

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 2000 rose to £1,033.9 million, an increase of 6.9 per cent over the previous year. Profit for the year after tax was £324.2 million (1999 - £225.1 million).

An interim dividend of 14.28 pence per share was paid in February 2000. The directors recommend a final dividend of 28.88 pence per share for the year to 31 March 2000.

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 2000, 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 properties 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 developing 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 Practices) Regulations 1997, the company had 60 days of purchases outstanding at the end of the financial year.

Directors

The directors of the company during the year ended 31 March 2000 are set out below. All were directors for the whole year except where otherwise indicated.

R D Armstrong, Deputy Managing Director
 J A Barnes, Water Services Director
 M F Bradbury, Operations Director
 R G Bradbury, Commercial Director
 S W Chaplin, Finance Director (appointed 18 January 2000)
 H R Croft, Managing Director
 C H Elphick, Planning Director
 P G S Entwistle, Non-executive Director
 R J Ferguson, United Utilities PLC Finance Director* (resigned 31 March 2000)
 R R Ford, Quality Director (resigned 31 January 2000)
 D Green, Chairman* (resigned 26 January 2000)
 P E McCloskey, Corporate Services Director
 D E Morton JP, Non-executive Director
 J Roberts, Executive Director* (appointed 14 October 1999)
 C South, Wastewater Services Director

* 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
 7 July 2000



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 and 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 the 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

The directors are responsible for preparing the directors' report and, as described above, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

We read the other information accompanying the financial statements and consider whether it is consistent with those statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed. We planned and performed our audit so as to obtain all the information and explanations 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 2000 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
7 July 2000

Consolidated profit and loss account

For the year ended 31 March 2000

	Note	2000 £m	1999 £m
Turnover	1(b)	1,033.9	967.0
Net operating costs (including exceptional Year 2000 costs of £5.6m, 1999 £19.0m)	3	(562.7)	(516.9)
Customer rebate		(18.5)	(18.3)
Operating profit		452.7	431.8
Net interest payable	7	(124.6)	(117.1)
Profit on ordinary activities before taxation		328.1	314.7
Tax on profit on ordinary activities	8	(3.9)	(89.6)
Profit for the financial year		324.2	225.1
Dividends	9	(195.5)	(317.2)
Transfer to/(from) reserves	19	128.7	(92.1)

All of the results derive from continuing operations.

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

Reconciliations of movements in shareholders' funds

For the year ended 31 March 2000

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
<i>Profit for the financial year</i>	324.2	225.1	324.2	225.1
Dividends	(195.5)	(317.2)	(195.5)	(317.2)
Transfer to/(from) reserves	128.7	(92.1)	128.7	(92.1)
Issue of preference shares	18.3	148.3	18.3	148.3
Net movement in shareholders' funds for the year	147.0	56.2	147.0	56.2
Opening shareholders' funds	2,184.5	2,128.3	2,184.5	2,128.3
Closing shareholders' funds	2,331.5	2,184.5	2,331.5	2,184.5

Balance sheets

At 31 March 2000

	Note	Group		Company	
		2000 £m	1999 £m	2000 £m	1999 £m
Fixed assets					
Tangible assets	10	4,632.5	4,347.9	4,632.5	4,347.9
Investments	11	0.3	0.3	0.4	0.4
		4,632.8	4,348.2	4,632.9	4,348.3
Current assets					
Cash at bank		17.6	–	17.6	–
Stocks		2.5	2.3	2.5	2.3
Debtors	12	307.8	342.3	305.4	341.6
		327.9	344.6	325.5	343.9
Creditors					
Amounts falling due within one year	13	(883.0)	(902.3)	(880.7)	(901.7)
Net current liabilities		(555.1)	(557.7)	(555.2)	(557.8)
Total assets less current liabilities		4,077.7	3,790.5	4,077.7	3,790.5
Creditors					
Amounts falling due after more than one year	14	(1,740.8)	(1,602.9)	(1,740.8)	(1,602.9)
Provisions for liabilities and charges	16	(5.4)	(3.1)	(5.4)	(3.1)
Net assets		2,331.5	2,184.5	2,331.5	2,184.5
Capital and reserves					
Equity share capital	18	431.9	431.9	431.9	431.9
Share premium account	18	647.8	647.8	647.8	647.8
Profit and loss account	19	1,028.4	899.7	1,028.4	899.7
Equity shareholders' funds		2,108.1	1,979.4	2,108.1	1,979.4
Non-equity share capital	18	223.4	205.1	223.4	205.1
Shareholders' funds		2,331.5	2,184.5	2,331.5	2,184.5

Approved by the Board of directors on 7 July 2000 and signed on its behalf by

Stan Chaplin
Finance Director

Stan Chaplin

Consolidated cash flow statement

For the year ended 31 March 2000

	2000 £m	2000 £m	1999 £m	1999 £m
Net cash inflow from operating activities		627.2		533.7
Returns on investments and servicing of finance				
Interest received	6.1		7.3	
Interest paid	(130.8)		(112.9)	
Interest element of finance lease repayments	(5.1)		(15.8)	
Net cash outflow from returns on investment and servicing of finance		(129.8)		(121.4)
Taxation		(77.9)		(65.0)
Capital expenditure				
Purchase of tangible fixed assets	(500.2)		(477.9)	
Grants and contributions received	7.2		7.1	
Disposal of tangible fixed assets	2.2		4.7	
Net cash outflow for capital expenditure		(490.8)		(466.1)
Dividends paid		(193.1)		(308.3)
Cash outflow before use of liquid resources		(264.4)		(427.1)
Financing				
Issue of preference share capital	18.3		148.3	
Increase of debt	271.5		271.5	
Net cash inflow from financing		289.8		419.8
Increase/(decrease) in cash		25.4		(7.3)

Notes to the cash flow statement

For the year ended 31 March 2000

	2000 £m	1999 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	452.7	431.8
Depreciation	192.6	168.4
Profit on disposal of tangible fixed assets	(0.8)	(2.6)
Stock increase	(0.2)	(0.9)
Debtors decrease/(increase)	36.9	(90.9)
Creditors (decrease)/increase	(54.0)	27.9
Net cash inflow from operating activities	627.2	533.7

Notes to the cashflow statement (continued)

	2000 £m	1999 £m
Reconciliation on net cash flow to movement in net debt		
Increase/(decrease) in cash in the year	25.4	(7.3)
Cash inflow from increase in debt and lease financing	(271.5)	(271.5)
Movement in net debt in the year	(246.1)	(278.8)
Net debt at 1 April 1999	(1,775.9)	(1,497.1)
Net debt at 31 March 2000	(2,022.0)	(1,775.9)

	2000 £m	2000 £m	1999 £m	1999 £m
Analysis of cash flows for headings netted in the cash flow statement				
Financing				
Issue of preference share capital		18.3		148.3
Debt due within a year:				
– repaid short term group loans	(17.6)		(124.6)	
– new/(repayment of) short term bank loans	228.5		(221.9)	
Debt due beyond a year:				
– new loans	162.3		790.0	
– repayment of long-term external loans	(100.0)		(24.6)	
Capital element of finance lease repayments	(1.7)		(3.9)	
(Repaid)/new inter-group finance leases	–		(143.5)	
		271.5		271.5
Net cash inflow from financing		289.8		419.8

	At 1 April 1999 £m	Cashflow £m	At 31 March 2000 £m
Analysis of changes in net debt			
Long term loans	(1,441.7)	(62.3)	(1,504.0)
Finance leases	(201.7)	1.7	(200.0)
Short term loans	(118.1)	(228.5)	(346.6)
Parent undertaking short term loan	(38.3)	17.6	(20.7)
Overdrafts	(16.1)	7.8	(8.3)
Borrowings	(1,815.9)	(263.7)	(2,079.6)
Parent undertaking loan	40.0	–	40.0
Cash in hand	–	17.6	17.6
Net debt	(1,775.9)	(246.1)	(2,022.0)

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.

(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 FRS 15 as it is no longer possible to account for the difference between planned and actual expenditure on infrastructure renewals as a provision or prepayment. As a consequence the balance sheet includes values 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 adherence to FRS 15 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 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
Operational assets	5-80 years
Fixtures, fittings, tools and equipment	3-40 years
Pre-1974 assets	26-27 years
Capitalised computer software costs	3-10 years

(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 is 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

	2000 £m	1999 £m
Employee costs:		
Wages and salaries	93.3	91.4
Social security costs	8.1	8.2
Pension contributions (note 20)	9.5	10.3
	110.9	109.9
Capital schemes	(25.2)	(27.2)
Infrastructure renewals	(6.2)	(6.7)
	79.5	76.0
Depreciation:		
Owned fixed assets	111.4	90.7
Fixed assets held under finance leases	5.0	4.8
Non-infrastructure depreciation	116.4	95.5
Infrastructure depreciation	76.2	72.9
	192.6	168.4
Other operating costs include:		
Other operating costs: including exceptional Year 2000 costs of £5.6m (1999 – £19.0m)	268.0	251.5
Raw materials and consumables	24.6	21.7
Auditors' remuneration	0.1	0.1
Research and development	1.5	2.3
Operating leases:		
– hire of plant and machinery	1.5	1.7
– land and buildings	0.5	2.1
Other income (note 4)	(5.6)	(6.9)
	290.6	272.5
Total net operating costs	562.7	516.9

Managed service fees and asset charges from group undertakings are contained within other operating costs. Fees payable to the auditor and its associates for non-audit services in 2000 were £248,000 (1999 – £281,000).

Notes to the accounts (continued)

4 Other income

	2000 £m	1999 £m
Profit on disposal of fixed assets	0.8	2.6
Net rents receivable	2.4	2.2
Other	2.4	2.1
	5.6	6.9

5 Directors

The aggregate emoluments of the directors in 2000 amounted to £1,464,676 (1999 – £1,106,627). Emoluments comprise salaries, fees, taxable benefits and the value of short term incentive awards. The emoluments of the highest paid director (H R Croft) in 2000 amounted to £277,033 (1999 – £212,023).

The United Utilities Pension Scheme is a defined benefit pension scheme, which is open to all eligible employees. It provides pensions and other benefits to members within Inland Revenue limits. All the current executive directors are members and contribute to the scheme. It provides a pension for them on normal retirement at age 60 equal to between 1/30th and 1/45th of pensionable earnings for each completed year of service. The maximum pension is two thirds of pensionable earnings. Early retirement is possible from age 50 if the company agrees.

The Finance Act 1989 restricts the pension benefits that can be paid by the Scheme to directors who joined the company after 1 June 1989 because the earnings cap limits pensionable earnings for calculating benefits. The company has put in place for some of the executive directors affected separate arrangements, the effect of which is to provide for them the same pension benefits as for those executives who are not limited by the cap. These arrangements are unfunded. In accordance with these separate unfunded arrangements, the company has made payments of £218,205 in total in the year ended 31 March 2000 (1999 – nil).

The accrued pension at 31 March 2000 for H R Croft was £120,189 per annum (1999 – £101,736 per annum).

5 Directors (continued)

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

	2000 Share options			1999 or on appointment Share options		
	Ordinary shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	12,373	12,293	3,173	12,717	12,293	3,675
J A Barnes	4,950	20,549	3,600	4,950	12,249	3,600
M F Bradbury	10,355	32,512	3,596	10,922	23,137	4,005
R G Bradbury	–	36,184	–	–	28,083	–
S W Chaplin	3,715	5,828	2,177	2,864	5,828	3,028
H R Croft	8,546	28,010	–	11,813	28,010	–
C H Elphick	9,579	23,636	3,623	9,798	23,636	3,623
P G S Entwistle	90	–	–	90	–	–
P E McCloskey	–	42,227	3,579	–	32,977	3,586
C South	33,015	11,912	1,449	32,565	3,612	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
R D Armstrong	2,054	471.5	Sharesave	1 Mar 2003	1 Sep 2003
J A Barnes	8,300	768.0	Executive option	29 Jun 2002	29 Jun 2009
M F Bradbury	9,375	768.0	Executive option	29 Jun 2002	29 Jun 2009
R G Bradbury	2,147	471.5	Sharesave	1 Mar 2005	1 Sep 2005
R G Bradbury	8,101	768.0	Executive option	29 Jun 2002	29 Jun 2009
P E McCloskey	9,250	768.0	Executive option	29 Jun 2002	29 Jun 2009
	3,579	471.5	Sharesave	1 Mar 2005	1 Sep 2005
C South	8,300	768.0	Executive option	29 Jun 2002	29 Jun 2009

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
R D Armstrong	2,556	404.8	Sharesave	2 Mar 2000	649.5	2 Mar 2000	1 Sep 2000
M F Bradbury	2,556	404.8	Sharesave	2 Mar 2000	649.5	2 Mar 2000	1 Sep 2000
S W Chaplin	851	404.8	Sharesave	2 Mar 2000	649.5	2 Mar 2000	1 Sep 2000
C South	2,556	404.8	Sharesave	2 Mar 2000	649.5	2 Mar 2000	1 Sep 2000

The mid-market share price on 31 March 2000 was 655.0p.

The range during the year was 482.5p (low) to 876.0p (high).

Notes to the accounts (continued)

6 Employees

	2000	1999
Average number of persons employed	4,116	4,135

7 Net interest payable

	2000 £m	1999 £m
Interest payable:		
On bank loans, overdrafts and other loans	66.9	74.5
On finance leases	5.0	7.0
Group undertakings	59.3	48.1
Total interest payable	131.2	129.6
Interest receivable:		
Group undertakings	(5.0)	(11.2)
External	(1.6)	(1.3)
Net interest payable	124.6	117.1

8 Taxation of profit on ordinary activities

	2000 £m	1999 £m
UK Corporation Tax at 30% (1999 – 31%)	3.9	89.6
The full potential deferred tax liability is:		
Accelerated tax allowances on buildings, plant and equipment:		
Infrastructure assets	471.4	431.4
Other assets	254.5	201.1
Other timing differences	(25.0)	(20.3)
	700.9	612.2

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

In order to utilise surplus Advance Corporation Tax prior to its abolition in April 1999, capital allowances were not claimed during 1997/98 and 1998/99. In the current year, capital allowances were claimed which consequently reduced taxable profits resulting in a lower tax charge.

9 Dividends

	2000 £m	1999 £m
Interim dividend of 14.28 pence per share (1999 – 14.00 pence)	61.7	60.5
Final dividend of 28.88 pence per share recommended (1999 – 28.31 pence)	124.7	122.3
Special dividend (1999 – 30.05 pence)	–	129.8
Preference share dividend 6.98 pence per share (1999 – 3.49 pence)	9.1	4.5
Adjustment to prior year final dividend	–	0.1
	195.5	317.2

North West Water Limited has increased its ordinary dividend payment to United Utilities PLC by 2.0 per cent to £186.4 million gross for the year. The growth in dividend is consistent with the management of the economic risk of the business. North West Water Limited has also paid a preference dividend of £9.1 million for the year to United Utilities PLC. These dividends will not impair the ability of North West Water Limited to finance its Appointed Business.

10 Tangible fixed assets

	Land and buildings £m	Infra- structure assets £m	Opera- tional structures £m	Fixtures, fittings, tools and equipment £m	Pre-1974 assets £m	Assets in course of construction £m	Total £m
Group and company							
Cost:							
At 1 April 1999	199.1	2,724.6	1,810.5	502.4	177.4	418.9	5,832.9
Additions	1.3	118.2	37.0	11.7	–	315.8	484.0
Grants and contributions	–	(5.5)	–	–	–	–	(5.5)
Inter-group transfer	(0.1)	–	–	–	–	0.3	0.2
Transfers	7.0	79.5	78.2	33.9	–	(198.6)	–
Disposals	(1.6)	–	(0.1)	(19.7)	–	–	(21.4)
At 31 March 2000	205.7	2,916.8	1,925.6	528.3	177.4	536.4	6,290.2
Depreciation:							
At 1 April 1999	36.6	766.4	322.4	220.8	138.8	–	1,485.0
Charge for the year	6.5	76.2	57.2	49.2	3.5	–	192.6
Inter-group transfer	–	–	–	–	–	0.1	0.1
Disposals	(1.4)	–	(0.1)	(18.5)	–	–	(20.0)
At 31 March 2000	41.7	842.6	379.5	251.5	142.3	0.1	1,657.7
Net book value:							
At 31 March 2000	164.0	2,074.2	1,546.1	276.8	35.1	536.3	4,632.5
At 31 March 1999	162.5	1,958.2	1,488.1	281.6	38.6	418.9	4,347.9

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 £67.0 million (1999 – £61.5 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 2000. 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.

Included within infrastructure assets are infrastructure renewals as required by FRS 15. A summary of the excess expenditure over depreciation is shown in the following table.

Notes to the accounts (continued)

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

	£m
Excess expenditure over depreciation at 1 April 1999 on maintaining the operating capability of the network	53.9
Expenditure on maintaining the network in the year	81.5
Depreciation for the year	(76.2)
Excess expenditure over depreciation at 31 March 2000	59.2

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

	2000 £m	1999 £m
Cost:		
Operational structures	250.8	250.8
Fixtures, fittings, tools and equipment	4.8	5.4
At 31 March	255.6	256.2
Accumulated depreciation:		
Operational structures	(68.4)	(63.7)
Fixtures, fittings, tools and equipment	(4.5)	(5.0)
At 31 March	(72.9)	(68.7)
Net book value:		
Operational structures	182.4	187.1
Fixtures, fittings, tools and equipment	0.3	0.4
At 31 March	182.7	187.5

The depreciation charge for the year for assets held under finance leases is £4.7 million (1999 – £4.8 million).

	2000 £m	1999 £m
Capital commitments:		
Contracted but not provided for	183.8	349.7

11 Fixed asset investments

		Investments £m	
Group			
Cost:			
At 1 April 1999 and 31 March 2000		0.3	
	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Company			
Cost:			
At 1 April 1999 and 31 March 2000		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
Associated undertakings	Description of holding	Proportion held	Nature of business
WRc plc	'A' Ordinary shares of £1 each	9.84%	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	
	2000 £m	1999 £m	2000 £m	1999 £m
Amounts falling due within one year:				
Trade debtors	130.2	133.9	130.2	133.9
Amounts owed by Group undertakings	56.3	98.1	56.3	98.1
Other debtors	9.8	15.3	9.8	15.3
Prepayments and accrued income	111.5	95.0	109.1	94.3
	307.8	342.3	305.4	341.6

Amounts owed by Group undertakings represent amounts owed by parent and fellow subsidiary undertakings which includes a £40.0 million floating rate loan (1999 - £40.0 million).

13 Creditors: amounts falling due within one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Loans	30.4	100.1	30.4	100.1
Bank overdrafts and temporary borrowings	354.9	134.2	21.0	16.1
Obligations under finance leases – external	0.4	1.7	0.4	1.7
Trade creditors	9.0	21.2	9.0	21.2
Amounts owed to group undertakings	60.0	169.2	391.6	286.7
Dividends	124.7	122.3	124.7	122.3
Other creditors	1.6	1.9	1.6	1.9
Taxation and social security	6.8	30.6	6.8	30.6
Accruals and deferred income	295.2	321.1	295.2	321.1
	883.0	902.3	880.7	901.7

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Loans	954.0	551.6	521.2	551.6
Obligations under finance leases	199.6	200.0	199.6	200.0
Amounts owed to group undertakings	519.6	790.0	952.4	790.0
Other creditors	7.0	5.5	7.0	5.5
Deferred grants and contributions (note 15)	60.6	55.8	60.6	55.8
	1,740.8	1,602.9	1,740.8	1,602.9

15 Deferred grants and contributions

	£m
Group and company	
At 1 April 1999	55.8
Received in the year	7.2
Profit and loss account	(2.4)
At 31 March 2000	60.6

16 Provisions for liabilities and charges

	Restructuring £m
Group and company	
At 1 April 1999	3.1
Utilised	(6.3)
Profit and loss account	8.6
At 31 March 2000	5.4

17 Borrowings

	2000 £m	1999 £m
Bank overdrafts and temporary borrowings	375.6	172.5
Term loans	1,504.0	1,441.7
Finance leases	200.0	201.7
	2,079.6	1,815.9

Repayments fall due as follows:

	Year	2000 £m	Year	1999 £m
After five years	2006+	1,440.6	2005+	1,414.7
From four to five years	2005	36.2	2004	33.9
From three to four years	2004	34.0	2003	30.9
From two to three years	2003	66.6	2002	31.3
From one to two years	2002	95.8	2001	30.8
After more than one year		1,673.2		1,541.6
Within one year	2001	406.4	2000	274.3
		2,079.6		1,815.9

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2006 and 2053. Interest rates range from 4.88 per cent to 14.83 per cent on £1,276.1 million and are at floating rates on £803.5 million.

Bank overdrafts and temporary borrowings

The Group had available committed bank facilities of £545 million (1999 – £415 million) of which £545 million was unutilised at 31 March 2000 (1999 – £415 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	
	2000 £m	1999 £m	2000 %	1999 %	2000 Years	1999 Years
Fixed rate borrowings – sterling	1,276.1	972.3	6.9	8.6	6.6	8.6
Floating rate borrowings – sterling	782.8	805.3				
Floating rate parent undertaking loan – sterling	20.7	38.3				
	2,079.6	1,815.9				
Floating rate parent undertaking loan – sterling	(40.0)	(40.0)				
Cash at bank	(17.6)	–				
Net debt at 31 March	2,022.0	1,775.9				

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 wide 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 rate 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 of the Group from potential future changes in medium term interest rates.

b) Financial futures

Financial futures are used 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.

	2000 Book value £m	2000 Current value £m
Short term debt and current portion of long term debt	406.4	406.4
Long term debt	1,673.2	1,610.1
	2,079.6	2,016.5
Interest rate swaps	-	5.0
Foreign exchange contracts and swaps	-	78.6
Total financial instruments	2,079.6	2,100.1

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 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 £25.3 million and £108.9 million respectively (1999 – £52.1 million and £23.6 million).

The Group anticipates that £3.1 million of these gains and £5.5 million of these losses will be realised in the forthcoming financial year (1999 – £25.2 million and £7.6 million). Of the unrecognised gains and losses on hedges as at 1 April 1999, the net loss recognised in the period's profit and loss account was £9.8 million.

Notes to the accounts (continued)

18 Called up share capital and share premium accounts

	2000 £m	1999 £m
Authorised share capital		
650,000,000 ordinary shares of £1 each	650.0	650.0
223,437,000 preference shares of £1 each	223.4	205.1
Allotted and fully paid share capital		
431,930,000 ordinary shares of £1 each	431.9	431.9
223,437,000 preference shares of £1 each	223.4	205.1
Share premium account	647.8	647.8

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

19 Profit and loss account

	Group £m	Company £m
At 1 April 1999	899.7	899.7
Profit for the year	128.7	128.7
At 31 March 2000	1,028.4	1,028.4

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 two funded defined benefit schemes – the United Utilities Pension Scheme (UUPS) and the Electricity Supply Pension Scheme (ESPS), of which the ESPS is closed to new employees. The assets of these schemes are held in trust funds independent of United Utilities PLC'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 United Utilities PLC'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 costs 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 company also operates a series of unfunded, unapproved retirement benefit schemes. The cost of the unfunded, unapproved retirement benefit schemes is included in the total pension cost, on a basis consistent with SSAP24 and the assumptions set out above.

The total pension cost for the period was £9.5 million (1999 – £10.3 million).

21 Operating leases

	Land and buildings 2000 £m	Plant and machinery 2000 £m	Land and buildings 1999 £m	Plant and machinery 1999 £m
The company is committed to making the following payments during the year:				
Leases which expire:				
Within one year	0.2	0.3	1.4	0.3
Between two and five years	0.4	0.6	0.9	2.4
After five years	0.9	–	0.7	–
	1.5	0.9	3.0	2.7

22 Related party transactions

The company has disclosed transactions with its ultimate holding company and associated companies within the United Utilities 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.

Auditors' contract

The contract of appointment with the auditor 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 audit 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 the 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 2000 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
7 July 2000

Summarised company historical cost profit and loss account

For the year ended 31 March 2000

	2000 £m	1999 £m
Turnover	1,015.5	948.7
Operating costs (including exceptional Year 2000 costs of £5.6m, 1999 – £19.0m)	(565.0)	(520.4)
Operating income	0.8	2.6
Operating profit	451.3	430.9
Other income	2.4	2.2
Net interest payable	(125.6)	(118.4)
Profit on ordinary activities before taxation	328.1	314.7
Taxation	(3.9)	(89.6)
Profit for the year	324.2	225.1
Dividends	(195.5)	(317.2)
Retained profit/(loss) for the year	128.7	(92.1)

Summarised company historical cost balance sheet

At 31 March 2000

	2000 £m	1999 £m
Fixed assets		
Tangible fixed assets	4,573.2	4,294.0
Investments	0.4	0.4
	4,573.6	4,294.4
Current assets		
Cash at bank	17.6	-
Stocks	2.4	2.3
Debtors	364.5	395.5
	384.5	397.8
Creditors: amounts falling due within a year		
Borrowings	(409.2)	(235.4)
Dividends payable	(124.7)	(122.3)
Other creditors	(346.5)	(544.0)
	(880.4)	(901.7)
Net current liabilities	(495.9)	(503.9)
Creditors: amounts falling due after more than one year		
Borrowings	(1,673.2)	(1,541.6)
Other creditors	(7.0)	(5.5)
	(1,680.2)	(1,547.1)
Provision for liabilities and charges	(5.4)	(3.1)
Deferred income	(60.6)	(55.8)
Net assets employed	2,331.5	2,184.5
Capital and reserves		
Called up share capital	655.3	637.0
Share premium	647.8	647.8
Profit and loss account	1,028.4	899.7
Capital and reserves	2,331.5	2,184.5

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 1999/2000 and the prior year. The infrastructure renewals prepayment of £59.2 million in 2000 (1999 – £53.9 million) is therefore shown within fixed assets, not within debtors.

Current cost profit and loss account

For the year ended 31 March 2000

	Note	2000 £m	1999 £m
Turnover	2	1,015.5	948.7
Current cost operating costs	3	(664.2)	(633.4)
Loss on disposal of fixed assets	2	(0.4)	(3.1)
Working capital adjustment	2	2.6	2.9
Current cost operating profit		353.5	315.1
Other income		2.4	2.2
Net interest payable		(125.5)	(118.4)
Financing adjustment		48.2	32.4
Current cost profit on ordinary activities before taxation		278.6	231.3
Taxation		(3.9)	(89.6)
Current cost profit attributable to shareholders		274.7	141.7
Dividends		(195.5)	(317.2)
Current cost profit/(loss) retained		79.2	(175.5)

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

Current cost balance sheet

At 31 March 2000

	Note	2000 £m	1999 £m
Tangible assets	4	33,623.7	34,876.9
Third party contributions since 1989-90		(164.2)	(152.5)
Working capital	5	15.0	(100.7)
Net operating assets		33,474.5	34,623.7
Cash and investments		0.4	0.4
Non-trade debtors		50.5	57.7
Non-trade creditors due within one year		(482.3)	(377.5)
Creditors due after one year		(1,680.5)	(1,547.0)
Provisions for liabilities and charges		(5.4)	(3.1)
Dividends payable		(124.7)	(122.3)
Net assets employed		31,232.5	32,631.9
Capital and reserves			
Called up share capital		655.4	637.1
Share premium account		647.8	647.8
Profit and loss account		21.1	(58.0)
Current cost reserve		29,908.2	31,405.0
Total capital and reserves		31,232.5	32,631.9

Current cost cash flow statement

For the year ended 31 March 2000

	2000 £m	2000 £m	1999 £m	1999 £m
Net cash inflow from operating activities		615.0		522.4
Returns on investments and servicing of finance				
Interest received	6.1		7.3	
Interest paid	(131.6)		(113.5)	
Interest in finance lease rental	(5.1)		(15.8)	
Net cash outflow from returns on investments and servicing of finance		(130.6)		(122.0)
UK corporation tax paid		(77.9)		(65.0)
Capital expenditure				
Gross cost of purchase of fixed assets	(418.6)		(376.6)	
Receipt of grants and contributions	7.2		7.2	
Infrastructure renewals expenditure	(81.6)		(101.3)	
Disposal of fixed assets	2.2		4.7	
Net cash outflow from investing activities		(490.8)		(466.0)
Dividends paid		(195.5)		(308.3)
Management of liquid resources				
Sale of short term marketable securities		–		–
Net cash outflow before financing		(279.8)		(438.9)
Financing				
Proceeds from issue of preference share capital	18.3		148.3	
Capital element of finance lease rentals	(1.7)		(3.9)	
New bank loans	407.3		765.4	
Finance leases	–		(143.5)	
New short term Group loans	(17.6)		5.3	
Repayment of bank loans	(100.0)		(340.0)	
Net cash inflow from financing		306.3		431.6
Increase/(decrease) in cash		26.5		(7.3)

Note to the current cost cash flow statement

	2000 £m	1999 £m
Reconciliation of current cost operating profit to net cash flow from operating activities		
Current cost operating profit	353.5	315.1
Working capital adjustment	(2.6)	(2.9)
Changes in stocks	(0.2)	(0.9)
Receipts from other income	2.4	2.2
Current cost depreciation	207.9	198.8
Current cost (profit)/loss on disposal of fixed assets	0.4	3.1
Increase in debtors and prepaid expenses	31.0	(119.3)
Increase in creditors and accrued expenses	(61.2)	33.0
Infrastructure renewals expenditure	81.6	101.3
Movement in provisions	2.2	(8.0)
Net cash inflow from operating activities	615.0	522.4

The analysis of movement in net debt required by RAG 3.04 is shown in the notes to the historic cost cash flow statement on page 10.

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 term 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.

Modern equivalent asset (MEA) valuation

A review of the modern equivalent asset (MEA) valuation and asset stock was undertaken as part of the Periodic Review. The revised values arising from this review have been used as the basis for calculating the MEA in the 1999-2000 current cost financial statements. The process of continuing refinement of asset records has produced adjustments to existing values. The current cost depreciation figures included in the 1999/2000 current cost operating costs have been based upon the revised MEA values.

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

(b) Grants and other third party contributions

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

(c) Real financial capital maintenance adjustments

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

(i) Working capital adjustment

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

(ii) Financing adjustments

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

(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

	2000			1999		
	Water services £m	Sewerage services £m	Total £m	Water Services £m	Sewerage services £m	Total £m
Turnover						
Measured	143.2	191.9	335.1	136.8	177.2	314.0
Unmeasured	253.5	345.5	599.0	246.6	317.3	563.9
Trade effluent	–	48.7	48.7	–	43.3	43.3
Revenue grants	0.1	–	0.1	0.2	–	0.2
Other sources	6.0	4.2	10.2	5.1	3.7	8.8
Third party services	15.2	7.2	22.4	12.8	5.7	18.5
	418.0	597.5	1,015.5	401.5	547.2	948.7
Operating costs/income						
Current cost profit/(loss) on disposal of fixed assets	(0.4)	–	(0.4)	(1.3)	(1.8)	(3.1)
Working capital adjustment	1.3	1.3	2.6	1.5	1.4	2.9

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 2000

Service analysis	Water services				Sewerage services		
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Sewerage service subtotal £m
Direct costs							
Employment costs	10.0	17.7	27.7	0.6	11.5	5.0	17.1
Power	4.1	4.5	8.6	0.2	7.7	3.6	11.5
Agencies	–	–	–	12.2	–	–	12.2
Hired and contracted services	3.2	6.4	9.6	0.4	3.7	8.0	12.1
Materials and consumables	5.1	2.7	7.8	–	2.5	3.5	6.0
Service charges EA	10.4	–	10.4	1.4	2.9	–	4.3
Other direct costs	–	2.0	2.0	0.2	1.1	0.2	1.5
Total direct costs	32.8	33.3	66.1	15.0	29.4	20.3	64.7
General and support expenditure	13.6	17.6	31.2	1.8	15.0	9.3	26.1
Functional expenditure	46.4	50.9	97.3	16.8	44.4	29.6	90.8
Operating expenditure							
Customer services			28.6				27.7
Scientific services			7.9				3.9
Other business activities			1.0				1.0
Total business activities			37.5				32.6
Local authority rates			30.0				19.7
Doubtful debts			10.5				15.5
Exceptional items			9.2				5.3
Total opex less third party services			184.5				163.9
Third party services – operating expenditure			17.9				4.7
Total operating expenditure			202.4				168.6
Capital maintenance							
Infrastructure renewals expenditure	6.5	40.8	47.3	34.3	–	–	34.3
Infrastructure renewals accrual/ (prepayment)	(2.4)	(1.5)	(3.9)	6.2	–	0.3	6.5
Current cost depreciation (allocated)	44.2	22.0	66.2	7.3	62.2	17.5	87.0
Amortisation of deferred credits			(1.5)				(1.2)
Business activities current cost depreciation (non allocated)			28.4				28.8
Capital maintenance excluding third party services			136.5				155.4
Third party services – capital maintenance			1.3				–
Total capital maintenance			137.8				155.4
Total operating costs			340.2				324.0
CCA (MEA) values:							
Service activities	2,660.8	8,843.6	11,504.4	19,748.0	1,473.0	469.6	21,690.6
Business activities			192.6				205.4
Total			11,697.0				21,896.0
Services for the third parties			26.6				4.0
Total			11,723.6				21,900.0

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 1999

Service analysis	Water services				Sewerage services		
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Sewerage service subtotal £m
Direct costs							
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
Total direct costs	32.7	31.8	64.5	14.5	30.9	15.6	61.0
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
Operating expenditure							
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
Capital maintenance							
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)	47.1	23.6	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
Total operating costs			336.1				297.3
CCA (MEA) values:							
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
Total			12,370.8				22,506.1

Notes to the current cost accounts (continued)

4 Current cost analysis of fixed assets by asset type and service for the year ended 31 March 2000

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
Gross replacement cost:									
At 1 April 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
AMP adjustment	(879.7)	(438.0)	(108.1)	(1,425.8)	(859.3)	(554.0)	(213.5)	(1,626.8)	(3,052.6)
RPI adjustment	266.9	62.5	6.8	336.2	500.5	88.0	7.0	595.5	931.7
Inter-group transfer	–	(0.1)	(0.2)	(0.3)	–	–	–	–	(0.3)
Disposals	–	(1.4)	(4.4)	(5.8)	–	(0.2)	(3.5)	(3.7)	(9.5)
Additions	67.3	59.2	14.1	140.6	69.6	173.5	17.0	260.1	400.7
At 31 March 2000	10,522.0	2,503.9	277.7	13,303.6	19,673.0	3,618.6	289.2	23,580.8	36,884.4
Depreciation:									
At 1 April 1999	–	1,647.9	239.9	1,887.8	–	1,644.6	205.2	1,849.8	3,737.6
AMP adjustment	–	(255.0)	(180.2)	(435.2)	–	(173.0)	(147.4)	(320.4)	(755.6)
RPI adjustment	–	36.5	1.6	38.1	–	38.5	1.5	40.0	78.1
Inter-group transfer	–	(0.1)	(0.1)	(0.2)	–	–	–	–	(0.2)
Disposals	–	(0.6)	(3.5)	(4.1)	–	(0.1)	(2.9)	(3.0)	(7.1)
Charge for the year	–	66.2	27.5	93.7	–	87.0	27.2	114.2	207.9
At 31 March 2000	–	1,494.9	85.2	1,580.1	–	1,597.0	83.6	1,680.6	3,260.7
Net book value:									
At 31 March 2000	10,522.0	1,009.0	192.5	11,723.5	19,673.0	2,021.6	205.6	21,900.2	33,623.7
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

Operational assets by service for the year ended 31 March 2000

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
Gross replacement cost:						
At 1 April 1999	2,677.5	144.2	2,821.7	3,747.6	163.7	3,911.3
AMP adjustment	(342.3)	(95.7)	(438.0)	(443.8)	(110.2)	(554.0)
RPI adjustment	61.2	1.3	62.5	86.6	1.4	88.0
Disposals	–	(1.5)	(1.5)	–	(0.2)	(0.2)
Additions	55.7	3.5	59.2	169.7	3.8	173.5
At 31 March 2000	2,452.1	51.8	2,503.9	3,560.1	58.5	3,618.6
Depreciation:						
At 1 April 1999	1,618.5	29.4	1,647.9	1,612.9	31.7	1,644.6
AMP adjustment	(230.8)	(24.2)	(255.0)	(146.0)	(27.0)	(173.0)
RPI adjustment	36.4	0.1	36.5	38.4	0.1	38.5
Disposals	–	(0.7)	(0.7)	–	(0.1)	(0.1)
Charge for the year	64.5	1.7	66.2	85.2	1.8	87.0
At 31 March 2000	1,488.6	6.3	1,494.9	1,590.5	6.5	1,597.0
Net book value:						
At 31 March 2000	963.5	45.5	1,009.0	1,969.6	52.0	2,021.6
At 31 March 1999	1,059.0	114.8	1,173.8	2,134.7	132.0	2,266.7

5 Working capital

	2000 £m	1999 £m
Stocks	2.5	2.3
Trade debtors	130.2	133.9
Working cash balances	10.4	(16.1)
Trade creditors	(9.0)	(21.3)
Short-term capital creditors	(135.2)	(156.6)
Infrastructure renewals prepayment/(accrual)	12.3	15.0
Other trade accruals	(93.7)	(96.3)
Trade payments in advance	1.3	6.0
Payroll related taxation and social security	(2.7)	(2.9)
Group trade debtors/(creditors)	(8.9)	(53.0)
Prepayments and other debtors	107.8	88.3
Total working capital	15.0	(100.7)

6 Movement on current cost reserve

	2000 £m	1999 £m
At 1 April	31,405.0	30,756.1
AMP adjustment	(2,295.4)	-
RPI adjustments:		
Fixed assets	853.4	687.1
Working capital	(2.6)	(2.9)
Financing	(48.2)	(32.4)
Grants and third party contributions	(4.0)	(2.9)
At 31 March	29,908.2	31,405.0

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 2000:

	£m	Interest rate
United Utilities PLC – 750m US \$ Bonds	454.5	6.25 to 6.88%
North West Water Finance plc		
Commercial paper and other loans	423.7	2.55 to 6.8%
Euro bonds	343.1	6.85%

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 £1.4 million net interest payable to United Utilities PLC for the year.

The following loans to associated companies existed at 31 March 2000:

	£m	Interest rate
United Utilities PLC	40.0	6.56%

Dividends paid to associated undertakings

During the year dividends payable to United Utilities PLC totalled £195.5 million. This comprised a final dividend for the year ended 31 March 2000 of £124.7 million, an interim dividend of £61.7 million and a 7% preference share dividend of £9.1 million.

The 7% preference shares dividend was paid following the issue of £130 million new shares on 1 October 1998 as part of capital restructuring.

The ordinary dividend increased by 2% in 1999/00. This increase results from a base level of growth consistent with the management of the economic risk of the business.

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 £23.8 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	Terms of supply	Total value of service £m
Facility services	United Utilities PLC	Negotiated market rates and recharge of costs	0.4
Facility services	Vertex Data Science Limited	Negotiated market rates	8.7
Facility and operational services	United Utilities International	Negotiated market rates and recharge of costs	3.9
Support services	Norweb	Recharge of costs	25.2

Note - Facility services include accommodation and support services.

Services supplied to North West Water Limited by associated companies

Nature of transaction	Company	Terms of supply	Total value of service £m
Management charge	United Utilities PLC	Recharge of costs	7.0
Managed services	Vertex Data Science Limited	Market tested rates based on actual activity undertaken	72.7
Electricity/gas supplies	Norweb	Published tariffs / pool prices, negotiated market rates, competitive tendering	30.5

Note – The Group Management charge of £7.0 million from United Utilities PLC represents 47.6% 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.

Company	Turnover of associated company £m
United Utilities PLC	14
Vertex Data Science Limited	221
United Utilities International	9
Norweb	1,268

Five year summary

Current cost profit and loss account

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover	1,015.5	963.9	937.6	914.5	903.3
Current cost operating costs	(664.2)	(643.5)	(634.4)	(599.1)	(617.3)
Operating income/(expense)	(0.4)	(3.1)	(3.7)	(8.2)	(1.0)
Working capital adjustment	2.6	2.9	3.2	2.5	1.4
	353.5	320.2	302.7	309.7	286.4
Other income	2.4	2.2	2.6	3.7	11.6
Net interest	(125.5)	(120.3)	(109.0)	(93.4)	(79.0)
Financing adjustment	48.2	32.9	41.1	27.4	15.5
Current cost profit on ordinary activities before taxation	278.6	235.0	237.4	247.4	234.5
Taxation	(3.9)	(91.0)	(54.1)	(7.6)	(1.3)
Current cost profit on ordinary activities after taxation	274.7	144.0	183.3	239.8	233.2
Dividends	(195.5)	(322.3)	(312.7)	(383.3)	(149.8)
Current cost retained profit/(loss)	79.2	(178.3)	(129.4)	(143.5)	83.4

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

Current cost balance sheet

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Tangible fixed assets	33,623.6	35,783.7	35,582.0	35,212.9	35,182.7
Third party contributions since 1989-90	(164.2)	(156.5)	(147.7)	(138.6)	(128.7)
Working capital	15.0	(103.3)	(147.9)	(96.4)	(99.1)
Net operating assets	33,474.4	35,523.9	35,286.4	34,977.9	34,954.9
Cash & investments	0.4	0.4	0.3	0.6	0.5
Non-trade debtors	50.5	59.2	34.1	73.6	75.6
Non-trade creditors	(606.9)	(512.8)	(892.1)	(616.3)	(425.2)
Creditors due after one year	(1,680.5)	(1,587.2)	(902.4)	(762.6)	(795.4)
Provisions	(5.4)	(3.2)	(11.6)	(30.4)	(48.4)
Net assets employed	31,232.5	33,480.3	33,514.7	33,642.8	33,762.0
Capital and reserves					
Called up share capital	655.4	653.7	511.7	509.9	480.3
Share premium account	647.8	664.6	678.2	702.2	720.4
Profit and loss account	21.1	(59.5)	123.0	248.0	401.8
Current cost reserve	29,908.2	32,221.5	32,201.8	32,182.7	32,159.5
	31,232.5	33,480.3	33,514.7	33,642.8	33,762.0

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