

# review

The United Utilities Shareholders' Review 2002  
incorporating the Summary Financial Statement

## FINANCIAL HIGHLIGHTS

Dividend per share up  
**2%** to **47.0** pence

Cost saving target for  
licensed multi-utility  
operations increased  
to **£480** million



# Delivering more

Using our core skills to create growth in earnings

and shareholder value



# delivering more...

## efficiency through multi-utility synergies

### LICENSED MULTI-UTILITY OPERATIONS

**United Utilities Service Delivery**  
Managing director, Les Dawson

**United Utilities Customer Sales**  
Managing director, Bob Armstrong



£ million	2002	2001	2000
Turnover <sup>(1)</sup>	1,208.9	1,201.6	1,356.5
Operating profit <sup>(2)</sup>	529.6	500.9	602.6

**Today** United Utilities Service Delivery owns and operates electricity distribution and water networks in the north west of England. It manages and maintains more than 600 wastewater treatment works and over 100 water treatment works, together with 80,000 kilometres of pipes and sewers. It also maintains almost 60,000 kilometres of electricity cables and nearly 32,000 electricity sub-stations.

United Utilities Customer Sales owns the relationship with 2.9 million domestic and business customers. It is a major provider of water and wastewater services in the UK industrial market and intends to grow this business as competition develops further.

#### 2001/02 highlights

- target for operating cost efficiency savings over 2000-2005 period raised to £480 million, representing an £80 million outperformance on regulatory targets
- 99.8 per cent compliance record on drinking water quality in the north west of England in the calendar year 2001
- 10 per cent reduction in number of electricity customer hours lost to interruptions
- Charter Mark accreditation for customer service

**Tomorrow** United Utilities Service Delivery will set the standard for the multi-utility sector. New assets will be designed, procured and built to standard specifications generating further savings on procurement costs. United Utilities Customer Sales will continue to build its presence in the UK business market working with United Utilities Contract Solutions.

## growth in our support services businesses

### ASSET MANAGEMENT SERVICES

**United Utilities Contract Solutions**  
Managing director, Gordon Waters



£ million	2002	2001	2000
Turnover <sup>(1)</sup>	385.9	197.6	177.8
Operating profit <sup>(2)</sup>	31.2	21.0	15.7

**Today** United Utilities Contract Solutions exploits our core asset management skills serving 15 million people in the UK and overseas. It has three business areas:

- Operations Management, which develops and operates contracts in selected markets
- Green Energy, which develops and operates renewable energy generation projects
- Networks, which provides a 'one-stop' service in the multi-utility metering and connections market

#### 2001/02 highlights

- turnover nearly doubled to £385.9 million
- first year of Welsh Water outsourcing contract successfully completed
- over 40 renewable energy schemes now generating 66 megawatts
- £15 million contract to provide water meter services to Welsh Water

**Tomorrow** United Utilities Contract Solutions will create significant value for shareholders through the rigorous and innovative deployment of its asset management skills in rapidly expanding markets.

### CUSTOMER MANAGEMENT OUTSOURCING

**Vertex**  
Managing director, Tom Drury



£ million	2002	2001	2000
Turnover <sup>(1)</sup>	282.9	211.2	183.0
Operating profit <sup>(2)</sup>	15.0	9.6	12.5

**Today** Vertex is the UK's leading customer management service supplier to the utility sector. It provides end-to-end outsourced customer service activities to clients in the commercial, utility, central and local government sectors.

#### 2001/02 highlights

- operating profit increased by 56.3 per cent to £15 million
- operating margins rose from 4.5 per cent to 5.3 per cent
- order book rose to £1.4 billion
- turnover increased by 33.9 per cent to £282.9 million
- first major international contract – Hydro One – worth up to C\$300 million over ten years
- five-year, £12 million contract with Birmingham City Council
- new three-year contracts with Marks & Spencer Direct and UGC Cinemas

**Tomorrow** Vertex will be active in new markets and new sectors, with a broader customer base than today. Innovation, as well as efficiency, will be a key feature of our service offering.

### TELECOMMUNICATIONS

**Your Communications**  
Managing director, Hugh Logan



£ million	2002	2001	2000
Turnover <sup>(1)</sup>	155.2	119.5	79.5
Operating profit <sup>(2)</sup>	(20.5)	(20.9)	(15.9)

**Today** Your Communications provides voice, data, mobile and internet services to small and medium sized enterprises and specialist sectors such as government, education, health and emergency services.

#### 2001/02 highlights

- 29.9 per cent growth in sales to £155.2 million
- customer numbers up 21 per cent
- launch of first wireless broadband service in the UK
- signed biggest ever contract worth £12 million over four years
- secured 53 contracts worth more than £100,000 each
- business sales increased by 47.6 per cent and now represent 72 per cent of total turnover

**Tomorrow** Your Communications will continue to grow its customer base exploiting the opportunity to cross sell a range of core offerings. It will become progressively more financially self-sufficient as revenues increase further.

#### Notes:

Throughout this summary financial statement, the terms turnover and operating profit shall have the following meanings:

1) Turnover from continuing operations includes the group's share of joint ventures' turnover.

2) Operating profit is defined as profit on ordinary activities before non operating items, exceptional items, goodwill amortisation, interest and tax.



Sir Richard Evans Chairman



John Roberts Chief Executive

Over the last year, your company has made real progress in delivering efficiency, through multi-utility synergies in its licensed businesses, and deploying its core skills, of asset and customer management, in growth markets.

#### Performance and dividend

We have progressively raised our target for cost savings to £480 million, an £80 million outperformance of our regulatory targets, and our commitment to growing our non-regulated businesses is reflected in their financial performance.

The board has confidence in the group's performance and its prospects and remains committed to its progressive dividend policy. This is reflected in the proposed increase of two per cent in the final dividend for the year to 31.7 pence per share, making a total for the year of 47.0 pence (2001: 46.1 pence).

#### Regulation

We have been encouraged by actions taken by Ofwat to make the regulatory process more transparent and to improve communications with the capital markets. However, we would welcome further debate amongst stakeholders in the water industry about the length of review periods, which we believe should be extended beyond their current five-year cycle.

#### Looking forward

Going forward, we expect to see further growth in our support services businesses underpinned by the efficient management of our regulated activities. Our prospects for the future are exciting and we know that we have the people and the resources to make the most of our opportunities.

**Chief executive, John Roberts sums up: If I had to express our strategy in a single sentence, it would be this: to create value for our shareholders by taking the skills of our people out into the world at large.**

In the last two years, your company has transformed itself in ways that are helping us to redefine the utility industry and that will position us as a genuinely united, efficient, forward-looking multi-utility business, primed for success in the twenty-first century.

An entirely new business structure, based on five key lines of business – United Utilities Service Delivery, United Utilities Customer Sales, United Utilities Contract Solutions, Vertex and Your Communications – is our foundation for success.

#### Businesses

I believe that, in United Utilities Service Delivery, we are creating a model of how to run a utility as a proper business, cutting through any lingering bureaucracy, rigorously managing costs, bringing business discipline and business innovation to bear. Because the management of customer relationships requires a very different skill set from that required to build and manage assets, we have created a separate United Utilities Customer Sales business.

United Utilities Contract Solutions is a market leader in the green energy, networks and operations management markets, and turnover from asset management services nearly doubled in the year to £386 million.

Having substantially completed its transition from internal service provider, Vertex is now a market leader in customer management outsourcing in the utility sector.

Your Communications achieved sales growth of 48 per cent from business voice and data services and is expected to become progressively more financially self-sufficient.

#### Unlocking potential

Key to our success will be to create a common business culture within the organisation and deliver excellent customer experiences. Consequently, we have been running a major 'unlocking potential' programme, which aims to remove obstacles to effective team working and instil a sense of enterprise and ambition in everyone.

#### Brand

In an era in which intangible assets can be as significant as more conventional tangible ones, a strong corporate brand can add value to the group's activities. We now have a brand that really stands for something – a modern, successful utility-based business delivering real value to all its stakeholders.

#### Prospects

Looking ahead, we believe that further consolidation will take place in the utility market, as companies look to outsource their less efficient operations. We intend to capitalise on such outsourcing opportunities, using our core skills of asset management and customer management.

The 2002/03 financial year will be the most challenging so far in the current regulatory period, with no real price increases in our water business and a real price cut of three per cent in our electricity business. At the same time our capital programmes will accelerate as construction contracts are let under framework agreements. However, further progress in implementing cost reduction initiatives, and continued growth in our support service businesses, mean that we expect to deliver satisfactory results this year.

#### DIVIDEND PER SHARE pence

02	47.0
01	46.1
00	45.2

#### TURNOVER FROM CONTINUING OPERATIONS £m

02	1,876.4
01	1,574.4
00	1,633.9

#### PROFIT BEFORE TAX FROM CONTINUING OPERATIONS\* £m

02	328.1
01	296.7
00	428.9

\*Profit before tax is shown before goodwill amortisation and exceptional items

**A utility business needs two core attributes: the ability to manage its assets efficiently and the ability to build and manage mutually beneficial relationships with its customers.**



# setting the standard

United Utilities Service Delivery brings together the management and operation of the group's licensed water, wastewater and electricity distribution networks. Rigorous operational and capital management of these networks enable it to realise multi-utility synergies.

Les Dawson is proud of the job which the United Utilities Service Delivery team has done in the last year to build its reputation as a successful, modern multi-utility operator. His watchwords are standardisation and flexibility.

Our key achievement has been the full integration, under the United Utilities Service Delivery umbrella, of the previously distinct water and electricity network operations.

Aspiration is becoming reality. We are becoming a genuine, modern multi-utility.

Our three strategic imperatives are:

- to continue to improve the efficiency of the regulated business, not just meeting, but outperforming our efficiency targets.
- to demonstrate leadership by leveraging our core skills in regulatory licence holding, asset management and asset operations and maintenance.
- to continue to recognise that responsible stewardship of our assets goes hand in hand with recognising the worth of our people.

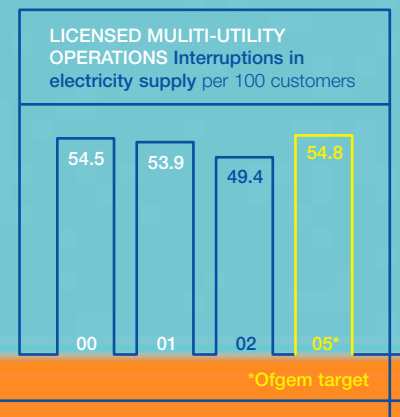
During the year, we've devoted a great deal of attention to asset standardisation throughout United Utilities Service Delivery, to help deliver capital efficiencies now and operational savings in the future.

Standardising assets, operating and procurement practices throughout a business of this size is clearly a major undertaking – we have, for example, more than 88,000 different types of asset in the business.

The size of our investment programmes places significant efficiencies within our grasp. We can use this to create an even more focused, integrated and commercial business. The consequential economies of scope and scale we can deliver gives us a vital competitive edge.

During the year, we signed framework agreements with three contractors covering approximately 25 per cent of our current water and wastewater investment programme.

We've initiated a project to consolidate around 20 asset management IT systems into a single master asset management system.



## a winning combination



Gordon Waters managing director, United Utilities Contract Solutions

United Utilities Contract Solutions brings together asset management and operational skills to pursue opportunities in competitive markets throughout the UK and overseas. It is focused on three activities:

- developing and operating asset management and operations contracts in selected markets;
- developing and operating green energy generation projects; and
- providing a one-stop service in the multi-utility metering and connections market.

Gordon Waters looks at the growth prospects for United Utilities Contract Solutions and focuses, in particular, on green energy's potential as a future source of profitable revenue for the group.

This time last year, United Utilities Contract Solutions was probably seen as a collection of different businesses rather than as a single, integrated proposition. We have been working to change that perception, by focusing

attention on the core skills that are common to the whole division: asset management and operational skills.

What we are seeking to do is identify and develop projects that fit those core skills and then use our financial capital to unlock those opportunities for us.

Green energy has been a primary focus for us during the year. The Government's very public commitment to renewable energy sources has

raised the profile of the green energy issue considerably. But green energy is an integral part of our strategy, not because of its high profile but because it makes sound business sense. We currently have a market share of around five per cent and we expect to increase this significantly over the next three to five years.

We see green energy as a vital and buoyant new market in the years ahead and one in which we want to secure a major stake. During the year, we commissioned five renewable generation projects bringing the total number of schemes in operation to over 40, and we have around 30 further schemes under development.

Other highlights of the year include the Welsh Water outsourcing contract, which has been in place for just over a year and continues to outperform our expectations, both in terms of cost and service levels. The contract, which was initially worth £450 million over four years,



**Les Dawson** managing director,  
United Utilities Service Delivery

We've made our procurement performance a priority, forming innovative procurement partnerships with other businesses that need to source the same materials as us, and using new technology such as the internet to help us work better and faster.

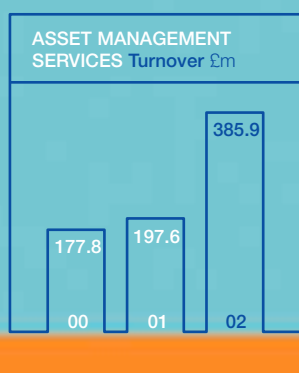
We've continued to develop our multi-utility strategy. For example, 42 district councils currently manage the operations and maintenance work on our wastewater network. We believe that by bringing the management of contractors in-house we can achieve substantial savings by using the same O&M management team on our water, wastewater and electricity distribution networks. This greater control over work being carried out on our behalf will also help us further standardise our assets.

And we've continued to drive the UCan unlocking potential programme through the business. The emphasis throughout has been on creating a culture of accountability, customer-focus and teamwork.

In short, we've put a new business organisation in place to ensure that we make our assets work as hard as possible for us. Asset standardisation is providing capital expenditure savings now and promises operational expenditure savings in the future. We're using our multi-utility strategy to deliver operational efficiencies and we're leveraging our buying power.

#### LICENSED MULTI-UTILITY OPERATIONS Business performance highlights

- Turnover increased by 0.6 per cent to £1,208.9 million, despite a one per cent real reduction in prices for water and wastewater customers, and a three per cent reduction in electricity distribution charges.
- Operating profit increased by 5.7 per cent to £529.6 million for the year, reflecting the continuing implementation of the cost reduction programme which more than offset regulatory price reductions.
- Capital investment for the year was £506 million. Expenditure was £402 million on water and wastewater and £104 million on electricity distribution.



**United Utilities Customer Sales** owns the relationship with 2.9 million customers. It is a major provider of water and wastewater services to the UK industrial market. It intends to grow this business as competition develops, and cross sell new products and services to its domestic customers.

**Bob Armstrong reports that, in spite of regulatory constraints, United Utilities Customer Sales has made significant progress in the year.**

During the year, we've been focusing on getting our costs down, increasing our income, tackling customer debt, and improving our customer service.

We've introduced a range of initiatives to improve the management of sales and ensure we're getting the bills out and the cash back in.

We're working closely with Vertex. We have an ambitious programme to reduce the cost to serve per customer whilst continuing to improve the quality of our service. Actions include the introduction of a new billing system and the implementation of a new customer contact strategy.

Already we're delivering results. The last Ofwat levels of service report showed we had improved service levels in many of the key measures and at the same time reduced our cost to serve per customer.

United Utilities Customer Sales also manages the ongoing relationship with over 20 business clients and is responsible for identifying new opportunities for expanding the customer base in what is a fast-growing commercial market.

Our aim is to build close relationships with our business customers to ensure we fully understand their needs and deliver services they value.

We've also spent a lot of time listening to our domestic customers, to find out more about their concerns and expectations. We're extending the range of unregulated products and services we offer to this market.

Like the other businesses in the group, we're aiming to really 'put the customer at the heart of United Utilities'. It's the key to our continued success.



**Bob Armstrong** managing director,  
United Utilities Customer Sales

makes United Utilities the UK's largest operator of water and wastewater assets.

In the metering business, we won major contracts with Welsh Water and British Gas. The British Gas contract, announced in May 2002, is worth some £225 million over five years.

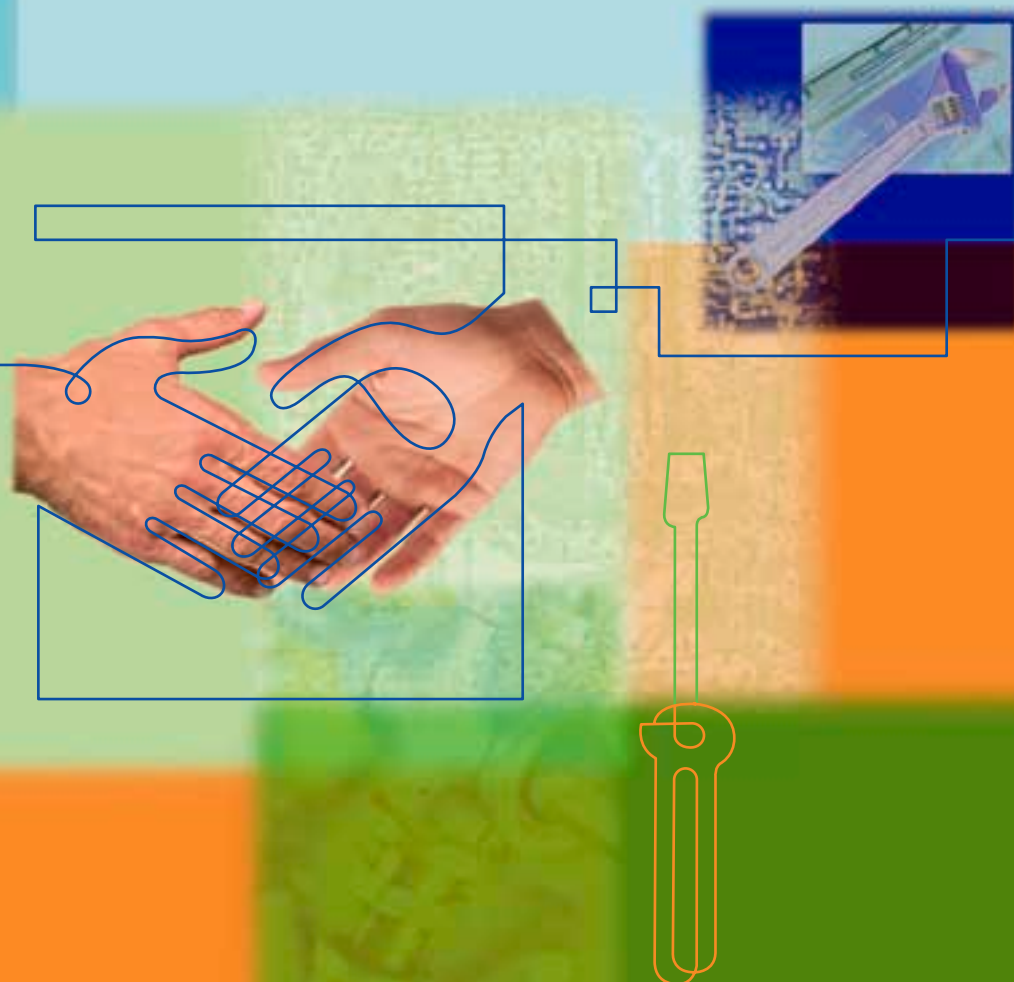
Overseas it was a year of consolidation rather than growth. We continued to make good progress in our three Eastern European concessions. However, the devaluation of the Argentine peso meant that the carrying value of our minority investment in IEBA, the Argentinian electricity utility, was extinguished.

Only a year ago, United Utilities Contract Solutions' business looked very different. I think we've made good progress here, although there is, of course, still work to be done.

We're meeting and outperforming our targets and have a real chance to create value from the group's asset management skills.

#### ASSET MANAGEMENT SERVICES Business performance highlights

- Turnover increased by 95.3 per cent from £197.6 million to £385.9 million.
- Operating profit, including share of joint ventures, increased by 48.6 per cent to £31.2 million.
- These increases reflect full year contributions from the Welsh Water contract and concessions in Bulgaria, Estonia and Scotland.



# innovation and expansion



Tom Drury managing director, Vertex

Tom Drury reports on a year of successful growth and on the journey Vertex is making from 'operator' to 'innovator'.

Vertex is a dynamic and energetic business, but a business that is fast coming of age. Our business plan is on track; and you don't have to look any further than the Hydro One deal in Canada to see that the strategic relationship with Cap Gemini Ernst & Young UK (CGE&Y) is working well.

Most importantly, we're a growth business. Our order book stands at £1.4 billion and our revenues are up 34 per cent on last year. A 15 per cent market share makes us the leading Customer Management Outsourcer (CMO) in the utilities market.

However, the Business Process Outsourcing (BPO) market is significantly broader than the services we currently offer and wider than the market sectors in which we currently operate. Our intention is to grow our business to

Vertex's ambition is to be the UK's most successful, trusted and respected business process outsourcing company specialising in customer management. It offers a full range of outsourced customer management services, spanning front and back office activities.

occupy that wider market space by expanding our capabilities and services.

Our clients will increasingly look to us to help them develop competitive edge in their markets and we can achieve higher profit margins from more complex, value-added services, and risk can be effectively spread across more markets and more sectors.

However, we intend to be very focused. There are so many opportunities that it's essential only to go for those that make maximum strategic sense. Geographically, the UK and North America will be our primary focus.

We have huge experience in the UK utility sector and as utility markets deregulate elsewhere, we have the expertise to help. In the private sector, we are focusing our attention on financial services, where we have transferable expertise. The public sector is also a key focus for us as the tendency towards longer contract terms provides greater visibility of earnings. However, the key to success is a balance between market sectors, contract types and geographical reach.

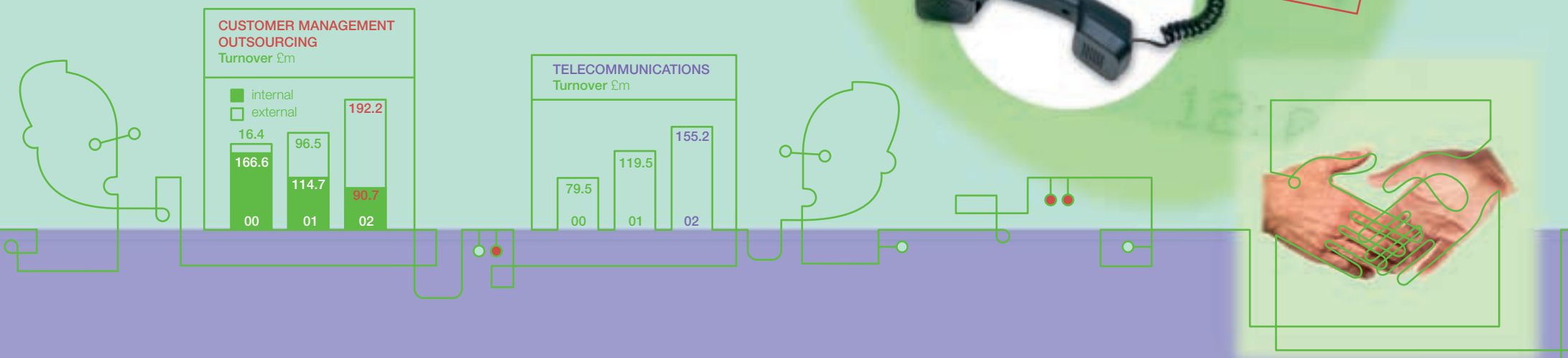
It has already been announced that when the time is right, we will float a minority stake in Vertex. The strategic focus and business

growth plans I've outlined are key to this move. We have a strong senior management team in place; our profit margins are improving year-on-year and we are taking actions to improve them further; our business mix and client portfolio is gaining in breadth and depth; and our service offering is broadening.

We are also investing in the development of the Vertex brand. We're frequently described as a call centre business, but around 40 per cent of our business relates to other business process management activities. We have to change that perception for potential clients to understand the true value that we can add to their business.

## CUSTOMER MANAGEMENT OUTSOURCING Business performance highlights

- Sales growth increased by 33.9 per cent to £282.9 million, reflecting increasing volumes of external business including the new contracts secured with Companies House, Marks & Spencer and Birmingham City Council.
- Operating profit rose by 56.3 per cent to £15.0 million, reflecting progress in the achievement of cost reductions on internal contracts and the increasing activity of the external contract portfolio.



# making the right connections

Your Communications offers a range of fully integrated communications services – voice, data, mobile and internet – to businesses and specialist sectors around the UK.



Hugh Logan managing director, Your Communications

Hugh Logan's key priorities during the year were to deliver growth and move Your Communications towards profitability.

In a very tough and turbulent year for the telecommunications sector, Your Communications achieved a growth in sales of 30 per cent to £155 million and grew its customer base by over 20 per cent.

We proved that a small, agile communications player, with good products and services, really can punch above its weight in an extremely competitive market.

The essence of our strategy is focus: on our target regions, on our target markets and our target sectors.

We offer connections through fibre, microwave, broadband wireless and Asymmetrical Digital Subscriber Lines (ADSL), and we exploit opportunities to cross-sell voice, data, mobile and internet services to existing customers.

All in all, we have a winning proposition, the five key elements of which are: financial stability, an extensive product portfolio, a track record on quality of service, strong account management and network resilience.

## TELECOMMUNICATIONS Business performance highlights

- Year-on-year growth in sales was 29.9 per cent. The business continued to focus on business sales from voice and data services, which grew by 47.6 per cent to £111.3 million.
- Operating loss reduced by 1.9 per cent to £20.5 million. The loss reflects continued revenue and capital investment in the business to drive future sales and profit contribution.
- The business moved towards being EBITDA positive on a month-by-month basis at the end of the year.

## This is a summary of information from the 2002 annual report & accounts

This summary financial statement was approved by the board of directors on 31 May 2002 and signed on its behalf by

**Sir Richard Evans** chairman  
**Simon Batey** group finance director

## Statement of the independent auditor to the members of United Utilities PLC

pursuant to section 251 of the Companies Act 1985.

We have examined the summary financial statement set out on this page.

### Respective responsibilities of directors and independent auditor

The directors are responsible for preparing the shareholders' review. Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the shareholders' review with the full annual financial statements and directors' report, and its compliance with the relevant requirements of section 251 of the Companies Act 1985 and the regulations made thereunder. We also read the other information contained in the shareholders' review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

### Basis of opinion

We conducted our work in accordance with Bulletin 1999/6 'The auditor's statement on the summary financial statement' issued by the Auditing Practices Board. Our report on the group's full annual financial statements describes the basis of our audit opinion on those financial statements.

### Opinion

In our opinion, the summary financial statement is consistent with the full annual financial statements and directors' report of United Utilities PLC for the year ended 31 March 2002 and complies with the applicable requirements of section 251 of the Companies Act 1985 and the regulations made thereunder.

KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
Manchester  
31 May 2002

## Directors' summary report

### Review of the business

The chairman's statement, the chief executive's review and the business reviews on pages 2 to 6 report on the group's activities during the year and on likely future developments.

### The dividend for shareholders

The directors are recommending a final dividend of 31.7 pence for each ordinary share for the year ended 31 March 2002, making a total for the year of 47.0 pence. Subject to shareholders approving this recommendation at the annual general meeting, the dividend will be paid on 1 October 2002 to shareholders on the register at the close of business on 7 June 2002.

### The business for the AGM

Details of the resolutions to be proposed at the 2002 annual general meeting are set out in the notice calling the meeting. There is also a full explanation of the resolutions in the leaflet containing the notice, enclosed with this review. The board encourages shareholders to exercise their right to vote at the annual general meeting. Presentations are made on the progress and performance of the business prior to the formal business of the meeting and shareholders are encouraged to participate through a question and answer session.

### Good governance

The board is committed to high standards of corporate governance. Throughout the year to 31 March 2002, the company has been in compliance with the provisions set out in Section 1 of 'The Combined Code Principles of Good Governance and Code of Best Practice' issued by the Financial Services Authority. The board has established a governance framework which encourages all directors to bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.

The group's governance structure ensures that all decisions are made by the most appropriate people in such a way that the decision-making process itself does not unnecessarily delay progress. The board has formally delegated specific responsibilities to board committees, including the audit, remuneration, approvals, nomination and treasury committees.

The board is responsible for the group's internal control framework and for reviewing its effectiveness. The internal control system is designed to manage, rather than to eliminate, the risk of failure to achieve the company's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. Key features include a clearly defined control environment, comprehensive business planning and financial reporting procedures and a strong internal audit

function. In addition, regular meetings are held of the group executive committee, which discusses strategic and operational issues, the risk management forum, which scrutinises key risks in depth, and the sustainable development forum, which monitors and advises on environmental risks.

### People – key contributors to corporate success

The group recognises the importance of our employees and encourages everyone to achieve their full potential and feel motivated to make their best contribution. Employee numbers increased significantly during the year. However, restructuring inevitably required staff reductions in some areas of the business during the year and these were achieved on a voluntary basis and with full trade union co-operation.

The group respects the dignity and rights of every employee, supports them in performing various roles in society, and challenges prejudice and stereotyping. The group is making special efforts to recruit new employees from ethnic minority communities and is seeking more applications from people with disabilities.

We are continuing to invest in employee and leadership development programmes. The latest programme, UCan, involves around 7,500 employees in a wide-ranging personal and organisational change process. Our aim is to help people improve their own performance and to contribute to the success of the group as a whole.

Owning shares in the company is an important way of strengthening employees' involvement in the development of the business. The group encourages employees to participate in its share schemes although it accepts its responsibility to provide financial education. Accordingly, the company makes available a multi-stock United Utilities ISA for employees who wish to invest in a more diverse portfolio and facilitates access for employees to independent financial advisors. The success of these initiatives was recognised with ProShare Awards in December 2001 for Best Use of Innovation in an Employee Share Plan and Best Financial Education Programme for Employees.

### Health and safety

United Utilities is committed to achieving the highest standards of health and safety in every area of its business. All identified risks are subject to policies, management systems and specific control measures that are regularly monitored and reviewed.

### Fulfilling social and environmental responsibilities

The group seeks to manage its total impact on society as a responsible corporate citizen. There is a brief review on page 8 and full details are set out in the company's separate social and environmental

impact reports, which are an important part of the company's integrated approach to reporting on the group's overall performance, together with the annual report, the annual review and the website.

### Remuneration

The directors' aggregate emoluments (salaries, fees, benefits and annual bonuses in the year ended 31 March 2002 was £2.115 million (2001 - £2.234 million). No long-term incentive awards will be made in respect of 2002 as the targets were not met. The aggregate notional gains made by executive directors on the exercise of share options during the year was £4,456 (2001 - £nil). The four executive directors are all members of a defined benefits pension scheme.

## The directors

### Executive directors

**John Roberts** chief executive (56) A

**Simon Batey** group finance director (48)

**Les Dawson** managing director, United Utilities Service Delivery (45)

**Gordon Waters** managing director, United Utilities Contract Solutions (54)

### Independent non-executive directors

**Sir Richard Evans** chairman and chairman of the nomination committee (59) A,B and C

**Norman Broadhurst** chairman of the audit committee (60) A,B and C

**Sir Peter Middleton** deputy chairman and senior independent director (68) A,B and C

**Jane Newell** (58) A,B and C

**John Seed** (63) A,B and C

**Andrew Pinder** (55) A,B and C – appointed as a non-executive director on 1 September 2001

**A** member of the nomination committee, which considers and makes recommendations to the board on the composition, balance and membership of the board.

**B** member of the remuneration committee, which considers and makes recommendations to the board on the group's framework of executive remuneration and its cost, and approves the recruitment terms, remuneration benefits, employment conditions and severance terms for executive directors and other senior executives.

**C** member of the audit committee, which reviews the internal and external audit activities, the effectiveness of the group's internal control systems, and the half-year and annual financial statements before submission to the board, and monitors compliance with statutory requirements for financial reporting.

## Consolidated profit and loss accounts

	Continuing operations			Continuing operations		Discontinued operations	Restated 2001 Total
	Before exceptional items	Exceptional items	2002 Total	Before exceptional items	Exceptional items		
	£m	£m	£m	£m	£m	£m	£m
<b>For the year ended 31 March</b>							
Turnover: group and share of joint ventures	1,876.4	–	1,876.4	1,574.4	–	201.5	1,775.9
Less: share of joint venture turnover	(85.4)	–	(85.4)	(78.3)	–	–	(78.3)
<b>Group turnover</b>	<b>1,791.0</b>	<b>–</b>	<b>1,791.0</b>	1,496.1	–	201.5	1,697.6
Net operating costs	(1,254.3)	(11.9)	(1,266.2)	(997.4)	(16.6)	(179.9)	(1,193.9)
<b>Group operating profit</b>	<b>536.7</b>	<b>(11.9)</b>	<b>524.8</b>	498.7	(16.6)	21.6	503.7
Share of operating profit of joint ventures	14.0	–	14.0	10.3	–	–	10.3
<b>Profit before non-operating items, interest and tax</b>	<b>550.7</b>	<b>(11.9)</b>	<b>538.8</b>	509.0	(16.6)	21.6	514.0
Profit on disposal of businesses			–				191.2
<b>Profit on ordinary activities before interest</b>			<b>538.8</b>				705.2
Net interest payable and similar charges:							
Group			(216.7)				(208.7)
Joint ventures			(13.9)				(11.6)
			(230.6)				(220.3)
<b>Profit on ordinary activities before taxation</b>			<b>308.2</b>				484.9
Taxation on profit on ordinary activities before business disposals			(41.6)				(69.7)
Exceptional taxation on business disposals			–				(69.0)
<b>Taxation on profit on ordinary activities</b>			<b>(41.6)</b>				(138.7)
<b>Profit on ordinary activities after taxation</b>			<b>266.6</b>				346.2
Equity minority interest			(1.6)				–
<b>Profit for the financial year</b>			<b>265.0</b>				346.2
Dividends			(260.9)				(254.9)
<b>Retained profit for the financial year</b>			<b>4.1</b>				91.3
Basic earnings per share			47.9p				62.8p
Adjusted basic earnings per share (1)			51.5p				41.2p
Diluted earnings per share			47.7p				62.5p
Adjusted diluted earnings per share (1)			51.3p				41.0p

### Note:

(1) Adjusted earnings per share excludes discontinued operations, exceptional items and goodwill amortisation.

(2) A prior year adjustment of £232.1 million has been made against the balance sheet at 31 March 2001 reflecting the application of Financial Reporting Standard 19 (deferred tax).

## Consolidated balance sheets

	2002	Restated 2001
	£m	£m
<b>At 31 March</b>		
<b>Fixed assets</b>		
Intangible assets	81.2	88.6
Tangible assets	6,680.5	6,385.7
Investments in joint ventures:		
– share of gross assets	275.5	339.5
– share of gross liabilities	(218.4)	(248.6)
	57.1	90.9
Other investments	26.4	29.3
	6,845.2	6,594.5
<b>Current assets</b>		
Stocks	16.5	18.0
Debtors	414.6	436.0
Investments	389.5	405.3
Cash at bank and in hand	18.9	50.7
	839.5	910.0
<b>Creditors: amounts falling due within one year</b>	<b>(1,344.2)</b>	<b>(1,538.4)</b>
<b>Net current liabilities</b>	<b>(504.7)</b>	<b>(628.4)</b>
<b>Total assets less current liabilities</b>	<b>6,340.5</b>	<b>5,966.1</b>
<b>Creditors: amounts falling due after more than one year</b>	<b>(3,478.2)</b>	<b>(3,093.2)</b>
<b>Provisions for liabilities and charges</b>	<b>(310.8)</b>	<b>(261.8)</b>
<b>Net assets</b>	<b>2,551.5</b>	<b>2,611.1</b>
<b>Capital and reserves</b>		
Called up share capital	555.9	552.9
Share premium account	671.6	656.6
Profit and loss account	1,308.8	1,388.0
<b>Equity shareholders' funds</b>	<b>2,536.3</b>	<b>2,597.5</b>
<b>Minority interest</b>	<b>15.2</b>	<b>13.6</b>
<b>Capital employed</b>	<b>2,551.5</b>	<b>2,611.1</b>

# Useful information for shareholders

## DURING THE NEXT YEAR, WE WILL

- > pay the 2002 final dividend on 1 October 2002
- > announce the half-year results in December 2002
- > pay the 2002 interim dividend in February 2003
- > announce the preliminary full-year results in May 2003
- > publish the annual report and accounts, the annual review and summary financial statement, and form 20-F in June 2003
- > hold the annual general meeting in July 2003

### Keeping you in the picture

You can find more information about United Utilities quickly and easily on the United Utilities website. As well as the annual report and accounts, the social and environmental impact reports and other company announcements and reports are also published on the website.

[www.unitedutilities.com](http://www.unitedutilities.com)

In addition to these reports, the group also publishes in printed form a wide range of reports, leaflets and factsheets about aspects of its businesses. You can get more information about them from Ian Priestner, Group Director of Communications, at Dawson House, Great Sankey, Warrington, WA5 3LW (telephone: 01925 237000; e-mail: [ian.priestner@uuplc.co.uk](mailto:ian.priestner@uuplc.co.uk)).

### Shareholders' annual review

This annual review and summary financial statement is a shorter document and does not contain as much information as you need to gain a full understanding of the results and state of affairs of the group as the full annual report and accounts.

If you need more information, we have included the full annual report on our website for quick and easy access. Alternatively, a free copy is available on request from Tim Rayner, company secretary, at the registered office (telephone: 01925 237000).

[www.unitedutilities.com](http://www.unitedutilities.com)

The shareholders' annual review has been printed on Zanders Megamatt. 50% of the fibre in this paper is recycled and de-inked with no use of chlorine in the de-inking process and 50% is TCF pulps from plantation forests.

### Enquiring about your shareholding

Please contact the company's registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6DA (telephone: 0870 600 3971, or textphone for shareholders with hearing difficulties: 0870 600 3950).

The registrar's website allows shareholders with internet access to view details of their shareholdings, to vote at general meetings and to register to receive communications electronically. To register, please go to [www.shareview.co.uk](http://www.shareview.co.uk) – you will need your shareholder account number (which can be found on the proxy form accompanying the notice of annual general meeting or on your share certificate) and you will be asked to select your own PIN. A user ID will then be posted to you.

If you have received more than one copy of this annual review, you may have more than one account in your name on the register of members. To merge your holdings, please write to the registrar using the enclosed form.

[www.shareview.co.uk](http://www.shareview.co.uk)

### Communicating in alternative formats

If it would help you to receive shareholder communications in an alternative format – large print, braille or audio tape – please contact the registrar, Lloyds TSB Registrars (see above), and give details of your name, address, shareholder account number and your preferred alternative format.

### Paying your dividends direct to your account

The company pays dividends direct to a shareholder's bank or building society account through the BACS (Bankers' Automated Clearing Service) system. The benefit to shareholders is that the company can send tax vouchers direct to them rather than to their bank or building society. If you have not already arranged for your dividends to be paid direct to your bank or building society account and you want to do so, please contact the company's registrar using the enclosed form.

### Dealing in United Utilities shares cost effectively

You can get details of the simple postal service for dealing in United Utilities shares at an attractive commission rate from NatWest Stockbrokers, Corporate and Employee Services, 55 Mansell Street, London, E1 8AN (telephone: 020 7895 5029).

[www.natweststockbrokers.co.uk](http://www.natweststockbrokers.co.uk)

### Holding your shares tax efficiently

The United Utilities ISA (a Maxi or Mini shares-only individual savings account), managed by Halifax Share Dealing Limited, offers a tax efficient way of holding both United Utilities shares and also other ISA eligible shares. To get more information, please ring 0870 600 9966 quoting United Utilities shareholder.

[www.halifax.co.uk/sharedealing](http://www.halifax.co.uk/sharedealing)

### Donating shares to the ShareGift scheme

Many shareholders can find themselves owning parcels of shares so small that it would cost more to sell them than they are worth. They may therefore appear to be too small to do anything with but may still bring a tax liability on dividends paid and unwanted documentation.

The ShareGift scheme, a registered charity administered by The Orr Mackintosh Foundation, offers an alternative. Any shares donated to the ShareGift scheme are transferred into the name of The Orr Mackintosh Foundation, which aggregates them, sells them when possible and donates the proceeds to a growing list of charities.

If you would like to participate in the ShareGift scheme or would like further information about it, you can ring 020 7337 0501, or write to The Orr Mackintosh Foundation, 24 Grosvenor Gardens, London, SW1W 0DH, or visit the scheme's website.

[www.sharegift.org](http://www.sharegift.org)

### The auditor's report

The auditor's report to the members of United Utilities PLC on the financial statements in the annual report and accounts for the year ended 31 March 2002 is unqualified and does not contain a statement concerning accounting records or failure to obtain necessary information and explanations.

### TAKING RESPONSIBILITY...

As a provider of essential public services, we recognise that identifying, evaluating and monitoring our social, environmental and economic impacts is an essential part of our day-to-day management of the company.

Highlights of our corporate social responsibility programme for 2001/2002 included:

- conducting major reviews of our corporate social responsibility policy and our health and safety policy and procedures. We also developed our first sustainable development policy, which supersedes our environment policy.
- being placed in the top 50 UK companies in the FTSE4Good Index of ethical companies, ranked 10th in the Giving List of the UK's top 100 companies, and 12th out of 206 companies measured by the Business in the Environment (BiE) Index of Corporate Environmental Engagement.



United Utilities is one of the leading developers of renewable energy. The hydro scheme at Eian Valley in Wales is one of over 40 renewable energy generation projects we operate providing enough energy to supply 126,000 houses and saving 2.5 million tonnes of CO<sub>2</sub> emissions a year.

- launching a major partnership – Renewables Northwest – with the Northwest Development Agency to promote the development and use of renewable energy, and organised a series of workshops with our key suppliers, designed to improve our environmental supply chain management system and their own environmental management processes.
- research showing that 69 per cent of stakeholders agreed that United Utilities is meeting their expectation in fulfilling its social responsibilities.

This year we are producing a social and environmental performance report, supported by a separate publication, summarising our impacts, and we will also report on our website.

[www.unitedutilities.com](http://www.unitedutilities.com)

**Reporting on our total performance** This annual review forms one part of our integrated approach to reporting on our total performance. Our family of reports also includes the annual report and accounts and our social and environmental impact reports. You can also visit our website for regular updates on our progress.



Annual report & accounts



Annual review



Social and environmental impacts summary



[www.unitedutilities.com](http://www.unitedutilities.com)

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Designed and produced by Merchant with The Workroom. Illustration by The Workroom and Otto Steininger. Photography by Noorie Parvez and Marcus Lyon. Printed by Polestar Corporate Print Limited, Bradford and London.