cost loss retained</b>		<b>(175.5)</b>	(123.3)

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

\*The 1998 figure has been amended from £593.3m to £605.3m due to the adoption of FRS12.

## Current cost balance sheet

At 31 March 1999

	Note	1999 £m	1998 £m
Tangible assets	4	<b>34,876.9</b>	33,984.7
Third party contributions since 1989-90		<b>(152.5)</b>	(141.1)
Working capital	5	<b>(100.7)</b>	(141.3)
<b>Net operating assets</b>		<b>34,623.7</b>	33,702.3
Cash and investments		<b>0.4</b>	0.3
Non-trade debtors		<b>57.7</b>	32.6
Non-trade creditors due within one year		<b>(377.5)</b>	(738.7)
Creditors due after one year		<b>(1,547.0)</b>	(861.9)
Provisions for liabilities and charges		<b>(3.1)</b>	(11.1)
Dividends payable		<b>(122.3)</b>	(113.4)
<b>Net assets employed</b>		<b>32,631.9</b>	32,010.1
<b>Capital and reserves</b>			
Called up share capital		<b>637.1</b>	488.7
Share premium account		<b>647.8</b>	647.8
Profit and loss account		<b>(58.0)</b>	117.5
Current cost reserve		<b>31,405.0</b>	30,756.1
<b>Total capital and reserves</b>		<b>32,631.9</b>	32,010.1

## Current cost cash flow statement

For the year ended 31 March 1999

	1999 £m	1999 £m	1998 £m	1998 £m
<b>Net cash inflow from operating activities</b>		<b>522.4</b>		660.2
<b>Returns on investments and servicing of finance</b>				
Interest received	7.3		9.9	
Interest paid	(113.5)		(108.1)	
Interest in finance lease rental	(15.8)		(10.2)	
Net cash outflow from returns on investments and servicing of finance		(122.0)		(108.4)
<b>UK corporation tax paid</b>		(65.0)		-
<b>Capital expenditure</b>				
Gross cost of purchase of fixed assets	(376.6)		(565.7)	
Receipt of grants and contributions	7.2		4.1	
Infrastructure renewals expenditure	(101.3)		(75.0)	
Disposal of fixed assets	4.7		3.2	
<b>Net cash outflow from investing activities</b>		(466.0)		(633.4)
<b>Equity dividends paid</b>		(308.3)		(288.6)
<b>Management of liquid resources</b>				
Sale of short term marketable securities		-		-
<b>Net cash outflow before financing</b>		(438.9)		(370.2)
<b>Financing</b>				
Proceeds from issue of preference share capital	148.3		18.3	
Capital element of finance lease rentals	(3.9)		(5.0)	
New bank loans	765.4		195.7	
Finance leases	(143.5)		143.5	
New short term Group loans	5.3		-	
Repayment of bank loans	(340.0)		-	
<b>Net cash inflow from financing</b>		<b>431.6</b>		352.5
<b>Decrease in cash</b>		<b>(7.3)</b>		(17.7)

## Note to the current cost cash flow statement

	1999 £m	1998 £m (restated)
<b>Reconciliation of current cost operating profit to net cash flow from operating activities</b>		
Current cost operating profit*	<b>315.1</b>	289.0
Working capital adjustment	<b>(2.9)</b>	(3.1)
Changes in stocks	<b>(0.9)</b>	(0.4)
Receipts from other income	<b>2.2</b>	2.5
Current cost depreciation	<b>198.8</b>	174.1
Current cost loss on disposal of fixed assets	<b>3.1</b>	3.5
Increase in debtors and prepaid expenses	<b>(119.3)</b>	(21.7)
Increase in creditors and accrued expenses	<b>33.0</b>	146.3
Infrastructure renewals expenditure	<b>101.3</b>	75.0
Movement in provisions	<b>(8.0)</b>	(5.0)
<b>Net cash inflow from operating activities</b>	<b>522.4</b>	660.2

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 10.

\*The 1998 figure has been amended from £301.0m to £289.0m due to the adoption of FRS12.

## 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.

**(iii) Other fixed assets**

All over 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.

**(d) Allocation of costs to principal services**

Direct costs are charged to the sub-service areas to which they are attributable whereas business activities and indirect costs are allocated on an activity basis using quantitative measures reflecting consumption of service.

**2 Analysis of turnover and operating income**

	1999			1998		
	Water services £m	Sewerage services £m	Total £m	Water Services £m	Sewerage services £m	Total £m
<b>Turnover</b>						
Measured	136.8	177.2	314.0	127.7	158.7	286.4
Unmeasured	246.6	317.3	563.9	243.9	299.8	543.7
Trade effluent	–	43.3	43.3	–	39.4	39.4
Revenue grants	0.2	–	0.2	0.1	–	0.1
Other sources	5.1	3.7	8.8	4.6	2.9	7.5
Third party services	12.8	5.7	18.5	12.0	5.6	17.6
	<b>401.5</b>	<b>547.2</b>	<b>948.7</b>	<b>388.3</b>	<b>506.4</b>	<b>894.7</b>
<b>Operating costs/income</b>						
Current cost loss on disposal of fixed assets	(1.3)	(1.8)	(3.1)	(1.8)	(1.7)	(3.5)
Working capital adjustment	1.5	1.4	2.9	1.5	1.6	3.1

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

## Notes to the current cost accounts (continued)

**3 Current cost operating costs** for the year ended 31 March 1999

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
<b>Direct costs</b>							
Employment costs	10.2	16.5	26.7	0.7	10.8	5.3	16.8
Power	4.4	4.8	9.2	0.1	8.1	2.3	10.5
Agencies	–	–	–	11.6	0.1	–	11.7
Hired and contracted services	3.2	5.8	9.0	0.7	6.4	4.9	12.0
Materials and consumables	5.3	2.8	8.1	–	2.8	1.7	4.5
Service charges EA	9.6	–	9.6	1.2	2.5	–	3.7
Other direct costs	–	1.9	1.9	0.2	0.2	1.4	1.8
<b>Total direct costs</b>	<b>32.7</b>	<b>31.8</b>	<b>64.5</b>	<b>14.5</b>	<b>30.9</b>	<b>15.6</b>	<b>61.0</b>
General and support expenditure	14.7	19.9	34.6	3.8	15.3	6.5	25.6
Functional expenditure	47.4	51.7	99.1	18.3	46.2	22.1	86.6
<b>Operating expenditure</b>							
Customer services			23.8				23.0
Scientific services			8.8				4.4
Other business activities			1.0				1.0
Total business activities			33.6				28.4
Local authority rates			29.9				13.7
Doubtful debts*			7.8				10.3
Exceptional items			10.7				8.3
Total opex less third party services*			181.2				147.3
Third party services – operating expenditure			19.3				3.0
Total operating expenditure			200.5				150.3
<b>Capital maintenance</b>							
Infrastructure renewals expenditure	5.3	45.0	50.3	51.0	–	–	51.0
Infrastructure renewals accrual/ (prepayment)	(1.2)	(6.3)	(7.5)	(11.3)	–	0.4	(10.9)
Current cost depreciation (allocated)	61.9	8.8	70.7	5.2	67.0	11.9	84.1
Amortisation of deferred credits			(1.3)				(1.1)
Business activities current cost depreciation (non allocated)			22.4				23.9
Capital maintenance excluding third party services			134.6				147.0
Third party services – capital maintenance			1.0				–
Total capital maintenance			135.6				147.0
<b>Total operating costs*</b>			<b>336.1</b>				<b>297.3</b>
<b>CCA (MEA) values:</b>							
Service activities	2,583.4	9,566.8	12,150.2	20,147.3	1,395.8	741.8	22,284.9
Business activities			196.7				213.1
Total			12,346.9				22,498.0
Services for the third parties			23.9				8.1
<b>Total</b>			<b>12,370.8</b>				<b>22,506.1</b>

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



**3 Current cost operating costs** for the year ended 31 March 1998 – restated

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
<b>Direct costs</b>							
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	7.7	1.5	9.3
Agencies	–	–	–	10.9	–	0.1	11.0
Hired and contracted services	2.8	6.7	9.5	0.6	2.2	6.9	9.7
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
<b>Total direct costs</b>	<b>33.0</b>	<b>33.0</b>	<b>66.0</b>	<b>13.8</b>	<b>24.0</b>	<b>17.3</b>	<b>55.1</b>
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
<b>Operating expenditure</b>							
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*			14.4				13.8
Total opex less third party services*			180.3				131.5
Third party services – operating expenditure			16.8				5.1
Total operating expenditure			197.1				136.6
<b>Capital maintenance</b>							
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
<b>Total operating costs*</b>			<b>328.9</b>				<b>276.4</b>
<b>CCA (MEA) values:</b>							
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
<b>Total</b>			<b>12,077.6</b>				<b>21,907.1</b>

\*See over for changes made due to the adoption of FRS12

## Notes to the current cost accounts (continued)

**3 Current cost operating costs** for the year ended 31 March 1998 – restated (continued)

The following changes have been made due to the adoption of FRS12:

Service analysis	Water services		Sewerage services	
	1998	Restated 1998	1998	Restated 1998
Doubtful debts	11.8m	14.4m	11.4m	13.8m
Exceptional items	(3.8)m	-	(3.2)m	-
Total operating costs	322.5m	328.9m	270.8m	276.4m

**4 Current cost analysis of fixed assets by asset type and service** for the year ended 31 March 1999

Service analysis	Water services				Sewerage services				
	Infra-structure assets £m	Oper-ational assets £m	Other tangible assets £m	Subtotal £m	Infra-structure assets £m	Oper-ational assets £m	Other tangible assets £m	Subtotal £m	Total £m
<b>Gross replacement cost:</b>									
At 1 April 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
RPI adjustment	219.2	55.4	5.5	280.1	398.9	72.2	7.6	478.7	758.8
Inter-group transfer	-	-	(12.3)	(12.3)	-	-	(13.4)	(13.4)	(25.7)
Disposals	-	(8.1)	(1.5)	(9.6)	-	(8.2)	(5.5)	(13.7)	(23.3)
Additions	75.4	51.5	21.6	148.5	73.1	171.8	24.6	269.5	418.0
At 31 March 1999	11,067.5	2,821.7	369.5	14,258.7	19,962.2	3,911.3	482.2	24,355.7	38,614.4
<b>Depreciation:</b>									
At 1 April 1998	-	1,550.0	224.4	1,774.4	-	1,533.9	193.6	1,727.5	3,501.9
RPI adjustment	-	31.8	4.6	36.4	-	31.5	4.0	35.5	71.9
Inter-group transfer	-	-	(9.4)	(9.4)	-	-	(10.1)	(10.1)	(19.5)
Disposals	-	(4.6)	(1.2)	(5.8)	-	(4.9)	(4.8)	(9.7)	(15.5)
Charge for the year	-	70.7	21.5	92.2	-	84.1	22.5	106.6	198.8
At 31 March 1999	-	1,647.9	239.9	1,887.8	-	1,644.6	205.2	1,849.8	3,737.6
<b>Net book value:</b>									
At 31 March 1999	11,067.5	1,173.8	129.6	12,370.9	19,962.2	2,266.7	277.0	22,505.9	34,876.8
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

## Operational assets by service for the year ended 31 March 1999

Service analysis	Water services			Sewerage services		
	Specialised operational assets £m	Non-specialised operational assets £m	Total £m	Specialised operational assets £m	Non-specialised operational assets £m	Total £m
<b>Gross replacement cost:</b>						
At 1 April 1998	2,579.2	143.7	2,722.9	3,513.2	162.2	3,675.4
RPI adjustment	52.5	2.9	55.4	69.0	3.2	72.2
Disposals	(1.1)	(7.0)	(8.1)	(1.5)	(6.7)	(8.2)
Additions	46.9	4.6	51.5	166.9	5.0	171.9
At 31 March 1999	2,677.5	144.2	2,821.7	3,747.6	163.7	3,911.3
<b>Depreciation:</b>						
At 1 April 1998	1,521.6	28.4	1,550.0	1,502.2	31.7	1,533.9
RPI adjustment	31.2	0.6	31.8	30.8	0.6	31.4
Disposals	(0.5)	(4.1)	(4.6)	(0.4)	(4.5)	(4.9)
Charge for the year	66.2	4.4	70.6	80.2	3.9	84.1
At 31 March 1999	1,618.5	29.3	1,647.8	1,612.8	31.7	1,644.5
Net book value:						
at 31 March 1999	1,059.0	114.9	1,173.9	2,134.8	132.0	2,266.8
At 31 March 1998	1,057.6	115.3	1,172.9	2,011.0	130.5	2,141.5

## 5 Working capital

	1999 £m	1998 £m
Stores	2.3	1.4
Trade debtors	133.9	109.4
Working cash balances	(16.1)	(8.8)
Trade creditors	(21.3)	(19.1)
Short-term capital creditors	(156.6)	(125.3)
Infrastructure renewals prepayment/(accrual)	15.0	(3.4)
Other trade accruals	(96.3)	(94.2)
Trade payments in advance	6.0	2.7
Payroll related taxation and social security	(2.9)	(2.6)
Group trade debtors/(creditors)	(53.0)	(77.1)
Prepayments and other debtors	88.3	75.7
Total working capital	(100.7)	(141.3)

## 6 Movement on current cost reserve

	1999 £m	1998 £m
At 1 April	30,756.1	29,688.8
RPI adjustments:		
Fixed assets	687.1	1,114.0
Working capital	(2.9)	(3.1)
Financing	(32.4)	(39.2)
Grants and third party contributions	(2.9)	(4.4)
At 31 March	31,405.0	30,756.1

## Notes to the current cost accounts (continued)

### 7 Information in respect of transactions with any other business or activity of the appointee or any associated company

To the best of their knowledge, the directors of North West Water Limited declare that all appropriate transactions with associated companies have been disclosed and material transactions with associated companies are at arm's length and no cross-subsidy has occurred. The materiality level of transactions used for reporting is 0.5% of turnover.

#### Borrowings and sums lent

##### The following loans from associated companies existed at 31 March 1999:

	£m	Interest rate
United Utilities PLC – 750m US \$ Bonds	454.5	6.0%
North West Water Finance plc		
Commercial paper	117.5	6.5%
Euro bonds	335.5	5.7%

North West Water Limited operates a daily zero balancing sweep banking arrangement with its parent United Utilities PLC. This has resulted in a total of £1.5m net interest payable to United Utilities PLC for the year.

##### The following loans to associated companies existed at 31 March 1999:

	£m	Interest rate
United Utilities PLC	40.0	6.1%

#### Dividends paid to associated undertakings

During the year dividends payable to United Utilities PLC totalled £317.2 million. This comprised a final dividend for the year ended 31 March 1998 of £122.3 million, a special dividend of £129.8 million, an interim dividend of £60.5m and a 7% preference share dividend of £4.5m.

The special dividend was paid to fund the payment of the windfall levy by the parent company. The 7% preference shares dividend was paid following the issue of £130m new shares on 1 October 1998 as part of capital restructuring. The ordinary dividend increased by 6% in real terms in 1998/99. 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.

#### Guarantees and securities

There are no guarantees or securities with any associated company.

#### Information technology

North West Water Limited has a contract with Vertex Data Science Limited for further expenditure on software and system assets. The expenditure totalling £35.2 million was incurred to progress software and system developments and Year 2000 compliance.

## Supply of services

### Services supplied by North West Water Limited to associated companies

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Total value £m
Facility services	United Utilities PLC	8.9	Negotiated market rates and recharge of costs	0.3
Facility services	Vertex Data Science Limited	222.5	Negotiated market rates	8.0
Facility and operational services	United Utilities International	7.5	Negotiated market rates and recharge of costs	4.2
Support services	Norweb	1,617.0	Recharge of costs	22.7

Note - Facility services include accommodation and support services.

### Services supplied to North West Water Limited by associated companies

Nature of transaction	Company	Turnover of associated company £m	Terms of supply	Total value £m
Management charge	United Utilities PLC	8.9	Recharge of costs	6.9
Managed services	Vertex Data Science Limited	222.5	Market tested rates based on actual activity undertaken	65.2
Utility services	Norweb	1,617.0	Published tariffs / pool prices, negotiated market rates, competitive tendering	27.4

Note – The Group Management charge of £6.9m from United Utilities PLC represents 47% of the total management charge to subsidiaries. About 80% of the charge is allocated by activity.

The Vertex charging arrangements for the Managed Services are based on actual activity in the year. These charges have significantly reduced following the transfer of assets to North West Water Limited in 1997/98.

## Five year summary

### Current cost profit and loss account

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Turnover	<b>948.7</b>	922.4	900.1	888.6	877.5
Current cost operating costs	<b>(633.4)</b>	(623.7)	(577.7)	(607.1)	(512.0)
Operating income/(expense)	<b>(3.1)</b>	(3.6)	(8.1)	(1.0)	1.6
Working capital adjustment	<b>2.9</b>	3.2	2.5	1.4	2.8
	<b>315.1</b>	298.3	316.8	281.9	369.9
Other income	<b>2.2</b>	2.6	3.6	11.3	2.5
Net interest	<b>(118.4)</b>	(107.2)	(91.9)	(77.7)	(35.3)
Financing adjustment	<b>32.4</b>	40.4	27.0	15.3	19.6
Current cost profit on ordinary activities before taxation	<b>231.3</b>	234.1	255.5	230.8	356.7
Taxation	<b>(89.6)</b>	(53.2)	(7.5)	(1.3)	(3.9)
Current cost profit on ordinary activities after tax	<b>141.7</b>	180.9	248.0	229.5	352.8
Dividends	<b>(317.2)</b>	(307.7)	(377.3)	(147.4)	(584.5)
Current cost retained profit/(loss)	<b>(175.5)</b>	(126.8)	(129.3)	82.1	(231.7)

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

### Current cost balance sheet

	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Tangible fixed assets	<b>34,876.9</b>	34,698.4	34,303.4	34,265.0	24,482.4
Third party contributions since 1989-90	<b>(152.5)</b>	(144.1)	(135.1)	(125.3)	(114.6)
Working capital	<b>(100.7)</b>	(144.3)	(93.9)	(96.5)	(53.5)
Net operating assets	<b>34,623.7</b>	34,410.0	34,074.4	34,043.2	24,314.3
Cash & investments	<b>0.4</b>	0.3	0.5	0.4	229.4
Non-trade debtors	<b>57.7</b>	33.3	71.7	73.6	56.2
Non-trade creditors	<b>(499.8)</b>	(870.0)	(600.3)	(414.1)	(648.2)
Creditors due after one year	<b>(1,547.0)</b>	(880.0)	(742.9)	(774.7)	(699.3)
Provisions	<b>(3.1)</b>	(11.3)	(29.6)	(47.0)	(47.6)
Net assets employed	<b>32,631.9</b>	32,682.3	32,773.8	32,881.4	23,204.8
Capital and reserves					
Called up share capital	<b>637.1</b>	499.0	496.7	467.7	480.7
Share premium account	<b>647.8</b>	661.3	684.1	701.6	721.0
Profit and loss account	<b>(58.0)</b>	120.0	241.6	391.3	318.3
Current cost reserve	<b>31,405.0</b>	31,402.0	31,351.4	31,320.8	21,684.8
	<b>32,631.9</b>	32,682.3	32,773.8	32,881.4	23,204.8

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

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**North  
West  
Water**

 a United Utilities company

**North West Water Limited**  
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