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Annual Report & Accounts 2001



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Directors' report

Principal activities and business review

The company is the holding company of a group which manages and operates its own and others' electricity distribution, water and wastewater assets; manages customers for its own and other businesses; and provides voice, basic and advanced communication services to the business customer market. The principal subsidiary undertakings and joint ventures are listed in note 13 to the accounts.

The Chairman's statement, the Chief Executive's review and the operational, social and environmental, and financial reviews on pages 2 to 23 report on the group's activities during the year and on likely future developments.

The dividend for shareholders

The directors are recommending a final dividend of 31.1 pence for each ordinary share for the year ended 31 March 2001, making a total for the year of 46.1 pence. Subject to shareholders approving this recommendation at the annual general meeting, the dividend will be paid on 1 October 2001 to shareholders on the share register at the close of business on 8 June 2001.

The business for the annual general meeting

Details of the resolutions to be proposed at the 2001 annual general meeting are set out in the notice calling the meeting. There is also a full explanation of the resolutions in the leaflet containing the notice, enclosed with this report.

People – key contributors to corporate success

The group's employees are key to achieving the business strategy and enhancing shareholder value. Modest headcount reductions in the licensed businesses are being offset by significant recruitment into the customer management outsourcing and telecommunications businesses. The group is making special efforts to recruit new employees from ethnic minority communities and is seeking more applications from people with disabilities. The group is also providing work for people in Cumbria and Merseyside to help in the wider regeneration of North West England.

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

The group is committed to improving its employees' skills. Through training and development and nurturing a culture in which they feel valued, the group encourages them to work to their full potential. The group respects the dignity and rights of every employee, supports them in performing various roles in society, and challenges prejudice and stereotyping. The group is equally committed to involving them through open and regular communications about business developments and issues of general interest, both formally and informally.

The group has embarked on a wide-ranging programme to transform its relationships with trade unions across the group. It has also established a Diversity Network Forum to give greater priority to employment issues for women, ethnic minorities and people with disabilities.

Owning shares in the company is an important way of strengthening employees' involvement in the development of the business and of bringing together their and shareholders' interests. The group encourages and helps employees to hold shares through, for example, the multi-stock United Utilities ISA and enhanced access to independent financial advice, in addition to the employee sharesave scheme. The success of these initiatives was recognised with a ProShare Award for the most successful mature employee share scheme, in November 2000.

Fulfilling social and environmental responsibilities

As described in the social and environmental review on pages 18 and 19, the group seeks to manage its total impact on society as a responsible corporate citizen. Full details are set out in the company's separate social and environmental impact report, which is an important part of the company's integrated approach to reporting on the group's overall performance, together with the annual report (which received a ProShare Award for the best annual report for a private investor in a FTSE 100 company, in November 2000), the annual review and the web site.

Charitable donations by the group in the year amounted to £806,697 (2000 – £773,910). The group does not make any contributions for political purposes. It manages its interests in public policy in the knowledge that it needs to be, and be seen to be, open and accountable. The group's political contacts are co-ordinated by its Public Policy Forum, chaired by the Chairman. Lord Taylor of Blackburn advises the group on its social policies.

Approach to technology development

The group is committed to use innovative, cost-effective and practical solutions for providing high quality services. It also continues to make full use of the wide-ranging expertise, abilities and facilities within the group. It recognises the importance of ensuring that it properly focuses its investment in the development of technology, that it has the right skills to apply technology to achieve sustainable competitive advantage, and that it continues to be alert to emerging technological opportunities.

The directors

The names of the present directors and their biographical details are given on pages 24 and 25. Details of directors' interests in the company's shares and further information about those directors who are seeking re-election at the annual general meeting are in the report on remuneration on pages 31 to 36.

Substantial shareholdings in the company

At 31 May 2001, the directors were not aware of any notifiable interests in the company's issued ordinary share capital.

Creditor payment policy and practice

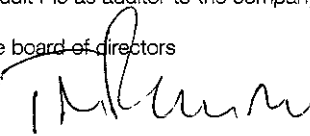
The group does not follow any specific external code or standard on payment practice. Its policy is normally to pay suppliers according to terms of business agreed with them on entering into binding contracts and to keep to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts. The group and the company had 43 days and 36 days respectively of purchases outstanding at the end of the financial year.

The auditor

The directors will propose a resolution at the annual general meeting re-appointing KPMG Audit Plc as auditor to the company.

Signed on behalf of the board of directors

Tim Rayner Secretary
8 June 2001



Report on remuneration

Contributing to shareholder value

To ensure corporate success and enhance shareholder value, the group needs people of the right calibre able to meet and beat the challenges it faces. So the group must ensure its remuneration arrangements attract and keep the right people.

This section of the annual report describes the group's remuneration policy, the arrangements for directors' remuneration, and how the company applies the principles of good governance and complies with the provisions of the code of best practice. The company complied throughout the year with the provisions of the code.

Remuneration policy

The group's overall policy aims are to:

- attract, develop, motivate and keep talented people at all levels;
- pay competitive salaries and benefits to all its people. When pay levels are set, account is taken of the work an employee does, what is paid in other companies for that work and how well the group's businesses are performing;
- encourage its people to hold shares in the company, which the board believes is an effective way of bringing together their interests with those of shareholders; and
- focus remuneration arrangements to help each business in the group meet its specific challenges.

The board's policy for executive directors' and senior executives' remuneration is to:

- pay a basic salary which competes with other companies of about the same size and complexity. The company aims to pay about the market median but may pay more for an outstanding performer or to attract executives of the right calibre;
- give executives the opportunity to increase their earnings by meeting and outperforming key short-term and long-term measures. In this way, the company links executives' rewards directly to the group's performance and shareholders' interests;
- encourage executives to hold shares in the company; and
- overall, reward executives fairly and responsibly for their contribution to the group's short and long-term performance and avoid paying more than is necessary for achieving this objective.

There have been no changes to this policy during the year.

The role of the Remuneration Committee and its membership

The Remuneration Committee makes recommendations to the board on the group's framework of executive remuneration and its cost.

The Committee approves, on the board's behalf, the general recruitment terms, remuneration benefits, employment conditions and severance terms for executive management. It decides the specific recruitment terms, remuneration benefits, employment conditions, pension rights, compensation payments and severance terms for the executive directors and for other senior executives.

In its work, the Committee considers fully the principles of good governance and the code of best practice. It takes professional advice from within and also from outside the company, principally from the Monks Partnership, William M Mercer, and Addleshaw Booth & Co. The Chairman of the board ensures the company talks to its major shareholders about matters to do with remuneration.

The Committee's members are Norman Broadhurst, Sir Peter Middleton, Jane Newell and John Seed (who is the Committee's chairman). They are all independent non-executive directors. They have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors. They have no conflicts of interest arising from cross directorships and are not involved in the day-to-day running of the group's businesses.

Although not a member of the Committee, the Chairman of the board may attend meetings and is consulted by the Committee on proposals relating to the remuneration of the Chief Executive. Similarly, the Chief Executive is not a member of the Committee but may attend meetings and the Committee consults him on proposals relating to the remuneration of the other executive directors and appropriate senior executives. He does not attend when the Committee discusses matters relating to his own remuneration.

The executive directors' remuneration

In deciding the executive directors' total remuneration package and individual elements of it, the Committee assesses where the company should be positioned relative to other companies. It makes appropriate comparisons but treats them with caution. The Committee aims for an appropriate balance between basic pay, benefits and short and long-term rewards. An executive's total remuneration will represent his or her worth externally and reflect his or her contribution to the group's performance and the achievement of its objectives.

Focused incentive arrangements

The incentive plan introduced in 1996 linked a large part of executive directors' remuneration to the group's and individual performance. It brought together the short and long-term interests of shareholders and executives.

New incentive arrangements (the performance share plan and annual bonus arrangements) were introduced from 1 April 2000 to meet the challenges the group now faces. They strengthen the link between shareholders' and executive directors' interests and mean that variable or at risk pay is a larger part of executive directors' total remuneration than previously.

The remuneration package

The remuneration package for executive directors has the following elements:

Basic salary

The Committee reviews salaries each year taking account of group and personal performance. Any changes are made with effect from 1 September. The Committee commissions independent assessments of market rates based on the practice of other utility companies and companies of a similar size and complexity. The Committee also takes account of the levels of pay awards elsewhere in the group.

Annual bonus

The annual bonus arrangements, which have replaced the short-term incentive award element of the incentive plan, incentivise the executive directors and other senior executives to achieve the group's key operational and strategic objectives. Awards depend on achieving quantified financial and non-financial targets. The non-financial targets may include measures related to the licensed multi-utility operations' performance against customer service standards and the group's environmental performance. Awards can be up to 60 per cent of annual salary. For 2000/01, half the value of a participant's bonus was awarded in the form of shares to be held under a deferred share plan. Under that plan, the shares awarded will be held in trust

Report on remuneration continued

for three years and the participant will only normally be entitled to his shares at the end of the three years if he remains employed in the group at that time. In future years, annual bonus awards may be made partly or wholly in shares where a participant has still to satisfy the company's minimum share ownership target.

Long-term performance incentives

The rules of the performance share plan were approved by shareholders at last year's annual general meeting. The plan replaces the long-term incentive award element of the incentive plan, which is being phased out. Executives can receive only one long-term performance incentive award in respect of any performance period of three financial years.

Incentive plan

The final awards under the long-term incentive award element of the incentive plan will be made in respect of the performance period ending on 31 March 2002 if the performance criteria are met. The company's total shareholder return (TSR) performance is compared with that of other companies over three consecutive financial years. The other companies are in two groups based on the FTSE 100 at the beginning of the performance period. The first group is the FTSE 100 utility companies. The second group is the FTSE 100 companies excluding the utility companies.

Awards are based on the company's ranking in these two groups. Separate comparisons are made against each group. Up to half of the maximum award is based on performance against one of the groups and up to half based on performance against the other. Awards are only made if the company is ranked in the top half of a group. The maximum award will be paid if the company's performance is ranked in the upper quartile in both groups and has an annual TSR of at least 25 per cent. The maximum award for an executive director is 70 per cent of annual salary and 87.5 per cent for the Chief Executive.

No awards are made if the adjusted earnings per share over the three-year performance period has not grown by at least the same as the increase in the retail prices index plus two per cent each year over the period. Two-thirds of the value of awards are normally made in shares which will be held in trust and transferred to the executive two years after the end of the period to which the awards relate. The remaining one-third is paid in cash after the end of the performance period.

Performance share plan

Executive directors and other senior executives may be selected to participate in the performance share plan by the plan's trustee (United Utilities Employee Share Trust Limited) on the recommendation of the Remuneration Committee. They are given the opportunity to receive an award which may normally be worth up to 80 per cent of their salary at the date the award is made. Awards give participants the right to acquire a number of the company's shares, up to the value of the award, at no cost to them. The maximum number of shares which could be acquired is set when the award is made, based on the executive's salary at the date of the award and the then prevailing share price. Awards are usually made at the start of a performance period. The number of shares a participant may actually receive depends on the group's performance against specified targets over that period.

The first awards were made under the performance share plan during the year under review. They will vest after the end of the 2002/03 financial year

by reference to the achievement of performance targets over that and the preceding two financial years.

The performance measure is the company's total shareholder return (TSR) over that period compared with a group of 26 companies. The comparator group comprises major water and electricity companies and industrial and service companies of broadly the same size as the company with most of their revenues earned in the UK.

Awards will not vest unless the Remuneration Committee is satisfied that the company's recorded TSR performance is consistent with the achievement of appropriate measures of underlying business performance. Subject to that, if the company's TSR performance is at the median of the comparator group, participants may receive 33 per cent of the maximum number of shares in their award. If the company's TSR performance places it in the upper quartile participants may receive the maximum number of shares in their award. The proportion of the award which the participant may receive for the company's TSR performance ranking being between the median and upper quartile of the comparator group will be calculated on a straight-line basis between the awards payable at these two points. No award will vest if the company's TSR performance is below the median of the comparator group.

Taxable benefits

Directors have the use of a fully expensed car (or are paid a cash amount instead of a company car) and have medical and life insurance.

Pension

There is full information about directors' pension arrangements and entitlement in the section on pensions below.

Share options

The directors can join the employee sharesave scheme. They do not participate in the company share option scheme 1999.

Contracts of service and compensation for termination

The company's policy is that the executive directors normally have one-year notice periods. The Committee may offer a longer notice period if it considers that necessary to recruit a new director. If the Committee offers an initial notice period of more than one year, it will usually reduce that to one year after the initial period.

All the current executive directors have one-year notice periods.

If a contract is to be terminated, the Committee will mitigate as far as is fair and reasonable in each circumstance the compensation it may pay. It will take into account the best practice provisions of the combined code and will take legal advice on the company's liability to pay compensation and the amount of the compensation in each case.

Promoting share ownership

The board believes that share ownership is an effective way of bringing together the interests of employees and shareholders. The company promotes greater ownership of its shares by offering employees the opportunity to build up a shareholding through share option schemes. The United Utilities multi-stock corporate ISA is a means by which employees (and other shareholders) can hold their shares tax efficiently in a broader portfolio.

The company expects executive directors and other senior executives to hold shares at least to the value of their annual salary. To assist them in satisfying this minimum share ownership target, it may pay incentive awards partly or wholly in shares. Other executives who participate in the company share option scheme 1999 will normally be expected to have a shareholding equal to 25 per cent of their salary before they will be granted replacement options under that scheme.

The non-executive directors' remuneration

A committee of the board comprising the Chief Executive and the other non-executive directors decides the Chairman's remuneration. A committee of the board comprising the Chairman and the executive directors decides the other non-executive directors' remuneration. Both committees take independent advice and take into account the provisions of the company's articles of association.

The directors' emoluments

Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards (2000) or annual bonus (2001). The directors' aggregate emoluments in the year ended 31 March 2001 were £2.120 million (2000 – £1.776 million). Individual emoluments for the financial year were:

	Salary/ Fees		Annual bonus/ Short-term incentive award		Taxable benefits		Total	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
John Roberts	311.7	175.0	168.3	69.8	20.3	12.7	500.3	257.5
Simon Batey	260.0	–	140.4	–	15.8	–	416.2	–
Les Dawson	83.3	–	45.0	–	7.2	–	135.5	–
Gordon Waters	180.8	175.8	97.6	40.1	19.3	13.9	297.7	229.8
John Beckitt	64.3	187.7	210.5	75.9	5.7	27.9	280.5	291.5
Sir Richard Evans	67.5	29.2	–	–	–	–	67.5	29.2
Norman Broadhurst	35.0	32.5	–	–	–	–	35.0	32.5
Sir Peter Middleton	150.0	49.3	–	–	–	–	150.0	49.3
Jane Newell	45.0	44.3	–	–	–	–	45.0	44.3
John Seed	35.0	34.3	–	–	–	–	35.0	34.3

Notes:

John Roberts, Simon Batey and Les Dawson became directors on 1 September 1999, 1 April 2000 and 1 November 2000 respectively. John Beckitt ceased to be a director on 3 August 2000. Sir Peter Middleton acted as Chairman following the death of Sir Christopher Harding in December 1999 until Sir Richard Evans' appointment as Chairman on 1 January 2001.

On becoming directors, Simon Batey's and Les Dawson's annual salaries were £260,000 and £200,000 respectively. As part of their recruitment packages, to compensate them for loss of payments due to them under their previous companies' incentive award schemes, Les Dawson has received a payment of £32,000 and Simon Batey has received a payment of £75,000 and is due to receive a further payment of

The annual fee paid to non-executive directors is £30,000. The chairmen of the Audit and Remuneration Committees receive an additional £5,000 each year. Appropriate amounts are paid for additional and special responsibilities. Sir Richard Evans receives £150,000 each year in respect of the duties associated with his appointment as non-executive Chairman, which is paid to BAE SYSTEMS plc. Sir Peter Middleton receives £20,000 each year for his responsibilities as Deputy Chairman and Jane Newell receives £15,000 each year for her responsibilities as chairman of the company's major pension schemes.

The non-executive directors do not have contracts of service. They cannot join the performance share plan, the annual bonus arrangement, the pension scheme, the healthcare arrangements, the company share option scheme 1999, or the employee sharesave scheme. The company repays the reasonable expenses they have incurred in carrying out their duties as directors.

£50,000. As a consequence of these payments, Simon Batey was the highest paid director in the year ended 31 March 2001.

The short-term incentive awards for 2000 were satisfied by the allocation of contingent shares in the company. Those shares will normally transfer to the director concerned at the end of March 2002.

50 per cent of the value of the annual bonus for 2001 was awarded as shares in the company to be held in trust for three years under the deferred share plan.

The 2001 bonus award for John Beckitt related to a successful sale of the energy supply business and was paid in cash when he left the group.

Changes in annual salaries

Following its yearly review in 2000, the Committee agreed the following changes to the annual salaries of executive directors:

	1 September 2000 £'000	1 September 1999 £'000
John Roberts	320.0	300.0
Gordon Waters	183.0	177.6

Report on remuneration continued

Short-term incentive awards

Directors' interests in short-term incentive awards during the year were as follows:

	Award in respect of	Contingent interest in shares at 31 March 2000		Award made during the year				Contingent interest in shares added during the year	Shares transferred during the year		Contingent interest in shares at 31 March 2001	
				Aggregate value	Contingent interest in shares							
		No.	Value £'000		£'000	Value £'000	No.		No.	No.	Value £'000	No.
John Roberts	2000	—	—	69.8	69.8	10,471	729	—	—	11,200	68.5	
Gordon Waters	1999	8,236	53.9	—	—	—	573	8,809	52.4	—	—	
	2000	—	—	40.1	40.1	6,008	418	—	—	6,426	39.3	
John Beckett	1999	10,728	70.3	—	—	—	—	—	—	—	—	
	2000	—	—	75.9	75.9	11,377	—	—	—	—	—	

Notes:

The value of the contingent interest in shares on 31 March 2000 is based on the mid-market price of a share on that day of 655.0 pence. The value of the contingent interest in shares on 31 March 2001 is based on the mid-market price of a share on 30 March 2001 of 612.0 pence (31 March 2001 was not a trading day).

The shares relating to Gordon Waters' 1999 award were transferred to him on 30 March 2001. The value of the award is based on the price of a share on that day of 594.5 pence.

As he left the group on 3 August 2000, John Beckett received the market value (£74,506) of his contingent interest in the 10,728 shares relating to his 1999 award and the market value (£79,013) of his contingent interest in the 11,377 shares relating to his 2000 award, based on the price of a share on that day of 694.5 pence.

For John Roberts and Gordon Waters, the shares relating to the 2000 award will normally transfer at the end of March 2002.

The contingent interest in shares added during the year is based on the reinvestment of notional dividends paid in the year on the shares in trust.

Annual bonus

The annual bonus arrangements have replaced the short-term incentive award element of the incentive plan. Annual bonus awards in respect of 2001 were:

	Maximum award		Actual award			
	% of salary	% of salary	Aggregate value	Cash	Contingent interest in shares	
					No.	Value £'000
			£'000	£'000		
John Roberts	60	54	168.3	84.15	12,906	84.15
Simon Batey	60	54	140.4	70.2	10,766	70.2
Les Dawson	60	54	45.0	22.5	3,450	22.5
Gordon Waters	60	54	97.6	48.8	7,484	48.8

Notes:

For 2001, four-fifths of the maximum bonus could be awarded for achieving the group's financial targets and one-fifth for performance against environmental and customer service targets.

The number of shares awarded and to be held under the deferred share plan was based on a share price of 652 pence, being the average of the mid-market prices of a share over the three days prior to the award date, 1 June 2001.

Ownership of the shares will not normally transfer to the executive before the third anniversary of the award date.

Long-term incentive awards

Directors' interests in long-term incentive awards during the year were as follows:

	Award in respect of	Contingent interest in shares at 31 March 2000		Award made during the year				Contingent interest in shares added during the year	Shares transferred during the year		Contingent interest in shares at 31 March 2001	
				Aggregate value	Cash	Contingent interest in shares						
						Value	No.					
		No.	Value £'000	£'000	£'000	Value £'000	No.	No.	No.	Value £'000	No.	Value £'000
Gordon Waters	1999	3,012	19.7	–	–	–	–	209	3,221	19.1	–	–
	2000	–	–	–	–	–	–	–	–	–	–	–
John Beckett	1999	3,218	21.1	–	–	–	–	–	–	–	–	–
	2000	–	–	–	–	–	–	–	–	–	–	–

Notes:

The shares relating to Gordon Waters' 1999 award were transferred to him on 30 March 2001. The value of the award is based on the price of a share on that date of 594.5 pence.

The contingent interest in shares added during the year is based on reinvestment of notional dividends paid in the year on the shares in trust.

As he left the group on 3 August 2000, John Beckett received the market value (£22,349) of his contingent interest in the 3,218 shares relating to his 1999 award based on a price of a share on that day of 694.5 pence.

No long-term awards will be made in respect of 2001 as the group's TSR performance ranked it below the median against the companies in each of the two comparator groups and the growth in earnings per share target was not met.

Performance share plan

During the year, awards were made to directors under the performance share plan as follows:

	% of salary	Value £'000	Maximum number of shares
John Roberts	80	256.0	42,139
Simon Batey	80	208.0	34,238
Les Dawson	65	130.0	21,399
Gordon Waters	80	146.0	24,098

Notes:

The awards will vest after the end of the 2002/03 financial year. The number of shares which may actually be received is dependent on the achievement over the performance period of pre-determined performance targets.

The value of Les Dawson's maximum award is pro rata to his potential service during the performance period, in accordance with the rules of the plan.

The directors' interests in shares and share options

At 31 March, the directors and their immediate families had the following interests, all of which were beneficial interests, in the company's shares and options to subscribe for shares:

	2001		2000 or on appointment	
	Ordinary shares	Options under the employee sharesave scheme	Ordinary shares	Options under the employee sharesave scheme
John Roberts	3,000	3,579	3,000	3,579
Simon Batey	42,150	1,740	–	–
Les Dawson	–	3,032	–	–
Gordon Waters	16,166	3,623	8,958	3,623
Sir Richard Evans	245	–	245	–
Norman Broadhurst	341	–	91	–
Sir Peter Middleton	4,574	–	4,574	–
Jane Newell	3,153	–	3,153	–
John Seed	4,024	–	3,917	–

Report on remuneration continued

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

	Share options at 31 March 2000 or on appointment	Options granted during the year	Exercise price per share	First date exercisable	Last date exercisable	Options exercised during the year	Market price on exercise
John Roberts	3,579	–	471.5p	1/3/2005	31/8/2005	–	–
Simon Batey	–	1,740	556.5p	1/3/2004	31/8/2004	–	–
Les Dawson	–	3,032	556.5p	1/3/2006	31/8/2006	–	–
Gordon Waters	3,623	–	476.0p	2/2/2002	1/8/2002	–	–

Notes:

The mid-market price of a share on 30 March 2001 was 612.0 pence and the range in the year was 740.0 pence to 566.0 pence.

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 on which options were exercised and the exercise price) was £nil (2000 – £6,253.51).

None of the options shown above lapsed during the year.

Each executive director is a member of the class of discretionary beneficiaries of the United Utilities Employee Share Trust and the United Utilities Qualifying Employee Share Ownership Trust and is therefore treated as having an interest in the shares held by United Utilities Employee Share Trust Limited as trustee of the United Utilities Employee

Share Trust (28,921 shares at 31 March 2001) and in the shares held by United Utilities QUEST Trustee Limited as trustee of the United Utilities Qualifying Employee Share Ownership Trust (903,389 shares at 31 March 2001). As at 31 May 2001, United Utilities Employee Share Trust Limited held 28,921 shares and United Utilities QUEST Trustee Limited held 807,467 shares.

Except as described above, none of the directors had any interest in any share capital of any other group company or in any debenture of any group company.

Except for the purchase of shares by the reinvestment of a dividend in a United Utilities personal equity plan held by John Seed's wife, from the end of the financial year until 31 May 2001, there have been no changes in the above interests.

Pension arrangements

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 1/30th 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 the current executive directors because the earnings cap limits pensionable earnings for calculating benefits. The company has put in place separate arrangements the effect of which is to provide for them the same pension benefits as for those executives whose pension benefits are not limited by the cap. These arrangements are unfunded.

Although pension benefits are normally calculated on basic salary only, to protect his contractual entitlement, the calculations are adjusted for Gordon Waters, whose annual bonus had been pensionable before the incentive plan was introduced. This also applied to John Beckett.

The pension benefits earned by directors are as follows:

	Increase in accrued pension during the year £'000 pa	Transfer value equivalent of increase £'000	Accumulated total accrued pension at year end £'000 pa
John Roberts	10.4	142.6	16.4
Simon Batey	8.7	83.3	8.7
Les Dawson	2.8	21.2	2.8
Gordon Waters	7.9	100.1	39.8
John Beckett	3.2	41.6	92.7

Notes:

The accumulated total accrued pension at year end is that which would be paid annually on retirement at age 60 based on service to 31 March 2001.

John Beckett left the employment of the company on 3 August 2000 (by transfer of his employment to the purchaser of the energy supply business) and, in the above table, the accumulated total accrued pension for him is the accrued pension which would be paid annually to him on retirement at age 60 based on service to 3 August 2000. He subsequently retired from the employment of that purchaser and, under his pension arrangements with the company, he became entitled to receive an unreduced annual pension of that amount. The additional transfer value attributable to that benefit was £593,100.

The increase in accrued pension during the year excludes any increase for inflation.

The transfer value equivalent of increase has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11, less directors' contributions.

Neither the contributions nor the resulting benefits from any additional voluntary contributions paid are reflected in the above table.

The accumulated total accrued pension at 31 March 2000 in respect of the highest paid director (Simon Batey) was £nil.

The directors who are standing for re-election at the annual general meeting

Sir Richard Evans, Sir Peter Middleton and Les Dawson are standing, and are recommended by the board for re-election, at the 2001 annual general meeting. As non-executive directors, Sir Richard and Sir Peter do not have contracts of service. The company can terminate Les Dawson's contract by giving him one year's notice.

Auditor's report

Auditor's report to the members of United Utilities PLC

We have audited the financial statements on pages 38 to 74.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report and form 20-F. As described on page 28 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards; the directors have also presented additional information under US requirements. Our responsibilities, as independent auditors, are established by statute in the United Kingdom, auditing standards generally accepted in the United Kingdom and the United States, the Listing Rules of the United Kingdom Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on page 30 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the UK Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and form 20-F, including the corporate governance statement, and consider whether they are consistent with the audited financial 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 generally accepted in the United Kingdom and the United States. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the

preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

United Kingdom 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 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

United States opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 31 March 2001 and 2000 and the results of its operations and its cash flows for each of the years in the three-year period ended 31 March 2001 in conformity with generally accepted accounting principles in the United Kingdom.

Generally accepted accounting principles in the United Kingdom vary in certain significant respects from generally accepted accounting principles in the United States. Application of generally accepted accounting principles in the United States would have affected results of operations for each of the years in the three-year period ended 31 March 2001 and consolidated shareholders' equity at 31 March 2001 and 2000, to the extent summarised in note 36 to the accounts.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester
8 June 2001



Consolidated profit and loss account

		Continuing operations		Discontinued operations	
		Before exceptional items	Exceptional items		2001
	Note	£m	£m	£m	Total £m
For the year ended 31 March					
Turnover: group and share of joint ventures	2	1,574.4	-	201.5	1,775.9
Less: share of joint venture turnover		(78.3)	-	-	(78.3)
Group turnover		1,496.1	-	201.5	1,697.6
Net operating costs	3	(997.4)	(16.6)	(179.9)	(1,193.9)
Group operating profit		498.7	(16.6)	21.6	503.7
Share of operating profit of joint ventures	2,13	10.3	-	-	10.3
Profit before non-operating items, interest and tax	2	509.0	(16.6)	21.6	514.0
Profit on disposal of businesses	4				191.2
Profit on ordinary activities before interest					705.2
Net interest payable and similar charges:					
Group	7				(208.7)
Joint ventures	7,13				(11.6)
	7				(220.3)
Profit on ordinary activities before taxation					484.9
Taxation on profit on ordinary activities before business disposals	8				(13.7)
Exceptional taxation on disposal of businesses	8				(45.0)
Taxation on profit on ordinary activities	8				(58.7)
Profit on ordinary activities after taxation	24				426.2
Minority interest					-
Profit for the financial year	24				426.2
Dividends	9,24				(254.9)
Retained profit for the financial year					171.3
Earnings per share	10				77.3p
Adjusted earnings per share	10				53.8p
Diluted earnings per share	10				77.0p
Adjusted diluted earnings per share	10				53.6p

See accompanying notes to the accounts.

There were no material differences between reported profits and historical cost profits on ordinary activities before taxation in any of the above financial years. The results of joint venture acquisitions have not been disclosed separately as they do not form a significant part of the group's results.

Continuing operations				Discontinued operations				Continuing operations				Discontinued operations				Before 1999 Total £m
Before exceptional items £m	Exceptional items £m		2000 Total £m					exceptional items £m	Exceptional items £m			exceptional items £m	Exceptional items £m			
1,633.9	-	792.0	2,425.9					1,531.6	-	818.5	2,350.1					
(69.6)	-	-	(69.6)					(73.2)	-	-	(73.2)					
1,564.3	-	792.0	2,356.3					1,458.4	-	818.5	2,276.9					
(948.8)	(28.6)	(717.5)	(1,694.9)					(825.9)	(26.5)	(767.5)	(1,619.9)					
615.5	(28.6)	74.5	661.4					632.5	(26.5)	51.0	657.0					
4.0	-	-	4.0					2.1	-	-	2.1					
619.5	(28.6)	74.5	665.4					634.6	(26.5)	51.0	659.1					
			-								-					
			665.4								659.1					
			(196.1)								(194.4)					
			(9.9)								(8.8)					
			(206.0)								(203.2)					
			459.4								455.9					
			(1.4)								12.0					
			-								-					
			(1.4)								12.0					
			458.0								467.9					
			-								0.4					
			458.0								468.3					
			(248.8)								(243.6)					
			209.2								224.7					
			83.2p								85.6p					
			88.9p								91.4p					
			82.7p								84.5p					
			88.3p								90.3p					

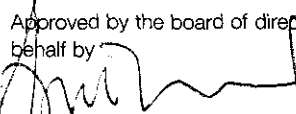
Included within net operating costs of discontinued operations are exceptional charges in respect of Year 2000 costs of £2.4 million for 2000; £5.4 million for 1999.

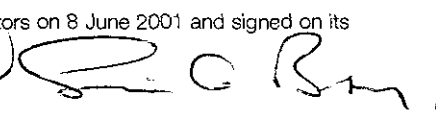
Balance sheets

At 31 March	Note	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Fixed assets					
Intangible assets	11	88.6	11.9	-	-
Tangible assets	12	6,385.7	6,190.6	1.8	5.5
Investments in subsidiary undertakings	13	-	-	5,819.5	3,443.3
Investments in joint ventures:					
- share of gross assets		339.5	297.1	-	-
- share of gross liabilities		(248.6)	(231.1)	-	-
	13	90.9	66.0	-	-
Other investments	13	29.3	33.7	3.9	4.3
		6,594.5	6,302.2	5,825.2	3,453.1
Current assets					
Stocks	14	18.0	12.5	-	-
Debtors	15	436.0	486.6	1,362.3	977.3
Investments	16	405.3	64.2	67.6	11.9
Cash at bank and in hand		50.7	30.5	0.2	-
		910.0	593.8	1,430.1	989.2
Creditors: amounts falling due within one year	17	(1,538.4)	(1,727.5)	(1,547.8)	(779.3)
Net current (liabilities)/assets		(628.4)	(1,133.7)	(117.7)	209.9
Total assets less current liabilities		5,966.1	5,168.5	5,707.5	3,663.0
Creditors: amounts falling due after more than one year	18	(3,093.2)	(2,434.3)	(753.1)	(815.7)
Provisions for liabilities and charges	20	(28.8)	(216.8)	(4.3)	(6.6)
Net assets		2,844.1	2,517.4	4,950.1	2,840.7
Capital and reserves					
Called up share capital	24	552.9	550.5	552.9	550.5
Share premium account	24	656.6	645.1	656.6	645.1
Profit and loss account	24	1,620.1	1,321.8	1,195.8	1,645.1
Other reserves	24	-	-	2,544.8	-
Equity shareholders' funds		2,829.6	2,517.4	4,950.1	2,840.7
Minority interest - equity		14.5	-	-	-
Capital employed		2,844.1	2,517.4	4,950.1	2,840.7

See accompanying notes to the accounts.

Approved by the board of directors on 8 June 2001 and signed on its behalf by


Sir Richard Evans
Chairman


Simon Batey
Group Finance Director

Consolidated cash flow statement

For the year ended 31 March	Note	2001 £m	2000 £m	1999 £m
Net cash inflow from operating activities	28	842.5	884.3	811.4
Returns on investments and servicing of finance	29	(190.1)	(191.6)	(161.7)
Taxation		(1.7)	(37.3)	(248.6)
Capital expenditure and financial investment	30	(573.7)	(637.0)	(649.3)
Acquisitions and disposals				
Acquisitions	31	(117.1)	(20.7)	(7.6)
Disposals	31	312.5	–	0.8
		195.4	(20.7)	(6.8)
Equity dividends paid		(250.1)	(450.1)	(0.2)
Cash inflow/(outflow) before use of liquid resources and financing		22.3	(452.4)	(255.2)
Management of liquid resources	32	(328.7)	(3.1)	245.8
Financing				
Issues of shares	33	13.9	3.6	9.9
Increase in debt	33, 34	318.1	314.5	152.3
		332.0	318.1	162.2
Increase/(decrease) in cash		25.6	(137.4)	152.8

Reconciliation of net cash flow to movement in net debt

For the year ended 31 March	Note	2001 £m	2000 £m	1999 £m
Increase/(decrease) in cash		25.6	(137.4)	152.8
Cash inflow from increase in debt and lease financing		(318.1)	(314.5)	(152.3)
Cash outflow/(inflow) from management of liquid resources		328.7	3.1	(245.8)
Change in net debt resulting from cash flows		36.2	(448.8)	(245.3)
Exchange adjustments		(6.2)	(0.1)	(1.6)
Movement in net debt		30.0	(448.9)	(246.9)
Opening net debt		(2,836.4)	(2,387.5)	(2,140.6)
Net debt at 31 March	34	(2,806.4)	(2,836.4)	(2,387.5)

Statements of total recognised gains and losses

For the year ended 31 March	Note	Group			Company	
		2001 £m	2000 £m	1999 £m	2001 £m	2000 £m
Profit/(loss) for financial year:						
Group/company		430.6	465.7	475.4	(194.4)	283.1
Joint ventures		(4.4)	(7.7)	(7.1)	–	–
		426.2	458.0	468.3	(194.4)	283.1
Profit arising on internal restructuring		–	–	–	2,544.8	–
Unrealised gain on sale of minority interest in subsidiary	13	33.5	–	–	–	–
Exchange adjustments		(6.0)	(0.5)	(3.9)	–	–
Total recognised gains and losses for the financial year		453.7	457.5	464.4	2,350.4	283.1
Prior year adjustment		–	–	1.4		
Total gains and losses recognised since last annual report		453.7	457.5	465.8		

Reconciliations of movements in equity shareholders' funds

For the year ended 31 March	Group			Company	
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m
Profit/(loss) for financial year	426.2	458.0	468.3	(194.4)	283.1
Dividends	(254.9)	(248.8)	(243.6)	(254.9)	(248.8)
Retained profit/(loss) for the financial year	171.3	209.2	224.7	(449.3)	34.3
Profit arising on internal restructuring	–	–	–	2,544.8	–
Shares issued in lieu of cash dividends	–	–	28.0	–	–
New share capital issued	13.9	3.6	13.4	13.9	3.6
Capitalisation of reserves in respect of shares issued via QUEST	(1.5)	–	(4.0)	–	–
Goodwill on business disposals	101.0	–	–	–	–
Unrealised gain on sale of minority interest in Vertex Data Science Limited	33.5	–	–	–	–
Exchange adjustments	(6.0)	(0.5)	(3.9)	–	–
Net increase in equity shareholders' funds for the year	312.2	212.3	258.2	2,109.4	37.9
Opening equity shareholders' funds	2,517.4	2,305.1	2,046.9	2,840.7	2,802.8
Equity shareholders' funds at 31 March	2,829.6	2,517.4	2,305.1	4,950.1	2,840.7

Notes to the accounts

1 Accounting policies

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

(a) Basis of preparation of financial statements

The consolidated financial statements of United Utilities PLC and its subsidiaries (the group) set out on pages 38 to 66 have been prepared under the historical cost convention, in accordance with applicable accounting standards and the Companies Act 1985 except as noted below under item (h).

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

The preparation of financial statements in conformity with generally accepted accounting principles in the United Kingdom requires management to make estimates and assumptions that affect the:

- reported amounts of assets and liabilities;
- disclosure of contingent assets and liabilities at the date of the financial statements; and
- reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates.

(b) Cash

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

(c) Turnover

Turnover represents the income receivable in the ordinary course of business for goods or services provided, which includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the year end, exclusive of value added tax and foreign sales tax.

(d) Research and development

Expenditure on research and development is expensed as incurred.

(e) International development costs

Costs incurred in the development of international activities are either written off or, where appropriate, capitalised and fully provided against until their recovery is considered to be secured by profitable contracts. Such capitalised costs are amortised over the expected life of the contract.

(f) Goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 April 1998, when Financial Reporting Standard 10 'Goodwill and intangible assets' was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since

1 April 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, generally not exceeding 20 years.

On the subsequent disposal or termination of a business acquired since 1 April 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

In the company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost.

(g) 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).

Infrastructure assets

Infrastructure assets comprise a network of water and wastewater systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements 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 related 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 group are capitalised within fixed assets.

Other assets

Additions are included at cost. Freehold land is not depreciated. Other assets are depreciated by writing off their cost less their estimated residual value 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

Assets in the course of construction, principally with an estimated economic life of greater than 20 years, are not depreciated until the year following commissioning.

(h) 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 (g) 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 12.

Notes to the accounts continued

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

(i) 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 account 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.

(j) Fixed asset investments

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

(k) Current asset investments

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

(l) Stocks

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

Finished goods and goods for resale are stated at the lower of cost, including appropriate production overheads, and net realisable value.

(m) Pensions

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

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

Details of pension arrangements and funding are set out in note 25.

(n) Foreign currency

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions, adjusted for the effects of any hedging arrangements. Assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the consolidated balance sheet date.

On consolidation, the balance sheets of overseas subsidiaries are translated into sterling at exchange rates applicable at the year end. The profit and loss accounts are translated into sterling using the average rate. Exchange differences resulting from the translation of such balance sheets at rates ruling at the beginning and end of the year, together with the differences between profit and loss accounts translated at average rates and rates ruling at 31 March, are dealt with as movements on group reserves.

Where net investments in overseas subsidiaries are matched in whole or in part by foreign currency borrowings, the exchange differences arising on the re-translation of such borrowings are also recorded as movements on group reserves and any excess taken to the profit and loss account.

(o) Deferred taxation

The charge for taxation is based on the profits for the year and takes into account taxation deferred, using the liability method, in respect of timing differences to the extent that it is probable that a liability will crystallise in the foreseeable future. Such timing differences arise primarily from the differing treatment for taxation and accounting purposes of provisions and depreciation of fixed assets.

(p) Joint ventures

Joint ventures are entities in which United Utilities PLC holds an interest on a long-term basis and which are jointly controlled with one or more other parties under a contractual arrangement. The group's share of profits less losses of joint ventures is included in the profit and loss account on the gross equity accounting basis.

(q) Financial instruments

Debt instruments

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

Interest rate swaps and financial futures

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

Realised gains and losses that occur from the early termination of such instruments designated as a hedge are deferred and are amortised to interest expense over the period of the hedged position, to the extent that the originally designated liability remains outstanding.

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

Currency swaps

The group enters into currency swaps to manage its exposure to fluctuations in currency rates. Principal amounts are revalued at exchange rates ruling at the date of the group balance sheet and included in the sterling value of debt. Exchange gains and losses are taken directly to reserves and are included in the statement of total recognised gains and losses in accordance with Statement of Standard Accounting Practice (SSAP) 20.

In order to qualify for hedge accounting, the forward contract/currency swap must relate to an existing asset, liability or firm commitment, be in the same currency as the hedged item and reduce the risk of foreign currency exchange movements on the group's operations.

Contracts for differences (CfDs)

The group records the cost and income attributable to CfDs in its accounting records when settlement is made. Where the settlement date for a CfD does not fall on the period end, then accrual accounting is used to reflect the known variances between the contract strike prices and Pool prices (see note 23).

(r) Stock-based compensation arrangements

Shares issued as a result of the exercise of options granted in accordance with the rules of the schemes (see note 24) are recorded in share capital and share premium at their exercise price at the date the option is exercised. A compensation expense is recorded in respect of the executive share option schemes for the difference, if any, between the exercise price and the stock price at the date of grant or exercise.

The costs of short-term and long-term incentive awards to executive directors in accordance with the incentive plan (see the report on remuneration) are expensed on a straight line basis over the period in which performance is measured. The amount to be expensed is based upon management's estimate of the probability that the performance criteria will be met.

In respect of the group's sharesave schemes no compensation expense is recorded for the difference between the exercise price and the stock price at the date of grant or exercise as the group is taking advantage of the exemption permitted by UITF 17 in respect of Inland Revenue approved SAYE schemes.

(s) Environmental remediation

Environmental expenditure that relates to current or future revenues is expensed or capitalised as appropriate. Expenditure that relates to an existing condition caused by past operations and does not contribute to current or future earnings is expensed.

Liabilities for environmental costs are recognised when environmental assessments or clean-ups are probable and the associated costs can be reasonably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of actions or, if earlier, on divestment or on closure of inactive sites.

(t) Recent UK accounting pronouncements

FRS 17, 'Retirement Benefits' was issued in December 2000 and is fully effective for accounting periods ending on or after 22 June 2003, with disclosure requirements being implemented earlier. This standard requires an asset or a liability to be recognised in the group accounts for any surplus or deficit in a defined benefit scheme.

FRS 19 'Deferred Tax' was issued in December 2000 and is effective for accounting periods ending on or after 23 January 2002. This requires a full provision to be 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). The group's initial assessment is that the liability in the balance sheet is unlikely to exceed £235 million.

Notes to the accounts continued

2 Segmental information

Turnover, profit before non-operating items, interest and tax and net operating assets for each class of business and by geographical origin are set out below:

Note	Turnover (1)			Profit before non-operating items, interest and tax (2)			Net operating assets (3)		
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
Continuing businesses:									
Licensed multi-utility operations	1,201.6	1,356.5	1,304.6	500.9	602.6	600.0	5,913.7	5,869.3	5,443.8
Asset management services	197.6	177.8	168.0	20.7	15.7	14.7	206.1	125.4	118.6
Customer management outsourcing	211.2	183.0	162.9	9.6	12.5	11.6	48.7	27.2	46.2
Telecommunications	119.5	79.5	50.3	(24.6)	(16.3)	(5.5)	176.3	97.9	63.9
Other activities	9.4	6.4	12.4	6.3	8.9	17.4	(60.3)	(62.0)	(47.1)
Corporate costs	-	-	-	(3.9)	(3.9)	(3.6)	-	-	-
	1,739.3	1,803.2	1,698.2	509.0	619.5	634.6	6,284.5	6,057.8	5,625.4
Inter-business eliminations (4)	(164.9)	(169.3)	(166.6)	-	-	-	-	-	-
	1,574.4	1,633.9	1,531.6	509.0	619.5	634.6	6,284.5	6,057.8	5,625.4
Divested businesses	273.4	1,122.7	1,180.6	21.6	76.9	56.4	-	43.9	67.3
Inter-business eliminations (4)	(71.9)	(330.7)	(362.1)	-	-	-	-	-	-
	1,775.9	2,425.9	2,350.1	530.6	696.4	691.0	6,284.5	6,101.7	5,692.7
Business restructuring (5)	-	-	-	(16.6)	(21.5)	-	-	-	-
Exceptional Year 2000 write-off (5)	-	-	-	-	(9.5)	(31.9)	-	-	-
	1,775.9	2,425.9	2,350.1	514.0	665.4	659.1	6,284.5	6,101.7	5,692.7
By geographical origin: (6)									
United Kingdom	1,683.3	2,348.7	2,274.9	505.4	654.4	651.7	6,167.9	6,008.1	5,652.2
Europe	4.5	0.2	0.3	(0.1)	0.1	-	29.8	-	-
The Americas	65.7	62.8	62.5	4.7	5.7	4.3	76.4	76.8	19.0
Rest of the world	22.4	14.2	12.4	4.0	5.2	3.1	10.4	16.8	21.5
	1,775.9	2,425.9	2,350.1	514.0	665.4	659.1	6,284.5	6,101.7	5,692.7

The accounting policies for each segment are the same as those appearing on pages 43 to 45.

- (1) Turnover includes the group's share of joint venture turnover of £78.3 million (2000 – £69.6 million; 1999 – £73.2 million) primarily relating to asset management services.
- (2) Profit before non-operating items, interest and tax comprises group operating profit amounting to £503.7 million (2000 – £661.4 million; 1999 – £657.0 million) and share of operating profits of joint ventures of £10.3 million (2000 – £4.0 million; 1999 – £2.1 million).
- (3) Net operating assets comprise fixed assets and net current assets excluding net debt, taxation and dividends.
- (4) The inter-business eliminations totalling £236.8 million (2000 – £500.0 million; 1999 – £528.7 million) include £71.9 million (2000 – £330.7 million; 1999 – £362.1 million) between the licensed multi-utility operations and the divested businesses and £164.9 million (2000 – £169.3 million; 1999 – £166.6 million) mainly from customer management outsourcing primarily to the licensed multi-utility operations.

- (5) Business restructuring costs in 2001 of £16.6 million relate to severance costs and property disposal costs impacting licensed multi-utility operations (£13.2 million), asset management services (£1.1 million), customer management outsourcing (£1.8 million) and telecommunications (£0.5 million).

The exceptional Year 2000 costs of £9.5 million in 2000 and £31.9 million in 1999 relate to the work needed to address the millennium date change. Business restructuring costs in 2000 of £21.5 million relate to the initiatives in response to the regulatory reviews impacting licensed multi-utility operations (£14.3 million) and customer management outsourcing (£7.2 million).

For US GAAP purposes, these exceptional items would be classified as a component of operating profit of the appropriate business segment.

- (6) The geographical destination of turnover does not differ materially from the geographical origin analysis above.

Total assets, tangible fixed assets, capital expenditure and depreciation for each class of business and by geographical origin are set out below:

	Total assets		Tangible fixed assets		Capital expenditure		Depreciation	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Continuing businesses:								
Licensed multi-utility operations	6,663.2	6,271.0	6,090.0	6,006.9	485.4	616.6	290.2	245.3
Asset management services	218.8	151.4	59.2	11.3	0.6	0.1	1.3	0.1
Customer management outsourcing	171.2	64.6	57.6	53.1	34.6	7.2	14.8	15.9
Telecommunications	216.9	133.3	170.2	114.0	64.7	43.1	8.9	4.9
Other activities	234.4	127.2	8.7	2.1	0.4	0.1	0.9	1.0
	7,504.5	6,747.5	6,385.7	6,187.4	585.7	667.1	316.1	267.2
Divested businesses	-	148.5	-	3.2	4.2	3.0	0.4	0.6
	7,504.5	6,896.0	6,385.7	6,190.6	589.9	670.1	316.5	267.8
By geographical origin:								
United Kingdom	7,386.2	6,787.7	6,385.4	6,190.3	589.4	670.0	316.4	267.7
Europe	30.0	-	-	-	-	-	-	-
The Americas	72.3	71.0	-	-	-	-	-	-
Rest of the world	16.0	37.3	0.3	0.3	0.5	0.1	0.1	0.1
	7,504.5	6,896.0	6,385.7	6,190.6	589.9	670.1	316.5	267.8

Notes to the accounts continued

3 Net operating costs

	2001			2000			1999		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Employee costs:									
Wages and salaries	252.2	3.9	256.1	232.4	15.5	247.9	219.6	15.7	235.3
Social security costs	21.0	0.1	21.1	18.9	1.2	20.1	18.4	1.2	19.6
Pension contributions (note 25)	6.3	0.4	6.7	5.4	0.4	5.8	23.1	1.3	24.4
	279.5	4.4	283.9	256.7	17.1	273.8	261.1	18.2	279.3
Capital schemes	(50.9)	–	(50.9)	(53.5)	–	(53.5)	(57.4)	–	(57.4)
	228.6	4.4	233.0	203.2	17.1	220.3	203.7	18.2	221.9
Depreciation:									
Owned fixed assets	311.4	0.4	311.8	262.1	0.7	262.8	221.8	0.3	222.1
Fixed assets held under finance leases	4.7	–	4.7	5.0	–	5.0	4.8	–	4.8
	316.1	0.4	316.5	267.1	0.7	267.8	226.6	0.3	226.9
Other operating costs:									
Auditor's remuneration	0.3	–	0.3	0.3	–	0.3	0.3	–	0.3
Research and development	2.6	–	2.6	2.1	–	2.1	4.8	–	4.8
Operating leases:									
– hire of plant and machinery	2.9	–	2.9	4.5	–	4.5	4.6	–	4.6
– land and buildings	5.9	–	5.9	5.5	–	5.5	6.9	–	6.9
Electricity purchases	–	150.0	150.0	–	653.2	653.2	–	714.5	714.5
Cost of sales net of inter-business eliminations	230.2	20.4	250.6	176.8	36.3	213.1	126.7	12.8	139.5
Rents and rates	76.2	0.2	76.4	67.9	1.3	69.2	65.2	2.4	67.6
Customer rebates	–	–	–	18.5	–	18.5	18.3	–	18.3
Amortisation of intangible assets	4.0	–	4.0	0.4	–	0.4	–	–	–
General and administration costs	139.3	4.5	143.8	203.9	9.3	213.2	174.5	14.0	188.5
	461.4	175.1	636.5	479.9	700.1	1,180.0	401.3	743.7	1,145.0
Other income (note 5)	(8.7)	–	(8.7)	(1.4)	(2.8)	(4.2)	(5.7)	(0.1)	(5.8)
	452.7	175.1	627.8	478.5	697.3	1,175.8	395.6	743.6	1,139.2
Net operating costs before exceptional items	997.4	179.9	1,177.3	948.8	715.1	1,663.9	825.9	762.1	1,588.0
Exceptional items									
– Year 2000 costs	–	–	–	7.1	2.4	9.5	26.5	5.4	31.9
– business restructuring	16.6	–	16.6	21.5	–	21.5	–	–	–
Total net operating costs	1,014.0	179.9	1,193.9	977.4	717.5	1,694.9	852.4	767.5	1,619.9

Fees payable to KPMG Audit Plc and its associates for non-audit services in 2001 were £0.7 million (2000 – £0.4 million; 1999 – £0.7 million) primarily relating to due diligence work. During the year, KPMG received no fees for management consultancy within the United Kingdom. The audit fee for 2001 in relation to the company amounted to £75,000 (2000 – £75,000).

Employee costs are included above on a gross basis before removing those components in connection with the group's capital schemes. The adjustments made in the above table for 'Capital schemes' are capitalised during the relevant period and included within tangible fixed asset additions.

Information relating to the emoluments, long-term incentives, share options and pension entitlements of the directors is contained in the report on remuneration.

4 Profit on disposal of businesses

	2001 £m	2000 £m	1999 £m
Energy supply:			
Profit on disposal of business before goodwill	305.1	–	–
Goodwill	(101.0)	–	–
Net profit on disposal of energy supply business	204.1	–	–
Loss on other business disposals	(12.9)	–	–
Profit on disposal of businesses	191.2	–	–

5 Other income

	2001 £m	2000 £m	1999 £m
(Loss)/profit on disposal of fixed assets	(0.5)	0.7	2.8
Net rents receivable	6.3	2.3	2.3
Management fees	0.9	1.1	0.6
Dividend income	1.2	–	–
Other	0.8	0.1	0.1
	8.7	4.2	5.8

6 Employees

	2001	2000	1999
Licensed multi-utility operations	4,764	5,532	5,597
Asset management services	407	391	416
Customer management outsourcing	5,015	3,395	3,160
Telecommunications	618	364	277
Other activities	109	71	71
Divestments:			
Energy supply	114	302	308
Other	25	312	300
Average number of persons employed by the group during the year	11,052	10,367	10,128

7 Net interest payable and other similar charges

	2001 £m	2000 £m	1999 £m
Interest payable:			
Group:			
– on bank loans, overdrafts and other loans	205.5	184.6	187.4
– on finance leases	10.1	5.1	7.0
– finance element of onerous contract provision	4.0	15.0	15.0
Joint ventures	11.6	9.9	8.8
Total interest payable	231.2	214.6	218.2
Interest receivable	(10.9)	(8.6)	(15.0)
Net interest payable and other similar charges	220.3	206.0	203.2

Notes to the accounts continued

8 Taxation on profit on ordinary activities

	2001 £m	2000 £m	1999 £m
UK corporation tax at 30% (2000 – 30%; 1999 – 31%)	9.7	–	57.3
Overseas tax	0.9	(0.4)	(0.7)
Advance corporation tax	–	–	(69.0)
Share of joint ventures tax	3.1	1.8	0.4
	13.7	1.4	(12.0)
Exceptional tax on disposal of businesses	45.0	–	–
	58.7	1.4	(12.0)

9 Dividends

	2001 £m	2000 £m	1999 £m
Interim dividend of 15.0 pence (2000 – 14.7 pence; 1999 – 14.4 pence)	82.9	80.9	79.1
Final dividend of 31.1 pence recommended (2000 – 30.50 pence; 1999 – 29.9 pence)	172.0	167.9	164.5
	254.9	248.8	243.6

10 Earnings per share

	2001	2000	1999
Profit for the financial year attributable to ordinary shareholders	£426.2m	£458.0m	£468.3m
Earnings per ordinary share	77.3p	83.2p	85.6p
Diluted earnings per share	77.0p	82.7p	84.5p
Adjusted earnings per share:	£m	£m	£m
Profit for the financial year attributable to ordinary shareholders	426.2	458.0	468.3
Adjustments:			
Exceptional items:			
– business restructuring	16.6	21.5	–
– Year 2000 costs	–	9.5	31.9
Profit on disposal of businesses	(191.2)	–	–
Taxation on disposal of businesses	45.0	–	–
Adjusted profit for financial year attributable to ordinary shareholders	296.6	489.0	500.2
Adjusted earnings per ordinary share	53.8p	88.9p	91.4p
Adjusted diluted earnings per ordinary share	53.6p	88.3p	90.3p

The adjustment to profit and earnings per share has been made to eliminate the impact of exceptional items.

Earnings per ordinary share and the adjusted earnings per ordinary share have been calculated by dividing profit and the adjusted profit for the financial year attributable to ordinary shareholders by 551.1 million, being the weighted average number of shares in issue during the year (2000 – 550.2 million; 1999 – 547.2 million).

Diluted earnings per ordinary share and adjusted diluted earnings per ordinary share have been calculated by dividing profit and the adjusted profit for the financial year attributable to ordinary shareholders by 553.7 million, being the weighted average number of shares in issue during the year including dilutive shares (2000 – 553.6 million; 1999 – 554.1 million).

The weighted average number of shares can be reconciled to the weighted average number of shares including dilutive shares as follows:

	2001 million	2000 million	1999 million
Average number of ordinary shares in issue – basic	551.1	550.2	547.2
Average number of ordinary shares under option	12.8	15.0	17.3
Number of ordinary shares that would have been issued at fair value	(10.2)	(11.6)	(10.4)
Average number of ordinary shares in issue – diluted	553.7	553.6	554.1

11 Intangible assets

	Goodwill £m	Other intangibles £m	Total £m
Cost:			
At 1 April 2000	12.3	–	12.3
Additions	71.7	9.0	80.7
At 31 March 2001	84.0	9.0	93.0
Amortisation:			
At 1 April 2000	0.4	–	0.4
Charge for the year	4.0	–	4.0
At 31 March 2001	4.4	–	4.4
Net book value:			
At 31 March 2001	79.6	9.0	88.6
At 31 March 2000	11.9	–	11.9

12 Tangible fixed assets

Group	Land and buildings £m	Infrastructure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost:						
At 1 April 2000	277.6	2,916.7	3,824.1	907.1	655.5	8,581.0
Arising on acquisition of businesses	–	–	58.5	0.7	–	59.2
Arising on disposal of businesses	–	–	(4.1)	(124.1)	(1.2)	(129.4)
Additions	1.5	111.4	133.3	20.2	323.5	589.9
Grants and contributions	–	(4.4)	–	–	–	(4.4)
Transfers	6.9	160.1	292.1	28.0	(487.1)	–
Disposals	(40.7)	–	(24.0)	(71.1)	–	(135.8)
At 31 March 2001	245.3	3,183.8	4,279.9	760.8	490.7	8,960.5
Depreciation						
At 1 April 2000	63.5	842.8	1,041.3	442.8	–	2,390.4
Arising on disposal of businesses	–	–	–	(22.3)	–	(22.3)
Charge for the year	9.3	99.6	103.6	104.0	–	316.5
Disposals	(24.2)	–	(6.0)	(79.6)	–	(109.8)
At 31 March 2001	48.6	942.4	1,138.9	444.9	–	2,574.8
Net Book Value:						
At 31 March 2001	196.7	2,241.4	3,141.0	315.9	490.7	6,385.7
At 31 March 2000	214.1	2,073.9	2,782.8	464.3	655.5	6,190.6

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 (accounting policy note 1(h)). As a consequence, the net book value of fixed assets is £89.1 million (2000 – £84.7 million) lower than it would have been had this treatment not been adopted.

Notes to the accounts continued

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

	2001 £m	2000 £m
Cost:		
Operational assets	250.8	250.8
Fixtures, fittings, tools and equipment	10.6	5.4
At 31 March	261.4	256.2
Accumulated depreciation:		
Operational assets	72.9	68.6
Fixtures, fittings, tools and equipment	3.9	5.1
At 31 March	76.8	73.7
Net book value:		
Operational assets	177.9	182.2
Fixtures, fittings, tools and equipment	6.7	0.3
At 31 March	184.6	182.5

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

	2001 £m	2000 £m
Capital commitments:		
Contracted but not provided for	289.7	288.0

Company	Fixtures, fittings, tools and equipment £m
Cost:	
At 1 April 2000	9.0
Additions	0.3
Disposals	(4.5)
At 31 March 2001	4.8
Depreciation:	
At 1 April 2000	3.5
Charge for the year	0.9
Disposals	(1.4)
At 31 March 2001	3.0
Net book value:	
At 31 March 2001	1.8
At 31 March 2000	5.5

13 Fixed asset investments

Group	Joint ventures			Other investments				Total £m
	Unlisted £m	Loans £m	Total £m	Unlisted £m	Loans £m	Listed £m	Total £m	
Cost:								
At 1 April 2000	56.6	9.4	66.0	24.0	0.1	9.6	33.7	99.7
Additions	32.1	1.1	33.2	5.6	–	1.1	6.7	39.9
Share of losses	(4.4)	–	(4.4)	–	–	–	–	(4.4)
Disposals	(3.1)	–	(3.1)	(11.4)	–	–	(11.4)	(14.5)
Loan repayment	–	(0.5)	(0.5)	–	–	–	–	(0.5)
Exchange adjustments	0.3	(0.6)	(0.3)	0.3	(0.1)	0.1	0.3	–
At 31 March 2001	81.5	9.4	90.9	18.5	–	10.8	29.3	120.2

Additions to unlisted joint ventures includes £9.0 million of goodwill in respect of the group's investment in AS Tallinna Vesi.

Share of losses comprises share of operating profits £10.3 million, interest charge £11.6 million and taxation charge £3.1 million.

Included within other investments are the listed investments held by Carefree Insurance Limited, which had a market value of £10.8 million at 31 March 2001.

Company	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Cost:			
At 1 April 2000	3,443.3	4.3	3,447.6
Increase arising on group restructuring	2,376.2	–	2,376.2
Disposals	–	(0.4)	(0.4)
At 31 March 2001	5,819.5	3.9	5,823.4

Details of principal operating subsidiary undertakings and joint ventures, all of which are unlisted, are set out below.

These undertakings are included within the consolidated group financial statements.

	Class of share capital held	Proportion of share capital owned/voting rights	Nature of business
<i>Subsidiary undertakings:</i>			
Great Britain:			
United Utilities Water Limited (formerly North West Water Limited)	Ordinary	100%*	Water and wastewater services and network management
NORWEB plc	Ordinary	100%*	Electricity distribution and related services
Your Communications Limited	Ordinary	100%*	Telecommunications
Vertex Data Science Limited	Ordinary	88.62%	Customer management outsourcing
United Utilities International Limited	Ordinary	100%*	Consulting services and project management
Hyder Industrial Limited	Ordinary	100%*	Renewable energy services
Australia:			
United Utilities Australia Pty Limited	Ordinary	100%*	Technical and management services
Yabulu Water Pty Limited	Ordinary	100%*	Technical and management services
<i>Joint ventures:</i>			
USA:			
US Water LLC	Ordinary	50%*	Contract operations and maintenance services
Argentina:			
Inversora Electrica de Buenos Aires SA	Ordinary	45%*	Electricity supply and distribution
Australia:			
Yan Yean Water Pty Limited	Ordinary	50%*	Water treatment operations
Macarthur Water Pty Limited	Ordinary	50%*	Water treatment operations
Riverland Water Pty Limited	Ordinary	50%*	Water treatment operations
Estonia:			
AS Tallinna Vesi	Ordinary	25.2%*	Contract operations and maintenance services
Bulgaria:			
Sofijska Voda A.D.	Ordinary	37.5%*	Contract operations and maintenance services

*Shares are held directly by United Utilities PLC except where marked with an asterisk where they are held by subsidiary undertakings.

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

Notes to the accounts continued

Acquisitions

The group acquired Netforce Group plc on 4 September 2000, Hyder Industrial Limited and Hyder Energy Services Limited on 20 December 2000 and the business process outsourcing business of Cap Gemini Ernst & Young UK on 31 March 2001. Below is an analysis of the net assets acquired and the fair value to the group:

	Book value £m	Revaluation adjustments £m	Fair value to group £m
Tangible fixed assets	59.2	(1.1)	58.1
Debtors	9.8	(0.4)	9.4
Cash	0.1	–	0.1
Creditors falling due within one year	(6.1)	–	(6.1)
Provisions for liabilities and charges	(0.1)	–	(0.1)
Net assets	62.9	(1.5)	61.4
Consideration:			
Cash			86.6
Minority interest in subsidiary			46.5
Goodwill arising			71.7

The consideration given for the acquisition of the business process outsourcing business of Cap Gemini Ernst & Young UK consisted of a maximum 15% interest in a subsidiary, Vertex Data Science Limited depending on the size of the business transferred and the achievement of certain business performance objectives over the following three years. The transactions did not affect group cashflow. The gain resulting from the

exchange of assets has been reflected in the Statement of total recognised gains and losses. A put option has been granted to Cap Gemini Ernst & Young UK in respect of the shareholding in Vertex Data Science Limited and Cap Gemini Ernst & Young UK has granted a call option to the group over the same shareholding. The put and call options may be exercised, subject to certain conditions, in the period July 2003 to June 2005.

14 Stocks

	Group	
	2001 £m	2000 £m
Stores	7.2	9.7
Work in progress	10.8	2.8
	18.0	12.5

15 Debtors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due within one year:				
Trade debtors	305.0	263.1	–	–
Provisions for doubtful debts	(64.4)	(92.0)	–	–
	240.6	171.1	–	–
Unbilled debtors	103.0	247.3	–	–
	343.6	418.4	–	–
Amounts owed by subsidiary undertakings	–	–	1,350.9	967.3
Other debtors	33.7	25.8	7.7	8.8
Prepayments and accrued income	58.7	42.4	3.7	1.2
	436.0	486.6	1,362.3	977.3

Within prepayments and accrued income is £22.2 million in respect of pensions which falls due after more than one year (2000 – £10.9 million).

16 Current asset investments

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Managed funds and short-term deposits	382.2	53.5	55.3	–
Other current asset investments	23.1	10.7	12.3	11.9
	405.3	64.2	67.6	11.9

17 Creditors: amounts falling due within one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Loans	135.7	52.3	62.6	–
Bank overdrafts and temporary borrowings	262.3	665.8	45.7	8.4
Obligations under finance leases	–	0.4	–	–
Trade creditors	36.7	123.2	–	–
Amounts owed to subsidiary undertakings	–	–	1,153.2	532.1
Dividends	173.9	169.1	173.9	169.1
Taxation and social security	179.4	129.6	47.8	17.6
Accruals and deferred income	750.4	587.1	64.6	52.1
	1,538.4	1,727.5	1,547.8	779.3

18 Creditors: amounts falling due after more than one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Loans	2,640.7	2,002.2	753.1	815.7
Obligations under finance leases	200.6	199.7	–	–
Other creditors	2.9	4.2	–	–
Deferred grants and contributions (note 19)	249.0	228.2	–	–
	3,093.2	2,434.3	753.1	815.7

19 Deferred grants and contributions

	£m
At 1 April 2000	228.2
Received in the year	27.5
Credit to profit and loss account for the year	(6.7)
At 31 March 2001	249.0

20 Provisions for liabilities and charges

	Group			Company
	Restructuring £m	Onerous contracts £m	Other £m	Other £m
At 1 April 2000	16.7	175.9	24.2	216.8
Utilised	(14.1)	(4.0)	(8.9)	(27.0)
Profit and loss account	10.9	–	–	10.9
Divested operations	–	(171.9)	–	(171.9)
At 31 March 2001	13.5	–	15.3	28.8

Notes to the accounts continued

21 Deferred taxation

The full potential deferred tax liability, none of which is provided, is:

	2001 £m	2000 £m
Deferred tax liabilities:		
Accelerated tax allowances:		
– infrastructure assets	500.5	471.4
– other assets	582.0	454.0
	1,082.5	925.4
Deferred tax assets:		
Short-term timing differences	(76.8)	(116.1)
Net deferred tax liabilities	1,005.7	809.3
Current	(76.8)	(116.1)
Non-current	1,082.5	925.4
	1,005.7	809.3

No deferred tax asset or liability arises in the company's accounts under UK GAAP.

No provision is made for taxation in respect of liabilities which might arise on the distribution of earnings retained overseas.

The group will be required to make provision for deferred tax, in accordance with FRS 19, for the year ending 31 March 2002. Prior years will be restated

accordingly. The precise interpretation of FRS 19 and its application to the group's financial statements remains under review. Had FRS 19 been adopted in the year ended 31 March 2001, we estimate that the effective tax rate in the profit and loss account would be no higher than 24 per cent and the provision in the balance sheet at 31 March 2001, after discounting, would be no greater than £235 million.

22 Borrowings

	2001 £m	2000 £m
Bank overdrafts and temporary borrowings	262.3	665.8
Term loans	2,776.4	2,054.5
Finance leases	200.6	200.1
	3,239.3	2,920.4

Repayments fall due as follows:

	Year	2001 £m	Year	2000 £m
After five years	2007+	2,246.4	2006+	1,934.2
From four to five years	2006	444.4	2005	36.2
From three to four years	2005	50.0	2004	34.0
From two to three years	2004	34.0	2003	66.6
From one to two years	2003	66.5	2002	130.9
After more than one year		2,841.3		2,201.9
Within one year	2002	398.0	2001	718.5
		3,239.3		2,920.4

Bank overdrafts and temporary borrowings

The bank overdrafts and temporary borrowings are repayable in less than one year. The weighted average rate of interest on bank overdrafts and temporary borrowings was 6.1 per cent (2000 – 5.7 per cent). The group had available committed bank facilities of £1,275.0 million (2000 – £1,275.0 million) of which £1,252.3 million was unutilised at 31 March 2001 (2000 – £1,264.6 million). Of the amounts unutilised £694.5 million expire after one year but in less than two years, and the remaining £557.8 million expire in more than two years.

Term loans

Amounts repayable after more than five years comprise bank and other loans repayable between 2007 and 2053. Interest rates range from 4.875 per cent to 14.83 per cent on £2,053.4 million (2000 – £1,726.3 million) and are at floating rates on £6.0 million (2000 – £15.5 million).

On total borrowings, interest rates range from 1.5 per cent to 14.83 per cent on £2,592.4 million and are at floating rates on £646.9 million.

The analysis of net debt prior to the effect of off balance sheet instruments is as follows:

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed		Weighted average period for which interest is fixed	
	2001 £m	2000 £m	2001 %	2000 %	2001 Years	2000 Years
Fixed rate borrowings:						
Sterling	656.2	671.1	8.0	8.0	14.0	14.9
United States dollars	753.1	774.9	6.4	6.5	12.8	13.5
Euros	1,122.5	385.7	6.0	5.4	6.8	8.2
Japanese yen	60.6	54.2	1.5	–	25.0	29.5
	2,592.4	1,885.9	6.7	6.8	10.8	13.4
Floating rate borrowings:						
Sterling	548.0	966.4				
Japanese yen	12.3	–				
United States dollars	86.6	68.1				
	646.9	1,034.5				
Floating rate investments:						
Sterling (including cash)	(432.9)	(84.0)				
Net debt at 31 March	2,806.4	2,836.4				

Included in the above table is a loan with Japanese yen principal paying a United States dollar coupon.

Based on the floating rate net debt of £214.0 million at the year end, a 1 per cent change in interest rates would result in a £2.1 million change in profit before tax for the year.

The fair values of the group's financial instruments are shown on page 60.

Company

Excluding amounts owed to subsidiary undertakings, the company has borrowings totalling £861.4 million (2000 – £824.1 million) of which £108.3 million falls due within one year. The remaining loans totalling £753.1 million comprise £212.1 million repayable in 2005, £298.6 million repayable in 2008 and £242.4 million repayable in 2028. The loan repayable in 2005 is at a fixed rate of interest of 6.25 per cent, and the loan repayable in 2008 is at a fixed rate of interest of 6.45 per cent. The loan repayable in 2028 is at a fixed rate of interest of 6.875 per cent.

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	
	2001 £m	2000 £m	2001 %	2000 %	2001 Years	2000 Years
Fixed rate borrowings:						
Sterling	2,345.0	2,001.1	7.5	7.3	6.8	7.9
United States dollars	42.2	59.4	8.2	8.6	0.5	1.2
	2,387.2	2,060.5	7.5	7.4	6.6	7.7
Floating rate borrowings:						
Sterling	852.1	859.9				
Floating rate investments:						
Sterling (including cash)	(432.9)	(84.0)				
Net debt at 31 March	2,806.4	2,836.4				

Floating interest rates are based on LIBOR.

Notes to the accounts continued

23 Financial instruments and risk management

The primary financial risks faced by the group are interest rate risk and exchange 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 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. The effect of the use of derivatives is illustrated in note 22.

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 swap, the group agrees with another party to exchange the principal amount of two currencies together with interest amounts in the two currencies agreed by reference to a specific interest rate basis and the principal amount. The principal of these instruments reflects the extent of the group's involvement in the instruments, but does not represent its exposure to credit risk which is assessed by reference to the fair value.

All transactions are undertaken to manage the risks arising from underlying business activities and no speculative trading is undertaken. The counterparties to these instruments generally consist of financial institutions and other bodies with good credit ratings. Although the group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and by

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. Subsidiary undertakings make no significant sales or purchases in currencies other than that of the country in which they operate. Accordingly, the group has no material unhedged foreign currency exposures.

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

Interest rate swaps

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

Financial futures

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

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.

Currency swaps

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

Contracts for differences

The group disposed of its energy supply business during the year. Consequently it is no longer exposed to Contracts for Differences (CfDs) or similar hedging instruments in respect of electricity purchase costs.

At 31 March 2001, the group was not committed to any hedging (2000 – 60 million MWh; 1999 – 67 million MWh) under CfDs.

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.

At 31 March	2001		2000	
	Book value £m	Current value £m	Book value £m	Current value £m
Short-term debt and current portion of long-term debt	397.7	397.7	718.5	718.5
Long-term debt	2,841.6	3,056.4	2,201.9	2,191.9
	3,239.3	3,454.1	2,920.4	2,910.4
Interest rate swaps	-	86.2	-	27.9
Foreign exchange contracts and swaps	-	(123.4)	-	93.0
Total borrowings	3,239.3	3,416.9	2,920.4	3,031.3

The gross contract amount of interest rate swaps outstanding at 31 March 2001 was £3,728.0 million (2000 – £1,674.9 million). The gross contract amount of foreign exchange contracts and swaps at 31 March 2001 was £1,992.8 million (2000 – £1,223.5 million).

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

Long-term investments

The fair value of listed investments of £10.8 million is based on year end quoted market prices. For other investments for which there are no quoted market prices, the fair values approximate to the carrying value of £109.4 million.

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 approximate 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 interest 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 £216.4 million and £179.2 million respectively (2000 – £19.0 million and £139.9 million).

The group anticipates that £20.5 million of these gains and £27.5 million of these losses will be realised in the forthcoming financial year. Of the unrecognised gains and losses on hedges as at 1 April 2000 the net loss recognised in the profit and loss account for the year ended 31 March 2001 was £5.4 million.

Contracts for differences

The fair value of outstanding CfDs at 31 March 2001 was £nil (2000 – £(240.6) million). The movement in fair values of CfDs did not result in any immediate changes to the group's financial statements since fair values are not recognised on the group's balance sheet.

The fair values of outstanding CfDs were based on the difference between projected purchase prices and agreed contract prices, discounted at an appropriate cost of capital. The calculation of fair value takes into account a number of complex factors, including future purchase prices, plant availability, plant operating costs and inflation indices. The principal influence on the fair value is the projected purchase price. For the purposes of these calculations the projected purchase price was based on historic data.

Notes to the accounts continued

24 Called up share capital, share premium account and profit and loss account

The movements in shareholders' equity are as follows:

	Group and company		Group		Company		
	Called up share capital £m	Share premium account £m	Profit and loss account £m	Total £m	Profit and loss account £m	Other reserves £m	Total £m
At 1 April 1998	544.8	633.8	868.3	2,046.9	1,330.3	–	2,508.9
Profit for financial year	–	–	468.3	468.3	496.1	–	496.1
Dividends on ordinary shares	–	–	(243.6)	(243.6)	(243.6)	–	(243.6)
Shares issued net of costs	1.6	8.3	–	9.9	–	–	9.9
Shares issued in lieu of cash dividend	3.5	–	–	3.5	–	–	3.5
Capitalisation of reserves in respect of shares issued via QUEST	–	–	(4.0)	(4.0)	–	–	–
Adjustment in respect of shares issued in lieu of cash dividend	–	–	28.0	28.0	28.0	–	28.0
Exchange adjustments	–	–	(3.9)	(3.9)	–	–	–
At 31 March 1999	549.9	642.1	1,113.1	2,305.1	1,610.8	–	2,802.8
Profit for financial year	–	–	458.0	458.0	283.1	–	283.1
Dividends on ordinary shares	–	–	(248.8)	(248.8)	(248.8)	–	(248.8)
Shares issued net of costs	0.6	3.0	–	3.6	–	–	3.6
Exchange adjustments	–	–	(0.5)	(0.5)	–	–	–
At 31 March 2000	550.5	645.1	1,321.8	2,517.4	1,645.1	–	2,840.7
Profit/(loss) for financial year	–	–	426.2	426.2	(194.4)	2,544.8	2,350.4
Dividends on ordinary shares	–	–	(254.9)	(254.9)	(254.9)	–	(254.9)
Shares issued net of costs	2.4	11.5	–	13.9	–	–	13.9
Capitalisation of reserves in respect of shares issued via QUEST	–	–	(1.5)	(1.5)	–	–	–
Goodwill on business disposals	–	–	101.0	101.0	–	–	–
Unrealised gain on sale of minority interest in Vertex Data Science Limited	–	–	33.5	33.5	–	–	–
Exchange adjustments	–	–	(6.0)	(6.0)	–	–	–
At 31 March 2001	552.9	656.6	1,620.1	2,829.6	1,195.8	2,544.8	4,950.1

Underlying dividends per ordinary share are 46.1 pence (recommended) in 2001, 45.20 pence in 2000 and 44.30 pence in 1999. In 1999, an enhancement to the final dividend of 1.36 pence was paid.

As allowed by section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The amount of group loss for the financial year dealt with in the company's profit and loss account is £194.4 million (2000 – £283.1 million profit; 1999 – £496.1 million profit) after accounting for dividends receivable from subsidiary undertakings of £23.1 million (2000 – £331.5 million; 1999 – £423.4 million).

The cumulative amount of goodwill included in reserves resulting from acquisitions during the years ended 2001, 2000, 1999 and prior years, before FRS 10 became effective, net of goodwill attributable to subsidiaries or businesses demerged or disposed of prior to 31 March 2001, amounts to £1,023.9 million (2000 – £1,124.9 million; 1999 – £1,124.5 million). The cumulative amount of negative goodwill included in the reserves is £nil at 31 March 2001 (2000 – £nil; 1999 – £nil). Consolidated retained earnings at 31 March 2001 include retained earnings of joint ventures and associated undertakings of £(7.3) million (2000 – £(2.9) million; 1999 – £4.8 million). The cumulative amount of exchange adjustments included within consolidated retained earnings is £(12.2) million (2000 – £(6.2) million; 1999 – £(5.7) million). The taxation effect of the exchange adjustments posted directly to retained earnings in the year is £nil (2000 – £nil; 1999 – £nil).

Apart from dividends from United Utilities Water Limited and NORWEB plc, which are subject to certain regulatory restrictions, there are no significant statutory or contractual restrictions on the distribution of current profits of subsidiary or associated undertakings; undistributed profits of prior years are, in the main, permanently employed in the businesses of these undertakings. The undistributed profits of group undertakings overseas may be liable to overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends. No provision has been made in

respect of potential taxation liabilities on realisation of assets at restated or revalued amounts or on realisation of joint ventures and associated undertakings at equity accounted value.

By resolution passed at the annual general meeting on 21 July 2000, the authorised ordinary share capital of the company was increased to £800,000,000 by the creation of 80,000,000 new ordinary shares of £1 each.

The allotted and fully paid share capital of the company at 31 March 2001 was 552,901,025 ordinary shares (550,511,886 ordinary shares at 31 March 2000; 549,869,126 ordinary shares at 31 March 1999).

2,389,139 ordinary shares were allotted during the year ended 31 March 2001 (2000 – 642,760 ordinary shares; 1999 – 1,573,675 ordinary shares) for the exercise of options in accordance with the rules of the employee sharesave schemes and the executive share option scheme for a total consideration of £13.9 million (2000 – £3.7 million; 1999 – £10.0 million).

Since 31 March 2001, 101,703 shares have been allotted on the exercise of options and at 31 May 2001, the company's issued share capital, credited as fully paid, was 553,002,728.

During the year, an internal restructuring resulted in a profit of £2,544.8 million in the company's accounts. This profit, as it arose on an internal restructuring, is not distributable and is shown within other reserves. The restructuring has had no effect on the group accounts. Certain assets of a subsidiary, NORWEB plc, were transferred to other subsidiaries of the company. Under the Companies Acts this transfer would have required the company to recognise an impairment in the carrying value of NORWEB plc and a reduction in the profit and loss account by that amount. As the transfer did not result in any overall loss in value of the company's investments, in order to show a true and fair view, it is necessary to depart from the Act and reallocate an amount from the cost of investment in NORWEB plc to other subsidiaries. There is no effect on the group accounts.

The employee sharesave scheme is available to all eligible employees and the company share option scheme is for senior executives (excluding, with effect from the introduction of the group's incentive plan, executive directors and other executives participating in the plan). The former is based on SAYE savings contracts with options exercisable within a six-month period from the conclusion of a three, five or seven-year period as appropriate from the date of grant. Under the terms and conditions of this scheme, for every month (up to no more than six months) an employee fails to contribute the agreed

monthly amount determined under the rules of the scheme, the last date exercisable will be delayed by one month. Options under the latter scheme are exercisable in a period beginning no earlier than three years (five years for discounted options under the former executive share option scheme, which are no longer granted) and ending no later than ten years from the date of grant. Details of the criteria for exercising these options is shown in the report on remuneration. Options outstanding under the share option schemes at 31 March, together with their exercise prices and dates, were:

	2001	2000	Exercise price	Normal dates of exercise
Employee sharesave scheme	–	14,758	369.5p (1)	1998 or 2000
	20,139	150,393	440.6p (1)	1999 or 2001
	159,445	258,197	404.8p (1)	2000 or 2002
	109,034	1,061,395	481.0p (1)	2001
	2,475,951	3,172,469	476.0p (1)	2002
	1,039,524	1,479,431	616.5p (1)	2001 or 2003
	485,837	782,092	707.5p (1)	2002 or 2004
	4,471,965	5,410,875	471.5p (1)	2003 or 2005
	2,057,825	–	556.5p (1)	2004 or 2006
Executive share option scheme	–	12,146	305.2p (3)	1993 to 2000
	15,571	28,944	324.1p (3)	1995 to 2002
	27,901	52,187	275.7p (2)	1997 to 2002
	2,713	2,713	392.7p (3)	1995 to 2002
	3,810	3,810	334.2p (2)	1997 to 2002
	23,826	41,069	463.4p (3)	1996 to 2003
	29,402	37,921	394.2p (2)	1998 to 2003
	8,138	8,138	446.9p (3)	1996 to 2003
	12,655	14,398	380.2p (2)	1998 to 2003
	158,700	178,850	566.9p (3)	1997 to 2004
	88,922	122,162	482.2p (2)	1999 to 2004
	47,826	47,826	530.1p (3)	1997 to 2004
	37,460	43,982	450.8p (2)	1999 to 2004
	75,163	87,747	479.8p (3)	1997 to 2004
	75,315	114,448	408.2p (2)	1999 to 2004
	56,155	56,205	564.0p (3)	1998 to 2005
	21,252	21,252	479.8p (2)	2000 to 2005
	178,950	209,700	584.5p (3)	1998 to 2005
	230,502	294,833	544.5p (3)	1999 to 2006
	331,409	437,713	628.0p (3)	2000 to 2007
	182,500	272,492	632.0p (3)	2000 to 2007
	562,499	593,010	768.5p (3)	2000 to 2007
	155,750	160,886	886.0p (3)	2001 to 2008
	310,250	326,250	868.0p (3)	2001 to 2008
	968,451	983,586	768.0p (3)	2002 to 2009
Company share option scheme	402,728	421,222	615.5p (3)	2002 to 2009
	1,005,560	–	680.0p (3)	2003 to 2010
	527,293	–	666.0p (3)	2003 to 2010
	16,360,421	16,903,100		

(1) The exercise price represents 80 per cent of the market price as at the date the option was granted.

(2) The exercise price represents 85 per cent of the market price as at the date the option was granted.

(3) The exercise price equalled the market price at the date the option was granted.

Notes to the accounts continued

An opportunity to join the employee sharesave scheme was offered during the years ended 31 March 2001 and 31 March 2000, and options were also granted under the executive share option scheme (and overseas executive share option scheme) and the company share option scheme. In the year ended 31 March 2001, options were granted under the option schemes in respect of a total of 3,636,897 ordinary shares (2000 – 6,851,862 ordinary shares), options for 2,179,862 ordinary shares (2000 – 1,427,717 ordinary

shares) were exercised and options for 1,999,714 ordinary shares (2000 – 2,192,215 ordinary shares) lapsed or were cancelled.

No options have been granted under the Norweb employee sharesave scheme since the acquisition of Norweb. Participating employees were given the opportunity of replacing their options for Norweb shares with options of an equivalent value for United Utilities' shares.

Options for United Utilities shares outstanding under the Norweb scheme at 31 March, together with their exercise price and date, were:

	2001	2000	Exercise price	Normal date of exercise
	–	183,627	308.29p	2001

United Utilities established a Qualifying Employee Share Ownership Trust QUEST in 1998, an employee benefit trust complying with requirements of the Finance Act 1989. The QUEST trustee assumed the obligation to satisfy options granted under the existing United Utilities' sharesave scheme and the Norweb sharesave scheme. It is intended that the QUEST will satisfy all future grants under the continuing United Utilities' sharesave scheme. All finance costs and administration expenses connected with the operation of the QUEST are written off to the profit and loss account as they accrue. The

number of shares held in the QUEST at 31 March 2001 was 903,389 with a market value of £5,528,740 based on the mid-market price of a share at that date of 612.0 pence. All dividends have been waived in accordance with the trust deed between United Utilities PLC and United Utilities QUEST Trustee Limited as trustee. All shares held in the QUEST, subject to the trustee's discretion, are used to satisfy options granted to employees of the group under sharesave schemes. The QUEST is not leveraged.

25 Pensions

The group participates in a number of pension schemes principally in the UK. The major schemes are funded defined benefit schemes – the United Utilities Pension Scheme (UUPS) and the Electricity Supply Pension Scheme (ESPS), of which the ESPS is closed to new employees. The assets of these schemes are held in trust funds independent of group 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, William M Mercer Limited, using the projected unit method. For this purpose, the actuarial assumptions adopted are based upon investment growth of 6.5 per cent per annum, pay growth of 4.5 per cent per annum and increases to pensions in payment and deferred pensions of 3 per cent per annum. The actuarial value of the assets was taken as 89 per cent of the market value of the assets as at 31 March 1998.

The last actuarial valuations of the two schemes were carried out as at 31 March 1998. The combined market value of the group's share of the assets of the two schemes at the valuation date was £1,718.5 million. Using the assumptions adopted for SSAP 24 the combined actuarial value of the assets represented 115 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension 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 William M Mercer Limited using the assumptions and methods 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 assumptions used to assess the employer's contributions towards ESPS are based upon investment growth of 8.5 per cent per annum, pay growth of 6.0 per cent per annum and increases to pensions in payments and deferred pensions of 4.5 per cent per annum. The actuarial value of the assets was taken as 73.9 per cent of the market value of the assets as at 31 March 1998.

The group 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. In accordance with these unfunded arrangements, the group has made payments to former directors, including lump sum payments, of £231,388 in total in the year ended 31 March 2001 (2000 – £267,632). The total pension cost for the period was £6.7 million (2000 – £5.8 million; 1999 – £24.4 million). A prepayment of £22.2 million is included in the balance sheet at 31 March 2001 (2000 – £10.9 million). Information about the pension arrangements for executive directors is contained in the report on remuneration.

26 Lease commitments

Subsidiary undertakings are committed to making the following payments under operating leases:

	31 March 2002		31 March 2001	
	Land and buildings £m	Plant and machinery £m	Land and buildings £m	Plant and machinery £m
Leases which expire:				
Within one year	0.5	0.6	0.7	1.0
Between two and five years	1.9	4.2	1.3	2.8
After five years	4.3	–	2.8	–
	6.7	4.8	4.8	3.8

Minimum future lease payments under finance leases and minimum rental commitments under non-cancellable operating leases of property, plant and equipment at 31 March 2001 were as follows:

	Finance leases £m	Operating leases £m
2002	–	10.9
2003	–	8.4
2004	2.6	6.7
2005	4.6	3.4
2006	6.4	2.6
Thereafter	187.0	161.7
Total	200.6	193.7

27 Contingent liabilities

The company guaranteed certain loans and overdrafts of group undertakings up to a maximum amount of £572.9 million (2000 – £661.2 million), including £485.5 million (2000 – £514.8 million) relating to United Utilities Water Limited's loans from the European Investment Bank.

The company and certain of its subsidiary undertakings have entered into performance bonds in the ordinary course of business.

28 Net cash inflow from operating activities

	2001 £m	2000 £m	1999 £m
Group operating profit	503.7	661.4	657.0
Exceptional charges within operating profit	16.6	31.0	31.9
Operating profit before exceptional charges	520.3	692.4	688.9
Depreciation	316.5	267.8	226.9
Amortisation of goodwill	4.0	0.4	–
Loss/(profit) on disposal of tangible fixed assets	0.5	(0.7)	(2.8)
Stocks (increase)/decrease	(6.1)	(0.6)	1.7
Debtors (increase)/decrease	(65.8)	6.2	(33.7)
Creditors increase/(decrease)	73.9	(41.3)	(28.8)
Outflow related to exceptional items	(0.8)	(39.9)	(40.8)
	842.5	884.3	811.4

Notes to the accounts continued

29 Return on investments and servicing of finance

	2001 £m	2000 £m	1999 £m
Interest received	1.2	3.7	14.6
Interest paid on bank loans, overdrafts and other loans	(181.2)	(183.1)	(182.8)
Interest paid on finance leases	(10.1)	(12.2)	(13.5)
	(190.1)	(191.6)	(161.7)

30 Capital expenditure and financial investment

	2001 £m	2000 £m	1999 £m
Purchase of tangible fixed assets, net of grants and contributions	(593.7)	(660.9)	(661.6)
Sale of tangible fixed assets	32.2	6.9	11.1
Purchase of intangible fixed assets	(9.0)	–	–
Purchase of fixed asset investments	(6.6)	(5.3)	(5.9)
Sale of fixed asset investments other than joint ventures	3.4	22.3	7.1
	(573.7)	(637.0)	(649.3)

31 Acquisitions and disposals

	Acquisitions			Disposals		
	2001 £m	2000 £m	1999 £m	2001 £m	2000 £m	1999 £m
Fixed assets	(92.4)	(7.8)	(7.6)	120.0	–	–
Net current assets/liabilities	(3.7)	(0.6)	–	56.9	–	–
Provisions for liabilities and charges	0.1	–	–	(171.9)	–	–
Fair value of net assets acquired/book value of net assets disposed	(96.0)	(8.4)	(7.6)	5.0	–	–
Cost of disposal	–	–	–	15.3	–	–
Goodwill acquired/written back on disposal	(25.2)	(12.3)	–	101.0	–	–
Consideration of undertakings acquired	(121.2)	(20.7)	(7.6)	–	–	–
Profit on disposals	–	–	–	191.2	–	–
	(121.2)	(20.7)	(7.6)	312.5	–	–
Less:						
– Cash included in undertakings acquired/disposed	0.1	–	–	–	–	–
– Deferred consideration	4.0	–	–	–	–	0.8
Cash consideration	(117.1)	(20.7)	(7.6)	312.5	–	0.8
Comprising:						
– (Outflow)/inflow arising on:						
– current year's acquisitions/disposals	(115.7)	(20.7)	(7.6)	312.5	–	–
– previous year's acquisitions/disposals	(1.4)	–	–	–	–	0.8
	(117.1)	(20.7)	(7.6)	312.5	–	0.8

32 Management of liquid resources

	2001 £m	2000 £m	1999 £m
(Increase)/decrease in bank deposits and certificates of deposit	(328.7)	(3.1)	245.8

33 Financing

	Financing – shares			Financing – debt			Total £m
	Share capital £m	Share premium £m	Total £m	Loans £m	Short-term borrowings other than overdrafts £m	Finance leases £m	
At 1 April 1998	(544.8)	(633.8)	(1,178.6)	(1,298.4)	(922.0)	(205.6)	(3,604.6)
Exchange adjustments	–	–	–	(1.8)	–	–	(1.8)
Financing:							
– New finance	(1.6)	(8.3)	(9.9)	(789.9)	–	–	(799.8)
– Finance repaid	–	–	–	26.2	607.5	3.9	637.6
Cash flow	(1.6)	(8.3)	(9.9)	(763.7)	607.5	3.9	(162.2)
Shares issued in lieu of cash dividend	(3.5)	–	(3.5)	–	–	–	(3.5)
At 1 April 1999	(549.9)	(642.1)	(1,192.0)	(2,063.9)	(314.5)	(201.7)	(3,772.1)
Exchange adjustments	–	–	–	(0.1)	–	–	(0.1)
Financing:							
– New finance	(0.6)	(3.0)	(3.6)	(97.8)	(325.6)	–	(427.0)
– Finance repaid	–	–	–	107.3	–	1.6	108.9
Cash flow	(0.6)	(3.0)	(3.6)	9.5	(325.6)	1.6	(318.1)
At 1 April 2000	(550.5)	(645.1)	(1,195.6)	(2,054.5)	(640.1)	(200.1)	(4,090.3)
Exchange adjustments	–	–	–	(5.5)	0.2	–	(5.3)
Financing:							
– New finance	(2.4)	(11.5)	(13.9)	(763.8)	–	–	(777.7)
– Finance repaid	–	–	–	47.4	398.8	(0.5)	445.7
Cash flow	(2.4)	(11.5)	(13.9)	(716.4)	398.8	(0.5)	(332.0)
At 31 March 2001	(552.9)	(656.6)	(1,209.5)	(2,776.4)	(241.1)	(200.6)	(4,427.6)

		Repayment dates	Currency	Rate %	Amount £m
Loans repaid	European Investment Bank	various	£	various	29.3
	Local authority	30 September, 31 March	£	various	0.9
	US dollar loan	27 December	\$	floating	17.2
					47.4

Notes to the accounts continued

34 Analysis of net debt

	Cash	Loans			Financing – debt		Current asset investments	Net debt
	£m	Due after one year £m	Due within one year £m	Short-term borrowings other than overdrafts £m	Finance leases £m	Total £m	£m	£m
At 31 March 1998	(10.8)	(1,264.6)	(33.8)	(922.0)	(205.6)	(2,426.0)	296.2	(2,140.6)
Exchange adjustments	0.2	(1.8)	–	–	–	(1.8)	–	(1.6)
Cash flow	152.8	(789.9)	26.2	607.5	3.9	(152.3)	(245.8)	(245.3)
Other non-cash changes	–	99.7	(99.7)	–	–	–	–	–
At 31 March 1999	142.2	(1,956.6)	(107.3)	(314.5)	(201.7)	(2,580.1)	50.4	(2,387.5)
Exchange adjustments	–	(0.1)	–	–	–	(0.1)	–	(0.1)
Cash flow	(137.4)	(97.8)	107.3	(325.6)	1.6	(314.5)	3.1	(448.8)
Other non-cash changes	–	52.3	(52.3)	–	–	–	–	–
At 31 March 2000	4.8	(2,002.2)	(52.3)	(640.1)	(200.1)	(2,894.7)	53.5	(2,836.4)
Exchange adjustments	(0.9)	–	(5.5)	0.2	–	(5.3)	–	(6.2)
Cash flow	25.6	(638.5)	(77.9)	398.8	(0.5)	(318.1)	328.7	36.2
Other non-cash changes	–	–	–	–	–	–	–	–
At 31 March 2001	29.5	(2,640.7)	(135.7)	(241.1)	(200.6)	(3,218.1)	382.2	(2,806.4)

Cash and short-term borrowings

	Cash at bank	Short-term borrowings			Net total	Cash (at bank and overdrafts)
	£m	Overdrafts £m	Other £m	Total £m	£m	£m
At 31 March 1998	11.9	(22.7)	(922.0)	(944.7)	(932.8)	(10.8)
Exchange adjustments	0.2	–	–	–	0.2	0.2
Cash flow	152.7	0.1	607.5	607.6	760.3	152.8
At 31 March 1999	164.8	(22.6)	(314.5)	(337.1)	(172.3)	142.2
Cash flow	(134.3)	(3.1)	(325.6)	(328.7)	(463.0)	(137.4)
At 31 March 2000	30.5	(25.7)	(640.1)	(665.8)	(635.3)	4.8
Exchange adjustments	(0.9)	–	0.2	0.2	(0.7)	(0.9)
Cash flow	21.1	4.5	398.8	403.3	424.4	25.6
At 31 March 2001	50.7	(21.2)	(241.1)	(262.3)	(211.6)	29.5

35 Related party transactions

There were no material related party transactions during the year.

36 Summary of differences between UK and US generally accepted accounting principles

The group's consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United Kingdom (UK GAAP), which differ in certain respects from generally accepted accounting principles in the United States (US GAAP). Differences which have a significant effect on the consolidated net income and shareholders' equity of the group are set out below.

(a) Pensions

Under UK and US GAAP, pensions costs are determined on a systematic basis over the length of service of employees. US GAAP is more prescriptive in the application of the actuarial method, actuarial assumptions to be applied in the calculation of pensions costs and the allocation of costs to accounting periods.

(b) Telecommunications capacity sales

Your Communications owns a series of telecommunications networks. Where there is excess capacity it may sell this capacity to other telecommunications companies.

Under US GAAP capacity sales are required to be accounted for as operating leases unless title under the lease is transferred to the lessee. Under UK GAAP the transfer of title is only one of the factors taken into account when determining the accounting treatment.

(c) Infrastructure renewals costs

Under UK GAAP, 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 to fixed assets. Under US GAAP, only expenditure relating to increases in capacity or enhancement of the network is capitalised. This is then depreciated in accordance with paragraph (d) below.

Under UK GAAP, the charge to the profit and loss account for depreciation reflects the planned level of expenditure for infrastructure renewals. The charge is adjusted under US GAAP to reflect actual expenditure in the year.

(d) Depreciation of infrastructure assets

Under UK GAAP, 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. Under US GAAP, depreciation is charged on infrastructure assets in equal annual instalments over a period of 100 years, being the estimated economic life under US GAAP.

(e) Provisions

Generally, provision accounting under UK GAAP is substantially the same as under US GAAP.

Onerous contracts

Following the adoption of Financial Reporting Standard 12 in 2000, the onerous contract provision was restated under UK GAAP, as a prior period adjustment, to charge the discount element as a financing cost for the period 1996 to 1998. Under US GAAP no adjustment would have been made for the discount in this period. The onerous contract provision was released to the disposal account on the sale of the energy supply business in August 2000, see paragraph (h) below.

Restructuring

The restructuring provisions relate primarily to the cost of reorganising the group to generate future multi-utility cost savings, together with the remaining voluntary redundancy liabilities in respect of the initiatives undertaken in response to the regulatory reviews.

Other

Other provisions largely reflect liabilities in relation to discontinued activities.

(f) Capitalisation of interest

Under UK GAAP, the capitalisation of interest is not required. Under US GAAP, interest is required to be capitalised on qualifying assets during the time required to prepare them for their intended use. The capitalised interest should be amortised over the life of the asset.

(g) Goodwill

Under UK GAAP, goodwill arising on acquisitions after 1 April 1998 is treated in accordance with Financial Reporting Standard 10 and capitalised and amortised as it would be in accordance with US GAAP. Prior to that date, the goodwill arising on acquisition was and remains written off against retained earnings in the consolidated balance sheet in the year of acquisition. Under US GAAP, goodwill is capitalised on the balance sheet and amortised by charges against income over its estimated useful life, not to exceed 40 years. For US GAAP, goodwill is amortised over periods varying between 5 and 40 years.

Under UK GAAP, the profit or loss on disposal of all or part of a previously acquired business is calculated after taking account of the gross amount of any goodwill previously eliminated directly against reserves or any unamortised goodwill. Under US GAAP, an adjustment to profit or loss on disposal is required in respect of goodwill previously amortised.

(h) Profit on disposal of energy supply business

Under UK GAAP, goodwill attributable to the energy supply business of £101.0 million had been previously written off directly to reserves. On disposal this goodwill is included in the profit and loss account as a realised cost of disposal. Under US GAAP this goodwill is capitalised and amortised and the net goodwill of £89.2 million (after charging amortisation of £11.8 million) is treated as a cost of disposal.

As described in paragraph (e) the onerous contract provision is treated differently under US GAAP than under UK GAAP. Consequently, the provision released on the disposal of the energy supply business is £36 million lower under US GAAP than under UK GAAP.

(i) Deferred taxes

Under UK GAAP, deferred taxes are accounted for to the extent that it is considered probable that a liability or asset will crystallise in the foreseeable future. Under US GAAP, deferred taxes are accounted for on all timing differences and a valuation allowance is established in respect of those deferred tax assets where it is more likely than not that some portion will remain unrealised. Deferred tax also arises in relation to the tax effect of the other US GAAP adjustments.

Notes to the accounts continued

(j) Ordinary dividends

Under UK GAAP, the proposed dividends on ordinary shares, as recommended by the directors, are deducted from shareholders' equity and shown as a liability in the balance sheet at the end of the period to which they relate. Under US GAAP, such dividends are only deducted from shareholders' equity at the date of declaration of the dividend.

(k) Share compensation costs

The recognition of compensation expenses under UK GAAP in respect of the group's share option schemes is discussed in note 1. Under US GAAP, compensation cost has been recognised for all options including arrangements under the group's UK Sharesave Scheme. For all options that include performance-related criteria the cost is calculated as the difference between the option price and the market price at the end of the reporting period. In respect of the Sharesave Scheme, the cost is calculated as the difference between the option price and the market price at date of grant. The cost is amortised over the period from the date the options are granted to the date they are first exercisable, that is, the vesting date.

At 31 March 2001, the group had a number of share-based compensation plans, which are described in note 24 of the group's financial statements. The group recognises compensation costs for US GAAP purposes in accordance with the requirements of APB Opinion No. 25.

(l) Earnings per share (EPS)

Under UK GAAP, basic EPS is based on the weighted average number of ordinary shares outstanding during the period. EPS is the profit in pence attributable to each equity share, based on the profit for the financial year attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year and ranking for dividend in respect of the period. This method is also used for basic EPS under US GAAP. In the UK, it is acceptable to disclose an additional earnings per share provided that it is calculated on a consistent basis over time. The adjustment to profit and earnings per share has been made to eliminate the impact of exceptional items to disclose the underlying earnings of the group.

Under UK GAAP, diluted EPS must be disclosed. This is based on net income and computed using the weighted average number of shares in issue during the year and the dilutive effect of all share options and ordinary share equivalents. This method is similar to the treasury stock method used to calculate diluted EPS for US GAAP purposes.

Earnings per share computed in accordance with US GAAP has been based on the following number of shares:

	2001 million	2000 million	1999 million
Weighted average number of shares under US GAAP – basic EPS	551.1	550.2	547.2
Common stock equivalents – dilutive share options	1.2	2.8	3.3
Weighted average number of shares under US GAAP – diluted EPS	552.3	553.0	550.5

(m) Effect on net income of differences between UK and US GAAP

For the year ended 31 March	Note	2001 £m	2000 £m	1999 £m
Net income in accordance with UK GAAP		426.2	458.0	468.3
US GAAP adjustments:				
- Pension costs	36(a)	(4.0)	(5.0)	11.3
- Telecommunications capacity sales	36(b)	(4.1)	-	-
- Infrastructure renewals costs	36(c)	21.0	2.4	(20.5)
- Depreciation of infrastructure assets	36(d)	(21.3)	(19.9)	(18.2)
- Share compensation costs	36(k)	(4.8)	-	-
- Provisions and fair value adjustments	36(e)	(10.0)	4.0	(17.1)
- Capitalisation of interest	36(f)	44.0	46.3	57.9
- Amortisation of capitalised interest	36(f)	(8.4)	(7.5)	(6.5)
- Amortisation of goodwill	36(g)	(27.6)	(29.2)	(29.3)
- Profit on disposal of business	36(h)	(24.2)	-	-
- Deferred taxes	36(i)	(196.4)	(26.7)	(194.6)
- Tax effect of US GAAP adjustments	36(i)	7.4	(6.0)	10.6
Net income in accordance with US GAAP		197.8	416.4	261.9
Net income from continuing operations in accordance with US GAAP		72.6	372.8	232.7
Net income of discontinued operations in accordance with US GAAP		125.2	43.6	29.2

Net income per £1 ordinary share (pence)

in accordance with US GAAP basic method from:

Continuing operations		13.2	67.8	42.5
Discontinued operations		22.7	7.9	5.4
Total	36(f)	35.9	75.7	47.9

Net income per £1 ordinary share (pence)

in accordance with US GAAP diluted method from:

Continuing operations		13.1	67.4	42.3
Discontinued operations		22.7	7.9	5.3
Total	36(f)	35.8	75.3	47.6

(n) Cumulative effect on shareholders' equity of differences between UK and US GAAP

At 31 March	Note	2001 £m	2000 £m
Shareholders' equity in accordance with UK GAAP	24	2,829.6	2,517.4
US GAAP adjustments:			
- Pensions	36(a)	(35.9)	(31.9)
- Telecommunications capacity sales	36(b)	(4.1)	-
- Infrastructure renewals costs	36(c)	58.7	37.7
- Depreciation of infrastructure assets	36(d)	(166.8)	(145.5)
- Share compensation costs	36(k)	(4.8)	-
- Provisions and fair value adjustments	36(e)	-	46.0
- Capitalisation and amortisation of interest	36(f)	376.5	340.9
- Goodwill	36(g)	924.5	1,041.3
- Deferred taxes	36(i)	(1,005.7)	(809.3)
- Income taxes on US GAAP adjustments	36(i)	(67.0)	(74.4)
- Dividends	36(j)	172.0	167.9
Shareholders' equity in accordance with US GAAP		3,077.0	3,090.1

Notes to the accounts continued

(o) Classification differences between UK and US GAAP

Provisions for liabilities and charges

Provisions for liabilities and charges under UK GAAP include £19.5 million (2000 – £44.1 million) which are due within one year and which would be reclassified to current liabilities under US GAAP. The remainder of the provisions would be reclassified as long-term liabilities under US GAAP.

Grants

Under UK GAAP, grants (other than capital contributions towards infrastructure assets) are disclosed within deferred grants and contributions as creditors in the balance sheet. Under US GAAP, these amounts would be set against the assets to which they relate, and £249.0 million (2000 – £228.2 million) would be reclassified from long-term liabilities to tangible fixed assets.

Exceptional items

Under UK GAAP, profits on disposal of businesses may be disclosed as exceptional items, after operating profit.

Under US GAAP, all exceptional items would have been reflected within operating profit. In 2001, a profit of £167.0 million (2000 – profit of £nil; 1999 – profit of £nil) would have been included within discontinued operations.

Discontinued operations

Under UK GAAP, discontinued operations are presented within the financial statements by analysing the relevant line items.

US GAAP requires that net income/loss, net of tax, for a discontinued operation be presented on a single line in the income statement and that the net assets/liabilities of the discontinued operation be presented on a single line in the balance sheet for all periods presented.

(p) Cash flows

Under UK GAAP, the group complies with Financial Reporting Standard 1 (Revised) (Cash Flow Statements) (FRS 1), the objective and principles of which are similar to those set out in Statement of Financial Accounting Standards No. 95 (Statement of Cash Flows) (SFAS 95). The principal difference between the two standards is in respect of classification. Under FRS 1 (Revised), the group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) capital expenditure and financial investment; (e) acquisitions and disposals; (f) dividends to ordinary shareholders; (g) management of liquid resources; and (h) financing activities. SFAS 95 requires only three categories of cash flow activity (a) operating; (b) investing; and (c) financing.

Cash flows arising from taxation and returns on investments and servicing of finance under FRS 1 (Revised) would be included as operating activities under SFAS 95; dividend payments would be included as a financing activity under SFAS 95 and cash flows from capital expenditure, long-term investments, acquisitions and disposals would be included as investing activities under SFAS 95. In addition, under FRS 1 (Revised), cash represents cash at bank and in hand, less bank overdrafts; cash equivalents (ie liquid resources) are not included with cash. Movements of liquid resources are included under a separate heading. Under US GAAP, cash and cash equivalents are not offset by bank overdrafts repayable within 24 hours from the date of the advance. Such overdrafts are classified within financing activities under US GAAP.

Set out below is a summary consolidated statement of cash flows under US GAAP:

	2001 £m	2000 £m	1999 £m
Net cash provided by operating activities	650.7	655.4	401.1
Net cash used in investing activities	(378.3)	(657.7)	(656.1)
Net cash (used)/provided by financing activities	(251.3)	(132.0)	407.7
Effect of exchange rate changes on cash	(0.9)	–	0.2
Net increase/(decrease) in cash and cash equivalents	20.2	(134.3)	152.9
Cash and cash equivalents at beginning of year	30.5	164.8	11.9
Cash and cash equivalents at end of year	50.7	30.5	164.8

37 Additional US GAAP disclosures

(a) Tax on profit on ordinary activities

The tax charge for the year, under UK GAAP, is analysed between continuing and discontinued operations as follows:

	£m	£m	£m
Continuing operations	13.7	1.4	(12.0)
Discontinued operations – exceptional tax on disposal of businesses	45.0	–	–
	58.7	1.4	(12.0)

Profit on ordinary activities before taxation, as shown in the consolidated profit and loss account, is analysed over its component parts as follows:

	£m	£m	£m
Income before taxes on income:			
– United Kingdom	496.3	463.7	459.0
– Overseas	(11.4)	(4.3)	(3.1)
	484.9	459.4	455.9

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

	%	%	%
UK corporation tax rate	30.0	30.0	31.0
Deferred tax not provided on non-current assets	(14.8)	(30.5)	(5.6)
Deferred tax not provided on current assets	(7.4)	0.2	(37.1)
Movement in unprovided deferred tax arising from change in UK corporation tax rate	–	–	(5.1)
Movement in unprovided deferred tax arising from change in accounting policy	–	–	2.1
Adjustment in relation to the abolition of ACT	–	–	10.6
Other	4.3	0.6	1.5
Actual tax rate	12.1	0.3	(2.6)

An analysis of the deferred tax balance, under UK GAAP, is provided in note 21.

(b) Deferred tax

The components of the estimated net deferred tax liability that would be recognised under US GAAP are as follows:

	2001 £m	2000 £m
Deferred tax liabilities:		
– Accelerated tax allowances	1,176.9	1,013.4
Deferred tax assets:		
– Operating losses	(14.2)	(19.3)
– Short-term timing differences	(104.2)	(129.7)
	(118.4)	(149.0)
Less valuation allowance	14.2	19.3
	(104.2)	(129.7)
Net deferred tax liability	1,072.7	883.7
Of which all relates to the United Kingdom:		
– Current	(104.2)	(129.7)
– Non current	1,176.9	1,013.4
	1,072.7	883.7

Management consider that it is more likely than not that the results of future operations will generate sufficient taxable income to realise the net deferred tax assets.

Notes to the accounts continued

(c) Pension disclosures

The net periodic pension cost under Statement of Financial Accounting Standards No. 87 (Employers' Accounting for Pensions) (SFAS 87) and SFAS No. 132 (Employers' Disclosures about Pensions and Other Post-Retirement Benefits) (SFAS 132) is as follows:

	2001 £m	2000 £m	1999 £m
Service cost	36	37	33
Interest cost	88	80	91
Actual return on assets	94	(240)	(85)
Net amortisation and deferral	(221)	139	(20)
Net periodic pension cost	(3)	16	19
Termination benefits	12	7	5
Employer contributions	(20)	(18)	(28)
(Decrease)/increase in accrual	(11)	5	(4)

The assumptions used for the SFAS 87 and SFAS 132 calculations are as follows:

	2001 %	2000 %	1999 %
Discount rate	5.50	5.00	6.00
Salary growth	3.75	3.50	4.50
Long-term return on assets	7.00	6.50	7.50
Pension increases	2.75	2.50	3.00

The funded status of the plans under SFAS 87 and SFAS 132 is as follows:

	2001 £m	2000 £m
Vested benefit obligation	(1,572)	(1,556)
Accrued benefit obligation	(1,572)	(1,556)
Projected benefit obligation	(1,609)	(1,604)
Plan assets	1,832	1,985
Excess plan assets over projected benefit obligation	223	381
Unrecognised transition obligation	6	8
Unrecognised prior service cost	3	4
Other unrecognised gain	(247)	(419)
Accrued pension cost under US GAAP	(15)	(26)
Change in benefit obligations		
Benefit obligation at beginning of year	1,604	1,594
Employer service cost	36	37
Member contributions	11	10
Termination benefits	12	7
Interest cost	88	80
Actuarial loss	(52)	(62)
Benefits paid	(90)	(62)
Benefit obligation at end of year	1,609	1,604
Reconciliation of plan assets		
Fair value at beginning of year	1,985	1,779
Actual return on assets	(94)	240
Employer contributions	20	18
Member contributions	11	10
Benefits paid	(90)	(62)
Fair value at end of year	1,832	1,985

(d) Stock compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (Accounting for Stock-Based Compensation) (SFAS 123), which encouraged the use of a fair value-based method of accounting for compensation expense associated with stock options and similar plans. For US GAAP purposes, the company has elected to continue to use the intrinsic value-based method prescribed by Accounting Principles Board Opinion No. 25 (Accounting for

Stock Issued to Employees), as permitted by SFAS 123. SFAS 123 requires additional disclosures, including pro forma calculations of net earnings and earnings per share as if the fair value method of accounting prescribed by SFAS 123 had been applied in 2001, 2000 and 1999. The pro forma data presented below is not representative of the effects on reported amounts for future years, since SFAS 123 does not apply to awards prior to 1995 and additional awards are expected in the future.

	2001		2000		1999	
	As reported	Pro forma	As reported	Pro forma	As reported	Pro forma
Profit for the financial year (£ million)	426.2	420.3	458.0	452.3	468.3	464.9
Average shares outstanding (millions)	551.1	551.1	550.2	550.2	547.2	547.2
Earnings per share (pence)	77.3	76.3	83.2	82.2	85.6	84.9
Average fair values of grants during the year (£)	-	0.96	-	1.99	-	1.16
Black Scholes option pricing models assumptions:						
- Risk free interest rate	5.0%-5.6%		6.4%-6.7%		5.5%	
- Expected life (years)	3-10		3-10		3-10	
- Volatility	35%-40%		55%		33%	

The additional information required by paragraph 47(a) of SFAS 123 is set out below:

	2001		2000		1999	
	No (m)	Price (p)	No (m)	Price (p)	No (m)	Price (p)
Outstanding at beginning of year	16.9	547	13.7	561	13.5	514
Granted during the year	3.6	607	6.8	523	2.2	748
Exercised during the year	(2.2)	493	(1.4)	451	(1.5)	403
Forfeited or lapsed during the year	(2.0)	544	(2.2)	622	(0.5)	488
Outstanding at end of year	16.3	568	16.9	547	13.7	581
Exercisable at end of year	2.4	599	1.9	527	1.3	490

(e) Discontinued operations

Under US GAAP, discontinued profit before tax in the year ended 31 March 2001 was £183.8 million, including profit on disposal of businesses of £167.0 million. Tax on discontinued operations was £58.6 million.

(f) Statement of comprehensive income

The required disclosures under Statement of Financial Accounting Standards No. 130 (Reporting comprehensive income) (SFAS 130) have been made in the group's financial statements in the statement of total recognised gains and losses, the reconciliation of movements in equity shareholders' funds and note 24.

Notes to the accounts continued

(g) New US Accounting Standards and pronouncements not yet effective

Statement of Financial Accounting Standards No. 133 (SFAS 133) (Accounting for Derivative Instruments and Hedging Activities)

The company is required to adopt Statement of Financial Accounting Standard No. 133 (Accounting for Derivative Instruments and Hedging Activities) as amended by SFAS No. 138 for US GAAP reporting as of 1 April 2001. SFAS 133 and 138 establish accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives).

In accordance with SFAS No. 133, entities are required to carry all derivative instruments on the balance sheet at fair value. The accounting for movements in fair value of derivatives depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, the reason for holding it. If certain conditions are met, the company may elect to designate a derivative instrument as a hedge of exposures. If the hedged exposure is a fair value exposure, movements in fair value are recognised in earnings with the offsetting gain or loss on the hedged item attributable to the hedged risk. If the hedged exposure is a cashflow exposure, the effective portion of the movement in fair value of the derivative instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings at the time the forecasted transaction impacts

earnings. Amounts excluded from the assessment of hedge effectiveness as well as the ineffective portion of the movements in fair value of the derivative instrument are reported in earnings in the current period. Accounting for foreign currency hedges is similar to the accounting for fair value and cash flow hedges. If a derivative instrument is not designated as a hedge, movements in the fair value of the instrument are recognised in earnings.

The types of derivative the company has identified are described in note 23.

The company has elected not to designate any derivative instrument as a hedge of exposures from 1 April 2001. In accordance with SFAS 133, the derivative instruments are measured at fair value with future changes in the fair value of those contracts recorded through earnings.

The fair value of these derivative instruments of £37.2 million reflects assets of £216.4 million and liabilities of £179.2 million.

Under US GAAP, the cumulative adjustments required on 1 April 2001 to reflect the change of accounting policy would be a credit of £53.8 million to earnings (net of taxes of £23.0 million) and an allocation of £125.8 million deferred losses to other comprehensive income.

Of these deferred losses of £125.8 million included in other comprehensive income, £22.6 million is expected to be reclassified to earnings in the next 12 months.

Five year summary

	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m
Profit and loss accounts					
Group turnover	2,377	2,150	2,277	2,356	1,698
Net operating costs	(1,931)	(1,603)	(1,620)	(1,695)	(1,194)
Group operating profit	446	547	657	661	504
Share of operating profits of joint ventures and associated undertakings	23	6	2	4	10
(Loss)/profit on disposal of businesses	(77)	7	-	-	191
Net interest payable and other similar charges	(167)	(162)	(203)	(206)	(220)
Profit on ordinary activities before taxation	225	398	456	459	485
Tax (charge)/credit on profit on ordinary activities	(48)	(24)	12	(1)	(59)
Profit on ordinary activities after taxation	177	374	468	458	426
Exceptional taxation – windfall tax	-	(415)	-	-	-
	177	(41)	468	458	426
Minority interest	(1)	2	-	-	-
Profit/(loss) for financial year	176	(39)	468	458	426
Dividends	(195)	(229)	(243)	(249)	(255)
Retained (loss)/profit for the financial year	(19)	(268)	225	209	171
Balance sheets					
Fixed assets	4,906	5,439	5,913	6,302	6,594
Net current liabilities	(1,098)	(1,431)	(991)	(1,134)	(628)
Creditors falling due after more than one year	(1,235)	(1,682)	(2,376)	(2,434)	(3,093)
Provisions for liabilities and charges	(358)	(280)	(242)	(217)	(29)
Net assets	2,215	2,046	2,304	2,517	2,844
Equity share capital and share premium	1,152	1,179	1,192	1,195	1,210
Reserves and retained profits	1,062	868	1,113	1,322	1,620
Minority interest	1	(1)	(1)	-	14
Capital employed	2,215	2,046	2,304	2,517	2,844

Useful information for shareholders

Key events for shareholders during the year

The company is holding its 2001 annual general meeting on Friday, 27 July 2001 at the Bridgewater Hall, Manchester. It will start at 11.00 am. The notice calling the meeting and a full explanation of the resolutions to be proposed at the meeting are set out in the leaflet sent to shareholders with this report.

During the next year, the company will:

- pay the 2001 final dividend on 1 October 2001;
- announce the half-year results in November 2001;
- pay the 2002 interim dividend in February 2002;
- announce the preliminary full-year results in May 2002;
- publish the annual report and accounts, the annual review and summary financial statement, and form 20-F in June 2002; and
- hold the annual general meeting in July 2002.

Keeping you in the picture

You can find more information about United Utilities quickly and easily on the United Utilities web site. As well as the annual report and accounts, the social and environmental impact report and other reports, company announcements are also published on the web site, including the interim and preliminary results announcements and associated presentations.

 www.unitedutilities.com

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

American Depositary Receipt holders can get a copy of the annual report on form 20-F, which is filed with the Securities and Exchange Commission in the US, from the depositary (see 'Enquiring about the American listing' below). Other shareholders can get a copy from Jane Gilmore, Compliance Manager, at Dawson House, Great Sankey, Warrington WA5 3LW (telephone: 01925 237000; e-mail: jane.gilmore@uuplc.co.uk).

Copies of the separate regulatory accounts for the year ended 31 March 2001 for the licensed water and electricity distribution businesses, which have to be given to the water and energy regulators, are available free of charge. If you would like copies, please contact Jane Gilmore.

Enquiring about your shareholding

If you want to ask, or need any information, about your shareholding, please contact the company's registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA (telephone: 0870 600 3971, or textphone for shareholders with hearing difficulties: 0870 600 3950).

The registrar has also introduced a service to provide shareholders with on-line internet access to details of their shareholdings. The service is secure – data transferred to you is encrypted and you have a personal user ID and PIN; free – as long as you have a computer and access to the internet; and easy to use – you just need your user ID and PIN to log on.

To register for the service, please go to www.shareview.co.uk – you will need your shareholder account number (which can be found on the proxy form accompanying the notice of annual general meeting or your share certificate) and you will be asked to select your own PIN. A user ID will then be posted to you. You can also find on this web site more details of the service and practical help and extensive information on other share registration topics.

If you have received more than one copy of this annual report, you may have more than one account in your name on the register of members. To merge your holdings, please write to the registrar giving details of the accounts concerned and how you want them to be merged.

 www.shareview.co.uk

Communicating in alternative formats

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

Paying your dividends direct to your account

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

Dealing in United Utilities shares cost effectively

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

 www.natweststockbrokers.co.uk

Holding your shares tax efficiently

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

 www.halifax.co.uk/sharedealing

Donating shares to the ShareGift scheme

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

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

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

 www.sharegift.org

Enquiring about the American listing

United Utilities shares are listed on the New York Stock Exchange in the form of American depositary shares (ADS), evidenced by American depositary receipts (ADR) and trade under the symbol UU. Each ADS represents two shares. The Bank of New York is the depositary and its address for enquiries is The Bank of New York, Shareholder Relations, PO Box 11258, Church Street Station, New York NY 10286-1258 (telephone: 1 (888) BNY-ADRS (US toll free) and outside the US, 908-769-9835).

 www.adrbny.com

Avoiding unsolicited mail

The company is legally obliged to make its register of members available to other organisations. Because of this, you may receive mail you have not asked for. If you want to limit the amount of personally addressed unsolicited mail you receive, please write for information and an application form to the Mailing Preference Service, Freepost 22, London W1E 7EZ or ring 08457 034599.

 www.mpsonline.org.uk

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United Utilities PLC
Registered in England and Wales
Registered number 2366616
Registered office
Dawson House, Great Sankey
Warrington WA5 3LW

Telephone 01925 237000
Facsimile 01925 237073
www.unitedutilities.com