



United Utilities Water PLC

A high-speed photograph of water splashing into a glass, creating a crown-like shape with many droplets. The background is a light blue gradient.

**Annual Report &
Accounts 2002**

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www.unitedutilities.com

For more information on United Utilities
visit our website.

Delivering efficiency and quality

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

Our business

During the five years to 2005, we are carrying out the largest single investment programme in the UK water industry, requiring a total investment of £3 billion. Such is the scale of the programme, that £1 of every £4 to be invested in drinking water and environmental improvements in England and Wales over the five-year period will be spent in North West England. The Regulator has also set demanding efficiency targets which we are now forecasting to out-perform.

In delivering both the investment programme and the forecast efficiencies a number of initiatives have been implemented. We have devoted a great deal of attention to standardising assets and improving our operating practices, in order to deliver efficiencies now and in the future – clearly a major undertaking in a business the size of ours. Our procurement performance is a priority. We have formed innovative partnerships with other businesses that need to source the same materials as us and are also introducing new procurement processes to help us deliver value for money.

During the year the business became a public limited company in order to directly access the publicly traded capital markets.

Our customers

United Utilities Water PLC has retained the Charter Mark award. First gained in 1998, the government award recognising excellence in public service will now be held for a further three years. This is a significant achievement and demonstrates our commitment to delivering a first-class service.

We have maintained performance in the key areas for customer service and exceeded the expectations set out in our regulatory business plan. The level of customer complaints has fallen 22 per cent and we have responded to 99 per cent of billing contacts within 5 days and 99.9 per cent of complaints within 10 days. 95 per cent of customers telephoning our call centres about bills and water supply queries were responded to within 30 seconds.

United Utilities continues to focus on providing services to customers with special needs. This year customers who have joined 'ExtraCare' received a dedicated magazine which explained further the benefits of the service as well as special offers from suitable products. Currently over 9,000 customers receive the benefits of 'ExtraCare'.

Market research was also undertaken to investigate special services required by our ExtraCare customers and confirm that we are offering services that meet customers' expectations.

The community and environment

Success in business is measured by more than financial results, and we judge our success by the total impact we have on society. We work in partnership with the community to make a positive difference.

In December 2001 the education team won the Utility Industry Achievement Award for the best community initiative, for the 'Moving On' programme. This pioneering scheme works with pupils who are at risk of expulsion or self-exclusion from school and encourages them to remain in education.



Our parent company United Utilities PLC is proud to be official sponsors of the Commonwealth Games 2002 and is working closely with the organisers to help ensure the success of the Games. United Utilities became involved as the Group recognised the huge social and economic benefits the Games would bring to the North West and because it reflects our own long-term commitment to the region and its community. Our Rivington catchment is also hosting the mountain bike and roadside cycling events.

Our capital investment programme is continuing to deliver results with the North West achieving its best ever bathing water quality results in 2001.

We have also contributed to United Utilities PLC's improvement in the Business in the Environment index of corporate environmental engagement from 94 per cent to 97 per cent, placing the group 12th out of 206 companies assessed.

Our employees

We are continuing to invest in employee and leadership development programmes, which aim to maximise and unlock the potential of our people and to promote a culture of responsibility, ambition and innovation throughout the company.

The latest programme, UCan, involves all of our employees in a wide-ranging personal and organisational change process. Our aim is to help people improve their own performance and to contribute to the success of our business.

In September 2001 we formally became an Investor in People. We are proud of this achievement in a year of significant change within the business and it demonstrates our commitment to investing in our employees and the progress made in strengthening the link between training and development and our business goals.

John Roberts

Chairman, United Utilities Water PLC

Operational and financial review

This year we have delivered a capital investment programme of more than £400 million, at the same time as raising our target for efficiencies and improving customer service.

Water supply operations

Drinking water quality remains high with 99.78 per cent compliance on the 253,517 tests taken at customers' taps in the North West – up from 99.66 per cent the previous year.

In 2001, North West England experienced the lowest number of reported cases of cryptosporidiosis since accurate records began in the mid 1980s. Cryptosporidiosis is the most commonly identified cause of waterborne disease in the UK. A field-by-field inspection of the Thirlmere aqueduct, and running the aqueduct at full capacity during high risk months, were just part of a 27-point alleviation plan we implemented.

Leakage was reduced to 452 million litres per day. We have now reduced water leakage by 52 per cent since 1992/3, the biggest saving by any water company.

The devastating outbreak of foot and mouth disease throughout the UK in 2001 clearly had an impact on us - 47 per cent of reported cases occurring in the North West region. By and large, we managed to contain that impact and continued to meet our regulatory outputs, although in some cases we needed to renegotiate the timetables with the appropriate regulatory authorities.

Wastewater operations

North West England achieved its best ever bathing water quality results in 2001. The 89 per cent compliance level, with 33 of the 37 designated sites passing, compares with just 18 per cent when sampling began in 1988.

In 2001, the Environment Agency declared that rivers in the North West were the cleanest for over 200 years. Its figures showed that 91 per cent of the rivers are now of good or fair quality.

The last year has seen major improvements at our 600 wastewater treatment works. The number of wastewater treatment works failing to meet their compliance targets fell from 14 to 7 during 2001 and the percentage of population served by failing works fell from a peak of 6.3 per cent to 0.1 per cent by the end of 2001.

A range of initiatives, including a £4 million programme to combat blockages and sewer collapses, helped to reduce the number of flooding incidents experienced by customers from 402 to 238. We also introduced a Code of Practice for responding to and investigating incidents.

Financial results

We continue to invest heavily in our water and wastewater networks. Gross capital investment for the year was in excess of £400 million, bringing the total investment in improving water and wastewater services in the North West to approximately £5.3 billion since privatisation.

Turnover reduced by £1.5 million to £952.0 million, reflecting changes in demand for services offset by increases from the impact of the price formula.

Operating costs, excluding exceptional items, reduced by £16.4 million to £557.3 million, resulting from efficiency savings offset by cost increases arising from the new assets constructed as part of the capital investment programme. Exceptional restructuring costs of £9.2 million were also incurred. Operating profit increased to £385.5 million from £376.4 million in the previous year.

Net interest payable has continued to increase due to our significant investment programme which has resulted in a reduction in profit before tax of £0.5 million to £237.4 million.

Taxation

The current UK mainstream corporation tax charge has been and continues to be low; however, following the adoption of FRS 19 Deferred Taxation the ordinary tax charge now includes deferred tax. The low current tax charge continues to reflect the effects of the high level of accelerated tax allowances arising from the capital investment. The effective current ordinary tax charge of 6.6 per cent compares with a charge of 5.7 per cent in 2000/01. The effects of deferred tax increase the effective ordinary tax charge to 9.1 per cent compared with 20.5 per cent in 2000/01. Deferred tax is £6.1 million in 2001/02 compared with £35.0 million in 2000/01. The reduced charge in 2001/02 is primarily due to the effects of increased gilt interest rates on the discount of the full potential liability.



English Nature presented United Utilities with a Site of Special Scientific Interest award for reviving wildlife habitats on 14,000 acres in the Bowland estate.



Working in partnership with several major water companies, Water UK and WaterAid, United Utilities developed the 'Water in the School' website - which raises children's awareness of water conservation and the environment.

Operational and financial review (continued)

Capital structure and treasury policy

The level of capital expenditure, which the company is obliged to incur, is such that it cannot be wholly financed by internally generated resources. As a result, the company raises finance regularly to fund the long-term assets required to meet regulatory obligations. In the year, total borrowings increased by £37.1 million to £2,461.6 million, whilst net debt rose by £109.7 million to £2,214.6 million. Net interest payable rose by £9.6 million to £148.1 million reflecting the increase in borrowing and movements in interest rates.

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

The group's €4 billion medium-term and \$1.5 billion short-term note issuance programmes continue to provide effective funding. During the period, the company raised £23 million in privately-negotiated bond placements issued from the medium-term note programme. In addition, bank facilities representing some £145 million in medium-term funding were extended in maturity by more than one year. Liquidity as at 31 March 2002 provided by cash and short term current investment totalled £209 million. This together with undrawn committed bank facilities of £320 million gives the company liquid pre-funding of the investment programme.

During the year the company also drew down £50 million from a £200 million borrowing facility provided by the European Investment Bank signed in December 2000. The total commitment to the company at 31 March 2002 from the European Investment Bank, is £655 million, being £505 million of loans taken and £150 million of undrawn loan facilities. This valuable source of funding supports our investment programme over the coming years and is the largest single external investment in the company.

Interest rate management

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

The company's borrowings at 31 March 2002 are set out in note 18 on pages 19 to 21.

New Financial Reporting Standards

Financial Reporting Standard (FRS) 19 Deferred Taxation

The application of FRS 19 is reflected in the year and in the appropriate restatement of the results for the year ended 31 March 2001. The standard requires companies to recognise a provision for all deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation. Previously deferred tax was provided only on timing differences expected to reverse without replacement in the foreseeable future. The standard permits the discounting of deferred tax assets and liabilities which we have adopted as we believe that recognising the expected timing of the crystallisation of the liabilities through discounting more accurately represents the group's tax position.

The effect of FRS 19 is to reduce shareholders' funds by £186.1 million at 31 March 2002 and to increase the tax charges in the years ended 31 March 2002 by £6.1 million and 31 March 2001 by £35.0 million.

Financial Reporting Standard (FRS) 17 Retirement Benefits

FRS 17 requires that the net assets or liabilities of the pension schemes are assessed annually and are included in the balance sheet. The costs of providing the benefits are reported in the profit and loss account for the year. Actuarial gains and losses are reported in the statement of total recognised gains and losses. Under SSAP 24 the pension schemes had an actuarial valuation every three years and the surplus/deficit of the scheme is not included in the balance sheet, rather it is recognised as an adjustment to the normal cost over the future working lifetime of the existing members. Therefore, FRS 17 will introduce an increased element of volatility into the annual accounts.

The company is a member of a number of pension schemes providing benefits based on final pensionable pay. The company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. As permitted by FRS 17, these schemes will be accounted for by the company when the accounting standard is fully adopted, as if the scheme were a defined contribution scheme. The years to 31 March 2002 and 2003 are transitional years in the adoption of FRS 17 and we have made the disclosures required in Note 21 of the annual accounts. The latest full actuarial valuations were carried out at 31 March 2001 and were updated for FRS 17 purposes by qualified independent actuaries. These valuations showed a net surplus of £21.6 million. This information is disclosed in United Utilities PLC accounts.

Steven Beaumont

Finance Director
United Utilities Water PLC

Directors' report

for the year ended 31 March 2002

Principal activities

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

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

Profits and dividends

The results for the year, set out in the profit and loss account on page 6, show that turnover for the year ended 31 March 2002 reduced to £952.0 million, a reduction of 0.2 per cent over the previous year. Profit for the year after tax was £215.8 million (2001 restated - £189.2 million).

An interim dividend of 14.85 pence per share was paid in February 2002. The directors recommend a final dividend of 30.05 pence per share for the year to 31 March 2002. Preference share dividends totalled £9.1 million.

Regulation

As required by paragraph 3.1 of Condition K of the licence, the directors are satisfied that as at 31 March 2002, if a special administration order had been made under section 23 of the Water Industry Act 1991 in respect of United Utilities Water PLC, the company would have had available to it sufficient rights and assets (not including financial resources) to have enabled the special administrator to manage the affairs, business and properties of the company so that the purpose of the order could have been achieved.

Employment policies

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

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

Proper attention to health and safety is an indispensable part of the company's commitment to high standards in every respect of the business. The company encourages participation in the group's save-as-you-earn share schemes and share incentive plan.

Research and development

The company is committed to developing innovative, cost-effective and practical solutions for providing high quality services and standards to our customers, and for the benefit of the wider community and the development of the business. It seeks to take as part of this process maximum advantage of wide-ranging expertise, abilities and facilities within the company.

Creditor payment policy and practice

The policy is normally to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the company seeks to adhere to the payment terms provided the relevant goods and services have been supplied in accordance with the contracts. The group and company had 54 days of purchases outstanding at the end of the financial year.

Directors

The directors of the company during the year ended 31 March 2002 are set out below. All were directors for the whole year except where otherwise indicated.

Non-executive directors

P G S Entwistle, non-executive director

D E Morton JP, non-executive director

Executive directors

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

R D Armstrong

J A Barnes

S G Batey*

S Beaumont (appointed 30 October 2001)

M F Bradbury

L W Dawson*

C H Elphick

*Director, United Utilities PLC

Directors – resigned during the year

S W Chaplin (resigned 17 October 2001)

R C Emerson (resigned 21 January 2002)

Details of directors' interests in ordinary shares of United Utilities PLC are set out in note 5 to the accounts.

At no time in the year did any director have a material interest in any contract or arrangement which was significant in relation to the company's business.

Auditor

In accordance with section 384 of the Companies Act 1985, a resolution to re-appoint KPMG Audit Plc as auditor to the company will be proposed at the annual general meeting.

By order of the board

Tim Rayner

Secretary

11 July 2002

Directors' responsibilities

in respect of the preparation of financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of United Utilities Water PLC at the end of the financial year and of the profit and loss for the financial year. The company is also required to prepare accounting statements each year which comply with the requirements of Condition F of the licence of the company as a water and sewerage undertaker under the Water Industry Act 1991. The accounting statements may be combined with the financial statements.

The directors consider that in preparing the financial statements on pages 6 to 40 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards and all Regulatory Accounting Guidelines issued by the Office of Water Services which they consider to be applicable to these financial statements have been followed. After making enquiries, the directors are of the opinion that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they

continue to adopt a going concern basis in preparing these financial statements.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. In addition, the directors have responsibility for ensuring that the company keeps proper accounting records sufficient to enable the historical cost and current cost information required by Condition F of the licence to be prepared, having regard to all relevant Regulatory Accounting Guidelines. The directors have a general responsibility at law for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are required to confirm in the accounting statements that, in their opinion, the company was in compliance with paragraph 3.1 of Condition K of the licence relating to the availability of the rights and assets, at the end of the financial year.

Independent auditor's report

to the members of United Utilities Water PLC

We have audited the financial statements on pages 6 to 23.

Respective responsibilities of directors and auditors

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 March 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
St James' Square
Manchester
11 July 2002

Consolidated profit and loss account

for the year ended 31 March 2002

	Note	2002 £m	Restated 2001 £m
Turnover	1(b)	952.0	953.5
Net operating costs (including exceptional costs of £9.2m – 2001 £3.4m)	3	(566.5)	(577.1)
Operating profit		385.5	376.4
Net interest payable	7	(148.1)	(138.5)
Profit on ordinary activities before taxation		237.4	237.9
Tax on profit on ordinary activities	8	(21.6)	(48.7)
Profit for the financial year		215.8	189.2
Dividends on equity and non-equity shares	9	(203.0)	(199.2)
Transfer to reserves	20	12.8	(10.0)

All of the results derive from continuing operations. The consolidated profit and loss account for the year ended 31 March 2001 has been restated for the adoption of FRS 19 Deferred Tax (see note 17).

Reconciliations of movements in shareholders' funds

for the year ended 31 March 2002

	Note	Group		Company	
		2002 £m	Restated 2001 £m	2002 £m	Restated 2001 £m
Profit for the financial year (Prior year adjustment of £35 million)		215.8	189.2	215.8	189.2
Dividends		(203.0)	(199.2)	(203.0)	(199.2)
Net movement in shareholders' funds for the year	20	12.8	(10.0)	12.8	(10.0)
Opening shareholders' funds (Prior year adjustment of £145 million)		2,176.5	2,186.5	2,176.5	2,186.5
Closing shareholders' funds		2,189.3	2,176.5	2,189.3	2,176.5

Effect of prior year adjustments on opening equity shareholders' funds.

	2002 £m	2001 £m
Opening shareholders' funds as previously stated	2,356.5	2,331.5
Prior year adjustment - deferred tax (note 17)	(180.0)	(145.0)
Opening shareholders' funds as restated	2,176.5	2,186.5

Consolidated statement of total recognised gains and losses

for the year ended 31 March 2002

	2002 £m	Restated 2001 £m
Profit for the financial year	215.8	189.2
Total recognised gains and losses relating to the financial year	215.8	189.2
Prior year adjustment - deferred tax (note 17)	(180.0)	–
Total gains and losses recognised since last annual report	35.8	189.2

Balance sheets

as at 31 March 2002

	Note	Group		Company	
		2002 £m	Restated 2001 £m	2002 £m	Restated 2001 £m
Fixed assets					
Tangible assets	10	4,924.7	4,746.6	4,924.7	4,746.6
Investments	11	0.4	0.3	0.4	0.4
		4,925.1	4,746.9	4,925.1	4,747.0
Current assets					
Stock		2.9	2.4	2.9	2.4
Debtors	12	287.9	316.4	287.9	316.4
Short-term investments		185.0	255.5	185.0	255.5
Cash at bank		24.3	19.9	24.3	19.9
		500.1	594.2	500.1	594.2
Creditors					
Amounts falling due within one year	13	(604.0)	(559.2)	(604.0)	(540.2)
Net current (liabilities)/assets		(103.9)	35.0	(103.9)	54.0
Total assets less current liabilities		4,821.2	4,781.9	4,821.2	4,801.0
Creditors					
Amounts falling due after more than one year	14	(2,440.1)	(2,419.5)	(2,440.1)	(2,438.6)
Provisions for liabilities and charges	16,17	(191.8)	(185.9)	(191.8)	(185.9)
Net assets		2,189.3	2,176.5	2,189.3	2,176.5
Capital and reserves					
Equity share capital	19	431.9	431.9	431.9	431.9
Share premium account	19	647.8	647.8	647.8	647.8
Profit and loss account	20	886.2	873.4	886.2	873.4
Equity shareholders' funds		1,965.9	1,953.1	1,965.9	1,953.1
Non-equity share capital	19	223.4	223.4	223.4	223.4
Shareholders' funds		2,189.3	2,176.5	2,189.3	2,176.5

Prior year figures have been restated to show the effects of applying FRS 19 Deferred Tax as explained in note 17.

Approved by the board of directors on 11 July 2002 and signed on its behalf by:

Steven Beaumont
Finance Director

Consolidated cash flow statement

for the year ended 31 March 2002

	2002 £m	2002 £m	2001 £m	2001 £m
Net cash inflow from operating activities		650.4		623.4
Returns on investments and servicing of finance				
Interest received	16.3		10.2	
Interest paid	(164.3)		(122.9)	
Interest element of finance lease repayments	(7.9)		(10.2)	
Non-equity dividends paid	(9.1)		(9.1)	
Net cash outflow from returns on investment and servicing of finance		(165.0)		(132.0)
Taxation		(11.8)		(13.2)
Capital expenditure				
Purchase of tangible fixed assets	(402.0)		(397.4)	
Grants and contributions received	4.7		8.2	
Disposal of tangible fixed assets	5.4		15.7	
Net cash outflow for capital expenditure		(391.9)		(373.5)
Equity dividends paid		(191.4)		(187.6)
Cash outflow before use of liquid resources		(109.7)		(82.9)
Management of liquid resources				
Short-term deposits		70.5		(255.5)
Financing				
Increase of debt	58.3		304.5	
Net cash inflow from financing		58.3		304.5
Increase/(Decrease) in cash		19.1		(33.9)

Notes to the cash flow statement

for the year ended 31 March 2002

	2002 £m	2001 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	385.5	376.4
Depreciation	228.0	242.2
Profit on disposal of tangible fixed assets	(4.3)	(1.3)
Stocks (increase)/decrease	(0.5)	0.1
Debtors decrease/(increase)	33.8	(7.4)
Creditors increase/(decrease)	7.9	13.4
Net cash inflow from operating activities	650.4	623.4

Notes to the cash flow statement (continued)

	2002 £m	2001 £m
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash in the year	19.1	(33.9)
Cash inflow from increase in debt and lease financing	(58.3)	(304.5)
Cash used to reduce liquid resources	(70.5)	255.5
Movement in net debt in the year	(109.7)	(82.9)
Opening net debt at 1 April	(2,104.9)	(2,022.0)
Closing net debt at 31 March	(2,214.6)	(2,104.9)

	2002 £m	2001 £m
Analysis of cash flows for headings netted in the cash flow statement		
Financing		
Debt due within a year:		
– new/(repayment of) short-term group loans	6.4	(24.8)
– repayment of/(new) short-term bank loans	–	(310.5)
Debt due beyond a year:		
– new long-term loans	53.0	735.8
– repayment of long-term group loans	–	(65.0)
– repayment of long-term external loans	(1.1)	(30.6)
Capital element of finance lease repayments	–	(0.4)
Net cash inflow from financing	58.3	304.5

	At 1 April 2001 £m	Cashflow £m	At 31 March 2002 £m
Analysis of changes in net debt			
Long-term loans	(2,180.4)	(51.8)	(2,232.2)
Finance leases	(199.6)	–	(199.6)
Overdrafts	(44.5)	14.7	(29.8)
Borrowings	(2,424.5)	(37.1)	(2,461.6)
Parent undertaking loans	44.2	(6.5)	37.7
Short-term investments	255.5	(70.5)	185.0
Cash in hand	19.9	4.4	24.3
Net debt	(2,104.9)	(109.7)	(2,214.6)

Notes to the accounts

1 Accounting policies

(a) Basis of preparation of financial statements

The consolidated financial statements of United Utilities Water PLC and its subsidiary (the group) have been prepared under the historical cost convention and in accordance with applicable accounting standards and, except for the treatment of certain grants and contributions (note (e) below), with the Companies Act 1985. In the year ended 31 March 2002 the group has adopted Financial Reporting Standard (FRS) 19 Deferred Taxation, the application of which is reflected in the current period and has also resulted in changes to the prior period results as per notes 8 and 17.

(b) Turnover

Turnover represents the income receivable in the ordinary course of business for services provided and excludes VAT.

(c) Research and development

Expenditure on research and development is written off against profit in the year in which it is incurred.

(d) Tangible fixed assets

Tangible fixed assets comprise infrastructure assets (mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) and other assets (including properties, overground plant and equipment and electricity operational assets).

(i) Infrastructure assets

Infrastructure assets comprise a network of water and wastewater systems. Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition, which is included at cost after deducting grants and contributions. The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the company's independently certified asset management plan.

Employee costs incurred in implementing the capital schemes of the company are capitalised within fixed assets.

(ii) Other assets

Additions are included at cost. Assets in the course of construction are not depreciated until they are commissioned. Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives which are principally as follows:

Buildings	30-60 years
Operational assets	5-80 years
Fixtures, fittings, tools and equipment	3-40 years
Capitalised computer software costs	3-10 years

(e) Grants and contributions

Capital contributions towards infrastructure assets are deducted from the cost of those assets. This is not in accordance with Schedule 4 to the Companies Act 1985 under which the infrastructure assets should be stated at their purchase price or production cost and the capital contributions treated as deferred income and released to the profit and loss account over the useful life of the corresponding assets.

The directors are of the opinion that, although provision is made for depreciation of infrastructure assets (see note (d)(i) above), these assets have no finite economic lives and the capital contributions would therefore remain in the balance sheet in perpetuity. The treatment otherwise required by the Companies Act 1985 would not present a true and fair view of the group's effective investment in infrastructure assets. The financial effect of this accounting policy is set out in note 10.

Grants and contributions receivable in respect of other tangible fixed assets are treated as deferred income, which is credited to the profit and loss account over the estimated economic lives of the related assets.

(f) Leased assets

Assets financed by leasing arrangements which transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in the consolidated balance sheet and the corresponding capital cost is shown as an obligation to the lessor. Leasing repayments comprise both a capital and a finance element. Where the lease is of a fixed interest rate nature, the finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Where the lease is of a floating interest rate nature, the finance element written off to the profit and loss accounts reflects the floating interest rate charge incurred during the period on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease.

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

(g) Fixed asset investments

Investments held as fixed assets are stated at cost less amounts written off for permanent diminution.

(h) Stocks

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

(i) Pensions

The company participates in a number of defined benefit schemes offered by United Utilities PLC. These schemes provide for defined benefits based on final pensionable pay. Pension costs are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the company. The company has followed the transitional arrangements of FRS 17 Retirement Benefits in these financial statements. Details of pension arrangements and funding are set out in note 21.

(j) Taxation

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

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

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

(k) Financial instruments

The notional interest on interest rate swaps and forward rate agreements to manage interest rate exposures on the company's net borrowings are included with the interest flows of the underlying net borrowings. These financial instruments in the above circumstances are not revalued to their open market value, but, on realisation, gains and losses are spread over the period of the hedged position.

Notes to the accounts (continued)

2 Segmental information

The company operates in the United Kingdom in one class of business.

3 Net operating costs

	2002 £m	2001 £m
Employee costs:		
Wages and salaries	74.2	81.6
Social security costs	5.8	7.4
Pension costs (note 21)	4.3	4.4
	84.3	93.4
Capital schemes	(30.1)	(28.8)
Charges to provisions	(5.4)	–
	48.8	64.6
Depreciation:		
Owned fixed assets	121.4	137.8
Fixed assets held under finance leases	4.4	4.7
Non-infrastructure depreciation	125.8	142.5
Infrastructure depreciation	102.2	99.7
	228.0	242.2
Other operating costs include:		
Other operating costs	273.6	250.0
Raw materials and consumables	20.4	22.0
Auditor's remuneration	0.1	0.1
Research and development	0.9	1.8
Operating leases:		
– hire of plant and machinery	2.7	1.0
– land and buildings	0.9	1.4
Other income (note 4)	(8.9)	(6.0)
	289.7	270.3
Total net operating costs	566.5	577.1

Managed service fees and asset charges from group undertakings are contained within other operating costs. Fees payable to the auditor and its associates for non-audit services in 2002 were £61,000 (2001 – £46,000).

4 Other income

	2002 £m	2001 £m
Profit on disposal of fixed assets	4.3	1.3
Net rents receivable	1.2	2.2
Other	3.4	2.5
	8.9	6.0

Notes to the accounts (continued)

5 Directors

The aggregate emoluments of the directors in 2002 amounted to £879,979 (2001 – £1,410,086). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of the highest paid director (R D Armstrong) in 2002 amounted to £255,847 (2001 H R Croft – £330,599).

At 31 March 2002 and the prior year, the directors and their families had the following interests, all of which were beneficial interests, in the ordinary shares and options to subscribe for ordinary shares in United Utilities PLC (details of the interests of directors of United Utilities PLC are dealt with in that company's accounts).

	2002 Interest in shares			2001 or appointment Interest in shares		
	Ordinary Shares	Executive option scheme	Employee sharesave scheme	Ordinary Shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	16,799	3,767	2,054	11,208	12,293	2,054
J A Barnes	7,050	29,924	1,819	3,450	29,924	5,419
S Beaumont	1,959	26,984	2,054	1,959	26,984	2,054
M F Bradbury	11,156	43,364	2,679	10,686	43,364	3,596
C H Elphick	11,938	23,636	2,290	8,315	23,636	3,623
P G S Entwistle	90	–	–	90	–	–

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

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

	Share options at 31 March 2001 or on appointment	Options granted during the year	Weighted average exercise price per share	First date exercisable	Last date exercisable	Options exercised during the year	Market price on exercise
Employee sharesave scheme							
R D Armstrong	2,054	–	471.5p	1 Mar 2003	1 Sep 2003	–	–
J A Barnes	1,819	–	556.5p	1 Mar 2006	1 Sep 2006	–	–
	2,151	–	481.0p	2 Feb 2001	1 Aug 2001	2,151	640p
	1,449	–	476.0p	2 Feb 2002	1 Aug 2002	1,449	613p
S Beaumont	2,054	–	471.5p	1 Mar 2003	1 Sep 2003	–	–
M F Bradbury	1,449	–	476.0p	2 Feb 2002	1 Aug 2002	1,449	599p
	2,147	–	471.5p	1 Mar 2005	1 Sep 2005	–	–
	–	532	500.0p	1 Mar 2005	1 Sep 2005	–	–
C H Elphick	–	2,290	500.0p	1 Mar 2007	1 Sep 2007	–	–
	3,623	–	476.0p	2 Feb 2002	1 Aug 2002	3,623	599p
Executive option scheme							
R D Armstrong	3,767	–	529.6p				
	6,912	–	275.7p	8 Jan 1997	8 Jan 2002	6,912	633p
	1,292	–	394.2p	6 Jan 1998	6 Jan 2003	1,292	633p
	322	–	482.2p	20 Jan 1999	20 Jan 2004	322	633p
J A Barnes	29,924	–	669.9p				
S Beaumont	26,984	–	721.2p				
M F Bradbury	43,364	–	679.6p				
C H Elphick	23,636	–	582.2p				

The mid-market price of a share on the 31 March 2002 was 611 pence. The range in the year was 578 pence to 673 pence.

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

Notes to the accounts (continued)

5 Directors (continued)

The aggregate notional gain made by directors on the exercise of options during the year (based on the difference between the mid-market price of a share on the day which options were exercised and the exercise price) was £39,911 (2001 – £nil). None of the options shown above lapsed during the year.

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

The Finance Act 1989 restricts the pension benefits that can be paid by the Scheme to directors who joined the company after 1 June 1989 because the earnings cap limits pensionable earnings for calculating benefits. The company has put in place for some of the executive directors affected separate arrangements, the effect of which is to provide for them the same pension benefits as for those executives who are not limited by the cap. These arrangements are unfunded.

The accrued pension at 31 March 2002 for R D Armstrong was £89,236 per annum (2001 H R Croft – £150,857 per annum).

6 Employees

	2002	2001
Average number of persons employed	3,199	3,492

7 Net interest payable

	2002 £m	2001 £m
Interest payable:		
On bank loans, overdrafts and other loans	105.9	77.6
On finance leases	7.9	10.2
Group undertakings	50.6	60.4
Total interest payable	164.4	148.2
Interest receivable:		
Group undertakings	(5.2)	(4.7)
External	(11.1)	(5.0)
Net interest payable	148.1	138.5

Notes to the accounts (continued)

8 Taxation on profit on ordinary activities

(a) Analysis of charge in period

	2002 £m	Restated 2001 £m
Current tax:		
UK corporation tax at 30%	15.5	13.7
Deferred tax:		
Origination and reversal of timing differences	62.1	58.4
Increase in discount	(56.0)	(23.4)
Total deferred tax	6.1	35.0
Tax on profit on ordinary activities	21.6	48.7

(b) Factors affecting tax charge for period

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

	2002 £m	Restated 2001 £m
Profit on ordinary activities before tax	237.4	237.9
	%	%
UK corporation tax rate	30.0	30.0
Capital allowances in excess of depreciation	(26.7)	(29.0)
Other timing differences	0.6	2.1
Net costs not deductible for tax purposes	2.7	2.6
Actual current tax rate	6.6	5.7

As a result of the adoption of FRS 19 the comparative figure for the tax on profit on ordinary activities 2001 has been restated from the previously reported amount of £13.7 million to £48.7 million.

Notes to the accounts (continued)

9 Dividends

	2002 £m	2001 £m
Interim dividend of 14.85 pence per share (2001 – 14.56 pence)	64.2	62.9
Final dividend of 30.05 pence per share recommended (2001 – 29.46 pence)	129.7	127.2
Preference share dividend 6.98 pence per share (2001 – 6.98 pence)	9.1	9.1
	203.0	199.2

United Utilities Water PLC has increased its ordinary dividend payable to United Utilities Service Delivery PLC by 2.0 per cent to £193.9 million gross for the year. The dividend policy this year is consistent with the management of the economic risks of the business. United Utilities Water PLC has also paid a preference dividend of £9.1 million for the year to United Utilities Service Delivery PLC.

10 Tangible fixed assets

Group and company	Land and Buildings £m	Infrastructure assets £m	Operational structures £m	Fixtures, fittings tools and equipment £m	Assets in course of construction £m	Total £m
Cost:						
At 1 April 2001	197.5	3,183.9	2,395.5	520.4	311.1	6,608.4
Additions	0.1	73.2	16.8	23.9	297.6	411.6
Grants and contributions	-	(4.6)	-	-	-	(4.6)
Inter-group transfer	(0.9)	-	-	0.2	-	(0.7)
Transfers	3.6	26.2	37.0	27.4	(94.2)	-
Disposals	(0.8)	-	(2.7)	(38.8)	-	(42.3)
At 31 March 2002	199.5	3,278.7	2,446.6	533.1	514.5	6,972.4
Depreciation:						
At 1 April 2001	43.4	942.3	588.9	287.1	0.1	1,861.8
Charge for the year	9.4	102.2	76.9	39.5	-	228.0
Inter-group transfer	(0.2)	-	-	-	-	(0.2)
Disposals	(0.8)	-	(2.6)	(38.4)	(0.1)	(41.9)
At 31 March 2002	51.8	1,044.5	663.2	288.2	-	2,047.7
Net book value:						
At 31 March 2002	147.7	2,234.2	1,783.4	244.9	514.5	4,924.7
At 31 March 2001	154.1	2,241.6	1,806.6	233.3	311.0	4,746.6

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence, the net book value of fixed assets is £76.0 million (2001 – £71.4 million) lower than it would have been had this treatment not been adopted.

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 2002.

Notes to the accounts (continued)

10 Tangible fixed assets (continued)

Infrastructure renewals

	£m
Excess expenditure over depreciation at 1 April 2001 on maintaining the operating capability of the network	50.3
Expenditure on maintaining the network in the year	80.8
Depreciation for the year	(102.2)
Excess expenditure over depreciation at 31 March 2002	28.9

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

	2002 £m	2001 £m
Cost:		
Operational structures	250.8	250.8
Fixtures, fittings, tools and equipment	0.5	4.1
At 31 March	251.3	254.9
Accumulated depreciation:		
Operational structures	(77.2)	(73.0)
Fixtures, fittings, tools and equipment	(0.5)	(3.9)
At 31 March	(77.7)	(76.9)
Net book value:		
Operational structures	173.6	177.8
Fixtures, fittings, tools and equipment	-	0.2
At 31 March	173.6	178.0

The depreciation charge for the year for assets held under finance leases is £4.4 million (2001 – £4.7 million).

	2002 £m	2001 £m
Capital commitments:		
Contracted but not provided for	160.5	175.4

Notes to the accounts (continued)

11 Fixed asset investments

	Shares in subsidiary undertakings £m	Others investments £m	Total £m
Company			
Cost:			
At 1 April 2001 and 31 March 2002	0.1	0.3	0.4

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

Subsidiary undertakings	Description of holding	Proportion held	Nature of business
North West Water Finance PLC	Ordinary shares of £1 each	100%	Raising finance
Associated undertakings	Description of holding	Proportion held	Nature of business
WRc plc	'A' Ordinary shares of £1 each	9.84%	Water and wastewater research
	8% convertible unsecured loan stock 2014	26.54%	
Paypoint Network Limited	Ordinary shares of 1 pence each	0.06%	Cash collection service
	Deferred shares of 1 pence each	0.06%	

12 Debtors

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Trade debtors	152.3	147.2	152.3	147.2
Amounts owed by group undertakings	65.2	66.3	65.2	66.3
Other debtors	11.8	12.1	11.8	12.1
Prepayments and accrued income	58.6	90.8	58.6	90.8
	287.9	316.4	287.9	316.4

Amounts owed by group undertakings represent amounts owed by parent and fellow subsidiary undertakings, which includes £49.4 million floating rate loans (2001 – £44.1 million). Within prepayments and accrued income is £7.5 million which falls due after more than one year (2001 - £5.9 million).

Notes to the accounts (continued)

13 Creditors: amounts falling due within one year

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Loans	66.6	31.2	66.6	31.2
Bank overdrafts and temporary borrowings	29.8	44.4	29.8	44.4
Trade creditors	21.5	10.4	21.5	10.4
Amounts owed to parent and fellow subsidiary undertakings	66.1	41.6	66.1	41.6
Dividends	129.8	127.2	129.8	127.2
Other creditors	0.4	1.1	0.4	1.1
Taxation and social security	2.4	2.0	2.4	2.0
Accruals and deferred income	287.4	301.3	287.4	282.3
	604.0	559.2	604.0	540.2

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Loans	1,711.1	1,694.7	1,711.1	489.3
Obligations under finance leases	199.6	199.6	199.6	199.6
Amounts owed to parent and fellow subsidiary undertakings	454.5	454.5	454.5	1,679.0
Other creditors	3.9	4.4	3.9	4.4
Deferred grants and contributions (note 15)	71.0	66.3	71.0	66.3
	2,440.1	2,419.5	2,440.1	2,438.6

15 Deferred grants and contributions

	£m
Group and company	
As at 1 April 2001	66.3
Received in the year	7.6
Profit and loss account	(2.9)
At 31 March 2002	71.0

Notes to the accounts (continued)

16 Provision for liabilities and charges

	Deferred tax £m	Restructuring £m	Total £m
Group and company			
As at 1 April 2001 (restated)	180.0	5.9	185.9
Utilised	-	(9.4)	(9.4)
Profit and loss account	6.1	9.2	15.3
At 31 March 2002	186.1	5.7	191.8

17 Deferred tax

	2002 £m	Restated 2001 £m
Accelerated capital allowances	881.6	818.0
Short-term timing differences	(31.5)	(30.0)
Undiscounted provision for deferred tax	850.1	788.0
Discount	(664.0)	(608.0)
Discounted provision for deferred tax	186.1	180.0

The requirements of FRS 19 Deferred Tax, issued in December 2000, are now effective for these financial statements. Accordingly, full provision has been made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation (discounted where material). A prior year adjustment of £180.0 million has been charged against reserves to create the provision at the start of the period.

18 Borrowings

	2002 £m	2001 £m
Bank overdrafts and temporary borrowings	29.8	44.5
Term loans	2,232.2	2,180.4
Finance leases	199.6	199.6
	2,461.6	2,424.5

Repayments fall due as follows:

	Year	2002 £m	Year	2001 £m
After five years	2008+	1,784.6	2007+	1,751.8
From four to five years	2007	52.2	2006	444.9
From three to four years	2006	444.4	2005	50.5
From two to three years	2005	50.0	2004	34.5
From one to two years	2004	34.0	2003	67.1
After more than one year		2,365.2		2,348.8
Within one year	2003	96.4	2002	75.7
		2,461.6		2,424.5

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2008 and 2053. Interest rates range from 0.75 per cent to 14.83 per cent on £1,557.7 million and are at floating rates on £226.9 million.

Notes to the accounts (continued)

18 Borrowings (continued)

Bank overdrafts and temporary borrowings

The group had available unutilised committed bank facilities of £320 million (2001 – £545 million). The amounts currently unutilised expire as follows:

	£m
Within one year	75.0
After two years	245.0
Total	320.0

Taking into account off balance sheet instruments, net debt can be analysed as follows:

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed		Weighted average period for which interest is fixed	
	2002 £m	2001 £m	2002 %	2001 %	2002 years	2001 years
Fixed rate borrowings – sterling	2,064.1	1,709.7	7.2	7.1	4.1	5.4
Floating rate borrowings – sterling	397.5	714.8				
Floating rate parent undertaking loan – sterling	–	–				
	2,461.6	2,424.5				
Floating rate parent undertaking loan – sterling	(37.7)	(44.2)				
Short-term investments – sterling	(185.0)	(255.5)				
Cash at bank	(24.3)	(19.9)				
Net debt at 31 March	2,214.6	2,104.9				

Floating rate borrowings are based on LIBOR.

Financial instruments and risk management

The primary financial risks faced by the group are exchange rate risk and interest rate risk. The board has reviewed and agreed policies for managing each of these risks as summarised below. The board has also approved all of the classes of financial instruments used by the group. The group's treasury function, which is authorised to conduct the day-to-day treasury activities of the group, reports at least annually to the board. The group uses a wide variety of financial instruments, including derivatives, to raise finance for its operations and to manage the risks arising from those operations.

The group borrows in the major global debt markets in a range of currencies at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective currency profile and interest basis.

Under an interest rate swap, the group agrees with another party to exchange at specific intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The notional principal of these instruments reflects the extent of the group's involvement in the instruments, but does not represent its exposure to credit risk which is assessed by reference to the fair value.

Under a currency rate swap, the group agrees with another party to exchange the principal amount of two currencies together with interest amounts in the two currencies agreed by reference to a specific interest rate basis and the principal amount. The principal of these instruments reflects the extent of the group's involvement in the instruments.

All transactions are undertaken to manage the risks arising from underlying business activities and no speculative trading is undertaken. The counterparties to these instruments generally consist of financial institutions and other bodies with good credit ratings. Although the group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and limiting the total amount of exposure to any one party. The group does not believe it is exposed to any material concentrations of credit risk.

As noted above, the group uses derivatives to manage its exposure to currency risk on its borrowings. Accordingly, the group has no material unhedged foreign currency exposures.

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

a) Interest rate swaps

Interest rate swaps are used solely to manage floating rate borrowings in order to reduce the financial risk of the group from potential future changes in medium-term interest rates.

Notes to the accounts (continued)

b) Financial futures

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

c) Forward contracts

The group generally hedges foreign exchange transaction exposures up to one year forward. Hedges are put in place using forward contracts at the time that the forecast exposure becomes reasonably certain.

d) Currency swaps

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

Fair values of financial instruments

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined precisely. Changes in assumptions could significantly affect the estimates.

	2002 Book value £m	2002 Fair value £m	2001 Book value £m	2001 Fair value £m
Short-term debt and current portion of long-term debt	96.4	96.4	75.7	75.7
Long-term debt	2,365.2	2,428.8	2,348.8	2,444.3
	2,461.6	2,525.2	2,424.5	2,520.0
Interest rate swaps	–	38.4	–	44.4
Foreign exchange contracts and swaps	–	(32.3)	–	(65.7)
Total financial instruments	2,461.6	2,531.3	2,424.5	2,498.7

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

Current assets and liabilities

Financial instruments included within current assets and liabilities (excluding cash and borrowings) are generally short-term in nature and accordingly their fair values approximate to their book values.

Long term receivables and liabilities

The fair values of financial instruments included within long-term receivables and liabilities (excluding borrowings) are based on discounted cash flows using appropriate market interest rates.

Net borrowings and non-equity interests (excluding foreign exchange contracts)

The carrying values of cash and short-term borrowings and current asset investments approximated to their fair values because of the short-term maturity of these instruments. The fair value of quoted long-term borrowings and guaranteed preferred securities is based on year end mid-market quoted prices. The fair value of other long-term borrowings is estimated by discounting the future cash flows to net present values using appropriate market interest rates prevailing at the year end.

Currency and interest rate swaps

The group enters into currency and interest rate swaps in order to manage its foreign currency and interest rate exposures. The fair value of these financial instruments was estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end. The carrying and fair values of currency and interest rate swaps include the related accrued interest receivables and payables.

Hedges

Unrecognised gains and losses on financial assets and liabilities for which hedge accounting has been used at the balance sheet date were £137.3 million and £143.4 million respectively (2001 – £168.2 million and £146.7 million).

The group anticipates that £41.1 million of these gains and £39.3 million of these losses will be realised in the forthcoming financial year (2001 – £20.0 million and £18.5 million). Of the unrecognised gains and losses on hedges as at 1 April 2001, the net loss recognised in the period's profit and loss account was £11.5 million.

Notes to the accounts (continued)

19 Called up share capital and share premium accounts

	2002 £m	2001 £m
Authorised share capital		
650,000,000 ordinary shares of £1 each	650.0	650.0
223,437,000 preference shares of £1 each	223.4	223.4
Allotted and fully paid share capital		
431,930,000 ordinary shares of £1 each	431.9	431.9
223,437,000 preference shares of £1 each	223.4	223.4
Share premium account	647.8	647.8

Preference shareholders are not entitled to receive notice of, attend or vote at, any general meeting of the company. However, preference shareholders receive priority to other classes of shareholders on a winding up, liquidation or other return of capital to shareholders of the company. The preference shares have a redemption date of 1 October 2009.

20 Profit and loss account

	Group £m	Company £m
At 1 April 2001 (restated)	873.4	873.4
Profit for the year	12.8	12.8
At 31 March 2002	886.2	886.2

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

21 Pensions

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

For UUPS and ESPS, the pension cost under the accounting standard SSAP 24 have been assessed in accordance with the advice of a firm of actuaries, Mercer Human Resource Consulting, using the projected unit method. For this purpose, the actuarial assumptions adopted are based upon investment growth of 6.0 per cent per annum, pay growth of 4.0 per cent per annum and increases to pension in payment and deferred pension of 2.5 per cent per annum. The actuarial value of the assets was taken as the market value of the assets.

The last actuarial valuations of the two schemes were carried out as at 31 March 2001. The combined market value of United Utilities' share of the assets of the two schemes at the valuation date was £1,833 million. Using the assumptions adopted for SSAP 24 the combined actuarial value of the assets represented 113 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP 24, the surplus in the schemes is being spread over the future working lifetime of the existing members.

For UUPS, the employer's contributions have been assessed in accordance with the advice of Mercer Human Resource Consulting using different assumptions to those described above. For ESPS, the employer's contributions have been assessed in accordance with the advice of a firm of actuaries, Bacon and Woodrow, using different assumptions and methods to those described above.

The company also operates a series of unfunded, unapproved retirement benefit schemes. The cost of the unfunded, unapproved retirement benefit schemes is included in the total pension cost, on a basis consistent with SSAP 24 and the assumptions set out above.

The total pension cost for the period was £4.3 million (2001 – £4.4 million). A prepayment of £7.5 million is included in the balance sheet at 31 March 2002 (2001 – £5.9 million).

The company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. As permitted by FRS 17 Retirement Benefits, these schemes will be accounted for by the company when the accounting standard is fully adopted, as if the scheme were a defined contribution scheme. The latest full actuarial valuations were carried out at 31 March 2001 and were updated for FRS 17 purposes by qualified independent actuaries. These valuations showed a net surplus of £21.6 million. This information is disclosed in the United Utilities PLC accounts.

Notes to the accounts (continued)

22 Operating leases

	Land and buildings 2002 £m	Plant and machinery 2002 £m	Land and buildings 2001 £m	Plant and machinery 2001 £m
The company is committed to making the following payments during the year:				
Leases which expire:				
Within one year	–	0.3	0.4	0.2
Between two and five years	–	2.4	–	0.7
After five years	0.9	–	0.9	–
	0.9	2.7	1.3	0.9

23 Related party transactions

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

24 Ultimate parent undertaking

The accounts of the company are consolidated in the group accounts of the ultimate parent undertaking, United Utilities PLC, a company registered in England and Wales. Copies of the accounts of United Utilities PLC may be obtained from the Company Secretary, United Utilities PLC, Dawson House, Great Sankey, Warrington WA5 3LW.

Regulatory accounting information

Introduction

The current cost accounts on pages 27 to 40 have been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services.

Turnover and net operating assets for the non-appointed business, as defined by Regulatory Accounting Guidelines, are not material and, therefore, the current cost profit and loss account, balance sheet and cash flow statement show the figures for the total business.

Auditor's contract

The contract of appointment with the auditor satisfies the requirements of paragraph 9.2 of Condition F of the licence namely that "the auditors will provide such further explanation or clarification of their reports, and such further information in respect of the matters which are the subject of their reports, as the Director General may reasonably require".

Independent auditor's report

to the Director General of Water Services on the financial statements of United Utilities Water PLC

We have audited the historical cost financial statements on pages 6 to 23, which have been prepared under the accounting policies set out on page 10, and the current cost financial information on pages 27 to 40, which has been prepared under the accounting policies set out on pages 29 and 30.

Respective responsibilities of directors and auditors

As described on page 5 the company's directors are responsible for the preparation of the regulatory financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the regulatory financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the regulatory financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the regulatory financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the regulatory financial statements in terms of Generally Accepted Accounting Principles, the Regulatory Accounting Guidelines and consistency with the statutory accounts.

Opinion

In our opinion the regulatory financial statements contain the information for the year to 31 March 2002 required to be published and submitted to you by United Utilities Water PLC ("the Appointee") to comply with Condition F of the licence by the Secretary of State for the Environment to the Appointee as a water and sewerage undertaker under the Water Industry Act 1991.

In respect of this information, we report that in our opinion:

- (i) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the licence;
- (ii) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the licence and has been properly prepared in accordance with the Regulatory Accounting Guidelines numbers 1 to 4 issued by the Office of Water Services;
- (iii) the financial statements on pages 6 to 23 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business;
- (iv) the summarised accounts on pages 25 and 26 have, as explained on page 26, been properly prepared from the financial statements on pages 6 to 23 to reflect the adoption of infrastructure renewals accounting as required by the Regulatory Accounting Guidance and, except for the effect of the departure from accounting standards inherent in this requirement, give, under the historical cost convention and together with the information in the financial statements on pages 6 to 23, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business; and
- (v) the current cost financial information on pages 27 to 40 has been properly prepared in accordance with Regulatory Accounting Guideline 1, Accounting for Current Costs, issued in May 1992 by the Office of Water Services.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
St James' Square
Manchester
11 July 2002

Summarised company historical cost profit and loss account

for the year ended 31 March 2002

	2002 £m	Restated 2001 £m
Turnover	952.0	953.5
Operating costs	(572.0)	(583.5)
Operating income	4.3	4.7
Operating profit	384.3	374.7
Other income	1.2	2.2
Net interest payable	(148.1)	(139.0)
Profit on ordinary activities before taxation	237.4	237.9
Taxation	(21.6)	(48.7)
Profit for the year	215.8	189.2
Dividends	(203.0)	(199.2)
Retained profit/(loss) for the year	12.8	(10.0)

Summarised company historical cost balance sheet

for the year ended 31 March 2002

	2002 £m	Restated 2001 £m
Fixed assets		
Tangible fixed assets	4,895.8	4,696.3
Investments	0.4	0.4
	4,896.2	4,696.7
Current assets		
Stock	2.9	2.4
Debtors	316.8	366.8
Short-term deposits	185.0	255.5
Cash at bank	24.3	19.9
	529.0	644.6
Creditors: amounts falling due within one year		
Borrowings	(96.4)	(75.6)
Dividends payable	(129.8)	(127.2)
Other creditors	(377.8)	(356.6)
	(604.0)	(559.4)
Net current (liabilities)/assets	(75.0)	85.2
Creditors: amounts falling due after more than one year		
Borrowings	(2,365.9)	(2,348.8)
Other creditors	(3.2)	(4.4)
	(2,369.1)	(2,353.2)
Provision for liabilities and charges	(191.8)	(185.9)
Deferred income	(71.0)	(66.3)
Net assets employed	2,189.3	2,176.5
Capital and reserves		
Called up share capital	655.3	655.3
Share premium	647.8	647.8
Profit and loss account	886.2	873.4
Shareholders' funds	2,189.3	2,176.5

The above historical cost balance sheet is prepared in accordance with infrastructure renewals accounting for regulatory purposes. However, the historical cost accounting balance sheet stated on page 7 reflects the adoption of FRS15 Tangible Fixed Assets for the financial year 2001/02 and the prior year. The infrastructure renewals prepayment of £28.9 million in 2002 (2001 - £50.3 million) is therefore shown within fixed assets, not within debtors.

Current cost profit and loss account

for the year ended 31 March 2002

	Note	2002 £m	Restated 2001 £m
Turnover	2	952.0	953.5
Current cost operating costs	3	(662.8)	(680.0)
Profit on disposal of fixed assets	2	1.6	4.7
Working capital adjustment	2	0.5	(0.3)
Current cost operating profit		291.3	277.9
Other income		1.2	2.2
Net interest payable		(148.1)	(139.0)
Financing adjustment		30.9	50.7
Current cost profit on ordinary activities before taxation		175.3	191.8
Taxation			
- Current tax		(15.5)	(13.7)
- Deferred tax		(6.1)	(35.0)
Current cost profit attributable to shareholders		153.7	143.1
Dividends on equity and non-equity shares		(203.0)	(199.2)
Current cost loss retained		(49.3)	(56.1)

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

Current cost balance sheet

at 31 March 2002

	Note	2002 £m	Restated 2001 £m
Tangible assets	4	34,977.2	34,412.0
Third party contributions since 1989-90		(181.2)	(176.0)
Working capital	5	(87.8)	(39.1)
Net operating assets		34,708.2	34,196.9
Cash and investments		185.4	255.8
Non-trade debtors		55.4	56.6
Non-trade creditors due within one year		(145.9)	(107.0)
Creditors due after one year		(2,369.4)	(2,353.5)
Provisions for liabilities and charges			
- Deferred tax		(186.1)	(180.0)
- Other provisions		(5.7)	(5.9)
Dividends payable		(129.8)	(127.2)
Net assets employed		32,112.1	31,735.7
Capital and reserves			
Called up share capital		655.4	655.4
Share premium account		647.8	647.8
Profit and loss account		(229.3)	(180.0)
Current cost reserve	6	31,038.2	30,612.5
Shareholders' funds		32,112.1	31,735.7

Current cost cash flow statement

for the year ended 31 March 2002

	2002 £m	2002 £m	2001 £m	2001 £m
Net cash flow from operating activities		629.7		608.2
Returns on investments and servicing of finance				
Interest received	16.3		10.2	
Interest paid	(145.1)		(142.8)	
Interest in finance lease rental	(7.9)		(10.2)	
Non-equity dividends paid	(9.1)		(9.1)	
Net cash outflow from returns on investments and servicing of finance		(145.8)		(151.9)
UK corporation tax paid		(11.8)		(13.2)
Capital expenditure				
Gross cost of purchase of fixed assets	(323.7)		(290.8)	
Receipt of grants and contributions	9.3		8.2	
Infrastructure renewals expenditure	(80.8)		(90.8)	
Disposal of fixed assets	5.4		15.7	
Net cash outflow from investing activities		(389.8)		(357.7)
Equity dividends paid		(191.2)		(187.6)
Management of liquid resources				
Short-term deposits		70.5		(255.5)
Net cash outflow before financing		(38.4)		(357.7)
Financing				
Capital element of finance lease rentals	-		(0.4)	
New bank loans	57.5		444.6	
Repayment of short-term group loans	-		(24.8)	
Repayment of long-term group loans	-		(65.0)	
Repayment of long-term external loans	-		(30.6)	
Net cash inflow from financing		57.5		323.8
Increase/(decrease) in cash		19.1		(33.9)

Note to the current cost cash flow statement

	2002 £m	2001 £m
Reconciliation of current cost operating profit to net cash flow from operating activities		
Current cost operating profit	291.3	277.9
Working capital adjustment	(0.5)	0.3
Changes in stocks	(0.5)	0.1
Receipts from other income	1.2	2.2
Current cost depreciation	217.2	238.2
Current cost profit on disposal of fixed assets	(1.6)	(4.7)
Decrease/(increase) in debtors and prepaid expenses	33.7	(7.3)
Increase in creditors and accrued expenses	8.2	17.1
Infrastructure renewals expenditure	80.8	90.8
Movement in provisions	(0.1)	(6.4)
Net cash inflow from operating activities	629.7	608.2

The analysis of movement in net debt required by RAG 3.04 is shown in the notes to the historic cost cash flow statement on page 9.

Notes to the current cost accounts

1 Current cost accounting policies

These accounts have been prepared for the total business of United Utilities Water PLC in accordance with guidance issued by the Director General of Water Services for modified real term financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance in the context of assets which are valued at their current cost value to the business.

The accounting policies used are the same as those adopted in the statutory historical accounts except as set out below.

(a) Tangible fixed assets

Assets in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements by contributions from third parties and to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business.

(i) Operational assets

Non-specialised operational assets are valued on the basis of open market value for existing use at 31 March 1998 and have been expressed in real terms by indexing using the Retail Price Index (RPI) since that date.

Specialised operational assets are valued on the basis of information provided by the Asset Management Plan (AMP). Values are adjusted by changes in RPI between Periodic Reviews.

The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described on page 30).

(ii) Infrastructure assets

Mains, sewers, impounding and raw water storage reservoirs, dams, sludge pipelines and sea outfalls are valued at replacement cost determined principally on the basis of data provided by the AMP.

In the intervening years, values are restated to take account of changes in the general level of inflation as measured by changes in the RPI over the year.

(iii) Other fixed assets

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

Notes to the current cost accounts (continued)

Current cost accounting policies (continued)

(b) Grants and other third party contributions

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

(c) Real financial capital maintenance adjustments

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

(i) Working capital adjustment

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

(ii) Financing adjustment

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

(d) Allocation of costs to principal services

Direct costs are charged to the sub-service areas to which they are attributable, as defined in RAG4, whereas business activities and indirect costs are allocated on an activity basis, using quantitative measures such as headcount and other methods reflecting consumption of the service.

2 Analysis of turnover and operating income

	2002			2001		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
Turnover						
Measured	117.8	175.2	293.0	113.9	168.2	282.1
Unmeasured	258.2	288.7	546.9	261.5	295.4	556.9
Trade effluent	–	15.5	15.5	–	48.1	48.1
Revenue grants	0.2	–	0.2	0.1	–	0.1
Large user revenues	41.3	33.5	74.8	38.0	–	38.0
Other sources	4.7	1.0	5.7	6.3	3.5	9.8
Third party services	13.1	2.8	15.9	13.1	5.4	18.5
	435.3	516.7	952.0	432.9	520.6	953.5
Operating income						
Current cost profit on disposal of fixed assets	1.3	0.3	1.6	2.2	2.5	4.7
Working capital adjustment	0.2	0.3	0.5	(0.1)	(0.2)	(0.3)

Large user revenues for 2001/02 include trade effluent sales of £30.7 million. In prior years this revenue has been classified as trade effluent sales.

Notes to the current cost accounts (continued)

3 Current cost operating costs for the year ended 31 March 2002

Service analysis	Water services			Sewerage services			
	Resource and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewerage service subtotal £m
Direct costs							
Employment costs	8.3	9.1	17.4	0.5	10.0	5.1	15.6
Power	2.7	5.9	8.6	1.2	7.1	3.3	11.6
Agencies	-	-	-	4.7	-	-	4.7
Hired and contracted services	2.9	13.1	16.0	5.1	7.6	9.1	21.8
Materials and consumables	4.9	0.7	5.6	0.1	1.9	2.2	4.2
Service charges EA	11.0	-	11.0	1.5	3.1	-	4.6
Other direct costs	-	2.6	2.6	-	1.0	0.3	1.3
Total direct costs	29.8	31.4	61.2	13.1	30.7	20.0	63.8
General and support expenditure	10.2	17.7	27.9	1.2	18.6	6.2	26.0
Functional expenditure	40.0	49.1	89.1	14.3	49.3	26.2	89.8
Operating expenditure							
Customer services			30.5				30.8
Scientific services			6.1				3.0
Other business activities			1.3				1.3
Total business activities			37.9				35.1
Local authority rates			24.8				10.4
Doubtful debts			14.1				17.2
Exceptional items			5.0				4.2
Total opex less third party services			170.9				156.7
Third party services – operating expenditure			13.8				2.6
Total operating expenditure			184.7				159.3
Capital maintenance							
Infrastructure renewals expenditure	5.8	50.8	56.6	24.2	-	-	24.2
Infrastructure renewals accrual/(prepayment)	(0.7)	(3.3)	(4.0)	25.3	-	-	25.3
Current cost depreciation (allocated)	45.5	22.6	68.1	8.0	71.6	19.9	99.5
Amortisation of deferred credits			(2.0)				(1.4)
Business activities current cost depreciation (non allocated)			24.6				26.3
Capital maintenance excluding third party services			143.3				173.9
Third party services – capital maintenance			1.6				-
Total capital maintenance			144.9				173.9
Total operating costs			329.6				333.2
CCA (MEA) values:							
Service activities	2,842.2	9,165.7	12,007.9	20,477.4	1,622.8	474.4	22,574.6
Business activities			173.7				189.1
Service totals			12,181.6				22,763.7
Services for third parties			29.8				2.1
Total			12,211.4				22,765.8

The depreciation charges from associated companies have been reclassified as business activities capital cost in accordance with RAG4.

Notes to the current cost accounts (continued)

3 Current cost operating costs for the year ended 31 March 2001

Service analysis	Water services			Sewerage services			
	Resource and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewerage service subtotal £m
Direct costs							
Employment costs	8.2	8.3	16.5	0.4	10.4	5.1	15.9
Power	2.7	5.0	7.7	0.2	7.0	3.1	10.3
Agencies	–	–	–	10.4	0.1	–	10.5
Hired and contracted services	3.1	7.5	10.6	0.7	3.4	7.2	11.3
Materials and consumables	5.1	1.1	6.2	–	1.9	2.6	4.5
Service charges EA	10.9	–	10.9	1.4	2.9	–	4.3
Other direct costs	–	2.7	2.7	0.1	1.0	0.3	1.4
Total direct costs	30.0	24.6	54.6	13.2	26.7	18.3	58.2
General and support expenditure	11.6	23.1	34.7	0.8	11.9	7.3	20.0
Functional expenditure	41.6	47.7	89.3	14.0	38.6	25.6	78.2
Operating expenditure							
Customer services			26.8				26.5
Scientific services			6.9				3.4
Other business activities			1.0				1.0
Total business activities			34.7				30.9
Local authority rates			29.5				21.3
Doubtful debts			13.0				15.6
Exceptional items			4.4				2.5
Total opex less third party services			170.9				148.5
Third party services – operating expenditure			16.8				2.4
Total operating expenditure			187.7				150.9
Capital maintenance							
Infrastructure renewals expenditure	4.5	46.4	50.9	39.8	–	–	39.8
Infrastructure renewals accrual/(prepayment)	0.5	(0.1)	0.4	8.6	–	–	8.6
Current cost depreciation (allocated)	47.7	22.1	69.8	7.8	71.5	18.5	97.8
Amortisation of deferred credits			(1.6)				(1.3)
Business activities current cost depreciation (non allocated)			36.1				38.8
Capital maintenance excluding third party services			155.6				183.7
Third party services – capital maintenance			1.7				0.4
Total capital maintenance			157.3				184.1
Total operating costs			345.0				335.0
CCA (MEA) values:							
Service activities	2,722.1	9,073.7	11,795.8	20,170.7	1,563.1	487.8	22,221.6
Business activities			174.6				187.5
Service totals			11,970.4				22,409.1
Services for third parties			28.8				3.7
Total			11,999.2				22,412.8

Notes to the current cost accounts (continued)

4 Current cost analysis of fixed assets by asset type and service for the year ended 31 March 2002

Service analysis	Water services				Sewerage services				
	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Total £m
Gross replacement cost:									
At 1 April 2001	10,814.7	2,607.9	292.1	13,714.7	20,152.5	3,803.4	305.4	24,261.3	37,976.0
RPI adjustment	144.4	34.8	3.6	182.8	269.2	50.8	3.8	323.8	506.6
Inter Group Transfers	–	–	0.1	0.1	–	–	0.1	0.1	0.2
Disposals	–	(1.5)	(19.5)	(21.0)	–	(1.4)	(16.5)	(17.9)	(38.9)
Additions	47.3	77.5	23.3	148.1	36.0	119.4	25.2	180.6	328.7
At 31 March 2002	11,006.4	2,718.7	299.6	14,024.7	20,457.7	3,972.2	318.0	24,747.9	38,772.6
Depreciation:									
At 1 April 2001	–	1,598.0	117.5	1,715.5	–	1,730.6	117.9	1,848.5	3,564.0
RPI adjustment	–	21.3	1.3	22.6	–	23.1	1.4	24.5	47.1
Disposals	–	–	(17.5)	(17.5)	–	–	(15.4)	(15.4)	(32.9)
Charge for the year	–	68.1	24.6	92.7	–	99.5	25.0	124.5	217.2
At 31 March 2002	–	1,687.4	125.9	1,813.3	–	1,853.2	128.9	1,982.1	3,795.4
Net book value:									
At 31 March 2002	11,006.4	1,031.3	173.7	12,211.4	20,457.7	2,119.0	189.1	22,765.8	34,977.2
At 31 March 2001	10,814.7	1,009.9	174.6	11,999.2	20,152.5	2,072.8	187.5	22,412.8	34,412.0

Operational assets by service for the year ended 31 March 2002

Service analysis	Water services			Sewerage services		
	Specialised operational assets £m	Non-specialised operational assets £m	Total £m	Specialised operational assets £m	Non-specialised operational assets £m	Total £m
Gross replacement cost:						
At 1 April 2001	2,554.4	53.5	2,607.9	3,742.9	60.5	3,803.4
RPI adjustment	34.1	0.7	34.8	50.0	0.8	50.8
Disposals	–	(1.5)	(1.5)	–	(1.4)	(1.4)
Additions	75.7	1.8	77.5	117.5	1.9	119.4
At 31 March 2002	2,664.2	54.5	2,718.7	3,910.4	61.8	3,972.2
Depreciation:						
At 1 April 2001	1,591.0	7.0	1,598.0	1,723.3	7.3	1,730.6
RPI adjustment	21.3	–	21.3	23.0	0.1	23.1
Disposals	–	–	–	–	–	–
Charge for the year	67.3	0.8	68.1	98.6	0.9	99.5
At 31 March 2002	1,679.6	7.8	1,687.4	1,844.9	8.3	1,853.2
Net book value:						
At 31 March 2002	984.6	46.7	1,031.3	2,065.5	53.5	2,119.0
At 31 March 2001	963.4	46.5	1,009.9	2,019.6	53.2	2,072.8

Notes to the current cost accounts (continued)

The Director General makes an assumption about the regulatory capital value (RCV) for the appointed business of United Utilities Water PLC at each Periodic Review of Price Limits. This is the value on which the company earns a return through the price setting methodology. This value does not normally appear in the financial statements of the company since assets are valued at historical or current cost for accounting purposes.

The average RCV for 2001/02 assumed in the 1999 Determination is £4,626 million, inflated to 2001/02 prices using the actual Retail Price Index. This is consistent with information contained in the 2002 Annual Return to the Director General.

5 Working capital

	2002 £m	2001 £m
Stocks	2.9	2.4
Trade debtors	152.2	147.2
Working cash balances	(5.4)	(24.6)
Trade payments in advance	16.0	6.4
Prepayments and other debtors	49.0	84.5
Trade creditors	(21.5)	(10.4)
Short-term capital creditors	(116.3)	(111.0)
Infrastructure renewals (accrual)/prepayment	(17.9)	3.4
Other trade accruals	(110.2)	(108.8)
Payroll related taxation and social security	(2.4)	(2.0)
Group trade creditors	(34.2)	(26.2)
Total working capital	(87.8)	(39.1)

6 Movement on current cost reserve

	2002 £m	Restated 2001 £m
At 1 April	30,612.5	29,908.2
RPI adjustments:		
Fixed assets	459.5	758.4
Working capital	(0.5)	0.3
Financing	(30.9)	(50.7)
Grants and third party contributions	(2.4)	(3.7)
At 31 March	31,038.2	30,612.5

Notes to the current cost accounts (continued)

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

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

Borrowings and sums lent

The following loans from associated companies existed at 31 March 2002:

	£m	Interest rate
United Utilities PLC – 750m US \$ Bonds	454.5	6.25 to 6.88%

United Utilities Water PLC operates a daily zero balancing sweep banking arrangement with its parent United Utilities PLC. This has resulted in a total of £0.8 million net interest payable to United Utilities PLC for the year.

The following loans to associated companies existed at 31 March 2002:

	£m	Interest rate
United Utilities PLC	40.0	4.36 to 6.27%

Dividends paid to associated undertakings

During the year dividends payable to United Utilities Service Delivery PLC totalled £203.0 million. This comprised a final dividend for the year ended 31 March 2002 of £129.7 million, an interim dividend of £64.2 million and a 7 per cent preference share dividend of £9.1 million.

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

The ordinary dividend increased by 2 per cent in 2001/02 broadly in line with inflation. This increase results from a base level of growth consistent with the management of the economic risk of the business.

Notes to the current cost accounts (continued)

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

Supply of services

Services supplied to United Utilities Water PLC by associated companies.

Nature of key transactions	Company	Terms of supply	Total value of service £m
Managed services	Vertex Data Science Limited	Market tested rates based on actual activity undertaken and other market testing	71.6
Systems development	Vertex Data Science Limited	Market tested rates based on actual activity undertaken and other market testing	19.3
Facility services	United Utilities Properti Limited	Other market testing	12.3
Project services	United Utilities Properti Limited	Other market testing	2.2
Group management charge	United Utilities PLC	Recharge of costs	8.6
Connections	United Utilities Electricity PLC	Competitive letting	2.2
Support services	United Utilities Electricity PLC	Recharge of costs	0.3
Systems development	United Utilities Electricity PLC	Recharge of costs	0.3
Systems development	Netforce Group PLC	Other market testing	1.8
Systems support/maintenance	Netforce Group PLC	Other market testing	0.4
Telephony	Your Communications Limited	Recharge of costs	0.4
Telephony	Intercell Communications Limited	Recharge of costs	0.2

Note – The Group Management charge of £8.6 million from United Utilities PLC represents 51.8 per cent of the total management charge to subsidiaries. About 80 per cent of the charge is allocated by activity.

The Vertex charging arrangements for the Managed Services are based on actual activity in the year.

Facilities services include accommodation and telephony.

Notes to the current cost accounts (continued)

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

Supply of services (continued)

Services supplied by United Utilities Water PLC to associated companies.

Nature of key transactions	Company	Terms of supply	Total value of service £m
Facility services	United Utilities Electricity PLC	Recharge of costs	12.4
Connections	United Utilities Electricity PLC	Competitive letting	1.9
Depots, plant and equipment	United Utilities Electricity PLC	Recharge of costs	1.9
Asset charges	United Utilities Properti Limited	Other market testing	5.3
Facility services	Vertex Data Science Limited	Recharge of costs	2.9
Facility services	Your Communications Limited	Recharge of costs	0.8
Facility and fleet services	United Utilities PLC	Negotiated market rates and recharge of costs	0.4
Manpower	United Utilities International Limited	Recharge of costs	0.3
Fleet services	United Utilities Industrial Limited	Other market testing	0.3
Manpower	United Utilities Operational Services Limited	Recharge of costs	0.3
Fleet services	United Utilities Green Energy Limited	Other market testing	0.2

Note – Facility services include support services, accounting services and procurement.

Turnover of associated companies

	Turnover of associated company £m
Vertex Data Science Limited	303
United Utilities Electricity PLC	289
Your Communications Limited	116
United Utilities Properti Limited	38
United Utilities PLC	16
United Utilities Green Energy Limited	14
United Utilities Industrial Limited	12
Intercell Communications Limited	7
Netforce Group PLC	7
United Utilities International Limited	4
United Utilities Operational Services Limited	0.2

Five year summary

Notes to the current cost profit and loss account

	2002 £m	Restated 2001 £m	2000 £m	1999 £m	1998 £m
Turnover	952.0	953.5	1,046.0	992.3	965.4
Current cost operating costs	(662.8)	(680.0)	(684.1)	(662.5)	(653.1)
Operating income	1.6	4.7	(0.4)	(3.2)	(3.8)
Working capital adjustment	0.5	(0.3)	2.7	3.0	3.3
	291.3	277.9	364.2	329.6	311.8
Other income	1.2	2.2	2.5	2.3	2.7
Net interest	(148.1)	(139.0)	(129.3)	(123.8)	(112.2)
Financing adjustment	30.9	50.7	49.6	33.9	42.3
Current cost profit on ordinary activities before taxation	175.3	191.8	287.0	242.0	244.6
Taxation	(21.6)	(48.7)	(4.0)	(93.7)	(55.7)
Current cost profit on ordinary activities after taxation	153.7	143.1	283.0	148.3	188.9
Dividends	(203.0)	(199.2)	(201.4)	(331.8)	(322.0)
Current cost retained profit/(loss)	(49.3)	(56.1)	81.6	(183.5)	(133.1)

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

Current cost balance sheet

	2002 £m	Restated 2001 £m	2000 £m	1999 £m	1998 £m
Tangible fixed assets	34,977.2	34,412.0	34,397.0	36,585.9	36,397.6
Third party contributions since 1989-90	(181.2)	(176.0)	(168.0)	(160.0)	(151.1)
Working capital	(87.8)	(39.1)	15.3	(105.6)	(151.3)
Net operating assets	34,708.2	34,196.9	34,244.3	36,320.3	36,095.2
Cash and investments	185.4	255.8	0.4	0.4	0.3
Non-trade debtors	55.4	56.6	51.7	60.5	34.9
Non-trade creditors	(275.7)	(234.2)	(620.9)	(524.3)	(912.6)
Creditors due after one year	(2,369.4)	(2,353.5)	(1,719.2)	(1,622.8)	(923.1)
Provisions	(191.8)	(185.9)	(5.5)	(3.3)	(11.9)
Net assets employed	32,112.1	31,735.7	31,950.8	34,230.8	34,282.8
Capital and reserves					
Called up share capital	655.4	655.4	670.5	668.3	523.4
Share premium account	647.8	647.8	662.7	679.5	693.8
Profit and loss account	(229.3)	(180.0)	21.6	(60.8)	125.8
Current cost reserve	31,038.2	30,612.5	30,596.0	32,943.8	32,939.8
Total capital and reserves	32,112.1	31,735.7	31,950.8	34,230.8	34,282.8

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

Regulatory accounts commentary

Movements from prior year

Turnover

Turnover has reduced by £1.5 million to £952.0 million in 2001/02. Key movements include an increase in measured sales (including large users) of £17.0 million offset by reductions in unmeasured sales of £10.0 million and other minor reductions in trade effluent, commuted sum, third party and miscellaneous income. The key factors include the impact of the price formula, resulting in additional income of £22.1 million and the change in demand for services that arises from new connections, new meter options, the on-going decline in non-household consumption and the trend of older properties being demolished, which led to a net reduction in income of £23.6 million.

Operating costs

Historic and current operating costs have reduced by £11.5 million and £17.2 million respectively. The key factors being a change in rates legislation, a reduction in capital maintenance charges, efficiency and other operational changes, offset by the impact of the commissioning of new assets to meet new quality schemes/obligations, introduction of the climate change levy, the impact of the foot and mouth outbreak and inflation.

Net interest

Net interest payable increased by £9.1 million as a result of the continued requirement to fund the large capital investment programme. The company's policy on interest rate management is outlined on page 3 of the statutory accounts.

Financing adjustment

The financing adjustment has reduced by £19.8 million to £30.9 million, due to the reduction in the RPI figure for 2001/02, offset by a marginal increase in net finance. Note 1 c(ii) on page 30 contains further explanation of this adjustment.

Taxation

There has been a £27.1 million reduction in taxation due mainly to the adoption of Financial Reporting Standard 19 (FRS19) Deferred Taxation. There has been a restatement of year 2000/01 taxation relating to the adoption of FRS19. Details are shown in note 8 of the statutory accounts.

Net operating assets

Net operating assets have increased by £511.3 million mainly due to an increase in tangible assets, offset by a reduction in working capital and an increase in third party contributions.

Tangible assets increased by £565 million during the year as a result of the continued investment as part of the asset management programme together with the RPI adjustment to restate the asset values in real terms offset by depreciation in the year.

Movements in working capital are outlined in note 5 page 34. The reduction in the infrastructure renewals prepayment is mainly due to the lower level of infrastructure renewals expenditure in the year. Working cash balances have reduced as a result of short term movements in bank account receipts and payments. Trade payments in advance, prepayments and other debtors have reduced due to a refinement of the estimation methodology for unbilled sales accruals, timing of billing and the profiling of operating expense payments.

Factors outlined above also contribute to the movements in historic cost fixed assets and net current liabilities/assets.

Cash and investments

There was a reduction of £70.4 million in advanced funding placed on deposit as short term investments. The policy of pre-funding our cash requirements is dependent on market conditions for raising debt. As

such it is expected that the balance on short-term investments will fluctuate. This policy is also reflected in the reduction in historic cost short-term deposits.

Significant trends in the Five year summary

Turnover

The decrease in turnover in 2000/01 was due to price reductions as a result of the Periodic Review of Price Limits. Measured sales (including large user revenues) in 2001/02 now represent 39 per cent of total turnover compared to 32 per cent in 1997/98. This is due mainly to new properties which are always connected with a measured supply and the continued switch by customers to water meters, offset by the ongoing decline in non-household consumption.

Operating costs

During the five year period, there has been a general trend of increased depreciation and infrastructure renewals charges reflecting the capital investment programme. Further increases in costs have resulted from significant additional obligations following the commissioning of new schemes in the Quality programmes offset by efficiency improvements and other operational changes.

Net interest

Due to the increased cash requirements caused by the company's capital expenditure programme, borrowing has increased over the last five years. As a direct consequence net borrowing costs have risen over the period.

In recent years we have seen greater volatility in the capital market. To mitigate this we have started to prefund our debt requirements when market conditions are favourable. The consequence of this prudent approach is to increase the cost of borrowing.

Taxation

The tax charge is comparatively high in 1997/98 and 1998/99 due to the utilisation of surplus ACT prior to its abolition.

The reduced tax charge in the later years reflects the benefit of accelerated tax allowances on the company's capital expenditure.

Dividends

The 1997/98 and 1998/99 payments include a special dividend associated with the windfall tax. Excluding this payment dividends have risen broadly in line with inflation over the period.

Tangible fixed assets

The reduction in 1999/2000 mainly reflects the Periodic Review asset revaluation offset by additions in the year.

Cash and investments

The increase in cash and short term investment is as a direct result of pre-funding our capital expenditure needs. Long term debt is raised when the market opportunity presents itself. The sums raised are placed in short term investments until required by the business.

Non trade creditors

The reduction in non trade creditors since 2000 is due to a reclassification of certain intercompany funding balances from short to long term.

Creditors due after one year

The increased level of creditors since 1997/98 predominantly reflects the long-term debt raised to fund the capital investment programme in addition to a reclassification of non trade creditors as above.

Provisions

The increase in provisions from 2000/01 mainly reflects the implementation of FRS 19 Deferred Taxation, see note 17 of the statutory accounts.

Regulatory accounts commentary (continued)

Atypical amounts

Atypical costs incurred in the year were restructuring costs of £9 million and additional operational costs of £3 million resulting from the foot and mouth outbreak.

Dividends

The £203 million dividend payment is £4 million more than the previous year.

The basis of the dividend is outlined on page 35 of the Notes to the current cost accounts under the heading "Dividends paid to associated undertakings".

Changes in the treatment of expenditure

There have been no changes in the treatment of expenditure in 2001/02.

Basis of allocation and apportionment

The revenues, costs, assets and liabilities are directly allocated to the appointed business and any other activity or associated company, except where they relate to common support services. Those relating to common support services are apportioned on the basis of the demands made on each of these support services by each principal service or activity. Notes to the current cost accounts item 1 (d) on page 30 also outline the cost allocation policy to principal services.

Charitable donations

The company has made an annual donation of £50,000 to the Money Advice Trust. This is a national fundraising body and the amount will support the position of the Mersey Advice Officer for the Association of Citizen Advice Bureaux.

The company has also provided help to vulnerable metered household customers who face hardship resulting from high water use for essential purposes. This support amounts to approximately £90,000.