



United Utilities Electricity PLC

A photograph of several high-voltage electricity pylons and power lines stretching across a landscape. The pylons are made of metal lattice and are supported by insulators. The power lines are visible against a sky with soft, wispy clouds. The foreground shows a green field and some trees in the distance.

Annual Report & Accounts 2003

Contents

- 1 Chairman's statement
- 2 Operational and financial review
- 4 Directors' report
- 5 Directors' responsibilities
- 5 Independent auditor's report
- 6 Consolidated profit and loss account
- 7 Note of historical cost profit and losses
- 7 Reconciliation of movements in shareholders' funds
- 8 Balance sheets
- 9 Consolidated cash flow statement
- 9 Reconciliation of net cash flow to movement in net debt
- 10 Notes to the accounts



www.unitedutilities.com

For more information on United Utilities
visit our website.

Delivering efficiency and quality

Our focus is on delivering value for money through improving both efficiency and the quality of our services.

Our business

United Utilities Electricity PLC manages a 58,000 kilometre distribution network which delivers over 25,400 gigawatt hours of electricity annually from the National Grid to more than 2.3 million customer premises in north west England. In addition, multi-utility connections and metering services were provided by the business to domestic, commercial and industrial developers.

Our performance

The electricity distribution business continues to outperform its target for operating cost reduction and is on track to deliver its target over the five years to 2005. During the year, the average number of interruptions per 100 customers was 66.5 and the average number of minutes that customers were without supply was 67.7.

Over £120 million was invested in the network last year, including the commencement of the largest ever network automation project by a regional electricity company, to install remote control and automation equipment at 2,000 points on the network. The aim of this project is to rapidly restore lost power, so reducing customer hours lost and the frequency of supply interruptions. Among its high-tech features are push button controls in Manchester that operate high voltage switches on poles in the Cumbrian mountains.

Our people

Our UCan culture change programme started two years ago and initially we focused on unlocking potential, improving self-awareness and looking at behaviour. We are emphasising the 'United' in United Utilities – acting as one company with several different business strands. It is not a quick win, but getting the culture right is absolutely essential for the success of today's company.

Manchester 2002

In 2002, one of our biggest challenges and successes was the Commonwealth Games. The United Utilities group supplied the utility infrastructure to the main stadium and spent two years planning for the event, evaluating and managing risks to ensure continuity of supplies.

This included the installation of automatic electricity supply restoration schemes at the Stadium and Aquatic Centre, the reconfiguration of the electrical network to minimise the risk of supply interruptions to key Games venues and the hardening of key electrical networks and installations against possible terrorism or vandalism. As a further precaution, employees were positioned at the sports venues and other key locations, during the events, to respond quickly to electrical faults, should they occur.



By way of recognition, United Utilities was made an official sponsor and the name and logo were televised across the world. The dedication and teamwork involved was recognised when our employees were named Team of the Year at the Utility Industry Achievement Awards.

Looking forward

The next price review is currently the biggest issue on the horizon for the business and next year should see greater clarity as our regulator, Ofgem, formulates its views on the next price reviews. New funds for the investment required in network transformation, resilience and quality will only be available if the price review ensures that returns are high enough and predictable enough.

The government's commitment to green energy will increase the number of generators directly connected to distribution networks. This will lead to additional capital investment as the industry responds to the regulator's challenge to "Rewire Britain". To facilitate distributed generation the price review should encourage network transformation by providing incentives for distributors to invest in new infrastructure, connecting more renewable energy sources and active system management.

John Roberts

Chairman
United Utilities Electricity PLC

Operational and financial review

We are on target to achieve cumulative operating efficiency savings of £100 million during the 2000-2005 period.

At the same time we delivered a capital investment programme this year in excess of £120 million and improved levels of service in a number of important areas.

Operating review

We have continued to improve the reliability of our electricity distribution network, reducing the number of hours lost for customers served by our worst performing circuits by 191,000 during 2002/03.

Overall, the average number of minutes that customers were without supply during the year was 67.7 minutes against a regulatory target of 68.2. 99.8 per cent of supplies were restored within 18 hours.

Project Cumbria has been developed to provide a programme of reinforcement to the weaker parts of the Cumbrian network in order to improve the security and availability of supply, and we are committed to the investment of £32 million over a five year period. Project Cumbria is comprised of many individual schemes, for example performance is improved by refurbishing or replacing old assets with modern equipment and remote control technology has been introduced to reduce the time taken to restore supplies. Nearly £19 million has been invested and network performance has already substantially improved.

Last year, we invested £7.9 million in improving the quality of supplies to customers. Due to the improved control of the network, fewer customers will lose supply in the event of a fault, and when a fault does occur, supplies will be restored more quickly.

On 1 April 2003, United Utilities Electricity PLC entered into a contract with United Utilities Networks Limited to fulfil most of its metering and connections obligations.

Financial results

Turnover increased by 7.3 per cent in the year to £310.4 million as a result of the growth in competitive multi-utility activities. Operating profit increased by 8.1 per cent from £144.9 million in 2001/02 to £156.6 million reflecting improvements derived from our multi-utility strategy and continuing operating cost efficiencies. Net finance charges increased by £0.8 million to £33.8 million, reflecting an increase in net debt offset by a reduction in interest rates.

Profit before tax increased to £123.6 million compared to £112.7 million in the previous year, reflecting an improvement in the operating efficiency of the business and the benefits of our multi-utility strategy.

Taxation

The current UK mainstream corporation tax credit in 2002/03 and low charge in 2001/02 reflect the effects of the high level of accelerated tax allowances arising from the capital investment. The tax credit position has arisen in the current year following agreement of prior year tax returns.

The effective current ordinary tax credit of 11.5 per cent compares with a charge of 18.7 per cent in 2001/02. The effects of deferred tax result in an effective ordinary tax charge of 4.8 per cent compared with 25.8 per cent in 2001/02.

Deferred tax is £20.3 million in 2002/03 compared with £8.0 million in 2001/02. The increased charge in 2002/03 is primarily due to the effects of lower gilt interest rates on the discount of the full potential liability.



As the regional electricity distribution company United Utilities supplied the infrastructure to the main stadium and played a key role in helping the Commonwealth Games to run smoothly.

Operational and financial review (continued)

Capital structure and treasury policy

Operating within policies approved by the board, the group's treasury function does not act as a profit centre and does not undertake any speculative trading activity. We ensure sufficient funding is available to meet foreseeable needs and maintain reasonable headroom for contingencies. Long-term borrowings are structured or hedged to match earnings, which are largely in sterling, indexed to inflation and subject to regulatory price reviews every five years. Exposure to interest rate movements for the following 12 months is largely eliminated at the start of each financial year using short term hedges. The credit quality of counterparties and individual aggregate exposures are reviewed annually. Moody's Investors Service rates the credit of United Utilities Electricity PLC as A2 on a long-term basis with a stable outlook and P-1 on a short-term basis. Equivalent ratings published by Standard and Poor's Rating Services are A- long term with a positive outlook and A-2 short term.

During the year the company drew down £90 million from a borrowing facility provided by the European Investment Bank signed in December 2001. This valuable source of funds relates to future network refurbishment, and provides a new source of liquidity for the company.

The United Utilities group's \$1.5 billion Euro Commercial Paper and €4 billion medium-term note issuance programmes continue to be available to provide sources of funding.

Net debt increased from £431.6 million to £463.3 million. At 31 March 2003 United Utilities Electricity PLC had £75 million of committed but unutilised medium-term bank facilities. Cash and short-term current investments at 31 March 2003 are £197.6 million (2002 - £165.3 million).

Interest rate management

We manage interest rate exposure by seeking to match financing costs as closely as possible with the revenues generated by our assets. Our exposure to interest rate fluctuations is managed in the medium-term through the use of interest rate swaps, and in the short-term is managed through the use of financial futures contracts traded on LIFFE.

The company's borrowings at 31 March 2003 are set out in note out in note 19 on page 21.

Steven Beaumont

Finance Director
United Utilities Electricity PLC



United Utilities 'bright sparks' programme has visited over 100 schools in Cumbria, with the aim of bringing science to life and making learning about electricity fun.



Live line or 'hot glove' working allows some operations to be performed on our 11kv network with the overhead wires live, so reducing the number of supply interruptions to our customers.

Directors' report

for the year ended 31 March 2003

Principal activities

The principal activity of the company and of the group is the operation of electricity distribution assets.

The distribution of electricity is regulated by the terms of the company's Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority.

The Chairman's statement, together with the operational and financial review on pages 1 to 3 report on the company's activities during the year and likely future developments.

Profits and dividends

The results for the year, set out in the profit and loss account on page 6, show that turnover for the year ended 31 March 2003 increased to £310.4 million (2002 – £289.3 million), an increase of 7.3 per cent over the previous year. Profit for the year after tax was £117.6 million (2002 – £83.6 million).

An interim dividend of 12.07 pence per share was paid in February 2003 (2002 – 11.93 pence). The directors recommend a final dividend of 23.71 pence per share for the year to 31 March 2003 (2002 – 23.40 pence).

Employment policies

Employees are key to achieving our business goals and the company is committed to improving the skills of its people. The company respects the dignity and rights of every employee, supports them in performing various roles in society and challenges prejudice and stereotyping. The company is committed to involving employees through open and regular communications about business changes to allow a free flow of information and ideas.

We participate extensively in Business in the Community programmes, encourage wider opportunities for women and for people from ethnic minorities and we actively support employees with disabilities.

Proper attention to health and safety is an indispensable part of the company's commitment to high standards in every aspect of the business.

The company encourages participation in the United Utilities' all employee share schemes.

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 as part of this process maximum advantage of wide-ranging expertise, abilities and facilities within the company.

Creditor payment policy and practice

The 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 provided the relevant goods and services have been supplied in accordance with the contracts. The group and company had 29 days of purchases outstanding at the end of the financial year (2002 – 27 days).

Directors

The directors of the company during the year ended 31 March 2003 are set out below. All were directors for the whole year except where otherwise indicated.

J E Roberts*, Chairman (and Chief Executive, United Utilities PLC)

S G Batey*

S Beaumont

M J Boxall

M F Bradbury (resigned 4 April 2003)

K M Budinger

J Lang (appointed 10 February 2003)

Directors – resigned during the year

L W Dawson* (resigned 25 March 2003)

* Director, United Utilities PLC

Since the year end, J A Barnes and S M Sullivan were appointed as directors, effective 15 May 2003.

Details of directors' interests in the ordinary shares of the company are set out in note 7 to the accounts, together with any interests in the ordinary shares of United Utilities PLC and its subsidiaries.

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

During the year, KPMG Audit Plc resigned as the company's auditors. The directors used their powers under the Companies Act 1985 to appoint Deloitte & Touche as the Company's auditors to fill the vacancy created by KPMG Audit Plc's resignation.

On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

Registered address

United Utilities Electricity PLC

Dawson House

Great Sankey

Warrington

WA5 3LW

Registered number : 2366949

By order of the board

Tim Rayner

Secretary

15 August 2003

Directors' responsibilities

in respect of the preparation of the financial statements

The directors are responsible for preparing, in accordance with the Companies Act 1985, financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year, and of the profit for the financial year.

The directors consider that in preparing the financial statements on pages 6 to 26 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards they consider to be applicable to these financial statements have been followed, subject to any departure and explanation described in the notes to the accounts.

The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are also responsible for the system of internal control, for safeguarding the assets of the company and the group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

Independent auditor's report

to the members of United Utilities Electricity PLC

We have audited the financial statements of United Utilities Electricity PLC for the year ended 31 March 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cashflow statement and the related notes 1 to 27, together with the note of historical cost profit and losses, the reconciliation of movements in shareholders' funds and the reconciliation of net cashflow to movement in net debt. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 1985. We also report 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 company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and 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 United Kingdom 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 circumstances of the company and the group, 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 affairs of the company and the group as at 31 March 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte and Touche LLP

Chartered Accountants and Registered Auditors
Manchester
15 August 2003

Consolidated profit and loss account

for the year ended 31 March

	Note	2003 £m	2002 £m
Turnover	2	310.4	289.3
Cost of sales		(50.9)	(37.2)
Gross profit		259.5	252.1
Distribution costs		(85.6)	(83.3)
Administration costs		(17.3)	(23.9)
Operating profit	3	156.6	144.9
Income from fixed asset investments		0.8	0.8
Profit on ordinary activities before finance charges		157.4	145.7
Net finance charges	4	(33.8)	(33.0)
Profit on ordinary activities before taxation		123.6	112.7
Taxation on profit on ordinary activities	5	(6.0)	(29.1)
Profit on ordinary activities after taxation for the financial year		117.6	83.6
Dividends	6	(56.1)	(55.4)
Retained profit/(loss) for the financial year		61.5	28.2

See accompanying notes to the accounts.

All the results shown in the profit and loss account derive from continuing operations.

There are no recognised gains or losses in the current or preceding financial years, other than as stated in the profit and loss account, and as such no statement of total recognised gains and losses has been prepared.

Note of historical cost profit and losses

for the year ended 31 March

	2003 £m	2002 £m
Profit on ordinary activities before taxation	123.6	112.7
Difference between historical cost depreciation charge and actual charge based on the revalued amount of tangible assets	6.6	6.6
Difference between historical cost profit/loss on disposal of tangible assets and profit/loss calculated on the revalued amount	-	-
Historical cost profit on ordinary activities before taxation	130.2	119.3
Historical cost profit for the financial year retained after taxation, minority interests and dividends	68.1	34.8

Reconciliation of movements in shareholders' funds

for the year ended 31 March

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Profit for the financial year	117.6	83.6	115.4	81.4
Dividends	(56.1)	(55.4)	(56.1)	(51.5)
Retained profit for the financial year	61.5	28.2	59.3	29.9
Opening equity shareholders' funds	475.8	447.6	464.4	434.5
Closing equity shareholders' funds	537.3	475.8	523.7	464.4

Balance sheets

at 31 March

	Note	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Fixed assets					
Tangible assets	9	1,488.3	1,420.8	1,488.3	1,420.8
Investments in subsidiary undertakings	10	–	–	65.0	65.0
Other investments	10	–	–	–	2.5
		1,488.3	1,420.8	1,553.3	1,488.3
Current assets					
Stocks	11	3.6	1.9	3.6	1.9
Debtors	12	173.3	84.9	137.9	83.7
Investments	13	159.0	95.5	159.0	95.5
Cash at bank and in hand		–	66.4	–	31.2
		335.9	248.7	300.5	212.3
Creditors:					
Amounts falling due within one year	14	(350.3)	(370.3)	(393.5)	(413.0)
Net current liabilities		(14.4)	(121.6)	(93.0)	(200.7)
Total assets less current liabilities		1,473.9	1,299.2	1,460.3	1,287.6
Creditors:					
Amounts falling due after more than one year	15	(841.4)	(745.9)	(841.4)	(745.9)
Provisions for liabilities and charges	17	(95.2)	(77.5)	(95.2)	(77.3)
Net assets		537.3	475.8	523.7	464.4
Capital and reserves					
Called up share capital	21	78.4	78.4	78.4	78.4
Share premium account	22	4.4	4.4	4.4	4.4
Revaluation reserve	22	194.2	200.8	194.2	200.8
Other reserves	22	8.6	8.6	8.6	8.6
Profit and loss account	23	251.7	183.6	238.1	172.2
Equity shareholders' funds		537.3	475.8	523.7	464.4

See accompanying notes to the accounts.

Approved by the board of directors on 15 August 2003 and signed on its behalf by:

Steven Beaumont
Finance Director

Consolidated cash flow statement

for the year ended 31 March

	Note	2003 £m	2002 £m
Net cash inflow from operating activities	25 (a)	186.4	160.1
Returns on investments and servicing of finance	25 (b)	(33.2)	(34.0)
Taxation	25 (b)	(16.2)	(12.3)
Capital expenditure and financial investment	25 (b)	(113.0)	(91.2)
Acquisitions and disposals	25 (b)	–	(7.0)
Equity dividends paid		(55.5)	(54.7)
Cash outflow before use of liquid resources and financing		(31.5)	(39.1)
Management of liquid resources	25 (b)	(63.5)	(75.5)
Financing	25 (b)	50.4	113.2
Decrease in cash and overdrafts in the year		(44.6)	(1.4)

Reconciliation of net cash flow to movement in net debt

for the year ended 31 March

	Note	2003 £m	2002 £m
Decrease in cash and overdrafts in the year		(44.6)	(1.4)
Cash inflow from increase in debt		(50.4)	(113.2)
Cash outflow from management of liquid resources		63.5	75.5
Change in net debt resulting from cash flows		(31.5)	(39.1)
Amortisation of bond discount		(0.2)	(0.2)
Movement in net debt		(31.7)	(39.3)
Opening net debt		(431.6)	(392.3)
Net debt at 31 March	25(c)	(463.3)	(431.6)

Notes to the accounts

for the year ended 31 March 2003

1 Accounting policies

The following accounting policies have been applied consistently throughout the year and the prior year in dealing with items which are considered material in relation to the group's financial statements.

(a) Basis of preparation of financial statements

The consolidated financial statements of United Utilities Electricity PLC and its subsidiaries (together 'the group') have been prepared under the historical cost convention, modified by the valuation of certain operational assets and non-operational properties, in accordance with applicable United Kingdom accounting standards and the Companies Act 1985.

(b) Cash

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

(c) Turnover

Turnover represents the charge for energy distributed during the year and the invoice value of other goods sold and services provided, exclusive of value added tax.

(d) Research and Development

Expenditure on research and development is expensed as incurred.

(e) Pensions

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

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

The company has followed the transitional arrangements of FRS 17 'Retirement Benefits' in these financial statements. Details of pension arrangements and funding benefits are set out in note 8.

(f) Tangible fixed assets

Tangible fixed assets are included at cost or valuation less accumulated depreciation, freehold land is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated by writing off their cost evenly over their estimated economic lives which are principally as follows:

Operational structures	Between 5 and 80 years (Mainly between 30 and 80)
Non-operational assets:	
– Freehold buildings	Up to 60 years
– Leasehold buildings	Lower of lease period or remaining economic life up to 60 years
– Fixtures and equipment, vehicles and other	Up to 10 years

Consumers' contributions towards the work of operational assets are treated as deferred income, which is credited to the profit and loss account over the estimated economic lives of the related assets.

(g) Fixed asset investments

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

(h) Current asset investments

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

(i) Stocks

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

Notes to the accounts (continued)

(j) Long-term contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and the related costs as contract activity progresses. Turnover is calculated as the proportion of the total contract value based on the percentage level of work completed for the contract.

The value of work in progress is based on the cost of labour plus appropriate overheads and the cost of materials. Progress invoices are deducted in arriving at the amounts stated.

(k) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a discounted basis to reflect the time value of money over the period between the balance sheet date and the dates on which it is estimated that the underlying timing differences will reverse. The discount rates used reflect the post-tax yields to maturity that can be obtained on government bonds with similar maturity dates and currencies to those of the deferred tax assets or liabilities.

(l) Leased assets

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

(m) Financial instruments

Debt instruments

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

Interest rate swaps and financial futures

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

In order to qualify for hedge accounting, the notional amount of the group's interest rate swaps and financial futures must not exceed the amount of its existing variable rate debt, they must change the interest rate characteristics of the underlying debt, and the contractual maturities cannot exceed the maturities of the debt.

Notes to the accounts (continued)

2 Segmental information

The geographical origin and destination of turnover is all within the United Kingdom. The group has predominantly one class of business relating to the distribution of electricity.

3 Operating profit

Operating profit is stated after charging/(crediting):	2003 £m	2002 £m
Depreciation	54.4	51.6
Amortisation of consumers' contributions	(5.6)	(4.8)
Profit on disposal of fixed assets	(2.0)	(2.3)
Auditor's remuneration	0.1	0.1
Research and development	0.3	0.2
Operating leases:		
- hire of plant and machinery	3.1	0.8
- land and buildings	0.3	0.6

Fees payable to Deloitte & Touche and its associates for non-audit services from the date of their appointment as auditors were £0.1 million, primarily relating to regulatory work. The audit fee for 2003 in relation to the company amounted to £0.1 million.

Fees payable to the groups' former auditors, KPMG Audit Plc, and its associates for non-audit services in 2002 were £0.1 million, primarily relating to regulatory work. The audit fee for 2002 in relation to the company amounted to £0.1 million.

4 Net finance charges

	2003 £m	2002 £m
Interest payable and similar charges:		
Interest payable on bank loans and overdrafts	41.4	34.0
Interest payable to group undertakings	3.9	4.5
Total interest payable and similar charges	45.3	38.5
Investment income:		
Income received from current asset investments	(1.5)	–
Interest receivable and similar income		
- External	(8.2)	(3.3)
- Group undertakings	(1.8)	(2.2)
Total investment income	(11.5)	(5.5)
Net finance charges	33.8	33.0

Notes to the accounts (continued)

5 Taxation

(a) Analysis of charge in period

	£m	2003 £m	£m	2002 £m
Current tax:				
UK corporation tax at 30%	17.4		21.1	
Prior years' tax adjustments	(31.7)		–	
Total current tax		(14.3)		21.1
Deferred tax:				
Origination and reversal of timing differences	20.9		15.2	
Decrease/(Increase) in discount	6.9		(7.2)	
Prior years' tax adjustments	(7.5)		–	
Total deferred tax		20.3		8.0
Tax on profit on ordinary activities		6.0		29.1

A tax credit has arisen in the current year following the agreement of prior years' tax returns.

(b) Factors affecting tax charge for period

The table below reconciles the notional tax charge at the UK corporation tax rate to the actual charge for taxation

	2003 £m	2002 £m
Profit on ordinary activities before tax	123.6	112.7
	%	%
UK corporation tax rate	30.0	30.0
Capital allowances in excess of depreciation	(12.2)	(19.3)
Other timing differences	(4.7)	5.8
Prior years' tax adjustments	(25.6)	–
Net costs not deductible for tax purposes	1.0	2.2
Actual current tax rate	(11.5)	18.7

Notes to the accounts (continued)

6 Dividends

	2003 £m	2002 £m
Interim dividend of 12.07 pence per share (2002 – 11.93 pence)	18.9	18.7
Final dividend proposed of 23.71 pence per share (2002 – 23.40 pence)	37.2	36.7
	56.1	55.4

7 Directors and their interests

The aggregate emoluments of the directors in 2003 amounted to £351,431 (2002 – £325,077). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of the highest paid director (L Dawson) in 2003 in respect of services to the company amounted to £120,365 (2002 L Dawson – £126,092) details of which are provided in the accounts of United Utilities PLC.

No long-term incentive awards vested in the year ended 31 March 2003 (aggregate value in respect of the year ended 31 March 2002 was nil). Information relating to long-term incentive awards is contained in the accounts on United Utilities PLC.

With the exception of M J Boxall, all directors are members of, and contribute to, the United Utilities Pension Scheme, which is an exempt approved pension scheme with defined benefit and defined contribution sections of membership. It contains sections which are open to all eligible employees. It provides an entitlement 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 the age of 50 if the company agrees.

M J Boxall is a member of, and contributes to, the Electricity Supply Pension Scheme, a defined benefit scheme which provides on retirement at the age of 60 a pension equal to 1/80th of pensionable earnings (plus 3/80th cash) for each completed year of service. Early retirement is possible from the age of 50 if the company agrees.

The Finance Act 1989 restricts the pensions benefits that can be paid by these schemes 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 separate arrangements for some of the executive directors affected, 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.

The accrued pension at 31 March 2003 for the highest paid director L Dawson was £18,237 (2002 L Dawson – £9,837).

At 31 March 2003, 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. The interests of J Roberts and S Batey in United Utilities PLC are disclosed in that company's accounts.

	At 31 March 2003 Interests in shares			At 1 April 2002 or appointment Interests in shares		
	Ordinary shares	Executive options	Employee sharesave options	Ordinary shares	Executive options	Employee sharesave options
S Beaumont	4,013	26,984	1,823	1,959	26,984	2,054
M F Bradbury	11,845	43,364	2,920	11,156	43,364	2,679
M J Boxall	162	10,676	1,575	–	10,676	1,228
K M Budinger	–	–	1,049	–	–	–
J Lang	21	–	–	–	–	–

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

Notes to the accounts (continued)

7 Directors and their interests (continued)

Further details of options, including options exercised during the year are as follows:

	Share options at 31 March 2002 or on appointment	Options granted during the year	Weighted average exercise price per share	First date exercisable	Last date exercisable	Options exercised during the year	Market price on exercise
Employee sharesave scheme							
S Beaumont	2,054	–	471.5p	1 Mar 2003	1 Sep 2003	2,054	589p
	–	1,823	490.0p	1 Mar 2008	1 Sep 2008	–	–
M J Boxall	696	–	556.5p	1 Mar 2004	1 Sep 2004	–	–
	532	–	500.0p	1 Mar 2005	1 Sep 2005	–	–
	–	347	490.0p	1 Mar 2006	1 Sep 2006	–	–
M F Bradbury	2,147	–	471.5p	1 Mar 2005	1 Sep 2005	–	–
	532	–	500.0p	1 Mar 2005	1 Sep 2005	–	–
	–	241	490.0p	1 Mar 2006	1 Sep 2006	–	–
K M Budinger	–	1,049	490.0p	1 Mar 2006	1 Sep 2006	–	–
Executive option scheme							
S Beaumont	26,984	–	721.2p				
M J Boxall	10,676	–	665.5p				
M F Bradbury	43,364	–	679.6p				

In the year ended 31 March 2003, one director exercised share options.

The mid-market price of a share on the 31 March 2003 was 586.0 pence. The range in the year was 544.5 pence to 668.0 pence.

Summary information is provided as disclosure of all exercisable dates for director's share options would be excessive in length. Full details of directors' shareholdings and options to subscribe are given in the register of directors' interests.

The aggregate notional gain made by directors on the exercise of options during the year (based on the difference between the mid-market price of a share on the day which options were exercised and the exercise price) was £2,413 (2002 – £1,782). None of the options shown above lapsed during the year.

8 Employees

(a) Average number of persons employed (including directors)	2003	2002
Electricity distribution	1,577	1,586
Their aggregate remuneration comprised:		
	2003	2002
	£m	£m
Wages and salaries	52.6	50.7
Social security costs	4.1	4.3
Pension costs	(4.9)	(3.4)
Capital schemes and other	51.8	51.6
	(24.8)	(20.7)
Charged to the profit and loss account	27.0	30.9

Notes to the accounts (continued)

8 Employees (continued)

(b) Pensions

The company participates in a number of pension schemes principally in the UK. The major schemes are funded defined benefit schemes – the United Utilities Pension Scheme (UUPS) and the Electricity Supply Pension Scheme (ESPS), of which the ESPS is closed to new employees. UUPS also included a defined contribution section which constitutes less than 0.5 per cent of the total asset value. The assets of these schemes are held in trust funds independent of United Utilities PLC's finances.

For UUPS and ESPS, the pension costs under the accounting standard SSAP 24 have been assessed in accordance with the advice of a firm of actuaries, Mercer Human Resource Consulting, using the projected unit method. For this purpose, the actuarial assumptions adopted are based upon investment growth of 6.0 per cent per annum, pay growth of 4.0 per cent per annum and increases to pension in payment and deferred pension of 2.5 per cent per annum. The actuarial value of the assets was taken as the market value of the assets. The last actuarial valuations of the two schemes were carried out as at 31 March 2001. The combined market value of United Utilities' share of the assets of the two schemes at the valuation date was £1,833 million. Using the assumptions adopted for SSAP 24 the combined actuarial value of the assets represented 113 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP 24, the surplus in the schemes is being spread over the future working lifetime of the existing members.

For UUPS, the employer's contributions have been assessed in accordance with the advice of Mercer Human Resource Consulting using different assumptions from those described above. For ESPS, the employer's contributions have been assessed in accordance with the advice of a firm of actuaries, Hewitt Bacon and Woodrow, using different assumptions and methods from those described above. The total pension credit for the period was £4.9 million (2002 – £3.4 million). A prepayment of £18.5 million is included in the balance sheet at 31 March 2003 (2002 – prepayment of £13.2 million).

(c) FRS 17 transitional disclosure

The company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. As permitted by FRS 17 'Retirement benefits', these schemes will be accounted for by the company when the accounting standard is fully adopted, as if the scheme were a defined contribution scheme. The latest full actuarial valuations were carried out at 31 March 2001 and were updated for FRS 17 purposes to 31 March 2003 by qualified independent actuaries. Information in respect of the schemes as a whole is set out below.

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. A new pension cost accounting standard, FRS17 'Retirement benefits', was originally intended to be applied in the accounts for the year ending 31 March 2004 and subsequent years. However, during the year, the Accounting Standards Board (ASB) has deferred the full implementation of FRS 17. Under transitional arrangements, the group is required to disclose the following information about its pension arrangements and the figures that would have been shown under FRS 17 in the financial statements.

The latest formal actuarial valuations of the Schemes were carried out as at 31 March 2001. The valuation of liabilities detailed below has been derived by projecting forward the position at 31 March 2001 and has been performed by an independent actuary, Mercer Human Resource Consulting. FRS 17 gives the present value of the pension liabilities by discounting pension commitments (including an allowance for salary growth), at an AA corporate bond yield. Deferred pensions are revalued to retirement age in line with the schemes' rules and statutory requirements. The major financial assumptions used by the actuary were as follows:

	At 31 March 2003		At 31 March 2002	
Discount rate	5.50%		6.00%	
Pensionable salary growth	4.00%		4.30%	
Pension increases	2.50%		2.80%	
Price inflation	2.50%		2.80%	

	At 31 March 2003		At 31 March 2002	
	Expected rate of return	Total £m	Expected rate of return	Total £m
Equities	7.50%	1,008.0	8.25%	1,137.5
Property	7.50%	3.5	8.25%	73.5
Bonds	5.50%	217.4	6.00%	233.0
Gilts	4.50%	314.3	5.25%	302.5
Other	4.50%	24.2	5.25%	28.3
Market value of assets		1,567.4		1,774.8
Present value of Schemes' liabilities		(1,993.2)		(1,753.2)
Implied (deficit)/surplus in the Schemes		(425.8)		21.6
Related deferred tax asset/(liability)		127.7		(6.5)
Net pension (liability)/asset under FRS 17		(298.1)		15.1

Notes to the accounts (continued)

9 Tangible fixed assets

Group and company	Operational structures £m	Non-operational land and buildings £m	Fixtures and equipment, vehicles and others £m	Assets in course of construction £m	Total £m
Cost or valuation at 1 April 2002	1,724.6	43.8	107.6	188.2	2,064.2
Additions	100.8	–	2.0	19.5	122.3
Transfers	84.2	0.7	10.9	(95.8)	–
Disposals	(1.4)	(0.5)	(15.3)	–	(17.2)
At 31 March 2003	1,908.2	44.0	105.2	111.9	2,169.3
Depreciation at 1 April 2002	564.9	5.3	73.2	–	643.4
Charge for the year	38.4	1.3	14.7	–	54.4
Disposals	(1.4)	(0.3)	(15.1)	–	(16.8)
At 31 March 2003	601.9	6.3	72.8	–	681.0
Net book value:					
At 31 March 2003	1,306.3	37.7	32.4	111.9	1,488.3
At 1 April 2002	1,159.7	38.5	34.4	188.2	1,420.8

The 1997 accounts incorporated a directors' revaluation of operational assets and non operational land and buildings. The historical cost of these assets is shown below together with any additions and disposals up to and including 31 March 2003.

Group and company	Operational structures £m	Non-operational land and buildings £m	Fixtures and equipment, vehicles and others £m	Assets in course of construction £m	Total £m
Historical cost at 31 March 2003					
Cost	1,660.3	54.5	102.2	111.9	1,928.9
Depreciation	(555.7)	(8.0)	(71.1)	–	(634.8)
Net book value	1,104.6	46.5	31.1	111.9	1,294.1

Operational structures include land and buildings, the net book amount of which comprises:

	2003 £m	2002 £m
Freehold	54.4	50.2
Long leasehold	3.7	2.9
Short leasehold	2.9	2.8
	61.0	55.9

The net book amount of non-operational land and buildings comprises:

	2003 £m	2002 £m
Freehold	32.1	32.7
Long leasehold	3.1	3.1
Short leasehold	2.5	2.7
	37.7	38.5

Included in fixed assets at 31 March 2003 is land at cost or valuation of £9.7 million (2002 – £9.7million) which is not depreciated.

Notes to the accounts (continued)

9 Tangible fixed assets (continued)

	Group and company	
	2003 £m	2002 £m
Capital commitments: Contracted but not provided for	80.0	63.6

10 Fixed asset investments

Company	Subsidiary undertakings £m	Joint ventures £m	Other investments £m	Total £m
At 1 April 2002 at cost or valuation	65.0	2.5	–	67.5
Amounts written off investments	–	(2.5)	–	(2.5)
At 31 March 2003 at cost or valuation	65.0	–	–	65.0

Details of subsidiary undertakings, joint ventures and other investments, all of which are registered in England and Wales are:

Subsidiary undertakings	Description of holding	Proportion held	Nature of business
NB Gas Limited	Preference shares of £1 each Ordinary shares of £1 each	100% 100%	Dormant
NB Generation Limited	Ordinary shares of £1 each	100%	Dormant
NB Property & Estate Service Limited	Ordinary shares of £1 each	100%	Pursuance of investment opportunities on behalf of United Utilities Electricity PLC
NB Leasing Limited	Ordinary shares of £1 each	100%	Lessor of assets to other companies within the United Utilities Electricity PLC Group
NB Miles Platting Limited	Ordinary shares of £1 each	100%	Dormant
Joint ventures	Description of holding	Proportion held	Nature of business
Nor.Web Limited	Ordinary shares of £1 each	50%	Dormant
Other investments	Description of holding	Proportion held	Nature of business
ESN Holdings Limited	Ordinary shares of £1 each	6.2%	Investment company
National Grid Group plc	Ordinary shares of 11.76p each	Negligible	Energy distribution

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

Notes to the accounts (continued)

11 Stocks

	Group and company	
	2003 £m	2002 £m
Raw materials and consumables	3.6	1.9

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
12 Debtors				
Trade debtors	44.8	36.2	44.7	36.1
Amounts owed by group undertakings	77.4	16.3	36.4	10.7
Amounts owed by subsidiary undertakings	–	–	5.7	4.5
Other debtors	0.7	0.1	0.7	0.1
Amounts recoverable on long-term contracts	8.9	–	8.9	–
Prepayments and accrued income	41.5	32.3	41.5	32.3
	173.3	84.9	137.9	83.7

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

Within prepayments and accrued income is £18.5 million which falls due after more than one year (2002 – £13.2 million).

13 Current asset investments

	Group and company	
	2003 £m	2002 £m
Short-term deposits	19.0	95.5
Other unlisted investments	140.0	–
	159.0	95.5

Maturity profile of short-term deposits is overnight to twelve months, with amounts repayable on maturity.

14 Creditors: amounts falling due within one year

	Group 2003 £m	Group 2002 £m	Company 2003 £m	Company 2002 £m
Bank overdrafts and temporary borrowings	23.3	45.1	23.3	53.4
Term loans	4.4	4.4	4.4	4.4
Trade creditors	8.0	6.5	7.9	6.5
Amount owed to group undertakings	29.8	46.3	38.3	43.7
Amounts owed to subsidiary undertakings	–	–	48.6	48.8
Dividends	37.2	36.7	37.2	36.7
Corporation tax	119.1	118.5	107.2	107.0
Other taxation and social security	4.3	4.4	4.3	4.4
Other creditors	19.9	19.4	19.9	19.4
Accruals and deferred income	104.3	89.0	102.4	88.7
	350.3	370.3	393.5	413.0

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

Notes to the accounts (continued)

15 Creditors: amounts falling due after more than one year

	Group and company	
	2003 £m	2002 £m
Term loans (note 19)	633.2	547.4
Consumers' contributions (note 16)	208.2	198.5
	841.4	745.9

16 Consumers' contributions (note 15)

	Group and company £m
At 1 April 2002	198.5
Received in the year	15.3
Credit to profit and loss account for the year	(5.6)
At 31 March 2003	208.2

17 Provisions for liabilities and charges

	Group			
	Deferred tax (note 18) £m	Restructuring £m	Other £m	Total £m
At 1 April 2002	74.0	2.0	1.5	77.5
Utilised	-	(1.3)	(0.4)	(1.7)
Charged/(credited) to the profit and loss account	20.3	(0.7)	(0.2)	19.4
At 31 March 2003	94.3	-	0.9	95.2

	Company			
	Deferred tax (note 18) £m	Restructuring £m	Other £m	Total £m
At 1 April 2002	74.0	2.0	1.3	77.3
Utilised	-	(1.3)	(0.4)	(1.7)
Charged/(credited) to the profit and loss account	20.3	(0.7)	-	19.6
At 31 March 2003	94.3	-	0.9	95.2

Notes to the accounts (continued)

18 Deferred tax (see note 17)

		Group and company	
		2003 £m	2002 £m
Accelerated capital allowances		225.6	218.0
Short-term timing differences		(17.8)	(23.6)
Undiscounted provision for deferred tax		207.8	194.4
Discount		(113.5)	(120.4)
Discounted provision for deferred tax		94.3	74.0

Full provision has been made for deferred tax assets and liabilities arising from timing differences between recognition of gains and losses in the financial statements and their recognition in a tax computation (discounted where material).

19 Borrowings

	Group 2003 £m	Group 2002 £m	Company 2002 £m	Company 2002 £m
Bank overdrafts and temporary borrowings	23.3	45.1	71.9	102.2
Term loans	637.6	551.8	637.6	551.8
	660.9	596.9	709.5	654.0

Repayments fall due as follows:

	Year ended 31 March	2003 £m	Year ended 31 March	2002 £m
After five years	2009+	615.5	2008+	529.6
Within two-five years	2005-2008	17.7	2004-2007	17.8
Within one year	2004	27.7	2003	49.5
		660.9		596.9

The group had available, and unutilised, committed bank facilities of £75 million at 31 March 2003 (31 March 2002: £100 million), which all expire in greater than two years.

Loans repayable after 5 years comprise bank and other loans repayable between 2013 and 2026. Interest rates range from 5.612% to 8.875% on £525.5 million (2002 - £529.6 million) prior to the effect of derivative instruments, and are at floating rates on £90 million (2002 - £nil).

Taking into account derivative 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	
	2003 £m	2002 £m	2003 %	2002 %	2003 years	2002 years
Fixed rate borrowings: sterling	285.6	285.4	8.6	8.6	16.7	17.6
Floating rate borrowings: sterling	375.3	311.5				
Floating rate investments: Sterling (including cash)	660.9 (197.6)	596.9 (165.3)				
Net debt at 31 March	463.3	431.6				

Floating rate borrowings are based on LIBOR.

Notes to the accounts (continued)

20 Financial instruments and risk management

The primary financial risk faced by the group is 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 at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired 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.

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.

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.

Fair value 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.

	2003 Book value £m	2003 Current value £m	2002 Book value £m	2002 Current value £m
Short term debt and current portion of long term debt	27.7	27.7	49.5	49.5
Long term debt	633.2	737.3	547.4	606.9
Interest rate swaps	660.9	765.0 (4.8)	596.9	656.4 25.9
Total financial instruments	660.9	760.2	596.9	682.3

Notes to the accounts (continued)

20 Financial instruments and risk management (continued)

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

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 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 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 £15.2 million and £10.4 million respectively (2002 – £2.2 million and £28.1 million).

The group anticipates that £2.6 million of these gains and £2.9 million of these losses will be realised in the forthcoming financial year (2002 – £0.3 million and £4.2 million). Of the unrecognised gains and losses on hedges as at 1 April 2002, the net gain in the period's profit and loss account was £1.8 million.

21 Share capital

	Group and company	
	2003 £	2002 £
Authorised		
249,999,996 ordinary shares of 50p each (2002 – 249,999,996)	124,999,998	124,999,998
4 'A' ordinary shares of 50p each	2	2
Special rights redeemable preference share of £1	1	1
	125,000,001	125,000,001
Allotted, called up and fully paid		
156,821,341 (2002-156,821,341) ordinary shares of 50p each (2001 – 156,821,341)	78,410,671	78,410,671
4 'A' ordinary shares of 50p each	2	2
	78,410,673	78,410,673

The "A" ordinary shares and the ordinary shares rank pari passu in all respects, save that dividends may be declared on one class of shares without being declared on the other.

Notes to the accounts (continued)

22 Reserves

(a) Revaluation reserve	Group and company £m
At 1 April 2002	200.8
Transferred to profit and loss account	(6.6)
At 31 March 2003	194.2

(b) Other reserves	Group and company £m
Capital redemption reserve	
At 1 April 2002 and 31 March 2003	8.6
Share Premium account	
At 1 April 2002 and 31 March 2003	4.4

23 Profit and loss account

	Group £m	Company £m
At 1 April 2002 (restated)	183.6	172.2
Retained profit for the year	61.5	59.3
Transferred from revaluation reserve	6.6	6.6
At 31 March 2003	251.7	238.1

As permitted by Section 230 (4) of the Companies Act 1985, the company has not presented its own profit and loss account. The company's profit for the year was £115.4 million (2002 – £81.4 million).

24 Operating leases

	Land and buildings 2003 £m	Plant and machinery 2003 £m	Land and buildings 2002 £m	Plant and machinery 2002 £m
The group and company is committed to making the following payments during the year:				
Leases which expire:				
Within one year	–	0.5	–	0.3
Between two and five years	–	2.0	–	3.6
After five years	0.2	–	5.5	–
	0.2	2.5	5.5	3.9

Notes to the accounts (continued)

25 Notes to the cash flow statement

	2003 £m	2002 £m
(a) Net cash inflow from operating activities:		
Operating profit	156.6	144.9
Depreciation	54.4	51.6
Contributions amortised	(5.6)	(4.8)
Profit on disposal of fixed assets	(2.0)	(2.3)
Stock (increase)/decrease	(1.7)	2.8
Debtors (increase)/decrease	(28.7)	13.8
Creditors increase/(decrease)	16.0	(44.3)
Provisions for liabilities and charges decrease	(2.6)	(1.6)
	186.4	160.1
(b) Analysis of cashflows for headings netted in the cashflow statement		
Returns on investments and servicing of finance		
Interest paid	(39.4)	(35.4)
Interest received	4.7	1.4
Dividends received	1.5	–
	(33.2)	(34.0)
Taxation		
Amounts paid to group undertakings in relation to UK corporation tax	(16.2)	(12.3)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(131.5)	(116.6)
Consumer contributions received	15.3	21.0
Sale of tangible fixed assets	2.4	3.6
Income from fixed asset investments	0.8	0.8
	(113.0)	(91.2)
Acquisitions and disposals		
Disposals:		
Net current assets/(liabilities)	–	(7.0)
Book value of net assets disposed satisfied by cash	–	(7.0)

Notes to the accounts (continued)

25(b) Analysis of cashflows for headings netted in the cashflow statement (continued)

	2003 £m	2002 £m
Management of liquid resources		
Increase in bank deposits and certificates of deposit	(63.5)	(75.5)
Financing		
Debt due within one year		
- new loans to group undertakings	(35.2)	–
- repayment of short-term loans	(4.4)	(158.8)
- repayment of a loan to group undertakings	–	(80.0)
Debt due beyond one year		
- new long-term loans	90.0	352.0
Net cash inflow from financing	50.4	113.2

(c) Analysis of net debt

	At 1 April 2002 £m	Cashflow £m	Other non-cash movement £m	At 31 March 2003 £m
Cash at bank and in hand	66.4	(66.4)	–	–
Overdrafts	(45.1)	21.8	–	(23.3)
	21.3	(44.6)	–	(23.3)
Loans due after one year	(547.4)	(90.0)	4.2	(633.2)
Short-term borrowing	(4.4)	4.4	(4.4)	(4.4)
Current asset investments	95.5	63.5	–	159.0
Loan to group undertaking	3.4	35.2	–	38.6
Total	(431.6)	(31.5)	(0.2)	(463.3)

26 Related party transactions

In accordance with the exemption set out in Financial Reporting Standard 8 (Related Party Transactions), the company has not disclosed transactions with its ultimate holding company or any members of the group. United Utilities PLC is the ultimate controlling party as defined by FRS 8.

27 Ultimate and immediate parent undertaking and controlling party

The immediate parent undertaking is United Utilities Service Delivery PLC.

The accounts of the company and the group, and its immediate parent undertaking, are consolidated in the group accounts of the ultimate parent undertaking, and ultimate controlling entity of the smallest and largest group, 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, Dawson House, Great Sankey, Warrington WA5 3LW.