United Utilities

Form 20-F 2001

Annual Report on Form 20-F

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Securities and Exchange Commission

Washington, D.C. 20549

Form 20-F

☐ **Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**
or
☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended 31 March 2001**
or
☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number: 82-1-14744

United Utilities PLC (Exact name of Registrant as specified in its charter)

England (Jurisdiction of incorporation or organisation)

Dawson House, Great Sankey, Warrington WA5 3LW, England
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares each of which represents 2 Ordinary Shares	New York Stock Exchange
Ordinary Shares of £1 each	New York Stock Exchange*

*Not for trading, but only in connection with the registration of American Depositary Shares representing such Ordinary Shares, pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report.

Ordinary Shares of £1 each 552,901,825 (as of 31 March 2001)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 ☐ Item 18 ☒

Introduction

In this report references to “company” or “United Utilities” are to United Utilities PLC, either alone or together with its consolidated subsidiaries, as the context requires. References to “group” are to United Utilities PLC together with its consolidated subsidiaries. References to “Norweb” are to NORWEB plc, to “Your Communications” are to Your Communications Limited, to “United Utilities International” are to United Utilities International Limited, to “Norweb Gas” are to Norweb Gas Limited, to “United Utilities Contract Solutions” are to United Utilities Contract Solutions Limited, to “United Utilities Green Energy” are to United Utilities Green Energy Limited, to “United Utilities Gas Networks” are to United Utilities Gas Networks Limited, to “United Utilities Customer Sales” are to United Utilities Customer Sales Limited, to “United Utilities Service Delivery” are to United Utilities Service Delivery PLC and to “United Utilities Water” are to United Utilities Water Limited, which are all wholly owned subsidiaries of the company. “Norweb Distribution” is a division of NORWEB plc and not a separate legal entity. References to “Vertex” are to Vertex Data Science Limited which is 88.62% owned by the company.

The names “Norweb” and “Energi” are owned by TXU Europe Group PLC and are used under licence.

References to the “2001 annual report to shareholders” are to the United Utilities PLC annual report & accounts 2001.

References are also made to specific terms which bear the following meanings:

— “Gigawatt” (GW)	– a gigawatt is a unit of power equal to one billion (one thousand million) watts.
— “Gigawatt-hour” (GWh)	– one gigawatt-hour represents one hour of electricity consumption at a constant rate of 1GW.
— “Kilowatt” (kW)	– a kilowatt is a unit of power equal to one thousand watts.
— “Kilolitre”	– one kilolitre equals one thousand litres.
— “Megalitre” (Ml)	– one megalitre equals one million litres.

The company’s registered office is located at Dawson House, Great Sankey, Warrington WA5 3LW, England and its telephone number is 00-44-1925-237-000. www.unitedutilities.com

The company’s financial year ends on 31 March of each year. Unless the context otherwise requires, references in this report to “financial year” are to the 12 months ending on 31 March of that year. Unless otherwise indicated, the financial information contained in this report has been prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP). The annual reports and audited consolidated financial statements contain a reconciliation to accounting principles generally accepted in the United States (US GAAP) of net income and shareholders’ equity. Unless otherwise indicated, a reference in this report to “consolidated financial statements” is to the audited consolidated financial statements of the company (together with accompanying notes) prepared at the end of each financial year, included in this report. Unless otherwise indicated, financial information for the group included in this report is presented on a consolidated basis and references to “turnover” (revenue) with respect to a business segment are to the gross turnover of such segment.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain forward-looking statements with respect to the financial condition, results of operations and business of the company.

Statements that are not historical facts, including statements about the company’s beliefs and expectations, are forward-looking statements. Words such as “expects”, “anticipates”, “intends”, “plans”, “believes”, “seeks”, “estimates”, “potential”, “reasonably possible” and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore investors should not rely on them. Forward-looking statements speak only as of the date they are made, and the company undertakes no obligation to update publicly any of them in light of new information or future events.

The company may also make written and/or oral forward-looking statements in its periodic reports to the Securities and Exchange Commission on Forms 6-K, in the annual report to shareholders, in proxy statements, in offering circulars and prospectuses, in press releases and other written materials and in oral statements made by officers, directors or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. The company cautions investors that a number of important factors could cause actual results to differ materially from those anticipated or implied in any forward-looking statements. These factors include: (i) the effect of, and changes in, regulation and government policy; (ii) the effects of competition and price pressures; (iii) the ability of the company to achieve cost savings and operational synergies; (iv) the ability of the company to service its future operations and capital requirements; (v) the timely development and acceptance of new products and services by the company; (vi) the effect of technological changes; and (vii) the company’s success at managing the risks of the foregoing. The company cautions that the foregoing list of important factors does not address all the factors that could cause results to differ materially.

ITEM 1 IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2 OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3 KEY INFORMATION

The selected financial data set out below was extracted or derived from the consolidated financial statements of the company, which have been audited by KPMG Audit Plc, Chartered Accountants and Registered Auditor, incorporated by reference from the 2001 annual report to shareholders. The selected financial data should be read in conjunction with, and are qualified in their entirety by reference to, such consolidated financial statements and their accompanying notes contained herein, together with the auditor's report, the operational review and the financial review which are incorporated herein by reference from the 2001 annual report to shareholders.

United Utilities prepares its consolidated financial statements in accordance with UK GAAP, which differs in certain significant respects from US GAAP. A description of the significant differences between UK GAAP and US GAAP applicable to United Utilities and a reconciliation of profit after taxation (or net income) and equity shareholders' funds (or shareholders' equity) under UK GAAP and those under US GAAP are set out in note 36 to the consolidated financial statements, appearing on pages 67 to 70 of the 2001 annual report to shareholders, and are incorporated herein by reference. Additional disclosures required by US GAAP are set out in note 37 to the consolidated financial statements, appearing on pages 71 to 74 of the 2001 annual report to shareholders, and are incorporated herein by reference.

Selected Consolidated Financial Data

Amounts in accordance with UK GAAP

Financial year	**2001 $m**	**2001 £m**	2000 £m	1999 £m	1998 £m	1997 £m
Consolidated income statement data						
Group turnover from continuing operations	**2,124.5**	**1,496.1**	1,564.3	1,458.4	1,342.1	1,287.0
Group turnover from discontinued operations	**286.1**	**201.5**	792.0	818.5	808.1	1,090.2
Total group turnover	**2,410.6**	**1,697.6**	2,356.3	2,276.9	2,150.2	2,377.2
Exceptional items[1]	**247.9**	**174.6**	(31.0)	(31.9)	(36.8)	(196.6)
Net interest payable	**312.8**	**220.3**	206.0	203.2	162.5	167.0
Profit before tax	**688.6**	**484.9**	459.4	455.9	397.7	224.4
Profit/(loss) after tax and minority interests[3]	**605.2**	**426.2**	458.0	468.3	(39.5)	175.9
Dividends	**(362.0)**	**(254.9)**	(248.8)	(243.6)	(228.8)	(195.3)
Earnings/(loss) per share	**$1.10**	**77.30p**	83.20p	85.60p	(7.40)p	33.50p
Diluted earnings/(loss) per share	**$1.09**	**77.00p**	82.70p	84.50p	(7.30)p	33.20p
Adjusted earnings per share[9]	**$0.76**	**53.80p**	88.90p	91.40p	77.10p	71.00p
Adjusted diluted earnings per share[9]	**$0.76**	**53.60p**	88.30p	90.30p	76.20p	70.30p
Dividend per share[11]	**$0.65**	**46.10p**	45.20p	44.30p	42.16p	37.20p
Dividend per ADS[8][11]	**$1.31**	**92.20p**	90.40p	88.60p	84.32p	74.40p
Average number of ordinary shares in issue – basic (million)		**551.1**	550.2	547.2	534.7	524.8
Average number of ordinary shares in issue – diluted (million)		**553.7**	553.6	554.1	541.0	530.2

As at 31 March	**2001 $m**	**2001 £m**	2000 £m	1999 £m	1998 £m	1997 £m
Consolidated balance sheet data						
Total assets	**10,656.4**	**7,504.5**	6,896.0	6,637.9	6,207.4	5,658.2
Long term obligations	**4,405.6**	**3,102.5**	2,607.0	2,561.9	1,908.5	1,485.3
Equity shareholders' funds	**4,018.0**	**2,829.6**	2,517.4	2,305.1	2,046.9	2,212.9
Share capital and share premium	**1,717.5**	**1,209.5**	1,195.6	1,192.0	1,178.6	1,151.6

Financial year	**2001 $m**	**2001 £m**	2000 £m	1999 £m	1998 £m	1997 £m
Other financial data						
PBEIT from continuing operations[1][4]	**722.8**	**509.0**	619.5	634.6	569.8	548.9
PBEIT from discontinued operations[1][4]	**30.7**	**21.6**	76.9	56.4	27.2	39.1
Total PBEIT[1][4]	**753.5**	**530.6**	696.4	691.0	597.0	588.0
Net cash inflow from operating activities	**1,196.4**	**842.5**	884.3	811.4	684.1	618.7
Net cash outflow from returns on investments and servicing of finance	**(269.9)**	**(190.1)**	(191.6)	(161.7)	(137.3)	(121.3)
Net cash (outflow)/inflow from taxation	**(2.4)**	**(1.7)**	(37.3)	(248.6)	(236.3)	29.5
Net cash outflow from capital expenditure and financial investment	**(814.7)**	**(573.7)**	(637.0)	(649.3)	(696.7)	(616.4)
Net cash inflow/(outflow) from acquisitions and disposals	**277.5**	**195.4**	(20.7)	(6.8)	(24.3)	357.5
Net cash outflow from equity dividends paid	**(355.1)**	**(250.1)**	(450.1)	(0.2)	(114.2)	(145.8)
Net cash (outflow)/inflow from management of liquid resources	**(466.8)**	**(328.7)**	(3.1)	245.8	1.5	(57.3)
Net cash inflow/(outflow) from financing activities	**471.4**	**332.0**	318.1	162.2	518.6	(99.6)
Ratio of earnings to fixed charges[5]		**3.2x**	3.4x	3.4x	3.7x	2.5x
Adjusted interest cover[6]		**2.5x**	3.6x	3.7x	4.0x	3.9x
Net leverage[7]		**49.8%**	53.0%	50.9%	51.1%	42.4%

Amounts in accordance with US GAAP

Financial year	**2001 $m**	**2001 £m**	2000 £m	1999 £m	1998 £m	1997 £m
Consolidated income statement data						
Turnover from continuing operations	**2,117.2**	**1,491.0**	1,564.3	1,458.4	1,342.1	1,287.0
Non-recurring items(2)	**213.6**	**150.4**	(31.0)	(31.9)	(30.2)	(120.8)
Operating profit from continuing operations before interest and tax	**623.5**	**439.1**	521.9	516.1	469.2	327.6
Profit before tax from continuing operations	**371.8**	**261.8**	387.1	390.0	379.2	251.3
Profit/(loss) after tax and minority interests from continuing operations(3)	**103.1**	**72.6**	372.8	232.7	(100.7)	146.8
Profit/(loss) after tax and minority interests from discontinued operations	**177.8**	**125.2**	43.6	29.2	27.2	(53.1)
Profit/(loss) after tax and minority interests(3)	**280.9**	**197.8**	416.4	261.9	(73.5)	93.7
Basic earnings per share from continuing operations(10)	**$0.19**	**13.2p**	67.8p	42.5p	(18.8)p	28.0p
Basic earnings per share from discontinued operations(10)	**$0.32**	**22.7p**	7.9p	5.4p	5.1p	(10.2)p
Diluted earnings per share from continuing operations	**$0.19**	**13.1p**	67.4p	42.3p	(18.8)p	27.8p
Diluted earnings per share from discontinued operations	**$0.32**	**22.7p**	7.9p	5.3p	5.1p	(10.1)p
Average number of ordinary shares in issue – diluted (million)		**552.3**	553.0	550.5	534.7	528.3

As at 31 March	**2001 $m**	**2001 £m**	2000 £m	1999 £m	1998 £m	1997 £m
Consolidated balance sheet data						
Total assets in continuing operations	**11,992.3**	**8,445.3**	7,684.3	7,418.5	7,259.5	6,714.7
Long term obligations in continuing operations	**5,530.9**	**3,895.0**	3,098.5	3,033.6	2,355.9	1,957.0
Shareholders' equity	**4,369.3**	**3,077.0**	3,090.1	2,916.0	2,857.7	3,031.5

Financial year	**2001**	2000	1999	1998	1997
Other financial data					
Ratio of earnings to fixed charges(5)	**3.0x**	3.3x	3.1x	3.6x	2.4x

(1) Exceptional items comprise:

Financial year	**2001 £m**	2000 £m	1999 £m	1998 £m	1997 £m
UK GAAP					
Bangkok	**–**	–	–	–	(83.0)
Profit/(loss) on disposal of businesses	**191.2**	–	–	6.8	(77.1)
Business restructuring	**(16.6)**	(21.5)	–	(43.6)	(36.5)
Year 2000 costs	**–**	(9.5)	(31.9)	–	–
	174.6	(31.0)	(31.9)	(36.8)	(196.6)

Reorganisation costs incurred relating to the acquisition of Norweb (8 November 1995) were, £15.8 million in the year to 31 March 1997 and £36.3 million in the year to 31 March 1998.

(2) For US GAAP, the company defines non-recurring items as the US GAAP equivalents of the UK GAAP exceptional items (ie the restructuring charges, the profit/(loss) on disposal of businesses, the Bangkok provision and Year 2000 costs). These are set out in the table below:

Financial year	**2001 £m**	2000 £m	1999 £m	1998 £m	1997 £m
US GAAP					
Bangkok	**–**	–	–	–	(83.0)
Profit on disposal of businesses	**167.0**	–	–	6.8	0.9
Business restructuring	**(16.6)**	(21.5)	–	(37.0)	(38.7)
Year 2000 costs	**–**	(9.5)	(31.9)	–	–
	150.4	(31.0)	(31.9)	(30.2)	(120.8)

(3) Loss after tax and minority interests for the financial year ended 31 March 1998 includes an exceptional tax charge of £414.8 million in respect of the windfall tax.
(4) PBEIT (profit on ordinary activities before non-operating items, exceptional items, interest and tax) and operating profit include the results of associated companies. PBEIT is a supplemental financial measure which excludes exceptional items and is being presented to provide additional information about the company's underlying business performance. The information relating to PBEIT should be read in conjunction with all of the financial data in the selected financial data, as well as the consolidated financial statements and the notes thereto prepared in accordance with UK GAAP. PBEIT should not be considered as an alternative to profit after tax.
(5) For purposes of calculating the ratio of earnings to fixed charges, "earnings" consists of pre-tax income before adjustment for minority interests in consolidated subsidiaries plus fixed charges and amortisation of capitalised interest less capitalised interest. "Fixed charges" consists of interest expensed and capitalised plus amortised premiums, discounts and capitalised expenses related to indebtedness.
(6) Adjusted interest cover is calculated as the number of times the interest charge for the period (excluding notional interest relating to onerous electricity purchase contracts) is covered by profit before non-operating items, exceptional items, interest and tax.
(7) Net leverage is defined as net debt (loans, finance leases and overdrafts less cash at bank and in hand and managed funds and short-term deposits) as a percentage of net debt plus equity shareholders' funds.
(8) Calculated based on a ratio of two ordinary shares to one ADS.
(9) Adjustments are made to profit to eliminate exceptional items in calculating adjusted earnings per share. A detailed calculation under UK GAAP is shown in note 10 to the consolidated financial statements.
(10) For the purposes of calculating basic earnings per share, the weighted average number of shares in issue under US GAAP is as per UK GAAP.
(11) The final dividend for financial year 1998 included an enhancement of 1.36 pence (0.02US$) per ordinary share. See Item 8 "Dividends" note (ii).

EXCHANGE RATES

In this report, unless otherwise specified or unless the context requires otherwise, all references to "pound", "sterling", "pounds sterling", "£", "p" and "pence" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland ("United Kingdom" or "UK"). The company publishes its consolidated financial statements in sterling. In this report, all references to "US dollars", "US$", "$" and "c" are to the lawful currency of the United States ("United States" or "US"). Amounts stated in US dollars, unless otherwise indicated, have been translated from sterling at an assumed rate solely for convenience, and should not be construed as representations that the sterling amounts actually represent such US dollar amounts or could be converted into the US dollars at the rate indicated or any other rate. Unless otherwise indicated, such US dollar amounts have been translated from sterling at the rate of £1.00 = $1.42, the noon buying rate in the City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York ("Noon Buying Rate") on 31 March 2001. The Noon Buying Rate on 31 March differs from the actual rates used in the preparation of the company's consolidated financial statements, and US dollar amounts used in this report may differ from the actual US dollar amounts that were translated into sterling in the preparation of such financial statements.

The following table sets out, for the financial year indicated, certain information concerning the Noon Buying Rate for pounds sterling and US dollars per £1.00.

Financial year	High	Low	Average[1]	Period end
1997	$1.71	$1.49	$1.60	$1.64
1998	$1.70	$1.58	$1.64	$1.68
1999	$1.72	$1.59	$1.65	$1.61
2000	$1.68	$1.55	$1.61	$1.59
2001	$1.60	$1.40	$1.47	$1.42

[1] The average of the Noon Buying Rate on the last day of each month during the relevant period.

Month	High	Low
2000		
December	$1.50	$1.44
2001		
January	$1.50	$1.46
February	$1.48	$1.44
March	$1.47	$1.42
April	$1.45	$1.42
May	$1.44	$1.41

On 4 June 2001, the Noon Buying Rate was US$1.41 per £1.00.

ITEM 4 INFORMATION ON THE COMPANY

UNITED UTILITIES PLC

United Utilities PLC is a holding company. The company, previously called North West Water Group PLC, was incorporated and registered in England and Wales on 1 April 1989 to provide water and wastewater services in North West England through its wholly owned subsidiary North West Water Limited. In November 1995, the company acquired all the issued share capital of NORWEB plc, the distributor and supplier of electricity in North West England, to form a multi-utility group. Shortly after the acquisition, North West Water Group PLC changed its name to United Utilities PLC.

United Utilities is a public listed company (company no. 2366616), whose ordinary shares are listed on the London Stock Exchange. Its registered office is at Dawson House, Great Sankey, Warrington, WA5 3LW, England (tel no. 00-44-1925-237-000).

During the last year, the group restructured and undertook a rebranding exercise.The group now has four business segments:

- licensed multi-utility operations – United Utilities Service Delivery (the licensed activities of United Utilities Water (water and wastewater) and Norweb Distribution (electricity distribution)) and United Utilities Customer Sales;
- asset management services – United Utilities Contract Solutions, which contains three businesses – operations management, green energy and network services (incorporating United Utilities International, United Utilities Green Energy and United Utilities Networks);
- customer management outsourcing – Vertex; and
- telecommunications – Your Communications.

Norweb Energi (the electricity and gas supply business) was sold to TXU Europe Group PLC on 3 August 2000 for £310 million in cash. Further details regarding this disposal are contained in Item 4 “Sale of Norweb Energi” on page 17. Other important events affecting the group are discussed in the relevant business unit descriptions below.

The rebranding exercise concentrated on the United Utilities brand. The Norweb name is now used by the group under licence from TXU Europe Group PLC. The names of NORWEB plc and Norweb Distribution will be changed to United Utilities Electricity PLC and United Utilities Electricity (respectively) upon separate licensing of the distribution and supply businesses (see “Electricity regulation” below).

The group is pursuing a focused strategy to deliver growth and efficiency by:

- developing its support services businesses using its core skills of asset management and customer management;
- improving the efficiency of its licensed operations; and
- maximising the synergies attainable by it as a multi-utility operator.

LICENSED MULTI-UTILITY OPERATIONS

United Utilities Service Delivery, through its wholly owned subsidiaries United Utilities Water Limited (previously known as North West Water Limited) and NORWEB plc, manages and operates the group’s licensed water, wastewater and electricity network assets in North West England, collecting, treating and distributing water, removing and treating wastewater, and distributing electricity. It treats and distributes around 2,000 million litres of water a day to, and removes and treats wastewater from, nearly 3 million homes and businesses. It distributes over 24,000 gigawatt hours of electricity annually to more than 2 million homes and businesses in North West England. The water and wastewater elements of United Utilities Service Delivery are contained within United Utilities Water Limited, while electricity distribution elements of United Utilities Service Delivery are contained within Norweb Distribution, a trading division of NORWEB plc.

The business focus is on cost reduction and efficiency whilst improving the quality of service for customers. The detailed programme to achieve the efficiencies required over the five-year period to meet regulatory targets exceeded the £40 million target for 2000/1. The target for cost savings over the five-year period to 2005 has been raised from £400 million to £450 million, principally as a result of our expectation of multi-utility synergies.

Capital investment in the year was £483.6 million, in line with the profile of the capital programme. In water and wastewater, of total capital expenditure of £372.7 million, 42.7 per cent was on the water network, 48.8 per cent on the wastewater network (including sludge treatment and disposal) and 8.5 per cent related to quality and efficiency. In electricity distribution, of total capital expenditure of £110.9 million, 30.7 per cent was load related, 63.4 per cent was non-load related and 5.9 per cent was non-operational.

At the time of water and wastewater privatisation in 1989, the infrastructure inherited by United Utilities Water was in need of substantial repair and replacement. Further improvements have been required in order to comply with applicable UK and European Union environmental regulations. Gross capital investment by United Utilities Water for 2000 was £484.6 million and £521.4 million in 1999. Capital expenditure by Norweb Distribution in 2000 was £136.0 million and £152.3 million in 1999.

The implementation of a large part of United Utilities Water's capital programme has been contracted to Montgomery Watson Programme Management Limited for the five years from 1 April 2000. The arrangement is designed to increase efficiencies in executing the capital programme as well as to minimise the company's construction risks.

Water and wastewater regulation

The Water Industry Act 1991 requires companies engaged in water supply or wastewater services in England and Wales to be licensed. Regulation pursuant to these licences is the responsibility of the Director General of Water Services (DGWS), assisted by the Office of Water Services (Ofwat). The current DGWS's term of office commenced in August 2000. The DGWS also exercises powers under competition legislation, most significantly the Competition Act 1998.

The DGWS awarded water and wastewater licences in 1989 for a period of 25 years. A licence can be withdrawn in certain circumstances including, for example, for failure to comply with an enforcement order made by the DGWS. The UK Government must give 10 years' notice if it does not intend to renew a licence. Under the current regime limited competition for customers is permitted. As from August 2000, the relevant threshold was lowered from customers with annual consumption of not less than 250 megalitres to customers with annual consumption of not less than 100 megalitres.

In April 2001, the Government announced proposals to increase competition in the water industry in England and Wales, which include the licensing of new entrants into the markets for production (water abstraction and treatment) and retail activities and provision for competitors to share the current networks operated by the incumbent water companies. The Government announced its intention to publish a consultation paper on the proposed legislative and regulatory framework later in 2001. Clauses creating a new framework are to be incorporated into the draft Water Bill on which the Government first consulted in November 2000. The November 2000 consultation draft Water Bill included provisions to amend the statutory duties of the DGWS so as to give him a primary duty to protect consumers' interests including, wherever appropriate, by promoting effective competition. It also provided for the introduction of financial penalties for bad practice or poor performance.

United Utilities Water's licence restricts its conduct in a number of ways. These include prohibitions on discrimination between customers and on cross-subsidies between United Utilities Water and associated companies and restrictions on the declaration and payment of dividends. Licence conditions can be modified by the DGWS either with the agreement of the licencee or following an investigation by the UK Competition Commission.

The DGWS regulates water and wastewater charges by capping the average increase in charges which a company can impose in any year by reference to inflation as measured by the Retail Price Index in the UK (RPI). Unlike "rate of return" economic regulation, such as exists in many states of the United States, "price limitation" regulation in the UK is performance based. The DGWS reviews price limits every five years. If United Utilities Water does not accept the DGWS's proposals, it can require the DGWS to refer the matter to the Competition Commission for determination. In addition, United Utilities Water can request a re-setting of its price limit during the five-year period in certain specified circumstances.

New price limits took effect in April 2000. Average changes in United Utilities Water's charges for the remainder of the period must, in real terms, remain within the following levels:

2001/02	2002/03	2003/04	2004/05
–1.0%	0.0%	+4.0%	+4.5%

The Water Industry Act 1999 prohibits disconnecting water supply for non-payment, and limiting supply with the intention of enforcing payment, for certain premises including private dwellings and incorporates other rights and protections for household water customers.

Each year, the 15 water companies and 10 water and wastewater companies in England and Wales report to Ofwat on eight levels of service performance measures. The performance measures tracked by Ofwat and the methods used by the companies to collect and record the data are subject to external scrutiny by an independent reporter appointed by the regulator. The eight Ofwat performance measures cover:

- water usage restrictions;
- pressure of mains water;
- interruptions to water supplies;
- sewer flooding incidents;
- response to billing contacts;
- response to written complaints;
- billing of metered customers; and
- ease of telephone contact.

Ofwat assess company performance against these measures in three bands representing good, average and poor performance. This enables Ofwat to recognise and promote good performance. It also enables them to identify poor performance and seek improvement plans from companies.

Water supply operations, treatment and distribution

United Utilities Water obtains water from various sources including reservoirs, rivers and aquifers. United Utilities Water enjoys the advantage of having the majority of its direct reservoirs in the uplands of the Lake District, an area of North West England which enjoys a higher than average annual rainfall for England, and the Pennine hills on the eastern edge of North West England, whereas the major population centres in North West England are in the lowlands of Merseyside, Greater Manchester, Lancashire and Cheshire. As a result, a significant proportion of water supplied by United Utilities Water flows freely by gravity and does not need to be pumped.

All water supplied receives treatment with a view to meeting the appropriate standards determined by the Drinking Water Inspectorate, the government regulator of drinking water quality in England and Wales. The type of treatment varies from disinfection only for some borehole and stream sources, to more complex processes using coagulation, clarification, and activated carbon absorption and ozonation for some lowland waters. United Utilities Water also employs a number of new treatment processes including membrane microfiltration. United Utilities Water monitors water quality by analysing samples regularly for both microbiological and chemical parameters.

The treated water is delivered to the end customer through a network of aqueducts, trunk and distribution mains, service reservoirs and water towers.

These operations, within United Utilities Water, involve managed assets of:–

- 204 impounding reservoirs;
- 1,200 kilometres of raw water aqueducts;
- 113 water treatment works;
- 1,100 kilometres of treated water aqueducts;
- 493 service reservoirs and water towers;
- 568 pumping stations; and
- 39,600 kilometres of trunk and distribution mains.

Key outputs from the capital investment programme during 2000/01 include the refurbishment of a further 800 kilometres of old water mains and the cleaning of 350 kilometres of mains. The business continued to improve quality, with 99.66 per cent of drinking water samples meeting the quality standards at customers' taps, up from 99.62 per cent the previous year. Some 54,000 properties were given new supply pipes, mainly replacing old lead pipes, and the business successfully met its target to cut leakage to 465 megalitres a day. It also installed water meters in around 21,000 domestic properties under the free meter scheme.

Wastewater, collection, treatment and disposal operations

Under its licence, United Utilities Water is responsible for the collection, treatment and disposal of domestic sewage, trade effluent and surface water in North West England. Surface water, mainly from groundwater infiltration and highway drainage, forms a major part of the wastewater of which United Utilities Water must dispose. Where practicable, separate sewers are provided for sewage and surface water.

United Utilities Water's wastewater works provide a range of treatments which includes primary, enhanced primary, secondary activated sludge, secondary biological, tertiary activated sludge and tertiary biological. Treated liquid final effluent is discharged into rivers, estuaries or via sea outfalls. In accordance with the European Union Urban Waste Water Treatment Directive, United Utilities Water's disposal of sludge into the sea has ceased.

These operations involve managed assets of:

- 39,800 kilometres of sewers;
- 1,500 pumping stations;
- 200 storage tanks;
- 3,000 combined sewer overflows;
- 611 wastewater treatment works; and
- 43 sludge treatment facilities.

The business continued to make progress in satisfying the Urban Wastewater Treatment Directive for works serving populations greater than 15,000. This Directive which was enacted into national law by the Urban Wastewater Treatment Regulations requires improvements in the treatment of wastewater discharges. Secondary treatment facilities were completed at Birkenhead, Bromborough, Liverpool and Ulverston, and construction started at Whitehaven and Workington. At North Wirral, primary treatment has been completed and work has started on secondary treatment.

A further 120 kilometres of derelict sewers were refurbished, and 76 kilometres of new sewers added to the network. The business has undertaken 82 urban pollution modelling studies as part of its programme to deal with unsatisfactory intermittent discharges, and during the year 48 unsatisfactory overflows were closed to help improve river water quality. It also made progress in developing its sludge strategy, and 18 new major capital projects are underway.

Pursuant to the European Union Bathing Water Directive, the Environment Agency tests certain designated bathing waters around the UK coast for the presence or absence of various bacteria. The programme of wastewater network and treatment projects to improve the quality of, and meet the required quality standards for, bathing waters in North West England continues. All United Utilities Water's discharges to bathing waters meet or exceed the required discharge consents set by the Environment Agency. Despite this, although the sample failures have reduced, certain bathing waters continue to fail the European Union mandatory standards. United Utilities Water is assisting the Environment Agency in their investigation to trace the reason for the continuing failures.

Electricity regulation

The electricity industry in Great Britain is regulated under the Electricity Act 1989 and the Utilities Act 2000. The latter established a single regulator for the gas and electricity sectors, the Gas and Electricity Markets Authority (the Authority), in place of the two posts of Director General of Electricity Supply and Director General of Gas Supply. The Authority governs and acts through the Office of Gas and Electricity Markets (Ofgem). In addition to its regulatory powers, Ofgem exercises powers under UK competition legislation, including the Competition Act 1998.

Throughout England and Wales, electricity generation, transmission and distribution systems constitute a single integrated network. Almost all electricity generated at power stations in England and Wales is delivered through the National Grid to the local distribution networks. All companies distributing or supplying electricity must be licensed unless they are covered by an exemption. Norweb's public electricity supply (PES) licence authorises it to distribute and supply electricity in North West England. This licence can be terminated on 25 years' notice given by the Secretary of State. The licence can also be revoked in certain circumstances, including where the licencee fails to comply with an enforcement order made by Ofgem.

The licence contains various conditions regulating the conduct of the business. In particular, the disposal of any part of the distribution system is restricted; distribution businesses and suppliers which Ofgem deems to be in a dominant position must provide services on non-discriminatory terms; cross-subsidies to or from Norweb's licenced businesses are prohibited; and the directors must provide a certificate of compliance before declaring dividends or making distributions. In general, PES licences also contain increasingly strict provisions to maintain and ring-fence the financial and management resources of the licenced businesses. Licence conditions can be modified by Ofgem either with the agreement of the licencee or following an investigation by the Competition Commission.

Norweb's distribution activities are subject to price control, which caps the maximum increases in prices charged by reference to RPI. Ofgem reviews the form and level of the price controls periodically. If Norweb does not accept Ofgem's proposals, it can require Ofgem to refer the matter to the Competition Commission for determination.

A new price control for Norweb came into effect on 1 April 2000 and required a one-off reduction of RPI -27 per cent in average regulated revenue in 2000/01. Average revenue in the next four years must not increase faster than RPI -3 per cent. Ofgem intends to introduce additional incentive mechanisms from the beginning of 2002/03. It is working on a project (the Information and Incentives Project) to improve the quality of information collected from distribution businesses and to strengthen the financial incentives on them. Norweb is fully involved in this project.

Ofgem is also in the process of conducting a review of distribution charges (the first since 1993), including how they are set and whether they remain appropriate following recent changes in the structure of the operation of the electricity industry. Ofgem has announced its intention to publish its proposals arising from this review later in 2001, with a view to implementation between October 2001 and April 2002.

New legislation affecting the electricity sector, the Utilities Act 2000, was enacted by the UK Parliament in July 2000. It has yet to enter fully into force. The changes which the Utilities Act has already introduced include a new principal objective of the Authority to protect the interests of consumers, wherever appropriate by promoting competition. It will also introduce financial penalties for bad practice or poor performance and new collective licence modification procedures enabling the regulator to modify standard licence conditions without a Competition Commission reference even if some licensees disagree.

When the relevant provisions of the Utilities Act enter into force, electricity supply and distribution will be licensed separately and there will be a bar on the holding of supply and distribution licences by the same legal person. Norweb's distribution business will then be conducted under a distribution licence. The process for licence separation is underway. Pending licence separation, Norweb continues to hold its PES licence and, following its acquisition of Norweb's supply business, TXU meets Norweb's residual supply-related obligations under its PES licence under arrangements described in further detail in item 4 "Sale of Norweb Energi" below.

Norweb is required to maintain certain standards relating to the quality of supply of electricity in its licence area. These standards are divided into guaranteed standards and overall standards. Each year Norweb must report to Ofgem on these standards. Ofgem monitors and audits compliance with these standards and this enables them to seek improvement plans from companies failing to meet the standards. In addition, failure to meet guaranteed standards will result in a prescribed compensation payment to the customer concerned.

The existing guaranteed standards relate to:-

– response time for main fuse failure at customer's premises;
– time to restore supply after a fault;
– time to provide an estimate charge for new connection or service alteration;
– notice of planned supply interruption;
– time to respond to voltage complaint;
– making and keeping appointment; and
– notifying customer and making payment owed.

The existing overall standards set targets for:-

– restoration of supply within 3 hours;
– restoration of supply within 18 hours;
– solving voltage complaints within 6 months;
– connecting new premises to the electricity distribution system within 30 working days for domestic customers and 40 working days for non-domestic customers; and
– responding to customer's letter within 5 working days.

Ofgem have indicated that, as from April 2002, there will be a new guaranteed standard covering the maximum number of interruptions per year and two new overall standards covering the maximum number of interruptions per year and telephone response times.

Electricity distribution

Norweb Distribution distributes approximately 24,000 GWh of electricity annually from the National Grid and power stations to approximately 2.2 million customer premises (domestic, commercial and industrial) in North West England. The income derived from the distribution business depends in part on changes in the demand for electricity by customers in North West England. Demand for electricity is affected by such factors as growth and movements in population, social trends, economic and business growth or decline, changes in the mix of energy sources used by customers, weather conditions, energy efficiency measures and other factors.

Norweb Distribution's managed assets include:-

– 14,000 kilometres of overhead lines;
– 44,000 kilometres of underground cables; and
– 32,000 sub-stations.

Key performance measures for the business relate to quality of supply. Electricity supplies were available for 99.99 per cent of the time during 2000/01, sustaining the business' high level of performance in managing the network to maintain constant supplies for customers. All the key overall standards against Ofgem's targets were achieved, particularly on three-hour restoration (90.6 per cent against Ofgem's target of 90.0 per cent, and compared with 90.3 per cent the previous year). On the new 18-hour restoration target (tightened from 24 hours as from 1 April 2001), the business achieved 99.9 per cent success against a target of 99.5 per cent.

Quality of supply targets on customer minutes lost and customer interruptions were both better than the previous year, and better than Ofgem's targets. The average number of interruptions per 100 customers fell from 54.7 to 54.1, against a target of 54.8. The average number of minutes that customers were without supply fell from 62.7 to 59.7, against a target of 64.2 minutes.

United Utilities Customer Sales focuses on the customer management activities involved in supplying water, wastewater and related products and services, to homes and businesses in North West England. The creation of United Utilities Customer Sales completed the separation of the supply and asset management parts of the group's water business.

United Utilities Customer Sales intends to become a leading national water retailer, building on the high level of customer satisfaction in the year, up to 93 per cent from 86 per cent the previous year.

It supplies about 17 per cent of the UK large-user market, which is already open to limited competition for customers consuming 100 megalitres or more annually. It has continued to develop its portfolio of services for the industrial market during the year, working closely with the water and wastewater services operations recently acquired from Hyder plc.

It is already offering additional products and services, such as insurance and plumbing, to its customers, and is planning to extend its offerings to a wider range of home services. Customers in North West England were the first in the country to benefit from a discount on water bills. From 1 April 2001, United Utilities Customers Sales has been leading the way, giving a £5 discount to customers who pay by direct debit.

ASSET MANAGEMENT SERVICES

United Utilities Contract Solutions has three businesses:

- operations management – develops and operates contracts in selected markets based on the group's core asset management skills;
- green energy – develops and operates renewable energy generation projects; and
- network services – provides a one-stop service in the multi-utility metering and connections market.

Operations management

The business operates and manages utility activities serving over 15 million people in the UK and overseas. It has a focused approach to pursuing opportunities, with the objective of securing long-term investment and operational sources of income while limiting financial exposure. Progress in the year includes:

- *Wales* – the business secured a four-year, £450 million contract in March 2001 to operate and maintain Welsh Water's 113 water treatment plants, 850 wastewater treatment works and 26,000 kilometres of water mains. The contract started on 1 April 2001. United Utilities Operational Services Limited and Dwr Cymru Cyfyngedig, the contract parties, are managing the contract under which 1,400 staff transferred to United Utilities on 1 April. Welsh Water supplies around 1,000 megalitres of water a day to some 1.2 million homes and 100,000 business customers. This contract makes United Utilities, as manager of its own and Welsh Water's assets, the largest water and wastewater assets manager in the UK;

- *Scotland* – following 18 months' construction, the Tay wastewater scheme, one of the largest civil engineering projects in Scotland, began commissioning in May 2001;

- *Estonia* – in partnership with International Water (a Bechtel organisation) the business acquired a majority shareholding in AS Tallinna Vesi, the company which supplies water and wastewater services for 400,000 people in Tallinn, Estonia. The joint venture signed a £500 million, 15-year contract to manage the city's water and wastewater operations;

- *Bulgaria* – the £700 million, 25-year contract for water supply in Sofia, Bulgaria, started successfully in October 2000. Serving 1.2 million people, the concession is 75 per cent owned by United Utilities and International Water, and over 1,700 employees transferred to the new operating company. A new call centre, the first of its kind for a utility in Bulgaria, is now handling over 5,000 calls a month;

- *Australia* – a water recycling facility for the Yabulu refinery of Queensland Nickel Industries was completed in December 2000, and United Utilities Australia also completed and is operating a facility to treat waste from soda ash manufacturing at Penrice Soda Products, South Australia. United Utilities Australia also achieved National Association of Testing Authorities accreditation to environmental standard 14001 across all sites in New South Wales, South Australia and Victoria; and

- *USA* – US Water (a joint venture with Bechtel in North America) entered a 20-year contract for the operation and maintenance of a major wastewater treatment facility at Springfield, Massachusetts. It also successfully bid for a new five-year contract with the City of Reidsville, in North Carolina, to operate the City's water and wastewater facilities.

The business is affected by a variety of regulatory regimes and regulatory risk which are assumed to varying degrees by the client, the concession company and/or the operator. As operator, however, United Utilities will not be the licensed entity.

Green energy

United Utilities acquired Hyder's renewable green energy business in December 2000. With 10 per cent of the green energy capacity in England and Wales, the business is well positioned to benefit from the Government's commitment to increasing renewable generation.

The business has contributed to the group's results from the date of acquisition, and has continued to deliver new projects. Eleven projects were commissioned during the year, and a further 13 are to be commissioned in the current year, bringing the total to over 80 by 31 March 2002. This includes hydropower stations at reservoirs as well as innovative schemes such as at Tower Colliery, near Aberdare, where landfill gas technology is used to generate electricity from methane gas.

The business has also secured a £60 million opportunity to develop offshore wind generation at Scarweather Sands, off the South Wales coast. The site is one of 18 around the UK coastline recently announced by the Government.

The UK Government supports renewable energy initiatives. The UK has a target to increase the share of electricity generated from renewables from the current level of less than 3 per cent to 10 per cent by 2010. Furthermore, under the Utilities Act 2000, the Government can require electricity suppliers to ensure that a certain amount of the electricity that they supply to consumers comes from a renewable source. The business is well placed to secure a significant proportion of the rapidly expanding green energy market in the UK.

Network services

This business was created by merging the group's pre-existing multi-utility metering and connections operations with Hyder Private Networks and Hyder Gas Networks, which were acquired in January 2001. Management believes that the combined business is a market leader in the fast developing multi-utility metering and connections market.

The business won the contract for the design and construction of the multi-utility infrastructure to supply the Commonwealth Games stadium in Manchester. The contract involves a new primary electricity sub-station and installation of two kilometres of electricity, gas, water and telecommunications infrastructure.

To take advantage of ongoing income streams from owning and operating gas network assets, United Utilities Gas Networks was created, and was granted a public gas transporter's licence in July 2000. The acquisition of gas assets continues to grow with new orders for over 15 kilometres of main and 3,500 domestic service connections.

Gas transport regulation

The gas industry in Great Britain is regulated under the Gas Acts 1986 and 1995 and the Utilities Act 2000 by the Gas and Electricity Markets Authority, acting through Ofgem. In addition to regulatory powers, Ofgem exercises powers under UK competition legislation, including the Competition Act 1998. The operation of pipelines for the conveyance of gas is regulated by licences. The Utilities Act 2000 will provide for further competition between public gas transporters (PGT) by abolishing the geographical exclusivity hitherto attaching to PGT licences. Ofgem has announced an imminent review of the regulation of independent PGTs, to cover their charging policies and the incentives on them with the objective of reducing costs and improving quality of service.

As a public gas transporter, when United Utilities Gas Networks proposes to undertake pipe-line works, it may be required to carry out an assessment of the effects of the works on the environment.

CUSTOMER MANAGEMENT OUTSOURCING

Vertex provides customer management and other business process outsourcing services to utilities, private enterprise and the public sector. It seeks to maximise value for its clients by integrating transactional-based and value-enhancing customer management activities. The business now employs nearly 8,000 people and operates from 26 locations in the UK.

Vertex is the largest provider in the UK of outsourced business process operations to the utility sector, currently handling over 8.5 million client customer accounts, and in excess of 14 million across all sectors. With sales growth in the year of over 15 per cent, revenue from outside the group now stands at 46 per cent. Capital expenditure in 2001 was £34.6 million compared with £7.2 million in 2000 and £21.8 million in 1999.

In February 2001, Vertex announced a strategic partnership with Cap Gemini Ernst & Young UK (CGE&Y), to deliver business process outsourcing operations to CGE&Y's clients for an initial period of five years. CGE&Y is also Vertex's partner for the delivery of IT consulting and technology services to Vertex clients, also for an initial period of five years.

In March 2001, CGE&Y transferred to Vertex its existing business process outsourcing operations business, which generated turnover of £36 million in the year ended 31 December 2000. CGE&Y will be taking an initial 12.5 per cent equity stake in Vertex, which will increase to 15 per cent over the next three years subject to the achievement of agreed objectives. The partnership is already beginning to develop prospects in new sectors, such as financial services.

Under the deal, six CGE&Y contact centres in Scotland and some 1,500 employees have transferred to Vertex, and Vertex has outsourced its IT infrastructure management and more than 310 people to CGE&Y. The innovative deal enables both businesses to focus on their core strengths both in marketing to new clients and serving existing ones.

The two companies have also signed a marketing agreement that involves the implementation of a joint business plan and investment in strategic marketing campaigns to develop the business process outsourcing market place.

Existing external contracts in all sectors continued to perform in line with expectations. Contract wins during the year include nPower, Orange and Volvo BRS. Contract renewals and extensions include JD Williams and Littlewoods Bet Direct. Following the sale of Norweb Energi, Vertex is providing customer services (including billing, call centre and cash processing) worth in excess of £650 million over seven years to the whole of the enlarged TXU Europe retail energy supply business.

In March 2001, Vertex won the £10 million, five-year contract to manage a customer contact centre for Companies House. This is the first success for Vertex within the central government sector, won against the incumbent competition.

In May 2001, Vertex was awarded a three-year contract with Marks & Spencer Direct, which strengthens its position in the retail and home shopping sector.

TELECOMMUNICATIONS

Your Communications was launched as the new national brand identity for the group's telecommunications business in April 2001. It offers voice, basic and advanced data communication services to its target small and medium-sized enterprises and corporate customers thoughout the UK. The new brand reflects the business's values of openness and simplicity in its approach to business.

All areas of the business, including the mobile phone company Intercell and internet specialists Netforce (which it acquired in September 2000), now operate under the single brand, to give a consistent and unified service proposition to customers. These acquisitions strengthen the product portfolio with value-added solutions and internet services such as e-commerce, e-security and consultancy.

Your Communications continued to invest in broadening its product range and in its national network, which increased to 3,000 kilometres in the year, with cumulative capital investment increasing to £180 million. Capital expenditure for 2001 was £64.7 million compared with £43.1 million in 2000 and £29.9 million in 1999. In November 2000, it acquired four broadband wireless access licences covering North West England, West Midlands, Yorkshire and Northern England, for £9 million. These licences will accelerate the multi-regional network roll-out, connect new customers more effectively and allow the provision of high speed broadband services which are not dependent on the unbundling of the local loop or deployment of digital subscriber line technology. The business already has considerable expertise in deploying radio solutions, the technology is well-proven and the business is leading the industry in its commercial deployment. The first customer was connected in April 2001, and it is anticipated that up to 30 base stations will have been deployed in the four regions during the next 12 months.

The focus is firmly on growth in value-added sales and progress towards profitability. Managing a telecommunications business does not fit with the group's strategy, and the objective remains to maximise the value realised for shareholders from this business.

Telecommunications regulation

Your Communication's activities are principally regulated by the Telecommunications Act 1984 and by the conditions of Your Communication's public telecommunications operator (PTO) licence. The Secretary of State for Trade and Industry and the Director General of Telecommunications are the principal regulators of the telecommunications industry in the UK.

PTO licences, including Your Communications, contain a wide range of conditions designed, in particular, to ensure that all PTO licence holders provide a basic range of telecommunication services and meet the requests for interconnection with networks operated by other licencees. PTO licences also contain prohibitions against showing undue preference or discrimination in the provision of telecommunication services. Your Communications' PTO licence does not include price controls.

Your Communication's broadband wireless access licences, awarded under the Wireless Telegraphy Acts 1949 and 1998, authorise the use of radio equipment and frequencies and prescribe the conditions under which that equipment may be used to provide broadband wireless access services on a regional basis. The licences place certain obligations on Your Communications, including a requirement to provide services to end users on a timely basis. The Secretary of State may recover part or all of the spectrum allocated to the licensee if it appears to him that consumer interests are not being met. The licences will remain in force until the end of 2015 unless earlier revoked by the Secretary of State, under specified and limited circumstances, or surrendered by the licensee.

There has been concern in the UK over the possible health effects of radiowaves emitted by base stations and mobile phones. The Report of the Independent Expert Group on Mobile Phones, commissioned by the Government, was published in May 2000. It states that the balance of evidence indicates that exposure to radiofrequency radiation below national and international guidelines does not cause adverse health effects to the general population, but that there may be biological effects. It recommends that a precautionary approach be taken. In response to the Report, the Government has announced that it will tighten planning laws relating to the erection of base stations.

REVENUES

A breakdown of revenues by activity and geographic region is contained in note 2 to the consolidated financial statements, appearing on page 46 of the 2001 annual report to shareholders and incorporated herein by reference.

SUBSIDIARIES

A list of all principal operating subsidiary undertakings is contained in note 13 to the consolidated financial statements, appearing on pages 53 and 54 of the 2001 annual report to shareholders and incorporated herein by reference.

DESCRIPTION OF PROPERTY

As at 31 March 2001, United Utilities Water had the following principal operating facilities, all of which are owned by United Utilities Water and are freehold, except Sandon Dock which is leasehold:

Location	Description	Approximate area in hectares(1)
Bowland Estate, Lancashire	Reservoir/gathering grounds	10,120
Haweswater Estate, Lake District, Cumbria	Reservoir/gathering grounds	9,900
Longdendale Estate, Cheshire	Reservoir/gathering grounds	7,490
West Pennine Moors, Lancashire	Reservoir/gathering grounds	6,872
Thirlmere Estate, Lake District, Cumbria	Reservoir/gathering grounds	4,850
Huntington, near Chester, Cheshire	Water treatment works	120
Davyhulme, Greater Manchester	Wastewater treatment works	117
Prescot, Merseyside	Water treatment works	72
Woodgate Hill, Greater Manchester	Water treatment works	40
Shell Green, Widnes	Processing centre	12
Watchgate, Cumbria	Water treatment works	12
Sandon Dock, Liverpool	Wastewater treatment works	8

(1) One hectare equals 2.47 acres.

As at 31 March 2001, Norweb Distribution's facilities included approximately 14,000 kilometres of overhead lines and 45,000 kilometres of underground cables operating at 132 kilovolts, 33 kilovolts, 25 kilovolts, 11 kilovolts, 6.6 kilovolts, 3.3 kilovolts, 2.2 kilovolts and 400/230 volts. Norweb holds wayleaves which entitle it to run these lines and cables through private land and in some circumstances these can be determined by the landowner upon notice. However, Norweb has statutory rights to seek the compulsory retention of a wayleave if termination is sought by the landowner. Although Norweb does not anticipate that any relocation of these facilities will be required, any such relocation of a major portion of these facilities would have a material adverse effect on Norweb Distribution. Norweb Distribution also maintains approximately 32,000 primary and secondary sub-stations located in North West England. These are situated on properties either owned by Norweb or under lease. Norweb Distribution anticipates that it will be able to negotiate lease renewals on satisfactory terms or relocate equipment so that the non-renewal of any such leases would not have a material adverse effect upon Norweb Distribution.

As at 31 March 2001, Your Communications' facilities included approximately 270 kilometres of overhead fibre and 2,760 kilometres of underground fibre. Where the fibre is otherwise than in the public highway, Your Communications holds wayleaves which entitle it to run this fibre through private land and in some circumstances these can be determined by the landowner upon notice. However, Your Communications has statutory rights to seek the compulsory retention of a wayleave if termination is sought by the landowner. Although Your Communications does not anticipate that any relocation of these facilities will be required, any such relocation of a major portion of these facilities would have a material adverse effect on Your Communications. Your Communications also maintains approximately 145 points of presence located in England and Scotland. These are situated on properties either owned by companies within the United Utilities PLC group or under lease. Your Communications anticipates that it will be able to negotiate lease renewals on satisfactory terms or relocate equipment so that the non-renewal of any such leases would not have a material adverse effect upon Your Communications.

In addition to the properties described above, the company occupies various non-operational properties consisting primarily of offices, depots, warehouses and workshops. These are either owned by the company or leased. It is anticipated that the company will be able to negotiate renewals of any expiring leases, or relocate the relevant facilities, without the same having a material adverse impact on the company. The most significant of these non-operational properties are the company's London office which is leased by the company, and the company's headquarters and United Utilities Water's operations and customer centres in Warrington, which are owned by United Utilities Water. Vertex's headquarters is leased by Vertex, and the headquarters of Norweb Distribution and Your Communications are owned by Norweb. These properties are located in Manchester. Norweb also owns an operations and computer centre in Manchester, an operations and customer centre at Bolton and a centre at Chorley, which are used by Vertex.

The contaminated land regime in Part IIA of the Environmental Protection 1990 places liability for the clean-up of contaminated land upon any person who caused the contamination or, in some circumstances, who knew of its presence and failed to prevent it. If no such person can be found after a reasonable enquiry has been made, liability for clean-up falls upon the current owner or occupier of the land. The regime provides for exemptions from liability in certain cases. The company is not aware of any liability which it may have under the regime which will have a materially adverse impact on its businesses.

The company believes that all its properties are in reasonable state of repair and are adequate for their purpose. The company has a continuing programme of improving, replacing and disposing of property when considered appropriate to meet the needs of its business operations. The company is not aware of any material environmental issues which would prevent the company's anticipated utilisation of the above-mentioned properties.

ENVIRONMENTAL MATTERS

All areas of the group's business are subject to environmental regulation and are regulated at European, national and local levels. United Utilities is investing £1.9 billion in five years on environmental improvements across North West England. Management believes that the group complies in all material respects with all applicable environmental regulations.

Information regarding specific environmental issues for the separate businesses is stated in the individual business descriptions above. The vast majority of regulation and environmental issues affecting United Utilities Service Delivery are described below.

The water and wastewater industry in the UK is subject to substantial domestic and European Union regulation, placing significant statutory obligations on United Utilities Water with regard, inter alia, to the quality of treated water. European examples include the Drinking Water Directive, the Bathing Water Directive and the Urban Waste Water Treatment Directive.

These European Union directives are implemented by applicable UK laws and regulations, including the Water Supply (Water Quality) Regulations, the Water Act 1989, the Water Industry Act 1991, the Water Resources Act 1991 and the Control of Pollution Act 1974.

All water and wastewater companies have a general duty to exercise their powers to conserve and enhance natural beauty and to promote the efficient use of water. Environmental regulation is the responsibility of the DGWS together with:

- the Environment Agency, which is responsible for conserving and redistributing water resources and securing the proper uses of those resources, including licensing of water abstraction. The Environment Agency is also responsible for the regulation of discharges to controlled waters, including discharges from wastewater treatment works; and
- the Drinking Water Inspectorate, which enforces water quality.

The company expects environmental regulatory regimes to continue to evolve and tighten. Examples of regulatory developments in the field of water and wastewater include:

- a draft Water Bill which will make significant changes to the abstraction licensing system. The Bill states that water undertakers are under a duty to further water conservation in carrying out their functions. It permits, from 15 July 2012, an existing abstraction licence to be varied or revoked without compensation where the revocation or variation is required to protect waters or wildlife from serious damage. It also requires water undertakers to publish drought plans, reduces the time period after which unused abstraction licences can be revoked or varied without compensation, and creates a new right of statutory claim for damages against abstractors whose abstraction causes loss or damage to another person;
- the Water Supply (Water Quality) Regulations 2000 transpose into domestic legislation the Drinking Water Directive and in particular introduce a more stringent lead standard which will oblige water undertakers to carry out improvements to treatment works and distributions systems; and
- the Water Framework Directive, which must be transposed into domestic legislation by December 2003, requires the UK Government to establish comprehensive river management plans and to implement measures necessary to ensure that there is no deterioration in the ecological status of water bodies. The Directive is likely to impact upon sewerage undertakers by requiring improvements in point source discharges.

All electricity companies have a general duty under the Electricity Act to take into account the conservation of natural features of beauty and other items of particular interest, when they formulate proposals for development. Norweb may be required to carry out an environmental assessment when it intends to lay cables, construct overhead lines or carry out any other development in connection with its licensed activities.

The possibility that electric and magnetic fields may cause adverse health effects has been a topic of debate and research for many years. The largest epidemiological study – the UK Childhood Cancer Study – reported in December 1999 that there was "no evidence that exposure to magnetic fields associated with the electricity supply in the UK increases risk for childhood leukaemia, cancers of the nervous system, or any childhood cancer". The UK Government are advised by the National Radiological Protection Board (NRPB). In March 2001, the NRPB published a review of the state of the science and concluded "for the vast majority of children in the UK there is now considerable evidence that the electromagnetic fields levels to which they are exposed do not increase the risk of leukaemia or other malignant disease."

SALE OF NORWEB ENERGI

On 3 August 2000, it was announced that Norweb and Norweb Gas had sold the energy supply business, Norweb Energi, to TXU Europe Group PLC for £310 million in cash. TXU has also assumed responsibility for Norweb Energi's existing agreements to purchase power, the liabilities of which had a fair value of £241 million at 31 March 2000.

In the financial year 2001, energy supply operating profits pre-sale were £21.6 million. In the full financial year 2000, operating profits were £76.2 million.

Pending the entry into force of the provisions of the Utilities Act 2000, which provide for separate licensing of distribution and supply, Norweb continues to hold the relevant public electricity supply, or PES, licence for North West England. In accordance with the practice established in respect of previous sales of supply businesses, TXU meets Norweb's residual supply-related obligations under its PES licence through an agency agreement. These obligations include supplying electricity to certain categories of domestic customers who benefit from continuing price controls. Modifications to reflect these arrangements were made to the electricity licences of both parties. In addition to holding the PES licence, Norweb will continue, pending their legal transfer, to be the counterparty to other agreements for which TXU has agreed to meet Norweb's obligations. TXU has indemnified Norweb in relation to these agreements.

ITEM 5 OPERATING REVIEW AND FINANCIAL PROSPECTS

The management's discussion and analysis of financial condition and results of operations appears on pages 12 to 17 and 20 to 23 of the 2001 annual report to shareholders, incorporated herein by reference. The discussion is designed to comply with the requirements of this item 5.

The focus of the discussion is on the financial statements included in the 2001 annual report to shareholders, which are prepared in accordance with UK GAAP. A summary of differences between UK GAAP and US GAAP and a reconciliation to US GAAP are set out in the consolidated financial statements appearing on pages 68 to 74 of the 2001 annual report to shareholders, and are incorporated herein by reference.

ITEM 6 DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

The business of the company is managed by the board of directors (the "board"). The company's articles of association provide that directors must retire from office at the third annual general meeting following their appointment or re-appointment by shareholders at an annual general meeting. The retiring directors may offer themselves for re-election. The directors may appoint one or more of their number to the office of managing director or to any executive office for such period and on such terms as the directors think fit. All executive directors and executive officers have contracts which are terminable by the company on serving one year's notice, with the exception of Bob Armstrong who, by virtue of his longstanding contract, has a three-year notice period.

Subject to the provisions of the Companies Act, and provided the nature of a directors' interest has been declared to the board, a director is not disqualified as a virtue of that interest from contracting with the company in any manner, nor is any contract in which he is interested liable to be avoided, and any director who is so interested is not liable to account to the company for any benefit realised by the contract by reason of the director holding that office. However, no director may vote on any resolution relating specifically to his own remuneration. A director may (or any firm of which he is a partner, employee or member may) act in a professional capacity for the company (other than as auditor) and be remunerated for so doing. A director may also be or become director or other officer of, or be otherwise interested in, any company promoted by the company or in which the company may be interested and will not be liable to account to the company for any benefit received by him.

Each of the directors will be paid a fee at such rate as may from time to time be determined by the board. Any director who is appointed to hold any executive office shall be entitled to receive such remuneration that the board may decide. Each director may be paid reasonable travelling, hotel and other expenses he incurs in attending and returning from meetings of the directors, of committees of the directors or of the company or otherwise incurred in connection with the performance of his duties for the company.

The board may provide benefits by way of the payment of death or disability benefits, gratuities, pensions or insurance or other allowances or benefits for any director or former director or their relations, connected persons or dependants.

No director is required to retire by reason of age, nor do any special formalities apply to the appointment or re-appointment of any director who is over any age limit.

The executive directors and the non-executive directors of the company are:

Name	Age	Position	Date appointed to board
Executive directors			
John Roberts	55	Chief Executive	1 September 1999
Simon Batey	47	Group Finance Director	1 April 2000
Les Dawson	44	Managing Director, United Utilities Service Delivery	1 November 2000
Gordon Waters	54	Managing Director, United Utilities Contract Solutions	1 June 1997
Non-executive directors			
Sir Richard Evans	58	Non-executive director; Chairman; chairman of the Nomination Committee	1 September 1997
Sir Peter Middleton	67	Non-executive director; Deputy Chairman and senior independent non-executive	1 January 1994
John Seed	62	Non-executive director; chairman of the Remuneration Committee	1 March 1996
Norman Broadhurst	59	Non-executive director; chairman of the Audit Committee	1 April 1999
Jane Newell	57	Non-executive director	1 September 1996

The biographies of the executive directors and the non-executive directors appear on pages 24 and 25 of the 2001 annual report to shareholders which are incorporated herein by reference. Sir Richard Evans and Sir Peter Middleton will retire as directors at the 2001 annual general meeting and will seek re-election under the rotation provisions in the Articles. Les Dawson will also retire and offer himself for re-election as he was appointed to the board since the last annual general meeting and this is the first opportunity for his election by shareholders at an annual general meeting. Following the sale of Norweb Energi, John Beckitt resigned as a director with effect from 3 August 2000.

The business address of each of the directors is the company's registered office which is Dawson House, Great Sankey, Warrington, WA5 3LW, England.

Name	Age	Position	Date appointed to current position	Date originally appointed
Executive officers				
Bob Armstrong	51	Managing Director, United Utilities Customer Sales Joined as head of personnel, and then became customer services and strategic planning director, United Utilities Water. Previously personnel manager for Anglesey Aluminium Metal.	1 October 2000	30 November 1987
Tom Drury	39	Managing Director, Vertex Joined as group financial controller, and then became finance director, United Utilities Water. Previously with PricewaterhouseCoopers.	1 April 1996	1 January 1991
Dr Clive Elphick	44	Group Planning Director Joined as group financial controller before becoming economic regulatory director, United Utilities Water. Previously with Deloitte Touche.	1 December 1994	1 April 1991
Hugh Logan	51	Managing Director, Your Communications Joined from British Telecommunications PLC where he was managing director, BT Mobile.	17 July 2000	17 July 2000
Ian Priestner	44	Group Communications Director Joined from British Gas PLC where he was head of public policy and government relations.	16 October 2000	16 October 2000
Tim Rayner	40	Secretary Joined as group legal adviser. Previously a partner at Addleshaw Booth & Co, Manchester.	1 April 1998	3 July 1995
David Scott	48	Group Human Resources Director Joined from HM Prison Service where he was director of personnel.	1 June 1998	1 June 1998

Summaries of the functions of the Nomination Committee and the Audit Committee appear on pages 27, and 29 and 30 respectively in the section "Report on governance" and of the Remuneration Committee on page 31 in the section "Report on remuneration" of the 2001 annual report to shareholders which are incorporated herein by reference.

During the financial year 2001, the aggregate amount of compensation paid by the company to all directors and executive officers of the company, as a group, was £2,865,415.

During the financial year 2001, the aggregate amount set aside or accrued by the company to provide pension, retirement or similar benefits for directors and executive officers of the company, pursuant to any existing plan provided or contributed to by the company was £140,428.

Information regarding the holdings of options over the company's shares by directors and executive officers of the company is contained in Item 7 "Major Shareholders and Related Party Transactions".

For further information see the Report on remuneration on pages 31 to 36 of the 2001 annual report to shareholders which is incorporated herein by reference. The figure quoted as compensation above includes incentive plan awards and bonuses, further details of which are discussed in the above-mentioned Report on remuneration. However, the figure does not include any awards made to directors and executive officers under the Performance Share Plan. This Plan is described on page 32 of the 2001 annual report to shareholders. The cash equivalent of the actual shares issued to the Plan participants will be disclosed in the year in which the awards actually vest.

The following table details the average number of employees and a breakdown of employees by main category of activity as of the end of each year in the three-year period ended 31 March 2001:

Number of employees	**2001**	2000	1999
Licensed multi-utility operations	**4,764**	5,532	5,597
Asset management services	**407**	391	415
Customer management outsourcing	**5,015**	3,395	3,160
Telecommunications	**618**	364	277
Other activities	**109**	71	71
Divestments:			
Energy supply	**114**	302	308
Other	**25**	312	300
Average number of persons employed by the group during the year	**11,052**	10,367	10,128

Substantially all of the employees are based in the United Kingdom.

There are numerous collective agreements in place with trades unions across the group. This reflects the public sector heritage of some businesses and the differing market conditions and employee profiles in the various operations. Consequently the level of trades union involvement varies across the group. In summary:

- licensed multi-utility operations – approximately 52 per cent of the United Utilities Service Delivery workforce is represented by trades unions, and multiple agreements regulate collective bargaining. United Utilities Customer Sales is non-unionised, and there is no collective bargaining;
- asset management services – approximately 71 per cent of the Network Services workforce has trades union membership, and there is a traditional collective bargaining regime. Less than 10 per cent of the Green Energy workforce belongs to a trade union and there is no collective bargaining;
- customer management outsourcing – approximately 25 per cent of the Vertex workforce are covered by recognition agreements and 36 per cent by other consultative arrangements which fall short of collective bargaining; and
- telecommunications – 10 per cent of the Your Communications workforce is covered by collective bargaining agreements.

There has been no significant industrial unrest, disputes or work stoppages in the last three years and management considers its current relations with the group workforce to be good.

ITEM 7 MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

As far as is known to United Utilities, it is not directly or indirectly owned or controlled by another corporation or by an individual or government. As at 31 March 2001, Prudential PLC (and its associated companies) (who owned 3.05 per cent) were the only person known to United Utilities to own more than 3 per cent of any class of United Utilities' voting securities. As at 31 March 2001, the total amount of voting securities owned by directors and executive officers of United Utilities, as a group, was:

Title of class	Identity of person or group	Amount owned	Percent of class
Ordinary shares of £1 each	Directors and executive officers (16 persons)	101,685	0.0184

In addition, as at 31 March 2001, the executive directors, as a group, and executive officers of United Utilities, as a group, held options to purchase respectively 11,974 and 77,094 ordinary shares, all of which options were issued pursuant to the United Utilities' employee sharesave scheme or the executive share option scheme. See Item 6 "Directors, Senior Management and Employees" and note 24 to the consolidated financial statements of the company, appearing on pages 60 to 62 of the 2001 annual report to shareholders, and incorporated by reference herein.

United Utilities does not know of any arrangements the operation of which may at a subsequent date result in a change in control of the company.

Other than with respect to employment agreements and compensation arrangements, there is no material indebtedness owed to or by, and there have been no material transactions, between the company and management during the company's three most recent financial years, nor are there presently proposed to be any such indebtedness or any material transactions, or any transactions that were unusual in their nature or conditions to which the company or any of its subsidiaries was or is a party and in which any director or executive officer, or 5 per cent shareholder, or any relative or spouse thereof or any associate of the company or any enterprise that directly or indirectly controls, is controlled by or is under common control with the company had or is to have a direct or indirect material interest.

ITEM 8 FINANCIAL INFORMATION

See Item 18 "Financial Statements".

LITIGATION

The company is not aware of any material litigation to which it or any of its subsidiaries is a party, or of which any of their property is the subject, or any such proceedings known to be contemplated by any third party or governmental authority. The company is engaged in litigation in the ordinary course of its operations, such as contract disputes, disputes over easements/wayleaves and other similar property matters, bill collections, personal injury claims and workers' compensation claims.

The company does not believe that such litigation, either individually or in the aggregate, is material. The company maintains insurance and, to the extent that the amounts in dispute may not be covered by such insurance, maintains provisions in those situations where management deems it appropriate in accordance with UK GAAP.

DIVIDENDS

An interim dividend in respect of each financial year is normally declared by United Utilities in November for payment in the following February. The final dividend in respect of each financial year is normally recommended by directors in May and paid in October, following approval by shareholders in July. The following table sets out the dividends paid on ordinary shares (and for illustrative purposes, on ADSs had they been in existence) in respect of the past five financial years, excluding any associated UK tax credit in respect of such dividends.

						Years ended 31 March
Pence per ordinary share	Note (i)	**2001** **p**	2000 p	1999 p	1998 p	1997 p
Interim	(ii)	**15.00**	14.70	14.40	13.16	12.00
Final	(ii)	**31.10**	30.50	29.90	29.00	25.20
Total	(ii)	**46.10**	45.20	44.30	42.16	37.20
US $ per ordinary share	(i)	**$**	$	$	$	$
Interim	(ii)	**0.22**	0.23	0.23	0.21	0.19
Final	(ii)	**0.44**	0.49	0.49	0.46	0.41
Total		**0.66**	0.72	0.72	0.67	0.60
Total dividend per ADS($)	(i), (iii)	**1.32**	1.44	1.44	1.34	1.20

The exchange rates at the dividend payment dates were as follows:

		2001	2000	1999	1998	1997
Exchange rate at interim payment date		**1.45**	1.59	1.59	1.63	1.62
Exchange rate at final payment date	(iv)	**1.42**	1.59	1.65	1.59	1.61

(i) Dividends per ordinary share and per ADS exclude any associated UK tax credit available to certain holders of ordinary shares and ADRs. See Item 10 "Taxation".

(ii) Payment of the final dividend for the financial year 1998 was delayed until 6 April 1999. The final dividend included an enhancement of 1.36 pence (0.02US$) per ordinary share to compensate for this. Payment of the interim dividend for financial year 1999 was also delayed until 6 April 1999, without enhancement.

(iii) Calculated based on a ratio of two ordinary shares for one ADS.

(iv) The exchange rate at the date the 2001 final dividend will be paid is assumed to be £1.00 = $1.42.

Future dividends will depend upon the company's earnings, financial condition and other factors. Interim and final dividends paid in the past are not necessarily indicative of future interim and final dividends, or the future relationships between them. A person resident in the UK for tax purposes who receives a dividend from United Utilities is generally entitled to a tax credit (the "associated UK tax credit"), currently at a rate of one-ninth of the net dividend (or 10 per cent of the sum of the net dividend and the associated UK tax credit). For further information, see Item 10 "Taxation".

Cash dividends are paid by United Utilities in pounds sterling. Exchange rate fluctuations will affect the US dollar amounts received by owners of the ADRs on the conversion by the Depositary of such cash dividends paid. In addition, fluctuations in the exchange rate between pounds sterling and US dollars will affect the US equivalent of the quoted pound sterling price of ordinary shares on the London Stock Exchange, and as a result, are likely to affect the market price of ADSs in the US and the ordinary shares in the UK.

ITEM 9 THE OFFER AND LISTING

The principal trading market for the ordinary shares of the company is the London Stock Exchange. The ordinary shares have been listed on the London Stock Exchange since 12 December 1989. The American Depositary Shares (ADSs), each representing two ordinary shares, have been listed on the New York Stock Exchange since 28 January 1998. The ADSs, evidenced by American Depositary Receipts (ADRs), are issued by the London office of the Bank of New York (BONY), as Depositary under a Deposit Agreement, dated 28 January 1998, between the company, BONY and the holders from time to time of ADRs.

The tables below set out, for the periods indicated, (i) the highest and lowest middle-market quotations for the ordinary shares (as derived from the Daily Official List of the London Stock Exchange); and (ii) the reported high and low sales prices of the United Utilities ADSs on the New York Stock Exchange.

	London Stock Exchange per ordinary share		New York Stock Exchange per ADS	
	High (p)	Low (p)	High (US$)	Low (US$)
Financial year 1997	693.1	530.0	n/a	n/a
Financial year 1998	885.5	621.5	30.60*	26.40*
Financial year 1999	957.0	727.0	32.38	24.81
Financial year 2000				
First quarter	819.0	694.0	25.88	23.00
Second quarter	876.0	654.0	27.50	22.88
Third quarter	677.5	482.5	22.19	16.75
Fourth quarter	702.5	530.5	22.13	17.50
Financial year 2001				
First quarter	710.0	600.5	22.69	18.88
Second quarter	724.5	600.0	21.50	17.94
Third quarter	740.0	645.0	21.00	19.31
Fourth quarter	665.0	566.0	20.13	16.85
December 2000	702.0	645.0	20.50	19.31
January 2001	665.0	569.0	20.13	17.25
February 2001	620.0	566.0	18.15	17.30
March 2001	612.0	575.0	17.85	16.85
Financial year 2002				
April 2001	635.0	600.0	18.30	17.65
May 2001	665.0	597.5	19.09	17.55

* figures only available for fourth quarter

ITEM 10 OTHER INFORMATION

MEMORANDUM AND ARTICLES OF ASSOCIATION

The Memorandum of Association of the company provides that its principal objects are, among other things, to be a holding company and to carry on business as a general commercial company and to carry on any trade or business or activity of any nature which may seem to the directors to be capable of being conveniently or advantageously carried on.

So far as the legislation allows, the directors may exercise all the company's powers to borrow money; to mortgage or charge all or any of the company's undertaking, property (present and future), and uncalled capital; to issue debentures and other securities; and to give security either outright or as collateral security for any debt, liability or obligation or the company or of any third party.

A summary of the principal provisions of the company's Articles of Association was provided in the company's original registration statement (file no. 82-1-14744). Additional disclosures regarding the terms of the Articles of Association are made in Item 6.

EXCHANGE CONTROLS

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange controls, or which affect the remittance of dividends, interest or other payments to non-UK resident holders of the company's securities except as otherwise detailed in "Taxation" below.

There are no limitations imposed by UK law or the company's memorandum and articles of association which restrict the right of non-UK resident or non-UK citizen owners, as opposed to UK resident or citizen owners, to hold or vote the ordinary shares. However, non-UK shareholders are not entitled to receive notice from the company, including notices of general meetings, unless they have given the company an address in the UK to which such notices may be sent.

TAXATION

The following is a summary of the principal US federal and UK tax considerations that are likely to be material to the ownership and disposition of ordinary shares or ADSs by a holder that is a resident of the US for the purposes of the income tax convention between the US and the UK (the "Treaty"), and is fully eligible for benefits thereunder (an "eligible US holder"). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of ordinary shares or ADSs. In particular, the summary deals only with eligible US holders which hold ordinary shares or ADSs as capital assets, and does not address the tax treatment of investors which are subject to special tax rules, such as banks, tax-exempt entities, insurance companies, dealers in securities or currencies, persons that elect mark to market treatment, persons that hold ordinary shares or ADSs as part of an integrated investment (including a "straddle") comprised of an ordinary share or ADS and one or more other positions, and persons that own, directly or indirectly, 10 per cent or more of the voting stock of the company. This summary is based on the Treaty and the tax laws of the US and the UK in effect on the date hereof, which are subject to change. In this regard, the US and the UK have been engaged in negotiations concerning a new tax treaty. It is impossible to predict when any new treaty will become effective or how it will affect an eligible US holder. Prospective purchasers should consult their own advisers as to the tax consequences of an investment in ordinary shares or ADSs in light of their particular circumstances, including the effect of any state, local or other national law.

In general, the beneficial owner of an ordinary share or ADS will be entitled to benefits under the Treaty (and therefore will be an eligible US holder) if that owner is (i) an individual resident of the US, a US corporation, or a partnership, estate or trust to the extent its income is subject to taxation in the US in its hands or in the hands of its partners or beneficiaries; and (ii) is not also resident in the UK for UK tax purposes. Special rules, including a limitation of benefits provision, may apply in limited circumstances to certain investment or holding companies and tax-exempt entities. The Treaty benefits discussed below generally are not available to US holders that hold ordinary shares or ADSs in connection with the conduct of a business through a permanent establishment, or the performance of personal services through a fixed base, in the UK, nor does the paragraph dealing with UK taxation of capital gains apply to such holders.

Taxation of dividends

United Kingdom – Under the Treaty, when an eligible US holder receives a dividend from the company, it is as a theoretical matter entitled to receive an additional payment from the UK Inland Revenue (a "Treaty Payment") equal to the amount of the tax credit (the "Tax Credit Amount") allowable under UK law to an individual UK resident, minus a UK withholding tax of 15 per cent of the sum of the cash dividend and the Tax Credit Amount.

As part of recent changes in UK law, however, the Tax Credit Amount has been reduced to one-ninth of the cash dividend, or the equivalent of 10 per cent of the sum of the dividend and the Tax Credit Amount. As a result, the UK withholding tax (which, under UK law, may not exceed the Tax Credit Amount in any particular case) will fully offset the Tax Credit Amount for eligible US holders, that own, directly or indirectly, less than 10 per cent of the voting stock of the company and such holders will no longer receive actual Treaty Payments. Eligible US holders are no longer required to provide information to the UK Inland Revenue to establish their entitlement to Treaty benefits.

United States – Under new procedures announced by the US Internal Revenue Service, to claim credits for UK withholding tax, eligible US holders must file an election on Form 8833 with their income tax return for the relevant year. Eligible US holders who make the election will be subject to US tax on the sum of the cash dividend paid by the company and the associated Tax Credit Amount without reduction for UK withholding tax (the "gross dividend"). The gross dividend will constitute foreign source dividend income, and will not be eligible for the dividends received deduction. Dividends paid in UK pounds sterling may be included in income in a dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the eligible US holder (or by the Depositary, in the case of ADSs). If such dividends are converted into dollars on the day they are received, eligible US holders generally should not be required to recognise foreign currency gain or loss in respect of the dividend income.

Eligible US holders who make the election discussed above will be treated as paying UK withholding tax equal to the Tax Credit Amount that will be treated as a foreign income tax. Subject to generally applicable limitations (including limitations applicable to short term US holders and to US holders that enter into hedging transactions in respect of the ordinary shares) foreign income taxes may be claimed as credits against an eligible US holder's federal income tax liability or, at the election of the holder, may be deducted in computing taxable income.

Taxation of capital gains

United Kingdom – Gain realised by an eligible US holder on the sale or other disposition of ordinary shares or ADSs will not be subject to UK taxation.

United States – Gain realised on the sale, exchange or other disposition of ordinary shares or ADSs will be included in income for US tax purposes and will be long term capital gain if the ordinary shares or ADSs were held for more than one year. Long term capital gain realised by an individual holder generally is subject to taxation at a maximum rate of 20 per cent.

Backup withholding tax and information reporting

Distributions made on ordinary shares and proceeds from the sale of ordinary shares or ADSs that are paid within the UK or through certain US-related financial intermediaries to US holders are subject to information reporting and may be subject to a "backup" US withholding tax unless, in general, the US holder complies with certain procedures or is a corporation or other person exempt from such withholding. Holders that are not US persons generally are not subject to information reporting or backup withholding tax, but may be required to comply with applicable certification procedures to establish that they are not US persons in order to avoid the application of such information reporting requirements or backup withholding tax to payments received within the US or through certain US-related financial intermediaries.

Stamp duty and stamp duty reserve tax

A transferee of ordinary shares will generally be required to pay UK stamp duty or stamp duty reserve tax at a rate of 0.5 per cent of the consideration paid for the transfer.

However, no UK stamp duty should be payable on the transfer of an ADS or beneficial ownership of an ADS, provided that any instrument of transfer is executed and remains at all times outside the UK, and no UK stamp duty reserve tax should in any event be payable on an agreement to transfer an ADS or beneficial ownership of an ADS.

DOCUMENTS ON DISPLAY

United Utilities is subject to the information requirements of the US Securities Exchange Act of 1934, as amended, and is therefore required to file reports, including annual reports on Form 20-F, and other information with the US Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's public reference rooms in Washington, DC, New York, NY and Chicago, IL. Please call the Commission at +1-800-732-0330 for further information on the public reference rooms. As a foreign private issuer, the company is not required to make filings with the Commission by electronic means, although it is entitled to do so. Any filings made electronically will be made available to the public over the Internet at the Commission's web site at http://www.sec.gov.

ITEM 11 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISK MANAGEMENT

The principal financial market risks faced by the company are the risks of interest rate movements and foreign currency movements. Prior to the disposal of the energy business, the group was also exposed to price variations in the wholesale electricity trading market.

INTEREST RATE AND FOREIGN CURRENCY MANAGEMENT

The company uses a combination of interest rate swaps, futures and funding instruments to hedge exposure to interest rate volatility. The company's use of derivative instruments relates directly to underlying indebtedness; no speculative or trading transactions are undertaken. The proportion of debt at effective fixed rates of interest for greater than one year is set in conjunction with the level of floating rate debt and projected regulatory revenues that are exposed to inflationary adjustments (index linked). In addition, the company aims to manage its short term budgetary commitments by ensuring that the majority of floating rate interest is fixed for periods of less than one year through the use of exchange-traded financial futures. The company has limited exposure to foreign currency exchange rate movements. Interest rate management and funding policies are set by the board.

QUANTITATIVE DISCLOSURE OF MARKET RISK

The analysis below presents the sensitivity of the market value of the group's financial instruments to selected changes in market rates and prices. The range of changes chosen reflects the group's view of changes that are reasonably possible over a one year period. Market values are quoted values, or, where these are not available, those values are obtained by discounting cash flows at market rates and prices. The market values for interest rate risk are calculated by using a standard zero coupon discounted cash flow pricing model.

For long term debt, a favourable change in market value results in a decline in the absolute value of debt. For other financial instruments, a favourable change in market value results in an increase in market value.

INTEREST RATE RISK

The sensitivity analysis assumes an instantaneous 1 per cent (100 basis points) move in interest rates for all maturities and all currencies from their levels at 31 March 2001 and 31 March 2000, with all other variables held constant.

		Market value change			Market value change	
	Market value 31 March 2001 £m	+1% movement in interest rate £m	-1% movement in interest rate £m	Market value 31 March 2000 £m	+1% movement in interest rate £m	-1% movement in interest rate £m
Long term debt	**(2,991)**	176	(199)	(2,045)	133	(152)
Currency swaps	**124**	(74)	86	(93)	(57)	67
Interest rate swaps	**(86)**	15	(14)	(28)	26	(26)

The movement in fair value of debt and instruments hedging debt will not result in any immediate change to the group's financial statements, since fair values are not recognised on the group balance sheet. An increase in short term interest rates of all currencies of 1 per cent would increase group net interest payable for the year by £2.1 million (2000: £9.5 million).

FOREIGN CURRENCY RISK

The sensitivity analysis assumes an instantaneous 10 per cent change in foreign currency exchange rates against sterling from their levels at 31 March 2001 and 31 March 2000, with all other variables held constant. The +10 per cent case assumes a 10 per cent strengthening of sterling versus all other currencies and the -10 per cent a weakening of sterling.

		Market value change			Market value change	
	Market value 31 March 2001 £m	+10% movement in foreign exchange rate £m	-10% movement in foreign exchange rate £m	Market value 31 March 2000 £m	+10% movement in foreign exchange rate £m	-10% movement in foreign exchange rate £m
Long term debt	**(2,991)**	192	(234)	(2,045)	107	(129)
Currency swaps	**124**	(200)	244	(93)	(108)	131

Market value changes from movements in currency rates in long term debt, currency swaps and forward contracts hedging debt are taken through the group's statement of total recognised gains and losses in accordance with SSAP 20.

Substantially all cash and cash equivalents are held in sterling and sterling denominated instruments.

POOL PRICE RISK

As a result of the sale of Norweb Energi in August 2000, the benefit of the group's power purchase agreements and CfDs was assumed by TXU Europe Group PLC. Consequently at 31 March 2001 the group had no remaining exposure to pool price risk. Comparative information for 31 March 2000 is set out below. The analysis below presents the sensitivity of the fair value of CfDs to changes in pool prices. The fair value of CfDs has been calculated on the basis set out in note 23 to the consolidated financial statements, located on pages 58 and 59 of the 2001 annual report to shareholders, incorporated by reference herein.

	At 31 March 2001	At 31 March 2000
Purchase commitments under CfDs (MWh)	**n/a**	60.4 million
Average pool purchase price in year (£ per MWh)	**n/a**	£22.90
Fair value of CfDs	**n/a**	£(240.6) million
Approximate effect on fair value of:		
10 per cent increase in average pool purchase price	**n/a**	£92.3 million
10 per cent decrease in average pool purchase price	**n/a**	£(92.3) million

The movement in fair values of CfDs did not result in any immediate changes to the group's financial statements, since fair values are not recognised on the group balance sheet.

ITEM 12 DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

ITEM 13 DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14 MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15 [RESERVED]

ITEM 16 [RESERVED]

ITEM 17 FINANCIAL STATEMENTS

Not applicable.

ITEM 18 FINANCIAL STATEMENTS

	Annual report to shareholders pages	related notes pages
Incorporated by reference from the 2001 annual report to shareholders:		
Report on remuneration	31-36	–
Report on governance	27-30	–
Auditor's report	37	–
Operational review	12-17	–
Financial review	20-23	–
Consolidated profit and loss account for each of the three years in the period ended 31 March 2001	38-39	46-50
Consolidated balance sheets at 31 March 2001 and 2000	40	51-63
Consolidated cash flow statement for each of the three years in the period ended 31 March 2001	41	63-66
Statements of total recognised gains and losses	42	–
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The consolidated financial statements listed in the above index which are included in the 2001 annual report to shareholders of United Utilities PLC are hereby incorporated by reference. With the exception of the pages listed in the above index and the items incorporated by reference in items 3, 4, 5, 6, 7, 8, 11, 18 and 19 of this report, the 2001 annual report to shareholders is not to be deemed filed as part of this report.

ITEM 19 EXHIBITS

(i) The 2001 annual report to shareholders of United Utilities PLC;

(ii) The articles of association of United Utilities PLC;

(iii) The deposit agreement among United Utilities PLC, the Bank of New York and the owners and holders from time to time of American Depositary Receipts issued under the Deposit Agreement (included as an exhibit to the Registration Statement on Form F-6, Registration No. 333-8238); and

(iv) A list of all principal operating subsidiaries is contained in note 13 of the consolidated financial statements appearing on pages 53 and 54 of the 2001 annual report to shareholders and incorporated by reference herein.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorised.

United Utilities PLC
Registrant

....
John Roberts
Chief Executive

Dated ....
8 June 2001

Glossary

Term used in annual report or 20-F	US equivalent or brief description
Accounts	Financial statements
Acquisition method of accounting	Purchase accounting
Advance corporation tax	No direct US equivalent. Tax paid on company distribution recoverable from UK taxes due on income
Allotted	Issued
Associated undertaking	20 – 50 per cent owned investee
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Class of business	Industry segment
Creditors	Accounts payable/payables
Creditors: amounts falling due after more than one year	Long term debt liabilities
Creditors: amounts falling due within one year	Current liabilities
Debtors	Accounts receivable/receivables
Depreciation	Amortisation
Finance lease	Capital lease
Employee share option	Employee stock option
Equity shareholders' funds	Stockholders' equity
Financial year	Fiscal year
Fixed asset investments	Long term investments
Freehold	Ownership with absolute rights in perpetuity
Freehold land	Land owned
Gearing	Leverage
Group, or consolidated, accounts	Consolidated financial statements
Interest receivable	Interest income
Interest payable	Interest expense
Nominal value	Par value
Ordinary share	Common stock/share
Pension scheme	Pension plan
Profit	Income (or earnings)
Profit and loss account (reserve)	Retained earnings
Profit and loss account	Income statement
Reconciliation of movements in equity shareholders' funds	Statement of changes in stockholders' equity
Reserves	Stockholders' equity other than capital stock
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Premiums paid in excess of par value
Shares in issue	Shares outstanding
Stocks	Inventories/operating stocks
Tangible fixed assets	Property, plant and equipment
Turnover	Revenues (or sales)

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