

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 customer relationships for its own and other businesses; and provides voice and data telecommunications services to the business customer market. The company announced in March its intention to sell the energy supply business. The principal subsidiary and associated undertakings are listed in note 13 to the accounts.

The Chairman's statement, the Chief Executive's review and the operational and financial reviews on pages 2 to 31 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 30.5 pence for each ordinary share for the year ended 31 March 2000, making a total for the year of 45.2 pence. Subject to shareholders approving this recommendation at the annual general meeting, the dividend will be paid on 2 October 2000 to shareholders on the share register at the close of business on 9 June 2000.

THE BUSINESS FOR THE ANNUAL GENERAL MEETING

Details of the resolutions to be proposed at the 2000 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 SUCCESS

The group's people are key to achieving the business strategy and enhancing shareholder value. Faced with the needs to reduce costs in the regulated businesses and improve customer service and standards, it is clear those businesses will need to reduce the number of employees. In areas of growth, the group will continue to recruit talented and committed people through open, fair procedures.

The group is committed to improving its people's 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.

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 company's new initiatives to encourage and help the group's people to hold shares include the multi-stock United Utilities ISA and enhanced access to independent financial advice, in addition to the employee sharesave scheme. The record take up of the offer in the year increased the percentage of employees in the sharesave scheme from 63 to 71 per cent. The directors are inviting shareholders to approve at the annual general meeting the adoption of a new all employee share ownership plan, which would increase the opportunity for employee share ownership.

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

FULFILLING SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES

The board understands the need to integrate economic, social and environmental factors in its decision-making. It seeks to manage the group's total impact on society as a responsible corporate citizen. Full details are set out in the company's new combined social and environmental impact report,

which is an important part, with the annual report, the annual review and the web site, of the company's integrated approach to reporting on the group's overall performance. Last year's reports all received independent recognition. The environment report was voted the best overall UK environment report of the year, and was runner up in the European awards. The social report was runner up in the first UK social reporting awards. The annual report received a new shareholder value award in the North West annual report awards.

The Business in the Environment 1999 survey of corporate environmental engagement introduced a new section on performance for FTSE 100 companies, in addition to the management parameters which formed the basis previously. United Utilities was placed 27th in the FTSE 100 ranking with a score of 82 per cent, compared with the FTSE 100 average of 73 per cent. Its sector score, based on the management parameters only, was 90 per cent, compared with the water sector average of 84 per cent.

Charitable donations by the group in the year amounted to £773,910 (1999 - £837,955). 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 the Public Policy Forum, chaired by the Chairman. Lord Taylor of Blackburn advises the group on its social policies, an arrangement he declares in the House of Lords' register of interests.

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 32 and 33. 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 39 to 44.

SUBSTANTIAL SHAREHOLDINGS IN THE COMPANY

At 26 May 2000, the company had been notified by Mercury Asset Management Ltd, Capital Group of Companies, Inc. and Prudential Corporation plc that they held interests in 9.94 per cent, 4.84 per cent and 3.45 per cent respectively of 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 51 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
5 June 2000

Good governance – contributing to shareholder value

THE BOARD'S FIRST RESPONSIBILITY

The board's first responsibility is to enhance the prosperity of the business over time: that is, to enhance the value of the shareholders' investment. Rules and regulations on their own cannot deliver prosperity – the company aims to achieve that through its strategy, people, teamwork, leadership, enterprise, experience and skills, relationships and the proper control of risk.

The board's policies, structure, composition and governing processes must reflect its first responsibility. Good corporate governance is, therefore, about more than complying with sets of prescriptive rules – it is a means, not an end. Good governance can and should make a positive contribution to the business and shareholder value, as well as preventing malpractice.

The directors are responsible for ensuring good governance and for accounting to shareholders. Part of that process is to describe the company's systems of corporate governance. This includes an explanation of how the company applies the principles of good governance and complies with the code of best practice provisions in section 1 of the combined code attached to the Listing Rules of the UK Listing Authority.



Good governance is a means not an end

THE DIRECTORS

The board – working effectively

The starting point must be the calibre of the people who make up the board. Properly informed directors of the right calibre, experience and expertise, bringing openness, thoroughness and objectivity to bear in carrying out their roles are critical to corporate success.

The board aims to maintain a balance of executive and non-executive directors and, through the selection process under the Nomination Committee, to bring a wide and diverse range of business experience and expertise to the board and to its discussions and decision-making.

Sir Peter Middleton (non-executive Chairman), John Roberts (Chief Executive), three other executive directors (Simon Batey, Group Finance Director, John Beckett, Managing Director, Norweb Energi, and Gordon Waters, Managing Director, United Utilities International) and four other non-executive directors (Norman Broadhurst, Sir Richard Evans, Jane Newell and John Seed) make up the board. The directors' biographical details are given on pages 32 and 33.

The board's key priorities are to determine the strategic direction of the group and to develop policy. It also regularly reviews the management and financial performance of the company and the operating businesses. It meets formally at least ten times each year, and receives full information in advance to help it discharge its duties.

The board acts in a way which allows all directors to bring their independent judgement to bear on issues of strategy, performance, resources, including

key appointments, and standards of conduct. The directors are all equally accountable under the law for the proper stewardship of the company's affairs.

The positions of Chairman and of Chief Executive are held by separate directors and the board has agreed clearly defined responsibilities for the roles. The Chairman is primarily responsible for the working of the board. The Chief Executive is responsible for running the company's business and for implementing board strategy and policy.

The non-executive directors have a critical role in corporate accountability. They have a particular responsibility for ensuring that the strategies and policies proposed by the executive team are fully discussed and examined. Together with the executive directors, they consider both shareholders' best long term interests and the interests of those who also contribute to corporate success, employees, customers, the communities the group serves and suppliers and business partners.

All the non-executive directors are independent of management and free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Sir Peter Middleton was Vice Chairman and the senior independent non-executive director until being appointed to act as Chairman, pending the appointment of a permanent successor to Sir Christopher Harding. The board has not nominated an alternative senior independent director for the intervening period.

The board has agreed a formal list of matters specifically reserved to it for decision. This includes business acquisitions and disposals, major capital expenditure and significant financing matters.

Delegating and working through committees

The board has agreed a formal structure of authorities for decision-making below board level to ensure the decision-making process does not, in itself, unnecessarily delay or prevent progress and that the range of decisions which need to be made are made most effectively. The board has put considerable responsibility on the boards of directors of the company's principal operating subsidiaries, including North West Water Limited, whose board includes two independent non-executive directors (Phillida Entwistle and Deborah Morton).

The board has formally delegated specific responsibilities to board committees, including the Approvals, Audit, Nomination, Remuneration and Treasury Committees. The roles of the Audit and Remuneration Committees are described on pages 37 and 38, and 39 respectively.

The Approvals Committee considers and approves expenditure and investment proposals within limits delegated by the board. Its members are the executive directors, the Group Planning Director and the Secretary.

The Nomination Committee considers and makes recommendations to the board on the composition, balance and membership of the board. Its members are the non-executive directors, including the Chairman (who is chairman of the Committee) and the Chief Executive, a majority being non-executive directors.

The Treasury Committee considers and approves borrowing, leasing, bonding and other banking facilities within limits delegated by the board. Its members are the Chairman, the Chief Executive, the Group Finance Director and any one other executive director together with, as may be required in certain circumstances, another non-executive director.

The Group Executive Committee is a management committee which meets monthly, prior to each board meeting, to discuss business and financial performance, strategy implementation and issues with a group-wide impact.

Good governance

Its members are the Chief Executive, the executive directors, the managing directors of the businesses, the group functional directors and the Secretary.

Taking advice

The board takes advice from its City advisers in formulating strategy and other appropriate areas of its work. The Audit, Nomination and Remuneration Committees are all authorised to, and do, take outside independent professional advice, and the Audit Committee has access to and meets regularly with the auditor (at least once a year in private).

The directors all have access to the advice and services of the Secretary, who is responsible to the board for ensuring that board and committee procedures are followed and that applicable rules and regulations are complied with.

The board has also agreed a formal procedure for directors to obtain independent professional advice in undertaking their duties should that be necessary, the cost of which would be met by the company.

Appointing and re-electing directors

All non-executive directors are appointed for specified terms (normally three years) subject to re-election and to Companies Act provisions relating to the removal of a director. Re-appointment is not automatic.

Under the company's articles of association, all directors must be elected by shareholders at the first opportunity after their initial appointment, and re-elected at the third annual general meeting following their appointment or re-appointment. The articles also include a process of 'rotation' of directors to ensure that, overall, one third of directors retire at each annual general meeting.

REMUNERATION

Applying good governance principles and practice

Shareholders are entitled to expect that remuneration will be sufficient to attract and keep the directors needed to run the company successfully, and that remuneration of executive directors should be linked with the company's performance.

In the separate report on remuneration (on pages 39 to 44), the board describes how the company applies the principles of good governance in remuneration policy and procedures, including the role and membership of the Remuneration Committee.

SHAREHOLDERS

Communicating and being accountable

The board is responsible for developing the relationships which will contribute to the company's success, including employees, customers, the communities the group serves and suppliers and business partners. But the board is also accountable to shareholders for the company's sustained success, and communicates with them regularly.

The interim report, the annual report and the annual review are the substantial means the board has of communicating during the year with all the company's shareholders. The annual report and annual review are sent to shareholders with the formal notice calling the annual general meeting. The leaflet which includes the notice also includes a full explanation of the resolutions to be proposed at the meeting and details of the arrangements for the meeting.

There are details for shareholders in the annual report and the annual review of how they can obtain further information about the group, its businesses and activities in other printed reports or, quickly and easily, from the United

Utilities web site. The annual report and annual review, with the new combined social and environmental impact report and the web site, are important parts of the company's integrated approach to reporting on the group's overall performance.

The Internet is rapidly increasing in importance, not only as a channel of communication but as a means of communicating very widely, quickly and cost-effectively. As well as reports, the company also publishes its interim and preliminary results announcements and other announcements on the web site, together with the presentations the company makes about them. This means the company can now make all this detail available quickly to far more of its shareholders, particularly individual shareholders, than has been the case in the past and would be the case without the Internet. The company is looking at how it can enhance further communications with shareholders and potential shareholders, using the internet. The company also uses its intranet extensively for communicating with employee shareholders.

The Chief Executive and the Group Finance Director meet regularly with the company's institutional shareholders to exchange views and information on strategy and performance and on the shareholders' investment objectives. During the year, they met with 84 institutional shareholders whose combined holdings represented 61.8 per cent of the company's issued share capital. The board regards these discussions as an important way of improving awareness of the business and of understanding investors' priorities.

Making constructive use of the annual general meeting

The annual general meeting is the major opportunity to meet individual shareholders. The directors meet and talk to them informally before and after the formal proceedings. The directors make presentations to them on the progress and performance of the business and encourage their participation through a question and answer session. Individual directors and, where appropriate, the chairman of the relevant committee (Audit, Nomination and Remuneration) respond to their questions during the formal proceedings.

The company sends the notice calling the meeting to shareholders at least 20 working days before the meeting. The directors propose separate resolutions at the meeting on each substantially separate issue, including the report and accounts. The company has always encouraged shareholders to vote their shares and, at the meeting, details of the level of proxies lodged on each resolution and the balance for and against the resolution are given, following a show of hands on that resolution.

ACCOUNTABILITY AND AUDIT

Reporting and reporting responsibilities

In presenting the annual and interim financial statements and similar significant publications, the directors aim to present a balanced and understandable assessment of the company's position and prospects.

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

The directors consider that, in preparing the financial statements, the group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. All accounting standards they consider applicable have been followed, subject to any departure and explanation described in the notes to the accounts.

The directors have a responsibility at law for ensuring that the company keeps accounting records which disclose, with reasonable accuracy at any

time, the company's financial position and which enable them to ensure the financial statements comply with the Companies Act 1985.

The directors have also a general responsibility at law for taking such steps as are reasonably open to them to safeguard the group's assets and to prevent and detect fraud and other irregularities.

The auditor's statement about its reporting responsibilities is set out on page 45.

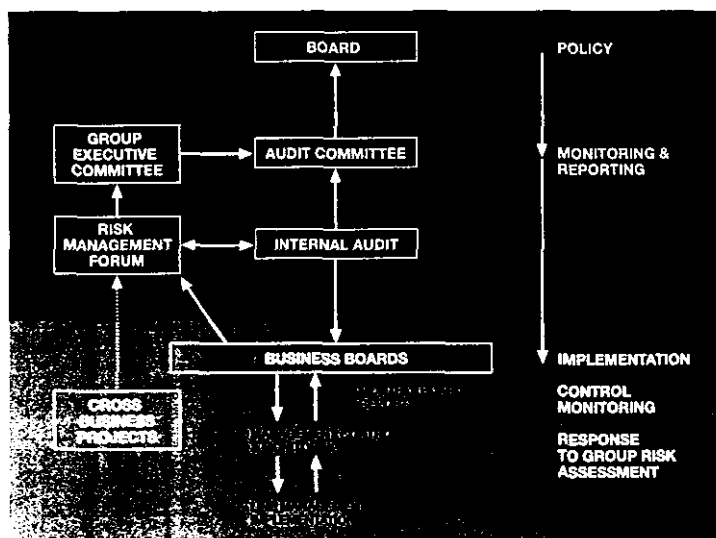
Reporting on going concern

After making enquiries, the directors are of the opinion that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing these financial statements.

Internal control system – evaluating and managing risk

A sound system of internal control contributes to safeguarding shareholders' investment and the company's assets. The board has overall responsibility for the group's system of internal control and for reviewing its effectiveness.

The board has adopted a risk-based approach in establishing the group's system of internal control and reviewing its effectiveness. This is embedded in normal management and governance processes. The board makes a thorough and regular evaluation of the nature and extent of the risks to which the group is exposed. The purpose is to help manage and control risk rather than to eliminate it, as profits are, in part, the reward for successful risk-taking.



Evaluating and managing risk

The directors recognise that no system can provide absolute assurance. But they consider that the internal control system is designed to provide reasonable assurance about the preparation of financial information and the safeguarding of assets and shareholder value, and to underpin the financial information received by the directors and by shareholders.

The Audit Committee, on the board's behalf, monitors the effectiveness of the internal control system, including financial, operational and compliance controls and risk management. It reports and makes recommendations to the board. In carrying out this responsibility, the Committee considers reports from the internal audit team and from management, which is accountable to the board for monitoring the system of internal control and providing assurance that it has done so.

A Risk Management Forum was established during the year. The Forum completes the group's co-ordinated management monitoring system. Chaired by the Group Finance Director, the Forum includes the Secretary, the Group Audit Manager and senior representatives from each of the businesses.

The key elements of internal control operating within the group and throughout the period covered by the financial statements are:

- *identifying and evaluating business risks:* the major financial, commercial, legal, regulatory and operating risks within the group are identified through annual reporting procedures. The internal audit team regularly reviews these risks to ensure they are being effectively managed and appropriately insured, and prepares an annual group risk assessment report. The team also undertakes regular reviews of the most significant areas of risk and ensures that key control objectives remain in place. The board considers significant risk areas, including those arising from the development of new activities;
- *monitoring systems and corrective action:* risk management is a regular item on the board meeting agendas and on those for the Audit Committee and the subsidiary and management boards. All operating units prepare self-certification risk management and internal control questionnaires which confirm compliance with required standards of risk management and internal control. This means business managers must consider their approach to the risks identified in the group risk assessment and confirm whether or not effective internal controls are in place to address key control objectives. The internal audit team reviews and substantively verifies the questionnaires, which are also reviewed by the external auditor as part of the annual statutory audit. Any corrective action which may be necessary is agreed and implemented. The internal audit team's responsibilities include, specifically, reviewing on the board's behalf (and reporting directly to the Audit Committee on) the group's internal controls and risk management procedures;
- *appraising investment:* the group's clear policies and procedures for capital expenditure include short and long term budgets, risk evaluation, detailed appraisal and review procedures and defined levels of authority;
- *control environment:* the group's culture and values are communicated through specific policies covering the quality, integrity and ethics of employees. The businesses operate within a framework of policies and procedures set out in organisation and authority manuals. Employees must comply with these policies and procedures as relevant to their functions and responsibilities and are accountable as such. Policies and procedures cover key issues such as authorisation levels, segregation of duties (wherever practicable), recording of data and physical security; and
- *information and financial reporting systems:* the group's comprehensive planning and financial reporting procedures include detailed operational budgets for the year ahead and projections for subsequent years. The board reviews and approves them. The board also reviews key performance indicators monthly to assess progress towards objectives. The board reports to shareholders half-yearly (the interim and the preliminary results) and announces other major events as they occur.

Having taken into account the transitional provisions of the Listing Rules on reviewing and reporting on the effectiveness of the company's internal controls, the directors are pleased to be able to confirm that, at 31 March 2000, they had established the procedures necessary to implement the guidance contained in 'Internal Control: Guidance for Directors on the Combined Code' published by the Institute of Chartered Accountants in England & Wales in September 1999 (known as the 'Turnbull guidance') such

Good governance

that the company will fully comply with it for the accounting period ending 31 March 2001. Similarly, the directors can also formally confirm, as required by the combined code, that they have conducted an annual review of the effectiveness of the company's system of internal control for the financial year ended 31 March 2000, covering all controls, including financial, operational and compliance controls and risk management.

The Audit Committee and the auditor

In addition to its responsibilities concerning the system of internal control, which have already been described, the Audit Committee reviews the internal and external audit activities, monitors compliance with statutory requirements for financial reporting, and reviews the half year and annual financial statements before they are submitted to the board for approval.

The Committee also keeps under review the scope and results of the audit, its cost effectiveness, the independence and objectivity of the auditor and the nature and extent of non-audit services supplied to the group by the auditor, seeking to balance the maintenance of objectivity and value for money.

The Committee's written terms of reference deal clearly with its authorities and duties. The members of the Committee are the non-executive directors, *including the Chairman, all of whom are independent. Norman Broadhurst is its chairman.*

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The directors are pleased to report that the company fully complied with the provisions of the combined code during the whole of the year under review, with two minor exceptions. First, a technical amendment was required to the company's articles of association (relating to the re-election of directors every three years). This amendment was approved by shareholders at the 1999 annual general meeting and became immediately effective. Secondly, the directors have not appointed an alternative senior independent director during the period Sir Peter Middleton is acting as Chairman. Sir Peter will resume that role when a new Chairman is appointed.

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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 aims and the arrangements for directors' remuneration, some changes which are being proposed to the incentive arrangements, and how the company applies the principles of good governance and complies with the provisions of the combined code. 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 throughout the group;
- 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 remuneration is to:

- pay a basic salary which competes with other companies of about the same size and complexity. The company 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 performance and avoid paying more than is necessary for achieving this objective.

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 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 outside the company.

The Committee's members are Norman Broadhurst, Sir Richard Evans, 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 Chief Executive 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 him. Similarly, the Chairman of the board is not a member of the Committee but may attend meetings and is consulted by the Committee on proposals relating to the remuneration of the Chief Executive.

The Chairman of the board ensures the company talks to its major shareholders about remuneration matters.

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 current incentive plan links a large part of executive directors' remuneration to the group's and individual performance. It brings together the short and long term interests of shareholders and executives.

FOCUSED INCENTIVE ARRANGEMENTS

To meet the challenges the group now faces, the incentive arrangements for executive directors and other senior executives have been reviewed. The proposed new arrangements will strengthen the link between executives' remuneration and the group's and individual performance and mean that variable or 'at risk' pay will be a larger part of executive directors' remuneration.

The new annual arrangements, which replace the short term incentive award element of the current incentive plan, will incentivise them to achieve the group's key operational and strategic objectives. Awards under the annual bonus arrangements will depend on performance measures which include measures related to the regulated businesses' performance against customer service standards. Awards can be up to 60 per cent of annual salary. At least 50 per cent of the value of a participant's annual bonus will be 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 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.

The board will be seeking shareholders' approval at the annual general meeting for a performance share plan to replace the long term incentive award element of the current incentive plan. Details are set out in the leaflet for shareholders dated 20 June 2000 which includes the notice calling the annual general meeting.

THE CURRENT REMUNERATION PACKAGE

The remuneration package currently 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.

Report on remuneration

Short term incentive awards

Short term incentive awards may be made each year to executive directors. Awards are based on the group's financial performance in the year, measured by the stretching performance targets the Committee has set. For 1999/2000, the Chief Executive's and the Group Finance Director's targets related to profit before exceptional items, interest and tax and profit before tax. The other executive directors had additional targets related to the profitability of their businesses. Certain minimum targets must be achieved before an award is made. Executives can earn up to 40 per cent of annual salary. 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.

Long term incentive awards

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 in the top half of a group. The maximum award will be paid if the company is in the upper quartile in both groups and has an annual TSR of at least 25 per cent. At that rate of return, a shareholder's investment would have doubled in value over the same period. 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.

Taxable benefits

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

Pension

In the section on pensions below, there is full information about directors' pension arrangements and entitlements.

Share options

The directors can join the employee sharesave scheme. They do not participate in the company share option scheme 1999. Full details of their share options (including options under the executive share option scheme 1989 granted before the current incentive plan was introduced) are set out below.

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.

John Roberts has a one-year notice period. Simon Batey has a two-year notice period reducing to one year after one year's service. John Beckett and Gordon Waters, who were appointed prior to the adoption of this policy, have two-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 the company's shares by offering employees the opportunity to build up a shareholding through the share option schemes. The board is inviting shareholders to approve at the annual general meeting the adoption of a new all employee share ownership plan, which would increase the opportunity for employee share ownership. In addition, the United Utilities ISA which the company has introduced, along with the United Utilities PEPs it replaced, is a means by which employees can hold their shares tax efficiently.

The company promotes greater ownership of shares by executive directors, and other executives who are participants in the incentive plan, by paying incentive awards in shares and expects them to build up and hold shares at least to the value of their annual salary. 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 the 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.

Following a review of the fees and benefits paid in similar companies, the annual fee paid to non-executive directors was increased to £30,000 (from £20,000 which was the amount paid since 1993). The additional fee of £1,000 each year for membership of a committee ceased. The chairmen of the Audit and Remuneration Committees continue to receive an additional £5,000 each year. The fees will not be reviewed again until 2002. Appropriate amounts are paid for additional and special responsibilities. Sir Peter receives £20,000 each year for his responsibilities as Vice 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 incentive plan, 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 paid in carrying out their duties as directors.

THE DIRECTORS' EMOLUMENTS

Emoluments comprise salaries, fees, taxable benefits and the value of short term incentive awards. The directors' aggregate emoluments in the year ended 31 March 2000 were £1.776 million (1999 – £1.562 million). Individual emoluments for the financial year were:

	Salary/ Fees		Short term incentive award		Taxable benefits		Total	
	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000	2000 £'000	1999 £'000
John Roberts	175.0	–	69.8	–	12.7	–	257.5	–
John Beckett	187.7	178.8	75.9	74.0	27.9	17.9	291.5	270.7
Gordon Waters	175.8	170.6	40.1	56.8	13.9	12.6	229.8	240.0
Bob Ferguson	208.9	202.8	84.4	82.3	16.2	15.5	309.5	300.6
Derek Green	265.6	311.7	107.9	128.0	19.1	21.5	392.6	461.2
Sir Peter Middleton	49.3	41.0	–	–	–	–	49.3	41.0
Norman Broadhurst	32.5	–	–	–	–	–	32.5	–
Sir Richard Evans	29.2	20.0	–	–	–	–	29.2	20.0
Jane Newell	44.3	37.0	–	–	–	–	44.3	37.0
John Seed	34.3	27.0	–	–	–	–	34.3	27.0
Eric Clark	9.4	23.0	–	–	–	–	9.4	23.0
Sir Christopher Harding	75.0	100.0	–	–	10.3	14.1	85.3	114.1
Rodney Leach	11.0	27.0	–	–	–	–	11.0	27.0

Notes:

Norman Broadhurst and John Roberts became directors on 1 April 1999 and 1 September 1999 respectively. Simon Batey became a director on 1 April 2000. Eric Clark and Rodney Leach retired as directors on 30 July 1999 and Derek Green on 26 January 2000. Bob Ferguson retired as a director on 31 March 2000 and from the company on 30 April 2000. Sir Christopher Harding died on 13 December 1999. Following his death, the company made a payment of £40,000 to Lady Harding in lieu of death in service benefit.

The short term incentive awards are normally made by the allocation of shares in the company on a contingent basis and ownership of those shares only normally transfers to the director after a further period of two years. The awards for the year ended 31 March 2000 for Derek Green and Bob Ferguson, who have retired, will be paid in cash.

The highest paid director in the year ended 31 March 2000 was Derek Green.

CHANGES IN ANNUAL SALARIES

Following its yearly review in 1999, the Committee agreed the following changes to salaries:

	1 September 1999 £	1 September 1998 £
John Beckett	189,700	185,000
Gordon Waters	177,600	173,200
Bob Ferguson	211,000	205,850
Derek Green	328,000	320,000

Notes:

On becoming directors, John Roberts' and Simon Batey's annual salaries were £300,000 and £260,000 respectively. As part of his recruitment package, Simon Batey also received a one-off payment of £75,000 to compensate him for loss of payments due to him under his previous company's incentive award scheme.

Report on remuneration

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 1999		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 2000	
		No.	Value £'000	Aggregate value £'000	Cash £'000	Contingent interest in shares			No.	Value £'000	No.	Value £'000
						No.	Value £'000					
John Beckett	1997	11,089	82.1	-	-	-	-	-	11,089	81.8	-	-
	1998	8,244	61.0	-	-	-	-	787	9,031	59.3	-	-
	1999	-	-	74.0	-	74.0	9,987	741	-	-	10,728	70.0
Gordon Waters	1998	8,099	59.9	-	-	-	-	774	8,873	58.3	-	-
	1999	-	-	56.8	-	56.8	7,667	569	-	-	8,236	58.8
Bob Ferguson	1998	9,626	71.2	-	-	-	-	920	10,546	69.3	-	-
	1999	-	-	82.3	-	82.3	11,113	824	-	-	11,937	78.0
Derek Green	1997	7,066	52.3	-	-	-	-	-	7,066	52.1	-	-
	1998	14,549	107.7	-	-	-	-	969	-	-	-	-
	1999	-	-	128.0	128.0	-	-	-	-	-	-	-

Notes:

The value of the contingent interest in shares on 31 March 1999 is based on the mid market price of a share on that day of 740.0 pence. 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 shares relating to their 1998 awards were transferred to John Beckett, Bob Ferguson and Gordon Waters on 31 March 2000. The value of those awards is based on the price of a share on that day of 657.0 pence.

The shares relating to the 1999 award will normally transfer at the end of March 2001.

As he retired on 26 January 2000, Derek Green received the market value (£99,393) of his contingent interest in the 15,518 shares relating to his 1998 award based on the price of a share on that day of 640.5 pence. His 1999 award was paid in cash. Similarly, Bob Ferguson, who retired on 30 April 2000, received the market value (£75,084) of his contingent interest in the 11,937 shares relating to his 1999 award based on the price of a share on 2 May 2000 (the first business day after his retirement) of 629.0 pence.

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

Short term awards will shortly be made in respect of 2000 as follows:

	Value £'000	Contingent interest in shares
John Roberts	69.8	10,470
John Beckett	75.9	11,370
Gordon Waters	40.1	6,000
Bob Ferguson	84.4	-
Derek Green	107.9	-

Notes:

The trustee of the United Utilities Employee Share Trust will allocate shares to executive directors equal to the value of their short term incentive awards. The number of shares allocated will be based on a share price of 667.0 pence. This is the average of the mid market prices of a share over the 30 business days starting 15 business days before 31 March 2000.

Ownership of the shares will normally transfer to the executive at the end of March 2002.

The awards for Derek Green and Bob Ferguson, who have retired, will be paid in cash.

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 1999		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 2000		
		No.	Value £'000	Aggregate value £'000	Cash £'000	Contingent interest in shares Value £'000		No.	Value £'000	No.	Value £'000	
												No.
John Beckett	1998	5,325	39.4	-	-	-	-	394	5,719	37.6	-	-
	1999	-	-	33.3	11.1	22.2	2,996	222	-	-	3,218	21.1
Gordon Waters	1998	3,875	28.7	-	-	-	-	287	4,162	27.3	-	-
	1999	-	-	31.2	10.4	20.8	2,805	207	-	-	3,012	19.7
Bob Ferguson	1998	6,217	46.0	-	-	-	-	460	6,677	43.9	-	-
	1999	-	-	37.1	12.4	24.7	3,334	246	-	-	3,580	23.4
Derek Green	1998	8,382	62.0	-	-	-	-	383	-	-	-	-
	1999	-	-	72.0	72.0	-	-	-	-	-	-	-

Notes:

The value of the contingent interest in shares on 31 March 1999 is based on the mid market price of a share of 740.0 pence on that date. The value of the contingent interest in shares on 31 March 2000 is based on the mid market price of a share of 655.0 pence on that date.

The shares relating to their 1998 awards were transferred to John Beckett, Bob Ferguson and Gordon Waters on 31 March 2000. The value of the awards is based on the price of a share on that date of 657.0 pence.

The shares relating to the 1999 awards will normally transfer at the end of March 2001.

As he retired on 26 January 2000, Derek Green received the market value (£56,140) of his contingent interest in the 8,765 shares relating to his 1998 award based on the price of a share on that day of 640.5 pence. His 1999 award was paid in cash. Similarly, Bob Ferguson, who retired on 30 April 2000, received the market value (£22,518) of his contingent interest in the 3,580 shares relating to his 1999 award based on the price of a share on 2 May 2000 (the first business day after his retirement) of 629.0 pence.

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

No long term incentive awards will be made in respect of 2000 as the company's TSR performance ranked it below the median in each of the two comparator groups of companies.

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:

	2000			1999 or on appointment		
	Share options			Share options		
	Ordinary shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	Executive option scheme	Employee sharesave scheme
John Roberts	3,000	-	3,579	-	-	-
John Beckett	22,516	41,112	3,586	2,593	41,112	3,586
Gordon Waters	8,958	-	3,623	1,152	-	3,623
Bob Ferguson	33,167	65,374	1,449	25,295	65,374	4,005
Norman Broadhurst	91	-	-	91	-	-
Sir Richard Evans	245	-	-	245	-	-
Sir Peter Middleton	4,574	-	-	4,574	-	-
Jane Newell	3,153	-	-	3,153	-	-
John Seed	3,981	-	-	3,917	-	-

Report on remuneration

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

	Share options at 31 March 1999 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 of exercise
Employee sharesave scheme							
John Roberts	–	3,579	471.5p	1/3/2005	31/8/2005	–	–
John Beckett	3,586	–	481.0p	2/2/2001	1/8/2001	–	–
Gordon Waters	3,623	–	476.0p	2/2/2002	1/8/2002	–	–
Bob Ferguson	2,556	–	404.8p	2/3/2000	1/9/2000	2,556	649.5
	1,449	–	476.0p	2/2/2002	1/8/2002	–	–
Executive option scheme							
John Beckett	28,362	–	408.2p	15/12/1999	15/12/2004	–	–
	12,750	–	584.5p	20/12/1998	20/12/2005	–	–
Bob Ferguson	6,008	–	394.2p	6/1/1998	6/1/2003	–	–
	19,382	–	566.9p	20/1/1997	20/1/2004	–	–
	6,460	–	482.2p	20/1/1999	20/1/2004	–	–
	17,831	–	479.8p	15/12/1997	15/12/2004	–	–
	5,943	–	408.2p	15/12/1999	15/12/2004	–	–
	9,750	–	584.5p	20/12/1998	20/12/2005	–	–

Notes:

The mid market price of a share on 31 March 2000 was 655.0 pence and the range in the year was 482.5 pence to 876.0 pence. None of the options shown above lapsed during the year.

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 £6,253.51 (1999 – £213,593.48). The whole of this aggregate notional gain relates to the options granted to Bob Ferguson (1999 – nil).

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 (47,188 shares at 31 March 2000) and in the shares held by United Utilities QUEST Trustee Limited as trustee of the United Utilities Qualifying Employee Share Ownership Trust (876,503 shares at 31 March 2000). As at 26 May 2000, United Utilities Employee Share Trust Limited held 47,188 shares and United Utilities QUEST Trustee Limited held 665,898 shares.

Except as described above, none of the directors had any interest in any share capital of any 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 26 May 2000, 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 which can be paid by the scheme to directors who joined the company after 1 June 1989 because the earnings cap limits pensionable earnings for calculating benefits. The company has put in place separate arrangements the effect of which is to provide for them the same pension benefits as those for executives whose pension benefits are not limited by the cap. These arrangements are unfunded. In accordance with these separate unfunded arrangements, the company has made payments, including lump sum payments, of £267,632 in total in the year ended 31 March 2000 (1999 – £48,081). All the current executive directors joined the company after 1 June 1989.

Although pension benefits are normally calculated on basic salary only, to protect their contractual entitlements, the calculations are adjusted for John Beckett and Gordon Waters, whose annual bonuses had been pensionable before the current incentive plan was introduced. This also applied to Bob Ferguson and Derek Green.

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	5.8	84.2	5.8
John Beckett	9.4	131.6	88.5
Gordon Waters	8.0	109.5	31.0
Bob Ferguson	7.2	110.9	173.0
Derek Green	14.7	273.4	109.1

Notes:

The accumulated total accrued pension at year end is the amount which would be paid annually at age 60 on retirement based on service to 31 March 2000, except for Derek Green for whom it is the total accrued pension paid at the date of his retirement.

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 1999 in respect of the highest paid director (Derek Green) was £92,800.

THE DIRECTORS STANDING FOR RE-ELECTION

Simon Batey, Jane Newell, John Roberts and Gordon Waters are standing, and are recommended by the board for re-election, at the 2000 annual general meeting. As a non-executive director, Jane Newell does not have a contract of service. The company can terminate John Roberts' contract by giving him one year's notice and Gordon Waters' by giving him two years' notice. The company can terminate Simon Batey's contract by giving him two years' notice, reducing to one year's notice in April 2001.

Auditor's report

AUDITOR'S REPORT TO THE MEMBERS OF UNITED UTILITIES PLC

We have audited the financial statements on pages 46 to 81.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the annual report and form 20-F. As described on page 36 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, the United States Securities and Exchange Commission, 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 38 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the UK Listing 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 2000 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 2000 and 1999 and the results of its operations and its cash flows for each of the three-year periods ended 31 March 2000 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 2000 and consolidated shareholders' equity at 31 March 2000 and 1999, to the extent summarised in note 36 to the consolidated financial statements.

KPMG Audit Plc

Chartered Accountants
Registered Auditor
Manchester
5 June 2000



Consolidated profit and loss account

	Note	Continuing operations			Continuing operations			Continuing operations		Discontinued operations	1999 total £m
		Before exceptional items £m	Exceptional items £m	2000 Total £m	Before exceptional items £m	Exceptional items £m	1999 Total £m	Before exceptional items £m	Exceptional items £m	£m	
For the year ended 31 March 2000											
Turnover: group and share of joint ventures		2,425.9	-	2,425.9	2,350.1	-	2,350.1	2,227.7	-	-	2,227.7
Less: share of joint venture turnover		(69.6)	-	(69.6)	(73.2)	-	(73.2)	(77.5)	-	-	(77.7)
Group turnover	2	2,356.3	-	2,356.3	2,276.9	-	2,276.9	2,150.2	-	-	2,150.2
Net operating costs	3	(1,663.9)	(31.0)	(1,694.9)	(1,588.0)	(31.9)	(1,619.9)	(1,559.4)	(43.6)	-	(1,603.0)
Group operating profit		692.4	(31.0)	661.4	688.9	(31.9)	657.0	590.8	(43.6)	-	547.2
Share of operating profits of joint ventures	2, 13	4.0	-	4.0	2.1	-	2.1	6.3	-	-	6.3
Share of operating losses of associated undertakings	2, 13	-	-	-	-	-	-	(0.1)	-	-	(0.1)
Profit before non-operating items, interest and tax	2	696.4	(31.0)	665.4	691.0	(31.9)	659.1	597.0	(43.6)	-	553.4
Profit on disposal of businesses	4	-	-	-	-	-	-	-	-	6.8	6.8
Profit on ordinary activities before interest		696.4	(31.0)	665.4	691.0	(31.9)	659.1	597.0	(43.6)	6.8	560.2
Net interest payable and similar charges:											
Group	7			(196.1)			(194.4)				(155.0)
Joint ventures	7, 13			(9.9)			(8.8)				(7.1)
	7			(206.0)			(203.2)				(162.1)
Profit on ordinary activities before taxation				459.4			455.9				397.1
Taxation on profit on ordinary activities	8			(1.4)			12.0				(24.0)
Profit on ordinary activities after taxation				458.0			467.9				373.1
Exceptional taxation – windfall tax				-			-				(41.0)
				458.0			467.9				(41.0)
Minority interest				-			0.4				1.0
Profit/(Loss) for the financial year				458.0			468.3				(39.0)
Dividends	9			(248.8)			(243.6)				(228.0)
Retained profit/(loss) for the financial year	24			209.2			224.7				(268.0)
Earnings/(Loss) per share	10			83.2p			85.6p				(7.4)p
Adjusted earnings per share	10			88.9p			91.4p				77.1p
Diluted earnings/(loss) per share	10			82.7p			84.5p				(7.3)p
Adjusted diluted earnings per share	10			88.3p			90.3p				76.2p

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.

Balance sheets

At 31 March 2000	Note	Group		Company	
		2000 £m	1999 £m	2000 £m	1999 £m
Fixed assets					
Intangible assets	11	11.9	-	-	-
Tangible assets	12	6,190.6	5,797.1	5.5	6.1
Investments in subsidiary undertakings	13	-	-	3,443.3	3,367.1
Investments in joint ventures:					
- share of gross assets		297.1	243.3	-	-
- share of gross liabilities		(231.1)	(176.9)	-	-
	13	66.0	66.4	-	-
Other investments including associated undertakings	13	33.7	49.7	4.3	4.4
		6,302.2	5,913.2	3,453.1	3,377.6
Current assets					
Stocks	14	12.5	11.9	-	-
Debtors	15	486.6	474.4	977.3	1,103.3
Investments	16	64.2	73.6	11.9	20.0
Cash at bank and in hand		30.5	164.8	-	124.0
		593.8	724.7	989.2	1,247.3
Creditors: amounts falling due within one year	17	(1,727.5)	(1,715.8)	(779.3)	(999.8)
Net current (liabilities)/assets		(1,133.7)	(991.1)	209.9	247.5
Total assets less current liabilities		5,168.5	4,922.1	3,663.0	3,625.1
Creditors: amounts falling due after more than one year	18	(2,434.3)	(2,376.5)	(815.7)	(815.7)
Provisions for liabilities and charges	20	(216.8)	(242.1)	(6.6)	(6.6)
Net assets		2,517.4	2,303.5	2,840.7	2,802.8
Capital and reserves					
Called up share capital	24	550.5	549.9	550.5	549.9
Share premium account	24	645.1	642.1	645.1	642.1
Profit and loss account	24	1,321.8	1,113.1	1,645.1	1,610.8
Equity shareholders' funds		2,517.4	2,305.1	2,840.7	2,802.8
Minority interest		-	(1.6)	-	-
Capital employed		2,517.4	2,303.5	2,840.7	2,802.8

See accompanying notes to the accounts.

Approved by the board of directors on 5 June 2000 and signed on its behalf by


Sir Peter Middleton

Chairman


Simon Batey

Group Finance Director

Consolidated cash flow statement

For the year ended 31 March 2000	Note	2000 £m	1999 £m	1998 £m
Net cash inflow from operating activities	28	884.3	811.4	684.7
Returns on investments and servicing of finance	29	(191.6)	(161.7)	(137.0)
Taxation		(37.3)	(248.6)	(236.0)
Capital expenditure and financial investment	30	(637.0)	(649.3)	(696.0)
Acquisitions and disposals				
Acquisitions	31	(20.7)	(7.6)	(53.0)
Disposals	31	-	0.8	29.0
		(20.7)	(6.8)	(24.0)
Equity dividends paid		(450.1)	(0.2)	(114.0)
Cash outflow before use of liquid resources and financing		(452.4)	(255.2)	(524.0)
Management of liquid resources	32	(3.1)	245.8	1.0
Financing				
Issues of shares	33	3.6	9.9	9.0
Increase in debt	33, 34	314.5	152.3	509.0
		318.1	162.2	518.0
(Decrease)/Increase in cash		(137.4)	152.8	(4.0)

Reconciliation of net cash flow to movement in net debt

For the year ended 31 March 2000	Note	2000 £m	1999 £m	1998 £m
(Decrease)/Increase in cash		(137.4)	152.8	(4.0)
Cash inflow from increase in debt and lease financing		(314.5)	(152.3)	(509.0)
Cash outflow/(inflow) from management of liquid resources		3.1	(245.8)	(1.0)
Change in net debt resulting from cash flows		(448.8)	(245.3)	(515.0)
Exchange adjustments		(0.1)	(1.6)	1.0
Movement in net debt		(448.9)	(246.9)	(513.0)
Opening net debt		(2,387.5)	(2,140.6)	(1,627.0)
Net debt at 31 March	34	(2,836.4)	(2,387.5)	(2,140.0)

See accompanying notes to the accounts.

Statements of total recognised gains and losses

For the year ended 31 March 2000	Group			Company	
	2000 £m	1999 £m	1998 £m	2000 £m	1999 £m
Profit/(Loss) for financial year:					
Group	465.7	475.4	(37.0)	283.1	496.1
Joint ventures	(7.7)	(7.1)	(2.4)	-	-
Associated undertakings	-	-	(0.1)	-	-
	458.0	468.3	(39.5)	283.1	496.1
Exchange adjustments	(0.5)	(3.9)	3.9	-	-
Total recognised gains and losses for the financial year	457.5	464.4	(35.6)	283.1	496.1
Prior year adjustment	-	1.4			
Total gains and losses recognised since last annual report	457.5	465.8			

Reconciliations of movements in equity shareholders' funds

For the year ended 31 March 2000	Note	Group			Company	
		2000 £m	1999 £m	1998 £m	2000 £m	1999 £m
Profit/(Loss) for financial year		458.0	468.3	(39.5)	283.1	496.1
Dividends	9	(248.8)	(243.6)	(228.8)	(248.8)	(243.6)
Retained profit/(loss) for the financial year		209.2	224.7	(268.3)	34.3	252.5
Adjustment in respect of shares issued in lieu of cash dividends	24	-	28.0	76.1	-	28.0
New share capital issued	24	3.6	13.4	27.0	3.6	13.4
Capitalisation of reserves in respect of shares issued via QUEST	24	-	(4.0)	(4.7)	-	-
Exchange adjustments	24	(0.5)	(3.9)	3.9	-	-
Net increase/(decrease) in equity shareholders' funds for the year		212.3	258.2	(166.0)	37.9	293.9
Opening equity shareholders' funds		2,305.1	2,046.9	2,212.9	2,802.8	2,508.9
Equity shareholders' funds at 31 March		2,517.4	2,305.1	2,046.9	2,840.7	2,802.8

See accompanying notes to the accounts.

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 46 to 74 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 given 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
Pre-1974 assets of North West Water Limited	25-27 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.

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 the depreciation of fixed assets.

(p) Associated undertakings

The appropriate share of the results of associated undertakings is recognised in the consolidated profit and loss account where the directors consider that the group is in a position to exert significant influence over the associated undertaking. Such influence normally is presumed to exist for investments in undertakings in which the group's direct ownership or indirect ownership is between 20 per cent and 50 per cent.

(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.

Notes to the accounts

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 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

During 1999, the company's savings related share option scheme and executive share option scheme, which had been adopted in 1989, expired. At last year's annual general meeting shareholders approved new schemes known as the United Utilities PLC savings related share option scheme 1999 (the employee sharesave scheme) and the United Utilities PLC company share option scheme 1999 to replace the expiring schemes. The rules of the new schemes are substantially the same as the former schemes.

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. No compensation expense is recorded for the difference 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.

(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.

2 SEGMENTAL INFORMATION

Group 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	Group turnover			Profit before non-operating items, interest and tax			Net operating assets		
		2000 £m	1999 £m	1998 £m	2000 £m	1999 £m	1998 £m	2000 £m	1999 £m	1998 £m
Continuing businesses:										
Water and wastewater		1,024.2	960.1	905.3	459.7	447.9	382.2	4,554.2	4,230.3	3,910.2
Electricity distribution		346.0	357.2	342.7	147.2	157.5	154.5	1,321.9	1,219.3	1,170.0
Energy supply		1,097.2	1,159.1	1,120.9	76.2	55.4	26.2	43.9	67.3	73.5
Telecommunications		79.1	49.7	23.4	(16.3)	(5.5)	0.2	86.2	64.8	43.3
Business process outsourcing		183.0	162.9	193.8	12.5	11.6	28.6	27.2	46.2	(1.2)
International operations		9.3	7.5	7.7	8.0	5.1	(5.1)	20.3	17.1	14.3
Other activities		59.2	52.4	64.5	9.1	19.0	10.4	(63.6)	(68.4)	(55.7)
		2,798.0	2,748.9	2,658.3	696.4	691.0	597.0	5,990.1	5,576.6	5,154.4
Inter-business eliminations	(2)	(441.7)	(472.0)	(508.1)	-	-	-	-	-	-
		2,356.3	2,276.9	2,150.2	696.4	691.0	597.0	5,990.1	5,576.6	5,154.4
Business restructuring	(5)	-	-	-	(21.5)	-	(43.6)	-	-	-
Exceptional Year 2000 write-off	(5)	-	-	-	(9.5)	(31.9)	-	-	-	-
		2,356.3	2,276.9	2,150.2	665.4	659.1	553.4	5,990.1	5,576.6	5,154.4
By geographical origin:										
	(3)									
United Kingdom		2,347.4	2,269.4	2,120.0	654.4	651.7	546.2	5,977.5	5,563.7	5,147.1
Europe		0.2	0.3	0.4	0.1	-	-	-	-	-
The Americas		2.4	1.2	1.0	5.7	4.3	4.6	12.1	5.9	0.2
Rest of the world		6.3	6.0	28.8	5.2	3.1	2.6	0.5	7.0	7.1
		2,356.3	2,276.9	2,150.2	665.4	659.1	553.4	5,990.1	5,576.6	5,154.4

The major activities of each class of business are as follows:

Business	Activity
Water and wastewater	Provision of water and wastewater services to customer premises in North West England.
Electricity distribution	Maintenance of a distribution network to deliver electricity from power stations and the National Grid to customer premises in North West England.
Energy supply	Supply of electricity and gas to customer premises throughout the UK.
Telecommunications	Provision of voice and data telecommunications services to the business community throughout the UK.
Business process outsourcing	Provision of a wide range of business process outsourcing services to group businesses and other organisations.
International operations	Development and operation of contracts based on the group's core water and electricity asset management skills.
Other activities	Includes insurance companies, Norweb Contracting business, property and other miscellaneous non-regulated businesses.

The accounting policies for each segment are the same as those appearing on pages 50 to 52.

Notes to the accounts

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

	Note	Total assets		Tangible fixed assets		Capital expenditure		Depreciation	
		2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Continuing businesses:									
Water and wastewater		4,880.7	4,587.0	4,631.3	4,347.9	480.6	519.1	192.7	168.0
Electricity distribution		1,412.6	1,340.6	1,386.6	1,306.2	136.0	152.3	52.6	41.0
Energy supply		148.5	188.0	3.2	0.8	3.0	2.3	0.6	0.1
Telecommunications		133.3	87.2	114.0	75.3	43.1	29.9	4.9	2.1
Business process outsourcing		64.6	72.9	53.1	64.0	7.2	21.8	15.9	12.0
International operations		116.4	114.4	0.3	0.4	0.1	0.2	0.1	0.1
Other activities		139.9	247.8	2.1	2.5	0.1	0.5	1.0	1.0
		6,896.0	6,637.9	6,190.6	5,797.1	670.1	726.1	267.8	226.0
By geographical origin:									
	(3)								
United Kingdom		6,787.7	6,526.9	6,190.3	5,796.8	670.0	725.9	267.7	226.0
The Americas		71.0	69.2	-	-	-	-	-	-
Rest of the world		37.3	41.8	0.3	0.3	0.1	0.2	0.1	0.1
		6,896.0	6,637.9	6,190.6	5,797.1	670.1	726.1	267.8	226.0

(1) Profit before non-operating items, interest and tax comprises group operating profit amounting to £661.4 million (1999 – £657.0 million; 1998 – £547.2 million) and share of operating profits of joint ventures and associated undertakings of £4.0 million (1999 – £2.1 million; 1998 – £6.2 million). The share of joint venture turnover not included in the above segmental analysis is £69.6 million (1999 – £73.2 million, 1998 – £77.5 million).

(2) The inter-business eliminations totalling £441.7 million (1999 – £472.0 million; 1998 – £508.1 million) include £252.3 million (1999 – £298.5 million; 1998 – £303.1 million) between the electricity distribution and the energy supply operations and £166.6 million (1999 – £153.0 million; 1998 – £190.6 million) from business process outsourcing primarily to the water and wastewater, electricity distribution and energy supply operations.

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

(4) Net operating assets comprise tangible fixed assets and net current liabilities excluding net borrowings, investments, taxation and dividends.

(5) 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 water and wastewater (£9.1 million), electricity distribution (£5.2 million) and business process outsourcing (£7.2 million). Business restructuring costs in 1999 of £43.6 million comprise £36.3 million relating to the integration of NORWEB plc, and £7.3 million relating to the ongoing quality and efficiency restructuring of North West Water Limited.

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

3 NET OPERATING COSTS

	2000 £m	1999 £m	1998 £m
Employee costs:			
Wages and salaries	247.9	235.3	230.4
Social security costs	20.1	19.6	18.8
Pension contributions (note 25)	5.8	24.4	21.3
	273.8	279.3	270.5
Capital schemes	(53.5)	(57.4)	(65.9)
	220.3	221.9	204.6
Depreciation:			
Owned fixed assets	262.8	222.1	203.3
Fixed assets held under finance leases	5.0	4.8	7.4
	267.8	226.9	210.7
Other operating costs:			
Auditor's remuneration	0.3	0.3	0.3
Research and development	2.1	4.8	3.2
Operating leases:			
- hire of plant and machinery	4.5	4.6	3.6
- land and buildings	5.5	6.9	2.6
Electricity purchases	653.2	714.5	761.1
Cost of sales	213.1	139.5	111.7
Rent and rates	69.2	67.6	57.8
Customer rebates	18.5	18.3	18.3
General and administration costs and other	213.6	188.5	191.3
	1,180.0	1,145.0	1,149.9
Other income (note 5)	(4.2)	(5.8)	(5.6)
Net operating costs before exceptional items	1,663.9	1,588.0	1,559.4
Other operating costs – exceptional items			
business restructuring	21.5	–	43.6
– Year 2000 costs	9.5	31.9	–
Total net operating costs	1,694.9	1,619.9	1,603.0

Fees payable to KPMG Audit Plc and its associates for non-audit services in 2000 were £0.4 million (1999 – £0.7 million; 1998 – £0.7 million) primarily relating to due diligence work and assistance during the regulatory reviews. During the year, KPMG received no fees for management consultancy within the United Kingdom. The audit fee for 2000 in relation to the company amounted to £75,000 (1999 – £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.

Notes to the accounts

4 PROFIT ON DISPOSAL OF BUSINESSES

	2000 £m	1999 £m	1998 £m
Profit on disposal of process equipment businesses	-	-	2.9
Profit on disposal of other businesses	-	-	3.9
Total profit on disposal of businesses	-	-	6.8

5 OTHER INCOME

	2000 £m	1999 £m	1998 £m
Profit on disposal of fixed assets	0.7	2.8	1.0
Net rents receivable	2.3	2.3	2.1
Management fees	1.1	0.6	0.3
Other	0.1	0.1	1.0
	4.2	5.8	5.4

6 EMPLOYEES

	2000	1999	1998
Water and wastewater	4,116	4,132	4,100
Electricity distribution	1,719	1,761	1,770
Energy supply	302	308	320
Telecommunications	364	277	240
Business process outsourcing	3,395	3,160	2,800
International operations	79	77	90
Other activities	392	413	540
Average number of persons employed by the group during the year	10,367	10,128	9,900

7 NET INTEREST PAYABLE AND OTHER SIMILAR CHARGES

	2000 £m	1999 £m	1998 £m
Interest payable:			
Group:			
- on bank loans, overdrafts and other loans	184.6	187.4	158.0
- on finance leases	5.1	7.0	10.0
- finance element of onerous contract provision	15.0	15.0	14.0
Joint ventures	9.9	8.8	7.0
Total interest payable	214.6	218.2	189.0
Interest receivable (group)	(8.6)	(15.0)	(27.0)
Net interest payable and other similar charges	206.0	203.2	162.0

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2000 £m	1999 £m	1998 £m
UK corporation tax at 30% (1999 – 31%; 1998 – 31%)	–	57.3	84.0
Overseas tax	(0.4)	(0.7)	1.6
Advance corporation tax	–	(69.0)	(62.8)
Share of joint ventures tax	1.8	0.4	1.4
	1.4	(12.0)	24.2

The tax charge is analysed between continuing and discontinued operations as follows:

	£m	£m	£m
Continuing operations	1.4	(12.0)	25.6
Discontinued operations	–	–	(1.4)
	1.4	(12.0)	24.2

Profit on ordinary activities before taxation (including exceptional items), 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	463.7	459.0	405.6
– Overseas	(4.3)	(3.1)	(7.9)
	459.4	455.9	397.7

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	31.0	31.0
Deferred tax not provided on non-current assets	(30.5)	(5.6)	11.2
Deferred tax not provided on current assets	0.2	(37.1)	(21.3)
Movement in unprovided deferred tax arising from change in UK corporation tax rate	–	(5.1)	(11.4)
Movement in unprovided deferred tax arising from change in accounting policy	–	2.1	–
Bangkok project	–	–	(5.1)
Adjustment in relation to the abolition of ACT	–	10.6	–
Other	0.6	1.5	1.7
Actual tax rate	0.3	(2.6)	6.1

An analysis of the deferred tax balance is provided in note 21.

9 DIVIDENDS

	2000 £m	1999 £m	1998 £m
Interim dividend of 14.70 pence (1999 – 14.40 pence; 1998 – 13.16 pence)	80.9	79.1	70.8
Final dividend of 30.50 pence recommended (1999 – 29.90 pence; 1998 – 27.64 pence)	167.9	164.5	150.6
Enhancement to final dividend of nil pence (1999 – nil pence; 1998 – 1.36 pence)	–	–	7.4
	248.8	243.6	228.8

Provision is made for the proposed final dividends on the basis that the dividends will be fully settled in cash. The adjustment required to reflect the take up of the dividends in the form of new shares in 1998 was accounted for in the subsequent financial year.

Notes to the accounts

10 EARNINGS/(LOSS) PER SHARE

	2000	1999	1998
Profit/(Loss) for the financial year attributable to ordinary shareholders	£458.0m	£468.3m	£(39.6m)
Earnings/(Loss) per ordinary share	83.2p	85.6p	(7.4)p
Diluted earnings/(loss) per share	82.7p	84.5p	(7.2)p
	£m	£m	£m
Adjusted earnings/(loss) per share:			
Profit/(Loss) for the financial year attributable to ordinary shareholders	458.0	468.3	(39.6)
Adjustments:			
Windfall tax	-	-	414.0
Exceptional items:			
- business restructuring	21.5	-	43.0
- Year 2000 costs	9.5	31.9	-
Profit on disposal of businesses	-	-	(6.3)
Adjusted profit for financial year attributable to ordinary shareholders	489.0	500.2	412.1
Adjusted earnings per ordinary share	88.9p	91.4p	77.7p
Adjusted diluted earnings per ordinary share	88.3p	90.3p	76.7p

The adjustment to profit/(loss) and earnings/(loss) per ordinary share has been made to eliminate the impact of non-recurring items.

Earnings/(loss) per ordinary share and the adjusted earnings/(loss) per ordinary share have been calculated by dividing profit/(loss) and the adjusted profit for the financial year attributable to ordinary shareholders by 550.2 million, being the weighted average number of shares in issue during

the year (1999 – 547.2 million; 1998 – 534.7 million). Diluted earnings/(loss) per ordinary share and adjusted diluted earnings per ordinary share have been calculated by dividing profit/(loss) and the adjusted profit for the financial year attributable to ordinary shareholders by 553.6 million, being the revised weighted average number of shares in issue during the year including dilutive shares (1999 – 554.1 million; 1998 – 541.0 million).

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

	2000 million	1999 million	1998 million
Average number of ordinary shares in issue – basic	550.2	547.2	534.7
Average number of ordinary shares under option	15.0	17.3	17.3
Number of ordinary shares that would have been issued at fair value	(11.6)	(10.4)	(11.3)
Average number of ordinary shares in issue – diluted	553.6	554.1	541.0

11 INTANGIBLE FIXED ASSETS – GOODWILL

	£m
Cost:	
At 1 April 1999	-
Additions	12.3
At 31 March 2000	12.3
Amortisation:	
At 1 April 1999	-
Charge for the year	0.4
At 31 March 2000	0.4
Net book value:	
At 31 March 2000	11.9
At 31 March 1999	-

The intangible fixed asset acquired in the year represents the goodwill on the purchase of Intercell Limited and Intercell Communications Limited. The gross consideration was £12.1 million and net liabilities acquired were £0.2 million. A fair value exercise was carried out and no adjustments to the book values were required. Goodwill is being amortised over a period of five years. This is considered appropriate in the context of the telecommunications industry.

12 TANGIBLE FIXED ASSETS

Group	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Pre-1974 assets £m	Assets in course of construction £m	Total £m
Cost:							
At 1 April 1999	261.2	2,725.7	3,404.1	866.3	177.4	522.6	7,957.3
Arising on acquisition of businesses	-	-	-	1.8	-	-	1.8
Additions	3.9	116.1	131.7	46.1	-	372.3	670.1
Grants and contributions	-	(3.5)	-	-	-	-	(3.5)
Transfers	16.3	79.5	113.9	29.7	-	(239.4)	-
Disposals	(3.8)	(1.1)	(3.0)	(36.8)	-	-	(44.7)
At 31 March 2000	277.6	2,916.7	3,646.7	907.1	177.4	655.5	8,581.0
Depreciation:							
At 1 April 1999	57.1	767.7	811.6	384.9	138.9	-	2,160.2
Arising on acquisition of businesses	-	-	-	0.9	-	-	0.9
Charge for the year	7.9	76.2	89.6	90.6	3.5	-	267.8
Disposals	(1.5)	(1.1)	(2.3)	(33.6)	-	-	(38.5)
At 31 March 2000	63.5	842.8	898.9	442.8	142.4	-	2,390.4
Net book value:							
At 31 March 2000	214.1	2,073.9	2,747.8	464.3	35.0	655.5	6,190.6
At 31 March 1999	204.1	1,958.0	2,592.5	481.4	38.5	522.6	5,797.1

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 £84.7 million (1999 - £81.2 million) lower than it would have been had this treatment not been adopted.

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

	2000 £m	1999 £m
Cost:		
Operational assets	250.8	250.8
Fixtures, fittings, tools and equipment	5.4	5.4
At 31 March	256.2	256.2
Accumulated depreciation:		
Operational assets	68.6	63.7
Fixtures, fittings, tools and equipment	5.1	5.0
At 31 March	73.7	68.7
Net book value:		
Operational assets	182.2	187.1
Fixtures, fittings, tools and equipment	0.3	0.4
At 31 March	182.5	187.5

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

Pre-1974 assets comprise a pool of assets which was transferred to the group from North West Water Authority, which the group acquired in 1974 from its predecessors.

Notes to the accounts

	2000 £m	1999 £m
Capital commitments:		
Contracted but not provided for	288.0	443.2

Company

	Fixtures, fittings, tools and equipment £m
Cost:	
At 1 April 1999	8.8
Additions	0.2
At 31 March 2000	9.0
Depreciation:	
At 1 April 1999	2.7
Charge for the year	0.8
At 31 March 2000	3.5
Net book value:	
At 31 March 2000	5.5
At 31 March 1999	6.1

13 FIXED ASSET INVESTMENTS

Group	Joint ventures			Other investments including associated undertakings				Total £m
	Unlisted £m	Loans £m	Total £m	Unlisted £m	Loans £m	Listed £m	Total £m	
Cost:								
At 1 April 1999	57.3	9.1	66.4	30.6	0.1	19.0	49.7	116.1
Additions	7.2	4.5	11.7	2.3	-	-	2.3	14.3
Share of losses	(7.7)	-	(7.7)	-	-	-	-	(7.7)
Disposals	-	-	-	(8.8)	-	(9.4)	(18.2)	(18.2)
Loan repayment	-	(4.1)	(4.1)	-	-	-	-	(4.1)
Exchange adjustments	(0.2)	(0.1)	(0.3)	(0.1)	-	-	(0.1)	(0.4)
At 31 March 2000	56.6	9.4	66.0	24.0	0.1	9.6	33.7	99.7

A list of the group's principal operating subsidiaries and joint ventures is shown on page 61.

Included within other investments are the listed investments held by Carefree Insurance Limited, which had a market value of £9.6 million at 31 March 2000.

Share of losses comprises share of operating profits £4.0 million, interest charge £9.9 million and taxation charge £1.8 million.

Company

	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Cost:			
At 1 April 1999	3,367.1	4.4	3,371.5
Additions	76.2	-	76.2
Disposals	-	(0.1)	(0.1)
At 31 March 2000	3,443.3	4.3	3,447.6

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:			
North West Water Limited	Ordinary	100%	Water supply and sewerage services
NORWEB plc	Ordinary	100%	Provision of energy and related services
Norweb Gas Limited	Ordinary	100%*	Sale of gas
Norweb Telecom Limited	Ordinary	100%	Telecommunications
Vertex Data Science Limited	Ordinary	100%	Business process outsourcing
United Utilities International Limited	Ordinary	100%	Consulting services and project management
North West Water (Scotland) Limited	Ordinary	100%*	Technical, consulting and project management services
Isle of Man:			
Carefree Insurance Limited	Ordinary	100%*	Provision of re-insurance services
Talbot Insurance Limited	Ordinary	100%*	Provision of insurance services
Australia:			
United Utilities Australia 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
NWT Water Pty Limited	Ordinary	50%*	Water treatment operations
Riverland Water Pty Limited	Ordinary	50%*	Water treatment operations
Mexico:			
Agua de Mexico SA de CV	Ordinary	49%*	Technical and management 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.

14 STOCKS

	Group	
	2000 £m	1999 £m
Stores	9.7	9.2
Work in progress	2.8	2.7
	12.5	11.9

Notes to the accounts

15 DEBTORS

	Group		Compar	
	2000 £m	1999 £m	2000 £m	1999 £m
Amounts falling due within one year:				
Trade debtors	263.1	234.1	-	-
Provisions for doubtful debts	(92.0)	(76.8)	-	-
	171.1	157.3	-	-
Unbilled debtors	247.3	244.2	-	-
	418.4	401.5	-	-
Amounts owed by subsidiary undertakings	-	-	967.3	1,096.1
Other debtors	25.8	44.6	8.8	6.6
Prepayments and accrued income	42.4	27.3	1.2	0.1
Amounts recoverable under contracts	-	1.0	-	-
	486.6	474.4	977.3	1,103.8

Unbilled debtors represent the sales of the electricity supply and water businesses not invoiced at the balance sheet date.

16 CURRENT ASSET INVESTMENTS

	Group		Compar	
	2000 £m	1999 £m	2000 £m	1999 £m
Managed funds and short term deposits	53.5	50.4	-	-
Other current asset investments	10.7	23.2	11.9	20.1
	64.2	73.6	11.9	20.1

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Compar	
	2000 £m	1999 £m	2000 £m	1999 £m
Loans	52.3	107.3	-	-
Bank overdrafts and temporary borrowings	665.8	337.1	8.4	55.1
Obligations under finance leases	0.4	1.7	-	-
Trade creditors	123.2	135.1	-	-
Amounts owed to subsidiary undertakings	-	-	532.1	512.1
Dividends	169.1	370.4	169.1	370.4
Taxation and social security	129.6	169.3	17.6	16.1
Accruals and deferred income	587.1	594.9	52.1	45.1
	1,727.5	1,715.8	779.3	999.9

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Compar	
	2000 £m	1999 £m	2000 £m	1999 £m
Loans	2,002.2	1,956.6	815.7	815.7
Obligations under finance leases	199.7	200.0	-	-
Other creditors	4.2	12.6	-	-
Deferred grants and contributions (note 19)	228.2	207.3	-	-
	2,434.3	2,376.5	815.7	815.7

19 DEFERRED GRANTS AND CONTRIBUTIONS

	£m
At 1 April 1999	207.3
Received in the year	25.2
Credit to profit and loss account for the year	(4.3)
At 31 March 2000	228.2

20 PROVISIONS FOR LIABILITIES AND CHARGES

	Group					Company	
	Restructuring £m	Onerous contracts £m	Bangkok £m	Retail divestment £m	Other £m	Total £m	Other £m
At 1 April 1999	15.3	184.9	18.6	20.5	2.8	242.1	6.6
Utilised	(20.1)	(9.0)	(11.0)	(6.7)	-	(46.8)	-
Profit and loss account	21.5	-	-	-	-	21.5	-
At 31 March 2000	16.7	175.9	7.6	13.8	2.8	216.8	6.6

Restructuring

The restructuring provisions relate primarily to:

- initiatives in response to the regulatory reviews relating primarily to voluntary redundancy; and
- the cost of reorganising the group following the acquisition of NORWEB plc.

Onerous contracts

On the acquisition of NORWEB plc, provision was made for gas and electricity contracts mainly in relation to long term power purchase agreements. These power purchase agreements contain annual commitments to purchase electricity and the longest contracts expire in the year ended 31 March 2011. The contract conditions were considered onerous compared to the conditions that existed at the date of acquisition when the fair valuation was made.

Bangkok

In February 1997, as a result of continuing disputes relating to the contract, an additional provision of £83.0 million was made against expected losses. In March 1998, the contract was formally terminated. The provision continues to reflect management's best estimate of the liabilities remaining in respect of this contract based on the circumstances prevailing at the balance sheet date.

Retail divestment

Provisions of £68.1 million were created on the disposal of retail. This provision reflects the liabilities remaining with the group.

21 DEFERRED TAXATION

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

	2000 £m	1999 £m
Deferred tax liabilities:		
Accelerated tax allowances:		
- infrastructure assets	471.4	431.4
- other assets	454.0	466.4
	925.4	897.8
Deferred tax assets:		
Operating losses carried forward	-	(3.8)
Other	(116.1)	(111.4)
	(116.1)	(115.2)
Net deferred tax liabilities	809.3	782.6
Of which relates to the United Kingdom:		
Current	(116.1)	(115.2)
Non-current	925.4	897.8
	809.3	782.6

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.

Notes to the accounts

22 BORROWINGS

	2000 £m	1999 £m
Bank overdrafts and temporary borrowings	665.8	337.9
Term loans	2,054.5	2,063.9
Finance leases	200.1	201.0
	2,920.4	2,602.8

Repayments fall due as follows:

	Year	2000 £m	Year	1999 £m
After five years	2006+	1,934.2	2005+	1,907.9
From four to five years	2005	36.2	2004	34.0
From three to four years	2004	34.0	2003	30.9
From two to three years	2003	66.6	2002	131.0
From one to two years	2002	130.9	2001	52.9
After more than one year		2,201.9		2,156.9
Within one year	2001	718.5	2000	446.0
		2,920.4		2,602.8

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 5.7 per cent (1999 – 7.3 per cent). The group had available committed bank facilities of £1,275.0 million (1999 – £1,275.0 million) of which £1,264.6 million was unutilised at 31 March 2000 (1999 – £1,275.0 million). The amounts currently unutilised expire in more than two years.

Term loans

Amounts repayable after more than five years comprise bank and other loans repayable between 2006 and 2053. Interest rates range from 4.875 per cent to 14.83 per cent on £1,726.3 million (1999 – £1,679.5 million) and are at floating rates on £15.5 million (1999 – £31.5 million).

On total borrowings, interest rates range from 4.875 per cent to 14.83 per cent on £1,885.9 million and are at floating rates on £1,034.5 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	
	2000 £m	1999 £m	2000 %	1999 %	2000 Years	1999 Years
Fixed rate borrowings:						
Sterling	671.1	687.1	8.0	8.3	14.9	15.9
United States dollars	774.9	774.8	6.5	6.6	13.5	14.3
Euros	385.7	378.1	5.4	5.4	8.2	9.7
Japanese yen	54.2	–	–	–	29.5	–
	1,885.9	1,840.0	6.8	7.0	13.4	13.6
Floating rate borrowings:						
Sterling	966.4	719.5				
United States dollars	68.1	43.2				
	1,034.5	762.7				
Floating rate investments:						
Sterling (including cash)	(84.0)	(215.2)				
Net debt at 31 March	2,836.4	2,387.5				

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 £950.5 million at the year end, a 1 per cent change in interest rates would result in a £9.5 million change in profit before tax for the year.

The fair values of the group's financial instruments are shown on page 67.

Company

Excluding amounts owed to subsidiary undertakings, the company has borrowings totalling £824.1 million (1999 – £871.6 million) of which £8.4 million falls due within one year. The remaining loans totalling £815.7 million comprise £62.6 million repayable in 2001, £212.1 million repayable in 2005, £298.5 million repayable in 2008 and £242.5 million repayable in 2028. The loans repayable in 2001 comprise £42.6 million at a fixed rate of interest of 9.31 per cent and £20.0 million at 11.625 per cent. 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	
	2000 £m	1999 £m	2000 %	1999 %	2000 Years	1999 Years
Fixed rate borrowings:						
Sterling	2,001.1	1,299.3	7.3	8.2	7.9	10.0
United States dollars	59.4	65.2	8.6	8.6	1.2	3.3
	2,060.5	1,364.5	7.4	8.2	7.7	9.7
Floating rate borrowings:						
Sterling	859.9	1,238.2				
	859.9	1,238.2				
Floating rate investments:						
Sterling (including cash)	(84.0)	(215.2)				
Net debt at 31 March	2,836.4	2,387.5				

Floating interest rates are based on LIBOR.

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.

Notes to the accounts

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

Almost all electricity generated in England and Wales must be sold to the electricity Pool, and electricity suppliers must buy electricity from the Pool for resale to their customers. The Pool was established at the time of privatisation for bulk trading of electricity in England and Wales between generators and suppliers. The Pool is operated under a Pooling and Settlement Agreement to which all licensed generators and suppliers of electricity in Great Britain are party.

The group has procedures in place to minimise exposure to Pool price variations, that is, the possibility that a change in Pool prices will increase the cost of electricity purchased from the Pool. These procedures involve Norweb entering into Contracts for Differences (CfDs). In general, CfDs are commonly settled in arrears by reference to actual half-hourly Pool prices. The group's use of such derivative instruments relates directly to the underlying purchase of electricity from the Pool. Norweb's ability to manage

both its purchase risk and its sales price risk depends, in part, on the continuing availability of properly priced risk management mechanisms such as CfDs.

A CfD is typically a contract between two parties (for example, a generator of electricity and a regional electricity company) that requires each party to either make or receive payments daily, weekly, monthly or at other intervals, over a specific term based on the difference between an agreed price (that is, the bilaterally determined strike price) and the actual Pool calculated price (that is, the reference price), applied to an agreed quantity of electricity (that is, number of MWh). The duration for the contracts entered into by Norweb is commonly one to two years, but may be up to a maximum of 15 years.

At 31 March 2000, the group was committed to hedging 60 million MWh (1999 – 67 million MWh; 1998 – 73 million MWh) under CfDs. The average Pool purchase price for 2000 was £22.90 per MWh (1999 – £24.61 per MWh; 1998 – £25.32 per MWh). The maximum Pool purchase price for 2000 was £320.35 per MWh (1999 – £244.77 per MWh; 1998 – £497.42 per MWh). The minimum Pool purchase price for 2000 was £0.72 per MWh (1999 – £nil per MWh; 1998 – £7.00 per MWh).

The fair values of outstanding CfDs are shown on page 67.

These CfDs involve a degree of credit risk. This is the risk that the counterparty to the CfD defaults on settlement. The group controls credit risk arising from entering into the CfDs through credit approvals, limits and monitoring procedures.

Currently the Government, together with the Regulator (Ofgem), is carrying out a review of the electricity pool arrangements as part of wider reforms of the electricity industry. It is proposed that the New Electricity Trading Arrangements (NETA) will change the trading environment by eliminating the pool and introducing new markets for trading. In these markets suppliers and generators will trade contracts for physical delivery of electricity. The Government aims to introduce NETA during 2000.

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	2000		1999	
	Book value £m	Current value £m	Book value £m	Current value £m
Short term debt and current portion of long term debt	718.5	718.5	446.1	446.1
Long term debt	2,201.9	2,191.9	2,156.6	2,343.0
	2,920.4	2,910.4	2,602.7	2,789.1
Interest rate swaps	-	27.9	-	47.0
Foreign exchange contracts and swaps	-	93.0	-	(45.7)
Total borrowings	2,920.4	3,031.3	2,602.7	2,790.4

The gross contract amount of interest rate swaps outstanding at 31 March 2000 was £1,674.9 million (1999 – £991.2 million). The gross contract amount of foreign exchange contracts and swaps at 31 March 2000 was £1,223.5 million (1999 – £1,131.2 million).

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

Long term investments

The fair value of listed investments of £9.6 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 £90.1 million.

The only significant assets denominated in foreign currency relate to international operations. International operations' total assets are £116.4 million as shown in note 2, the majority of which are denominated in currencies linked to the United States dollar.

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 £19.0 million and £139.9 million respectively (1999 – £47.0 million and £48.3 million).

The group anticipates that £2.4 million of these gains and £9.6 million of these losses will be realised in the forthcoming financial year. Of the unrecognised gains and losses on hedges as at 1 April 1999 the net loss recognised in the period's profit and loss account was £20.6 million.

Contracts for differences

The fair value of outstanding CfDs at 31 March 2000 was £(240.6) million (1999 – £(258.2) million). The approximate effect on the fair value of CfDs from a 10 per cent increase in average pool purchase price is £92.3 million (1999 – £104.3 million). The approximate effect on the fair value of CfDs from a 10 per cent decrease in average pool purchase price is £(92.3) million (1999 – £(104.3) million). The movement in fair values of CfDs will 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 Pool 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 Pool prices, plant availability, plant operating costs and inflation indices. The principal influence on the fair value is the projected Pool price. For the purposes of these calculations the projected Pool price is based on historic data.

Notes to the accounts

24 CALLED UP SHARE CAPITAL, SHARE PREMIUM ACCOUNT AND PROFIT AND LOSS ACCOUNT

The movements in shareholders' equity are as follows:

	Group and company			Profit and loss account £m	Group		Company	
	Ordinary shares authorised £m	Called up share capital £m	Share premium account £m		Total £m	Profit and loss account £m	Total £m	
At 1 April 1997	720.0	529.6	622.0	1,061.3	2,212.9	1,288.7	2,440.3	
(Loss)/Profit for financial year	-	-	-	(39.5)	(39.5)	194.3	194.3	
Dividends on ordinary shares	-	-	-	(228.8)	(228.8)	(228.8)	(228.8)	
Shares issued net of costs	-	2.2	11.8	-	14.0	-	14.0	
Shares issued in lieu of cash dividend	-	13.0	-	-	13.0	-	13.0	
Capitalisation of reserves in respect of shares issued via QUEST	-	-	-	(4.7)	(4.7)	-	-	
Adjustment in respect of shares issued in lieu of cash dividend	-	-	-	76.1	76.1	76.1	76.1	
Exchange adjustments	-	-	-	3.9	3.9	-	-	
At 31 March 1998	720.0	544.8	633.8	868.3	2,046.9	1,330.3	2,508.3	
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	720.0	549.9	642.1	1,113.1	2,305.1	1,610.8	2,802.3	
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	720.0	550.5	645.1	1,321.8	2,517.4	1,645.1	2,840.3	

Underlying dividends per ordinary share are 45.20 pence (recommended) in 2000, 44.30 pence in 1999 and 40.80 pence in 1998. In 1998, 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 profit for the financial year dealt with in the company's profit and loss account is £283.1 million (1999 - £496.1 million; 1998 - £194.3 million) after accounting for dividends receivable from subsidiary undertakings of £331.5 million (1999 - £423.4 million; 1998 - £403.1 million).

The cumulative amount of goodwill included in reserves resulting from acquisitions during the years ended 2000, 1999, 1998 and prior years, net of goodwill attributable to subsidiaries or businesses demerged or disposed of prior to 31 March 2000, amounts to £1,124.9 million (1999 - £1,124.5 million; 1998 - £1,124.5 million). The cumulative amount of negative goodwill included in the reserves is £nil at 31 March 2000 (1999 - £nil; 1998 - £nil). Consolidated retained earnings at 31 March 2000 include retained earnings of joint ventures and associated undertakings of £(2.9) million (1999 - £4.8 million; 1998 - £11.9 million). The cumulative amount of exchange adjustments included within consolidated retained earnings is £(6.2) million (1999 - £(5.7) million; 1998 - £(1.8) million). The taxation effect of the exchange adjustments posted directly to retained earnings in the year is £nil (1999 - £nil; 1998 - £0.6 million charge).

Apart from dividends from North West 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.

The allotted and fully paid share capital of the company at 31 March 2000 was 550,511,886 ordinary shares (549,869,126 ordinary shares at 31 March 1999; 544,810,508 ordinary shares at 31 March 1998).

642,760 ordinary shares were allotted during the year ended 31 March 2000 (1999 - 1,573,675 ordinary shares; 1998 - 2,205,762 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 £3.7 million (1999 - £10.0 million; 1998 - £14.3 million).

Since 31 March 2000, 49,705 shares have been allotted on the exercise of options and at 26 May 2000, the company's issued share capital, credited as fully paid, was 550,561,591.

During 1999, the company's savings related share option scheme and executive share option scheme, which had been adopted in 1989, expired. At last year's annual general meeting shareholders approved new schemes known as the United Utilities PLC savings-related share option scheme 1999 (the employee sharesave scheme) and the United Utilities PLC company share option scheme 1999 to replace the expiring schemes. The rules of the new schemes are substantially the same as the former schemes.

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. Options outstanding under the share option schemes at 31 March, together with their exercise prices and dates, were:

	2000	1999	Exercise price	Normal dates of exercise
Employee sharesave scheme	–	19,815	269.9p (1)	1997 or 1999
	14,758	190,992	369.5p (1)	1998 or 2000
	150,393	193,760	440.6p (1)	1999 or 2001
	258,197	858,626	404.8p (1)	2000 or 2002
	1,061,395	1,125,575	481.0p (1)	2001
	3,172,469	3,460,440	476.0p (1)	2002
	1,479,431	2,153,773	616.5p (1)	2001 or 2003
	782,092	1,623,061	707.5p (1)	2002 or 2004
	5,410,875	–	471.5p (1)	2003 or 2005
Executive share option scheme	12,146	12,146	305.2p (3)	1993 to 2000
	28,944	32,432	324.1p (3)	1995 to 2002
	52,187	64,394	275.7p (2)	1997 to 2002
	2,713	50,587	392.7p (3)	1995 to 2002
	3,810	20,542	334.2p (2)	1997 to 2002
	41,069	93,590	463.4p (3)	1996 to 2003
	37,921	64,013	394.2p (2)	1998 to 2003
	8,138	8,138	446.9p (3)	1996 to 2003
	14,398	19,176	380.2p (2)	1998 to 2003
	178,850	206,169	566.9p (3)	1997 to 2004
	122,162	143,081	482.2p (2)	1999 to 2004
	47,826	61,006	530.1p (3)	1997 to 2004
	43,982	49,796	450.8p (2)	1999 to 2004
	87,747	116,922	479.8p (3)	1997 to 2004
	114,448	130,752	408.2p (2)	1999 to 2004
	56,205	56,205	564.0p (3)	1998 to 2005
	21,252	21,252	479.8p (2)	2000 to 2005
	209,700	276,450	584.5p (3)	1998 to 2005
	294,833	651,889	544.5p (3)	1999 to 2006
	437,713	493,000	628.0p (3)	2000 to 2007
	272,492	322,942	632.0p (3)	2000 to 2007
	593,010	635,510	768.5p (3)	2000 to 2007
	160,886	187,636	886.0p (3)	2001 to 2008
	326,250	327,500	868.0p (3)	2001 to 2008
	983,586	–	768.0p (3)	2002 to 2009
Company share option scheme	421,222	–	615.5p (3)	2002 to 2009
	16,903,100	13,671,170		

- (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.

An opportunity to join the employee sharesave scheme was offered during the years ended 31 March 2000 and 31 March 1999, 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 2000, options were granted under the option schemes in respect of a total of 6,851,862 ordinary shares (1999 – 2,152,373 ordinary shares), options for 1,427,717 ordinary shares (1999 – 1,536,653 ordinary shares) were exercised and options for 2,192,215 ordinary shares (1999 – 479,113 ordinary shares) lapsed or were cancelled.

Notes to the accounts

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:

	2000	1999	Exercise price	Normal date of exercise
	183,627	3,552,961	308.29p	2000

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 2000 was 876,503 with a market value of £5,741,095 based on the mid market price of a share at that date of 655.0 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.

The total pension cost for the period was £5.8 million (1999 – £24.4 million; 1998 – £21.3 million). The movement year on year reflects the recognition of a prepayment on the balance sheet of £10.9 million as at 31 March 2000 (1999 – £nil).

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 2001		31 March 2000	
	Land and buildings £m	Plant and machinery £m	Land and buildings £m	Plant and machinery £m
Leases which expire:				
Within one year	0.7	1.0	1.6	1.0
Between two and five years	1.3	2.8	0.9	5.3
After five years	2.8	–	2.9	–
	4.8	3.8	5.4	6.3

Minimum future lease payments under capital leases and minimum rental commitments under non-cancellable leases of property, plant and equipment at 31 March 2000 were as follows:

	Finance leases £m	Operating leases £m
2001	0.4	8.6
2002	–	6.4
2003	–	4.3
2004	2.7	3.8
2005	4.6	3.8
Thereafter	192.4	196.9
Total	200.1	223.8

27 CONTINGENT LIABILITIES

The company and certain of its subsidiary undertakings have, in the ordinary course of business, entered into performance bonds of which £34.0 million were outstanding at 31 March 2000.

The company also guaranteed certain loans and overdrafts of group undertakings up to a maximum amount of £661.2 million, including £514.8 million relating to North West Water Limited's loans from the European Investment Bank.

28 NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 £m	1999 £m	1998 £m
Group operating profit	661.4	657.0	547.2
Exceptional charges within group operating profit	31.0	31.9	43.6
Group operating profit before exceptional items	692.4	688.9	590.8
Depreciation	267.8	226.9	210.7
Amortisation of goodwill	0.4	–	–
Profit on disposal of tangible fixed assets	(0.7)	(2.8)	(1.6)
Stocks (increase)/decrease	(0.6)	1.7	(5.1)
Debtors decrease/(increase)	6.2	(33.7)	(34.1)
Creditors decrease	(41.3)	(28.8)	(18.7)
Outflow related to exceptional items	(39.9)	(40.8)	(57.9)
	884.3	811.4	684.1

The outflow related to exceptional items comprises spend on Year 2000 costs, business restructuring and Bangkok.

Notes to the accounts

29 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2000 £m	1999 £m	1998 £m
Interest received	3.7	14.6	21.0
Interest paid	(183.1)	(162.8)	(149.7)
Interest paid on finance leases	(12.2)	(13.5)	(8.0)
	(191.6)	(161.7)	(137.3)

30 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2000 £m	1999 £m	1998 £m
Purchase of tangible fixed assets, net of grants and contributions	(660.9)	(661.6)	(722.9)
Sale of tangible fixed assets	6.9	11.1	3.8
Purchase of fixed asset investments	(5.3)	(5.9)	(21.2)
Sale of fixed asset investments other than associated undertakings or joint ventures	22.3	7.1	43.0
	(637.0)	(649.3)	(696.3)

31 ACQUISITIONS AND DISPOSALS

	Acquisitions			Disposals		
	2000 £m	1999 £m	1998 £m	2000 £m	1999 £m	1998 £m
Tangible fixed assets	0.9	-	-	-	-	6.4
Investments	(8.7)	(7.6)	(53.8)	-	-	21.5
Net current liabilities	(0.6)	-	-	-	-	(0.7)
Provisions for liabilities and charges	-	-	-	-	-	(6.8)
Fair value of net assets acquired	(8.4)	(7.6)	(53.8)	-	-	-
Book value of net assets disposed	-	-	-	-	-	21.5
Goodwill acquired	(12.3)	-	-	-	-	-
Consideration for undertakings acquired	(20.7)	(7.6)	(53.8)	-	-	-
Profit on disposals	(20.7)	(7.6)	(53.8)	-	-	6.8
	(20.7)	(7.6)	(53.8)	-	-	27.0
Less:						
- Cash included in undertakings acquired/disposed	-	-	-	-	-	(1.5)
- Deferred consideration	-	-	-	-	0.8	2.9
Cash consideration	(20.7)	(7.6)	(53.8)	-	0.8	29.4
Comprising:						
- (Outflow)/Inflow arising on:						
- current year's acquisitions/disposals	(20.7)	(7.6)	(53.8)	-	-	23.5
- previous year's acquisitions/disposals	-	-	-	-	0.8	6.1
	(20.7)	(7.6)	(53.8)	-	0.8	29.6

32 MANAGEMENT OF LIQUID RESOURCES

	2000 £m	1999 £m	1998 £m
(Increase)/Decrease in bank deposits and certificates of deposit	(3.1)	245.8	1.5

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	
At 1 April 1997	(529.6)	(622.0)	(1,151.6)	(825.2)	(883.8)	(3,071.2)
Exchange adjustments	-	-	-	1.0	1.9	2.9
Financing:						
- New finance	(2.2)	(7.1)	(9.3)	(499.1)	(40.1)	(548.5)
- Finance repaid	-	-	-	24.9	-	24.9
Cash flow	(2.2)	(7.1)	(9.3)	(474.2)	(40.1)	(511.6)
Other non-cash movement - shares issued via QUEST	-	(4.7)	(4.7)	-	-	(4.7)
Shares issued in lieu of cash dividends	(13.0)	-	(13.0)	-	-	(13.0)
At 31 March 1998	(544.8)	(633.8)	(1,178.6)	(1,298.4)	(922.0)	(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	633.7
Cash flow	(1.6)	(8.3)	(9.9)	(763.7)	607.5	(166.0)
Shares issued in lieu of cash dividends	(3.5)	-	(3.5)	-	-	(3.5)
At 31 March 1999	(549.9)	(642.1)	(1,192.0)	(2,063.9)	(314.5)	(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	-	107.3
Cash flow	(0.6)	(3.0)	(3.6)	9.5	(325.6)	(319.7)
At 31 March 2000	(550.5)	(645.1)	(1,195.6)	(2,054.5)	(640.1)	(4,090.3)

		Repayment dates	Currency	Rate %	Amount £m
Loans repaid	European Investment Bank	various	£	various	99.0
	Loan notes	18 September	£	floating	7.2
	Local authority	30 September, 31 March	£	various	1.1
					107.3

Notes to the accounts

34 ANALYSIS OF NET DEBT

	Cash					Financing – debt		Current asset	Net debt
	£m	Loans		Short term borrowings other than overdrafts £m	Finance leases £m	Total £m	Investments £m	£m	
		Due after one year £m	Due within one year £m						
At 1 April 1997	(5.1)	(803.8)	(21.4)	(883.8)	(210.6)	(1,919.6)	297.7	(1,627.3)	
Exchange adjustments	(1.1)	1.0	–	1.9	–	2.9	–	1.9	
Cash flow	(4.6)	(502.3)	28.1	(40.1)	5.0	(509.3)	(1.5)	(515.9)	
Other non-cash changes	–	40.5	(40.5)	–	–	–	–	–	
At 31 March 1998	(10.8)	(1,264.6)	(33.8)	(922.0)	(205.6)	(2,426.0)	296.2	(2,140.0)	
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)	(245.8)	
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	(2,387.3)	
Exchange adjustments	–	(0.1)	–	–	–	(0.1)	–	(0.1)	
Cash flow	(137.4)	(97.8)	107.3	(325.6)	1.6	(314.5)	3.1	(448.0)	
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)	

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	
							£m
At 1 April 1997	29.4	(34.5)	(883.8)	(918.3)	(888.9)	(501.9)	
Exchange adjustments	(1.1)	–	1.9	1.9	0.8	(1.0)	
Cash flow	(16.4)	11.8	(40.1)	(28.3)	(44.7)	(44.7)	
At 31 March 1998	11.9	(22.7)	(922.0)	(944.7)	(932.8)	(100.9)	
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	

35 RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year. The following was the only material transaction with related parties during the prior year. As at 31 March 1999, United Utilities PLC indirectly owned 75 per cent of the ordinary share capital of Norweb Gas Limited. The remaining shareholding of 25 per cent was owned by Utilicorp UK Limited. During the

prior year, Utilicorp UK Limited charged Norweb Gas Limited £63.4 million in respect of gas supply, transportation and other costs which represented an arm's length transaction. Of this amount, £9.5 million was included in creditors at the year end.

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. While this is not a comprehensive summary of all differences between UK and US GAAP, other differences would not have a significant effect on the consolidated net income or shareholders' equity of the group.

(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) 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 (c) 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.

(c) 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.

(d) Provisions

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

Following the adoption of Financial Reporting Standard 12 in 1999 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.

(e) 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.

(f) 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 has been amortised over periods varying between 20 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.

(g) 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.

(h) 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.

Notes to the accounts

(i) Earnings per share (EPS)

Under UK GAAP, primary EPS is based on the weighted average number of ordinary shares outstanding during the period. Earnings per share 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

'non-recurring' items and, by the adjustment for the results of divested businesses, to disclose the underlying earnings of continuing operations.

Under UK GAAP diluted EPS must now 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 for US GAAP purposes.

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

	2000 million	1999 million	1998 million
Weighted average number of shares under US GAAP – basic EPS	550.2	547.2	534.1
Common stock equivalents – dilutive share options	2.8	3.3	-
Weighted average number of shares under US GAAP – diluted EPS	553.0	550.5	534.1

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

For the year ended 31 March 2000	Note	2000 £m	1999 £m	1998 £m
Net income/(loss) in accordance with UK GAAP		458.0	468.3	(39.5)
US GAAP adjustments:				
– Pension costs	36(a)	(5.0)	11.3	(4.7)
– Infrastructure renewals costs	36(b)	2.4	(20.5)	3.9
– Depreciation of infrastructure assets	36(c)	(19.9)	(18.2)	(16.6)
– Provisions	36(d)	4.0	(17.1)	14.0
– Capitalisation of interest	36(e)	46.3	57.9	55.1
– Amortisation of capitalised interest	36(e)	(7.5)	(6.5)	(5.9)
– Amortisation of goodwill	36(f)	(29.2)	(29.3)	(28.9)
– Deferred taxes	36(g)	(26.7)	(194.6)	(58.7)
– Income taxes on US GAAP adjustments	36(g)	(6.0)	10.6	7.8
Net income/(loss) in accordance with US GAAP		416.4	261.9	(73.5)
Net income/(loss) from continuing operations in accordance with US GAAP		416.4	261.9	(81.7)
Net income of discontinued operations in accordance with US GAAP		–	–	8.2

**Net income/(loss) per £1 ordinary share (pence)
in accordance with US GAAP basic method from:**

Continuing operations		75.7	47.9	(15.2)
Discontinued operations		–	–	1.5
Total	36(i)	75.7	47.9	(13.7)

**Net income/(loss) per £1 ordinary share (pence)
in accordance with US GAAP diluted method from:**

Continuing operations		75.3	47.6	(15.2)
Discontinued operations		–	–	1.5
Total	36(i)	75.3	47.6	(13.7)

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

At 31 March 2000	Note	2000 £m	1999 £m
Shareholders' equity in accordance with UK GAAP	24	2,517.4	2,305.1
US GAAP adjustments:			
– Pensions	36(a)	(44.9)	(39.9)
– Infrastructure renewals costs	36(b)	37.7	35.3
– Depreciation of infrastructure assets	36(c)	(145.5)	(125.6)
– Provisions	36(d)	36.0	32.0
– Capitalisation and amortisation of interest	36(e)	340.9	302.1
– Goodwill	36(f)	1,041.3	1,070.5
– US GAAP fair value adjustments	36(f)	23.0	23.0
– Deferred taxes	36(g)	(809.3)	(782.6)
– Income taxes on US GAAP adjustments	36(g)	(74.4)	(68.4)
– Dividends	36(h)	167.9	164.5
Shareholders' equity in accordance with US GAAP		3,090.1	2,916.0

Notes to the accounts

(l) Classification differences between UK and US GAAP

Provisions for liabilities and charges

Provisions for liabilities and charges under UK GAAP include £44.1 million (1999 – £56.7 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 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 £228.2 million (1999 – £207.3 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 2000, a profit of £nil (1999 – profit of £nil; 1998 – profit of £6.8 million) would have been included within operating profit.

(m) 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 twenty four hours from the date of the advance. Such overdrafts are classified within financing activities under US GAAP.

Set out below, for illustrative purposes, is a summary consolidated statement of cash flows under US GAAP:

	2000 £m	1999 £m	1998 £m
Net cash provided by operating activities	655.4	401.1	310.3
Net cash used in investing activities	(657.7)	(656.1)	(721.3)
Net cash (used)/provided by financing activities	(132.0)	407.7	394.1
Effect of exchange rate changes on cash	-	0.2	(1.7)
Net (decrease)/increase in cash and cash equivalents	(134.3)	152.9	(17.6)
Cash and cash equivalents at beginning of year	164.8	11.9	29.4
Cash and cash equivalents at end of year	30.5	164.8	11.8

37 ADDITIONAL US GAAP DISCLOSURES

(a) Deferred tax

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

	2000 £m	1999 £m
Deferred tax liabilities:		
– Accelerated tax allowances	1,013.4	977.5
Deferred tax assets:		
– Operating losses	(19.3)	(22.1)
– Other temporary differences	(129.7)	(122.7)
	(149.0)	(144.8)
Less valuation allowance	19.3	18.3
	(129.7)	(126.5)
Net deferred tax liability	883.7	851.0
Of which all relates to the United Kingdom:		
– Current	(129.7)	(126.5)
– Non current	1,013.4	977.5
	883.7	851.0

The deferred tax assets are primarily short term timing differences.

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

(b) 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:

	2000 £m	1999 £m	1998 £m
Service cost	37	33	26
Interest cost	80	91	98
Actual return on assets	(240)	(85)	(341)
Net amortisation and deferral	139	(20)	234
Net periodic pension cost	16	19	17
Termination benefits	7	5	9
Employer contributions	(18)	(28)	(26)
Increase/(Decrease) in accrual	5	(4)	–

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

	2000 %	1999 %	1998 %
Discount rate	5.00	6.00	7.75
Salary growth	3.50	4.50	5.75
Long term return on assets	6.50	7.50	8.50
Pension increases	2.50	3.00	4.00

Notes to the accounts

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

	2000 £m	1999 £m
Vested benefit obligation	(1,556)	(1,491)
Accrued benefit obligation	(1,556)	(1,491)
Projected benefit obligation	(1,604)	(1,594)
Plan assets	1,985	1,779
Excess plan assets over projected benefit obligation	381	185
Unrecognised transition obligation	8	10
Unrecognised prior service cost	4	3
Other unrecognised gain	(419)	(221)
Accrued pension cost under US GAAP	(26)	(21)
Change in benefit obligations		
Benefit obligation at beginning of year	1,594	1,510
Employer service cost	37	30
Member contributions	10	12
Termination benefits	7	8
Interest cost	80	91
Actuarial loss	(62)	8
Benefits paid	(62)	(68)
Benefit obligation at end of year	1,604	1,594
Reconciliation of plan assets		
Fair value at beginning of year	1,779	1,721
Actual return on assets	240	85
Employer contributions	18	28
Member contributions	10	12
Benefits paid	(62)	(68)
Fair value at end of year	1,985	1,779

(c) 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 2000, 1999 and 1998. 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.

	2000		1999		1998	
	As reported	Pro forma	As reported	Pro forma	As reported	Pro forma
Profit/(Loss) for the financial year (£ million)	458.0	452.3	468.3	464.9	(39.5)	(43.0)
Average shares outstanding (millions)	550.2	550.2	547.2	547.2	534.7	534.7
Earnings/(Loss) per share (pence)	83.2	82.2	85.6	84.9	(7.4)	(8.0)
Average fair values of grants during the year (£)	-	1.99	-	1.16	-	1.56
Black Scholes option pricing models assumptions:						
- Risk free interest rate	6.4%-6.7%		5.5%		6.6%-7.5%	
- Expected life (years)	3-10		3-10		3-10	
- Volatility	55%		33%		21%	

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

	2000		1999		1998	
	No (m)	Price (p)	No (m)	Price (p)	No (m)	Price (p)
Outstanding at beginning of year	13.7	561	13.5	514	12.9	459
Granted during the year	6.8	523	2.2	748	3.3	647
Exercised during the year	(1.4)	451	(1.5)	403	(1.9)	393
Forfeited during the year	(2.2)	622	(0.5)	488	(0.8)	475
Outstanding at end of year	16.9	547	13.7	561	13.5	514
Exercisable at end of year	1.9	527	1.3	490	1.3	458

No options lapsed during any of the years under review.

(d) Discontinued operations

During the years ended 31 March 1998 and 1997, the group sold its investment in the process equipment businesses. Under US GAAP, a profit on disposal of £2.9 million was recorded in the year ended 31 March 1998.

(e) 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.

(f) Newly adopted US accounting standards

Statement of position (SOP) 98-1

The American Institute of Certified Public Accountants issued SOP 98-1, 'Accounting for the Costs of Computer Software Developed or Obtained for Internal Use' in March 1998. This SOP, which is effective for financial statements for fiscal years beginning after 15 December 1998, provides guidance on accounting for the costs of computer software developed or obtained solely to meet the company's needs. The effect of adopting SOP 98-1 was not material.

(g) Recent US accounting pronouncements

Statement of Financial Accounting Standards No 133 (SFAS 133)

(Accounting for Derivative Instruments and Hedging Activities)

SFAS 133, 'Accounting for Derivative Instruments and Hedging Activities' was issued in June 1998. This Standard, which is effective for fiscal years beginning after 15 June 2000, requires all derivatives to be recognised in the balance sheet as either assets or liabilities and measured at fair value. To implement the standard, all hedging relationships must be reassessed. The Group has not yet evaluated the likely impact on its financial statements.

Five year summary

	1996 £m	1997 £m	1998 £m	1999 £m	2000 £m
Profit and loss accounts					
Turnover	1,839	2,377	2,150	2,277	2,356
Net operating costs	(1,414)	(1,931)	(1,603)	(1,620)	(1,695)
Group operating profit	425	446	547	657	661
Share of operating profits of joint ventures and associated undertakings	19	23	6	2	4
Profit/(Loss) on disposal of businesses	7	(77)	7	-	-
Net interest payable and other similar charges	(87)	(167)	(162)	(203)	(206)
Profit on ordinary activities before taxation	364	225	398	456	459
Tax (charge)/credit on profit on ordinary activities	(48)	(48)	(24)	12	(1)
Profit on ordinary activities after taxation	316	177	374	468	458
Exceptional taxation – windfall tax	-	-	(415)	-	-
	316	177	(41)	468	458
Minority interest	-	(1)	2	-	-
Profit/(Loss) for financial year	316	176	(39)	468	458
Dividends	(164)	(195)	(229)	(243)	(249)
Retained profit/(loss) for the financial year	152	(19)	(268)	225	209
Balance sheets					
Fixed assets	4,519	4,906	5,439	5,913	6,302
Net current liabilities	(848)	(1,098)	(1,431)	(991)	(1,134)
Creditors falling due after more than one year	(1,268)	(1,235)	(1,682)	(2,376)	(2,434)
Provisions for liabilities and charges	(280)	(358)	(280)	(242)	(217)
Net assets	2,123	2,215	2,046	2,304	2,517
Equity share capital and share premium	1,138	1,152	1,179	1,192	1,195
Reserves and retained profits	985	1,062	868	1,113	1,322
Minority interest	-	1	(1)	(1)	-
Capital employed	2,123	2,215	2,046	2,304	2,517

Useful information for shareholders

KEY EVENTS FOR SHAREHOLDERS DURING THE YEAR

The company is holding its 2000 annual general meeting on Friday, 21 July 2000 at the Bridgewater Hall, Manchester. It will start at 10.30 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 2000 final dividend on 2 October 2000;
- announce the half year results in November 2000;
- pay the 2001 interim dividend in February 2001;
- announce the preliminary full year results in May 2001;
- publish the annual report and accounts, the annual review and summary financial statement, and form 20-F in June 2001; and
- hold the annual general meeting in July 2001.

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 Alan Price, Group Public Affairs Manager, at 55 Grosvenor Street, London W1X 9DA (telephone: 020 7307 0300; e-mail: alan.price@uuplc.co.uk).

American Depositary Receipt holders can get a copy of the annual report on form 20-F, which has to be filed with the Securities and Exchange Commission in the US, from the depository (see 'Enquiring about our American listing' below). Other shareholders can get a copy from Jane Gilmore, Compliance Manager, at the Group Corporate Centre, Birchwood Point Business Park, Birchwood Boulevard, Birchwood, Warrington WA3 7WB (telephone: 01925 285000; e-mail: jane.gilmore@uuplc.co.uk).

Copies of the separate regulatory accounts for the year ended 31 March 2000 for North West Water and for Norweb, 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).

If you have received more than one copy of this annual report, you may have more than one account in your name on the company's 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 new United Utilities ShareXpress ISA (a Maxi or Mini shares-only individual savings account), managed by Halifax Share Dealing Limited, can offer a tax efficient way of holding United Utilities shares and other ISA eligible shares. For more information and details on how to register, telephone 0870 600 9966 quoting 'United Utilities shareholder'.

 www.shareexpress.co.uk

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 depository 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.bankofny.com/adr

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 0345 034599.

The main body of the annual report 2000 has been printed on Revive Silk, a recyclable and bio-degradable paper containing a minimum of 75 per cent recycled waste. No chlorine compound is used in the bleaching process. It contains a combination of ECF (Elemental Chlorine Free) and TCF (Total Chlorine Free) pulps. Revive is a NAPM approved recycled grade. The cover is Retreeve Smooth, also made from ECF pulps, 50 per cent of which are recycled.

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United Utilities

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United Technologies

Annual Report & Accounts 2007



Business as
usual is not
an option...

UNITED TECHNOLOGIES SALES EXECUTIVE

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United Utilities is a multi-utility with a focused strategy to:

- improve the efficiency of its regulated businesses;
- maximise multi-utility synergies; and
- develop its non-regulated businesses using its core skills of asset management and customer relationship management.

We seek to provide growth for shareholders, value-for-money for customers, challenging and rewarding jobs for employees, and positive benefits for society and the environment.

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

Business as usual is not an option...

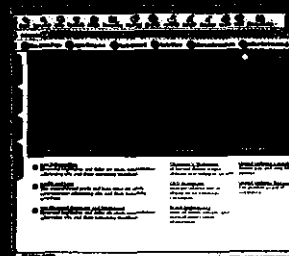


Annual review



For today and tomorrow

Social and environmental impact report



Web site – www.unitedutilities.com

Annual report

United Utilities at a glance



WATER & WASTEWATER

£ million	2000	1999	1998
Turnover	1,024.2	960.1	905.3
Operating costs	(564.5)	(512.2)	(523.1)
Operating profit	459.7	447.9	382.2

North West Water delivers on average 2,000 million litres of water a day, through its 40,700 kilometre water network, to 2.9 million customer premises (domestic and business) in North West England. Through its 39,800 kilometre sewer network, it takes away and then treats their wastewater, making it clean before returning it safely to the environment.



ELECTRICITY DISTRIBUTION

£ million	2000	1999	1998
Turnover	346.0	357.2	342.7
Operating costs	(198.8)	(199.7)	(188.2)
Operating profit	147.2	157.5	154.5

Norweb Distribution manages a 59,000 kilometre electricity distribution network which delivers 23,800 gigawatt hours of electricity annually from the National Grid to 2.2 million customer premises (domestic and business) in North West England. It charges suppliers of electricity for using its distribution network.



ENERGY SUPPLY

£ million	2000	1999	1998
Turnover	1,097.2	1,159.1	1,120.9
Operating costs	(1,021.0)	(1,103.7)	(1,094.7)
Operating profit	76.2	55.4	26.2

Norweb Energi is a brand leader in the UK's competitive markets for supplying electricity and gas, with 2.3 million customer accounts. It offers gas to electricity customers in its traditional area of North West England, and gas, electricity and dual fuel packages elsewhere.



TELECOMMUNICATIONS

£ million	2000	1999	1998
Turnover	79.1	49.7	23.4
Operating costs	(95.4)	(55.2)	(23.2)
Operating (loss)/profit	(16.3)	(5.5)	0.2

Norweb Telecom delivers voice and data telecommunications solutions for its target small and medium sized enterprises customer base in North West England and the Midlands, and nationally through its specialist sector teams and indirect sales channels.



BUSINESS PROCESS OUTSOURCING

£ million	2000	1999	1998
Turnover	183.0	162.9	193.8
Operating costs	(170.5)	(151.3)	(165.2)
Operating profit	12.5	11.6	28.6

Vertex supplies a range of business process outsourcing services to companies in the United Utilities group and increasingly to external organisations. Its primary focus is customer relationship management (CRM), a rapidly expanding outsourcing sector. It seeks to maximise value for its customers by integrating transactional-based and value-enhancing CRM activities.



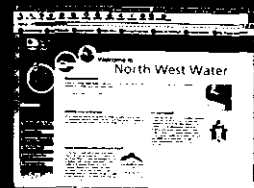
INTERNATIONAL OPERATIONS

£ million	2000	1999	1998
Turnover	9.3	7.5	7.7
Operating profit before development costs	15.4	14.8	9.9
Development costs	(7.4)	(9.7)	(15.0)
Operating profit/(loss) after development costs	8.0	5.1	(5.1)

United Utilities International develops and operates contracts around the world based on the group's core water and electricity asset management skills. It has a focused approach to pursuing opportunities that meet its strict financial and area criteria, with the objective of securing long term investment and operational sources of income whilst limiting financial exposure.

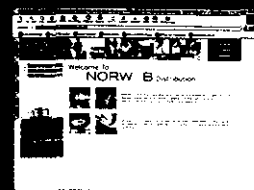
- Delivering the £300 million cost reduction and £3 billion investment programmes to meet regulatory targets 2000 to 2005
- Reorganising to align with the group's strategic focus on asset management and the impact of water competition
- Delivering the multi-utility synergy benefits of integrating with the regulated electricity asset management business

- Reducing operating costs and improving services to customers through eBusiness applications
- Offering customers an on-line bill payment and viewing facility
- Benefiting soon from purchasing through the European multi-utility procurement portal



- Delivering the £100 million cost reduction and £500 million investment programmes to meet regulatory targets 2000 to 2005
- Focusing on asset management to align with the group's strategic focus
- Delivering the multi-utility synergy benefits of integrating with the regulated water asset management business

- Reducing operating costs and improving services to customers through eBusiness applications
- Improving efficiency through tools such as access via the Internet to electronic cable records
- Benefiting soon from purchasing through the European multi-utility procurement portal



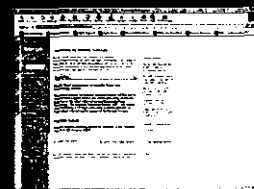
- Completing the successful sale of the business
- Realising value
- Developing new products and services to enhance the value of the customer relationship

- Offering an on-line application process for new customers
- Offering customers an on-line bill payment and viewing facility
- 'Saving you more and more' value-added services and products available to customers through the Norweb Energi web site



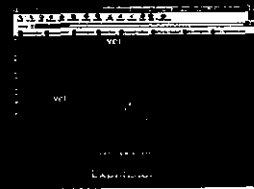
- Growing its core market segments of small and medium sized enterprises customers and specific specialist sectors
- Continuing to invest in and expand its voice and data networks and solutions that enhance profit and customer retention
- Completing plans for the successful partial flotation of the business

- Improving services to customers through eBusiness applications
- Offering full Internet Service Provider (ISP) capability
- Developing wireless Internet infrastructure and virtual ISP capabilities



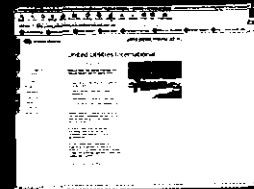
- Focusing on the group's core skill of customer relationship management to align with the group's strategic focus
- Concentrating on target markets and increasing the external order book
- Offering complete end-to-end CRM solutions to customers' outsourcing needs

- Reducing operating costs and improving services to customers through eBusiness applications
- Partnering with eCompanies to develop leading capabilities in channel integration and new channels of access for customers
- Applying automated e-mail solutions, kiosk technologies, and wireless application protocol (WAP) integration



- Focusing on marketing the group's core asset management skills in the utility asset market throughout the UK as well as overseas to align with the group's strategic focus
- Building on successes in selected areas, such as Australia and eastern Europe
- Restructuring existing investments to enhance value creation

- Leveraging the group's eBusiness skills and applications in developing and operating contracts in its target markets
- Introducing United Utilities best practice to joint ventures



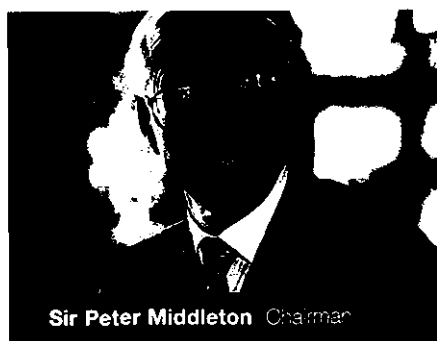
- > Profit before tax and exceptional items up to £490.4 million
- > Total dividend of 45.2 pence per share, an increase of 2 per cent
- > Regulated businesses – £400 million operating cost reduction programme underway
- > Vertex – external order book increased by 170 per cent to nearly £220 million
- > Norweb Telecom – turnover increased by 59 per cent to £79.1 million

	2000	1999	1998
Turnover from continuing operations	£2,356.3m	£2,276.9m	£2,150.2m
Operating profit	£696.4m	£691.0m	£597.0m
Profit before tax and exceptional items	£490.4m	£487.8m	£434.5m
Adjusted earnings per share	88.9p	91.4p	77.1p
Dividend per share	45.2p	44.3p	40.8p
Operating cash flow per share	160.7p	148.3p	127.9p
Net debt	£2,836.4m	£2,387.5m	£2,140.6m
Equity shareholders' funds	£2,517.4m	£2,305.1m	£2,046.9m
Gearing	113%	104%	105%
Dividend cover	2.0 times	2.1 times	1.9 times
Interest cover	3.6 times	3.7 times	4.0 times

Notes

- (1) Operating profit is defined as profit from continuing operations before non-operating items, exceptional items, interest and tax.
- (2) Profit before tax and exceptional items is defined as profit from continuing operations before tax and exceptional items.
- (3) Adjusted earnings per share excludes exceptional charges and the results of divested businesses.
- (4) The 1998 dividend excludes the 1.36 pence per share enhancement.
- (5) Interest cover is calculated before exceptional items and the financing charge related to the onerous contract provisions.
- (6) Dividend cover is calculated as adjusted earnings per share divided by dividend per share.

“the increase in the dividend reflects our confidence in our ability to respond to the challenges ahead”



PERFORMANCE AND DIVIDEND

The group performed soundly during the year and both turnover and operating profit increased. We continued to improve efficiency and control costs in the regulated businesses, and we are pleased with the continuing growth in Vertex's external order book and Norweb Telecom's turnover.

The next five-year regulatory cycle has begun with tough cost reduction targets for North West Water and Norweb Distribution. Our programme to meet them is well underway.

The company paid an interim dividend of 14.7 pence, an increase of 2 per cent, and the directors are recommending a final dividend of 30.5 pence, an increase at a similar rate. This level will form the base for future dividends and growth above this level will depend on the performance of our businesses.

The company's share price, in common with other utilities, was depressed leading up to our interim announcement. Since then, the share price has improved although it continues to reflect volatility in the sector and the market generally.

THE BOARD

We were deeply saddened by the death of our Chairman, Sir Christopher Harding, in December. He brought to us not only a sharp business brain but a stability and sense of propriety, honesty and openness. He had a feeling for the well-being of people and they responded to that.

Derek Green, the Chief Executive, and Bob Ferguson, the Group Finance Director, have retired from the board. They served the company with skill and dedication, and we

were sad to see them go. However, we are delighted to welcome John Roberts as Chief Executive and Simon Batey as Group Finance Director. The executive has determined, experienced leadership, so we can look to the future with confidence. John tells you in his review how we are changing the way we do business and how we are seeking growth

Eric Clark and Rodney Leach also retired from the board after serving the group selflessly for many years. Norman Broadhurst joined the board.

OUR PEOPLE - A KEY RESOURCE

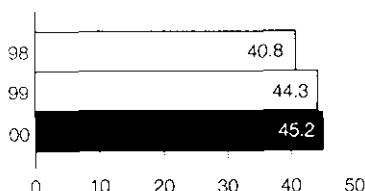
Our employees are key to achieving our strategy, and we are committed to improving their skills to meet changing needs. We welcome the independent recognition of the Investor in People, Charter Mark and ISO quality awards. But there is more to do as we seek to benefit from increasing competition and eBusiness.

LOOKING AHEAD

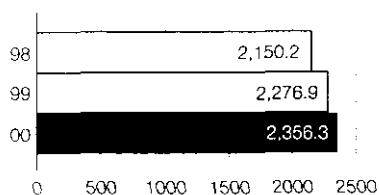
The tough regulatory reviews present us challenges. But we are confident in our ability to respond, based on our focused strategy, strong management and core skills.

We do believe customers and shareholders would benefit going forward from more stable regulation, with less emphasis on short term price cuts and more on the balance between prices and sustainable development. Towards that end, we are developing public policies on better regulation, social inclusion and environmental protection, which we hope will enable Government, regulators and companies to co-operate in the interests of customers and shareholders, current and future.

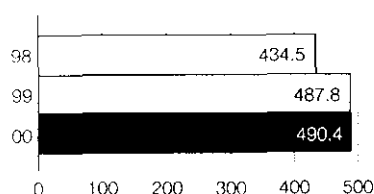
DIVIDEND PER SHARE PENCE



TURNOVER FROM CONTINUING OPERATIONS PENCE



PROFIT BEFORE TAX AND EXCEPTIONALS PENCE



“we are going to fundamentally change the way we do business”

John Roberts

John Roberts Chief Executive

We have made substantial decisions about our future...

Since I took up my appointment, the board has had to make some substantial decisions about the group, which have also helped us in determining the group's future direction.

We decided not to refer the regulatory determinations for water and electricity to the Competition Commission. They reduce the group's turnover from April 2000 by about £140 million each year and mean North West Water and Norweb Distribution have to make operating cost reductions of £400 million over five years. Whilst we have a good track record of cutting costs, it gets harder to drive out more and more savings and we must be imaginative and innovative to deliver the necessary reductions.

We are a low-risk business...

The board also decided not to cut the dividend. That was a profound decision because, in making it, we were demonstrating our determination to meet the regulatory targets and also acknowledging the kind of business the group is – that is, a low-risk business which can sustain relatively low dividend cover.

The decision to sell our energy supply business was based on the assessment that the new, and very different, trading arrangements it will have to operate within later this year will effectively make it a commodity trading business, facing new and increased risks the board is not willing to take on behalf of our shareholders.

The real challenge is to deliver growth...

Having said all that, we recognise the real challenge for us is not only delivering the cost reductions but also delivering growth. We will do that in a way that aligns with the group's core skills – we are not going to do things we do not understand.

Our strategy to meet that challenge is founded on the two things the group is good at – managing utility assets and managing relationships with customers.

Managing assets is a low-risk business. The key elements are managing both a capital investment programme and day-to-day operational expenditure, keeping costs under control while at the same time meeting customer service and quality standards.

The group, through Vertex, has developed a dynamic and flexible approach to customer relationship management. Its central feature is to bring together the disparate CRM activities which are undertaken by separate functions across an organisation.

We must outperform our targets...

We are pressing forward vigorously with the detailed programme to improve further the efficiency of North West Water and Norweb Distribution, so that, as a minimum, they make the £400 million cost reductions to meet their regulatory targets. Some of the implementation costs have already been incurred and are reflected in the year's results.

To outperform those targets, we will bring together the management and operation of these two businesses into a single unit – a licensed asset management business – to drive out more synergy benefits. The requirements are the same, on essentially the same geographical footprint.

We will actively embrace water competition...	<p>Water is itself becoming a competitive industry. As one of the biggest water companies in the UK, we see that as an opportunity and we intend actively to embrace competition.</p> <p>We will establish a customer sales business, as a separate water supply business out of North West Water, ready to participate actively in the emerging competitive water market in the UK. This will be a new business, selling services within and outside North West England and enhancing the value of our relationship with our customers.</p>
We will grow through managing other people's assets...	<p>We will establish a contract asset management business, incorporating United Utilities International. This business will build on, and proactively market, the group's core asset management skills and develop non-regulated income from managing and operating other people's assets throughout the UK as well as in selected areas overseas.</p>
We will grow in the business process outsourcing market...	<p>We market the group's skills in customer relationship management through Vertex. It will continue to provide services to group businesses and to leverage the group's customer relationship management skills into the growing business process outsourcing market.</p>
We will realise value from our telecom business...	<p>Norweb Telecom is a rapidly expanding business with great potential. But we recognise that managing a telecommunications business does not fit with our strategy. We are continuing to invest in the business and plan a partial flotation in the next 12 months to realise value for shareholders.</p>
eBusiness offers us a radical way to reduce costs and improve services...	<p>eBusiness is a great opportunity for the group. But it is not about being a dot.com company. I believe utilities are natural businesses for the world wide web – service delivery is already in place. The web gives the potential for a business to process transactions cheaply, to access customers easily and for them to access the business.</p> <p>The web offers us a radical way to reduce the cost base of the group's businesses and, at the same time, to improve services to customers. Much of what we plan to do in our businesses will be underpinned by our positive and pragmatic approach to eBusiness. There could be particular benefits, I believe, from business to business transactions.</p> <p>We are reviewing what eBusiness can do for the group and are focusing immediate efforts on priority projects to take costs out of the business. Our first initiative, the utility procurement portal announced in April 2000, will be operational later this year. We are also improving services to customers through eBusiness. An early example is our on-line bill payment and viewing facility, launched in April 2000.</p>
We have a clear vision of the future...	<p>Moving forward, our single business managing the group's own licensed assets will be focused on cost cutting and greater efficiency. The group's other core businesses – customer sales, contract asset management and business process outsourcing – will be focused on growth, controlling costs and being genuinely profitable.</p> <p>Across them all, we will embrace the benefits of eBusiness – investing in ideas and pushing new boundaries, a very different and exciting approach from anything the group has done before.</p> <p>Business as usual is not an option for us. There are opportunities to seize. We will reorganise the group, effective from October 2000, and make progress on the firm base of the group's two core skills, and we will play to our strengths in our initiatives to exploit the opportunities of competition and eBusiness.</p>



Human

The group's total impact on society ranges from water quality, visual amenity and social inclusion, to international concerns such as climate change and bio-diversity. The way we work with the communities and customers we serve, meeting special needs such as disability or problems with paying bills, also forms part of our total impact.

To demonstrate corporate responsibility we actively manage our impact for the mutual benefit of our business and society. We increasingly integrate environmental, social and economic factors within our decision-making, and work in partnership with the community to make a positive difference.

External recognition of our performance includes accreditation such as Charter Mark and awards for our open environmental and social reporting. Our 1999 survey of stakeholder opinion shows that around 80 per cent of our stakeholders agree that we are meeting their expectations in fulfilling our social responsibilities. Our annual social and environmental impact report has full details of our performance, and our web site carries regular updates.



North West Water seeks to ensure that every penny it invests delivers maximum benefits for the communities it serves. We have ploughed back over £250 million of savings from the efficient running of our services during the last five years, both in rebates to customers against their bills and in providing extra improvements to our services.

Part of our challenge going forward involves cutting the cost of running our water and wastewater services by £300 million over the five years to 2005, following the recent price review. This is on top of the significant savings in running costs we have already delivered. All the cost savings have been identified and will be achieved progressively over the next five years.

North West Water will be carrying out the largest single investment programme in the UK water industry in the five years to 2005, requiring a total capital investment of £3 billion. In fact, such is the scale of the programme that £1 of every £4 due to be invested in drinking water quality and environmental improvements in England and Wales over the next five years will be spent in North West England. This will bring both short and long term benefits for the region.

Even after the next five years of record investment in improvements, the average bill for household customers in real terms will still be lower in 2004/05 than it was in 1999/2000, and still below the national average.

“all key outputs were delivered from the five-year investment programme, and the cost reduction programme is on target”

BUSINESS PERFORMANCE

Turnover grew by 6.7 per cent in 1999/2000 (6.1 per cent 1998/99) to £1,024.2 million, of which £6.6 million was volume growth and the rest in line with regulatory price limits. Operating profit rose by 2.6 per cent to £459.7 million, compared with an increase of 17.2 per cent the previous year. However, in 1998/99, application software assets were transferred back from Vertex to put that business on the same operational basis as other business process outsourcing companies. Excluding the impact of the asset transfer, North West Water's underlying growth in operating profit was 12.6 per cent in 1998/99.

Operating costs increased by 10.2 per cent compared with 1.2 per cent in 1998/99, adjusted for the asset transfer. The most significant increases in operating costs were depreciation and additional costs associated with the capital programme. This trend of increasing underlying operating costs will continue as North West Water's substantial capital investment programme adds to the regulatory asset base. North West Water is focused on the achievement of cost reductions and delivered £14 million savings in the year. More significantly, its programme to achieve the cost reductions required over the next five years to meet its regulatory target is well underway.

CAPITAL INVESTMENT

During the year, North West Water continued its capital investment programme to improve its water and wastewater assets. Gross capital investment in 1999/2000 was £484.6 million (£521.4 million 1998/99), including £27.4 million discretionary investment (£34.9 million 1998/99). With this expenditure, North West Water completed its second five-year investment programme, achieving significant efficiencies whilst delivering the required outputs. Its total investment in improvements is some £4.5 billion since privatisation in 1989, or around £2,000 for every household in North West England.

WATER SUPPLY OPERATIONS

To maintain and improve drinking water quality, North West Water continued its compliance with the quality standards for iron, lead and manganese, further enhanced its supply and distribution facilities, and replaced 592 kilometres of water mains. It is continuing to minimise the risk from cryptosporidium at water treatment works.

Its leakage reduction programme beat Ofwat's mandatory target for 1999/2000 to cut leakage to 489 million litres a day, and North West Water is confident it will meet the target of 465 million litres a day for 2000/01.

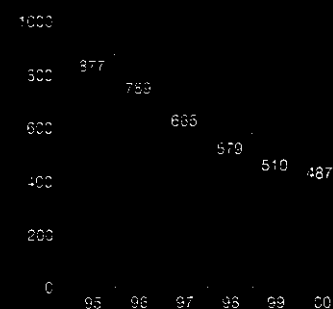
The quality of drinking water at customers' taps continued to improve and achieved 99.62 per cent compliance with the required standards.

WASTEWATER OPERATIONS

North West Water completed the improvements to its wastewater network and treatment works agreed with the Environment Agency for the 1995 to 2000 period, to meet the Urban Wastewater Treatment Directive and the National Environmental Programme to improve inland rivers and estuaries.

£ million	2000	1999	1998
Turnover	1,024.2	960.1	905.3
Operating costs	(564.5)	(512.2)	(523.1)
Operating profit	459.7	447.9	382.2

- Turnover up by 6.7 per cent to £1,024.2 million
- Operating profit up by 2.6 per cent to £459.7 million
- All key outputs delivered from five-year investment programme 1995 to 2000
- Cost reduction programme on target

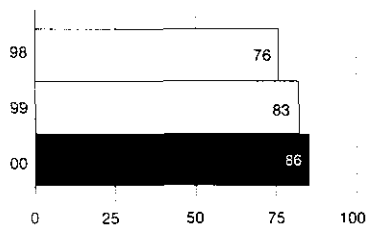


- ISO 9002 quality accreditation for all water treatment works, an industry 'first'
- Joint ISO 9002 quality and ISO 14001 environmental accreditation for key wastewater operations, an industry 'first'

HIGHLIGHTS

- Highest ever levels of customer satisfaction at 86 per cent

CUSTOMER SATISFACTION %



MANAGED ASSETS

WATER SUPPLY AND TREATMENT

- 200 impounding reservoirs
- 1,400 kilometres of aqueducts
- 110 major water treatment works
- 285 phosphate dosing and secondary disinfection sites
- 490 service reservoirs and water towers
- 565 pumping stations
- 40,700 kilometres of distribution mains

WASTEWATER COLLECTION AND TREATMENT

- 39,800 kilometres of sewers
- 1,500 pumping stations
- 200 storage tanks
- 2,000 combined sewer overflows
- 100 sea outfalls
- 625 wastewater treatment works
- 70 sludge treatment facilities

Work on the Mersey Estuary pollution alleviation scheme continued at Liverpool, Bromborough and Birkenhead to provide secondary biological treatment. The Mersey Basin Campaign was awarded the prestigious 1999 River Prize for the most outstanding achievement in river management at the World River Symposium in Brisbane. This recognised the extraordinary transformation of one of the most polluted rivers in Europe, beating over 100 entries including the Rhine, Thames and Mississippi.

All North West Water's discharges to bathing waters meet or exceed the required consents. Despite this, certain bathing waters continued to fail the EU mandatory standards. North West Water has now completed additional work at the request of the Environment Agency to further reduce stormwater discharges and to upgrade a number of wastewater treatment works.

During the 1999 season, 26 out of 37 designated bathing waters in North West England passed EU mandatory standards, and 10 received rural seaside awards (yellow flags) in April 2000. The total number of sample fails was 42 compared with the previous year's total of 65. Four bathing waters achieved EU guideline standards.

REGULATORY PRICE REVIEW

The regulatory price review set challenging targets for North West Water, including an operating cost reduction target of £300 million over five years.

North West Water also has a substantial capital investment programme of £3 billion over the next five years. The challenges include:

- on drinking water – its largest ever programme to alleviate problems from lead supply pipes and discoloured water, and reduce the risk of cryptosporidium; and
- on wastewater – the enormous challenge of improving unsatisfactory combined sewer overflows, delivering bathing water and river water quality improvements, and tackling foul flooding of properties.

Full details of North West Water's investment programme have been published as a separate report and on its web site.

EFFICIENCY INITIATIVES

Anticipating the challenge of this substantial capital investment programme, North West Water has already re-tendered its engineering services contract. By appointing Montgomery Watson, it has secured cost savings and professional expertise which is particularly well-suited to the change in scope of the investment programme.

The regulatory price reductions in April 2000 reduce turnover by approximately £85 million each year, with a five-year target of £300 million cost savings. All the cost savings have now been identified and will be achieved progressively over the five-year period. At least £28 million of savings are expected to be delivered in the first year, increasing the following year to around 80 per cent of the required average annual savings.

One initiative already implemented, in April 2000, is the outsourcing of North West Water's reactive network repair and maintenance, employing in excess of 500 people. This, together with other productivity and procurement savings, will underpin the achievement of the first year's target.

Further productivity and procurement savings are to be secured in subsequent years which, together with the progressive rationalisation of North West Water's property portfolio, are expected to achieve the overall cost reduction target.

Recognising the potential that eBusiness offers, in April 2000 North West Water became the first major UK utility to offer some customers the opportunity to both pay and view their bills on the Internet.

COMPETITION

Competition has been limited to date, but the pressures are increasing in both the business and domestic markets. North West Water has put in place a comprehensive programme of activities to meet the requirements of the Competition Act, which came into force on 1 March 2000.

WHAT'S CORE TO UNITED UTILITIES' FUTURE

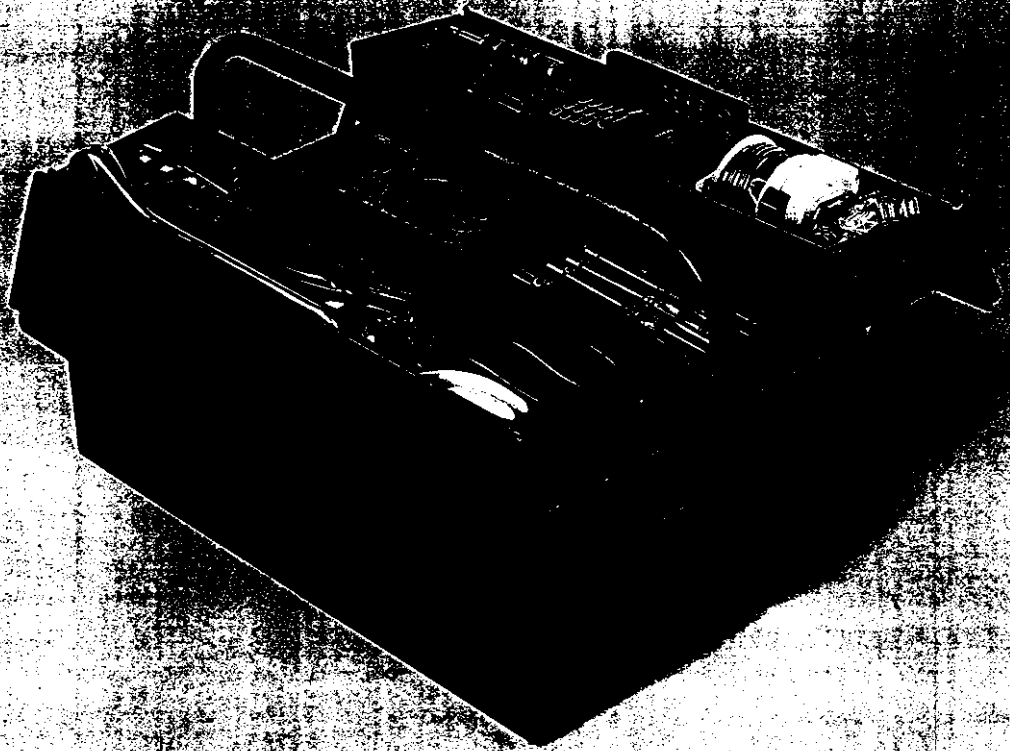
asset management

Managing assets is a low-risk business. It demands managing a capital investment programme and controlling day-to-day operational expenditure, keeping costs to a minimum whilst delivering service and quality to customers.

In North West England, our electricity distribution network of overhead lines and underground cables achieved availability of supply of 99.98 per cent and met its five-year quality of supply targets. We also operate one of the largest and longest-established

water and wastewater infrastructures in the world. During the 1990s, we invested some £4.5 billion, and met all our regulatory output targets. Over the next five years we will invest a further £3 billion – the biggest single upgrade programme in the UK water industry – raising standards for customers.

Our core skills enable us to win major overseas contracts for the long term management of assets – in Australia, eastern Europe, the USA, Canada, Argentina and the Philippines.



Making an impact for customers in Cumbria

The constant availability of electricity has a major impact on society. To improve the reliability of the electricity distribution network for customers, Norweb Distribution developed its Cumbria Plan.

Customers in Cumbria had suffered extreme disruption to their electricity supplies over two successive Christmas holiday periods in 1997 and 1998. With wind speeds up to 114 mph, the severe weather caused damage to our network and supply interruptions to 130,000 customers.

The Cumbria Plan is a series of short and long term initiatives designed to reinforce the overhead line network in Cumbria. Revolutionary new technology is being introduced, some of it for the first time in Europe, as part of the five-year £32 million

project. This includes treating the insulators that support overhead lines with a material to protect them against salt contamination.

Development of the plan included local consultation with MPs, Consumer Committees, Councils and customers. We explained our proposals and listened to feedback to ensure that all the relevant issues were addressed. A leaflet has been distributed to 150,000 households in the area to keep customers informed of the work being carried out.

The plan is aimed at reassuring customers that we take the disruption they experienced seriously. Norweb Distribution is committed to improving the reliability of its network in Cumbria and to the effective management of its assets.

“Norweb Distribution continued to make operating cost savings and achieved its five-year target for quality of supply”

BUSINESS PERFORMANCE

Turnover fell by 3.1 per cent to £346.0 million (4.2 per cent rise 1998/99). The difference was primarily because of changes in income under/over recovery positions of £11.9 million.

Operating costs fell by 0.5 per cent. An increase in depreciation of £10.5 million relating to new IT systems was offset by operating cost savings of £11.4 million. This compares with a rise of 6.1 per cent in 1998/99 which resulted mainly from the start of competition in electricity supply.

Overall, therefore, operating profit was down by £10.3 million to £147.2 million in 1999/2000, a 6.5 per cent decrease compared with a 1.9 per cent increase in 1998/99.

CAPITAL INVESTMENT

The capital investment programme continued to improve the reliability of electricity supply to customers in line with the demanding targets agreed with Ofgem. Capital investment reduced to £138.2 million in 1999/2000 (£150.0 million 1998/99), reflecting a stable level of expenditure on asset replacement and a lower amount than in previous years on new IT systems.

The IT systems have enabled the business to manage effectively and efficiently the relationships with the electricity supply companies which, in the competitive market, are able to serve all customers in Norweb Distribution's area.

QUALITY OF SUPPLY

The latest quality of supply report, published in August 1999, for the performance of Norweb Distribution's network for the year 1998/99, showed that supplies were available 99.98 per cent of the time – including the impact of the severe Christmas 1998 storms. This sustains its high level of performance in managing the network to maintain constant electricity supplies for customers.

REGULATORY PRICE REVIEW

In December 1999, the regulator's final determination on the price review was published.

This set the business significant challenges in terms of cost reduction and increased levels of customer service. The regulatory price reductions in April 2000 reduce turnover by approximately £55 million each year, and Norweb Distribution has been set an operating cost reduction target of £100 million over five years.

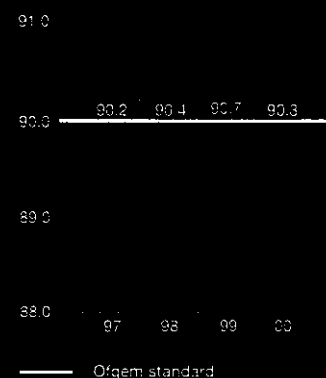
EFFICIENCY INITIATIVES

The £100 million cost reductions, all of which have been identified, will be achieved progressively over the five-year period. Already £42 million has been secured by initiatives put in place since the base year used by the regulator. Norweb Distribution has reduced manpower by 25 per cent since 1996, carried out centralisation initiatives, taken part in international benchmarking studies to improve its performance, focused on the fault restoration process, and introduced outsourcing where cost-effective to do so.

Its key priorities are to focus on its core activities, and to continue to benchmark and market test its activities. In this way Norweb Distribution will continue to drive costs out of the business.

£ million	2000	1999	1998
Turnover	346.0	357.2	342.7
Operating costs	(196.8)	(199.7)	(188.2)
Operating profit	147.2	157.5	154.5

- Cost reduction programme on target – over 40 per cent already secured
- All overall standards targets agreed with Ofgem achieved
- Five-year target for quality of supply achieved

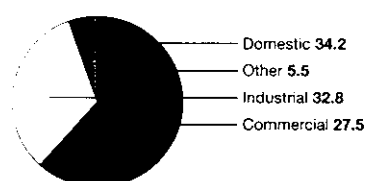


- 93 per cent domestic customer satisfaction
- Charter Mark awarded for the third time
- Investor in People accreditation

ANNUAL DISTRIBUTION

- 23.800 GWh of electricity

UNITS DISTRIBUTED BY CUSTOMER CLASS %



MANAGED ASSETS

- 14.000 kilometres of overhead lines
- 45.000 kilometres of underground cables
- 32.000 sub-stations

Improved productivity and efficiency will deliver a further £18 million of savings over the five years through changes to working practices, greater flexibility and a partnership between employees and unions supported by a voluntary redundancy programme.

Norweb Distribution has sought efficiency savings in its arrangements with support service providers, which will generate a further £15 million of savings over the five years. This is delivering existing services more efficiently in line with business needs.

The formal separation of the public electricity supply licence into separate licences for supply and distribution gives Norweb Distribution the opportunity to save a further £25 million over the five years. Many services which, in the past, were carried out on its behalf by Norweb Energi, such as marketing, administration and regulation, have either been eliminated or transferred to its control and integrated with existing processes to increase efficiency.

All these initiatives will increase annual savings to £12 million in the first year. The annual savings to secure the remainder of the five-year £100 million target are expected to be in place next year.

Additional cost reductions are to be delivered from initiatives such as the procurement consortium and the European multi-utility procurement portal, which is expected to be operational in the third quarter of this year.

RESULTS OF BENCHMARKING

For the second year running, Norweb Distribution took part in an international benchmarking programme to compare its performance and practices against other electricity companies around the world. This confirmed its plans and identified the progress it had made.

As a result, Norweb Distribution has centralised its fault restoration teams under one self-contained department, reduced the number of depots, and will be implementing new systems in areas such as geographical

information and a modern Trouble Call system. This will help to further improve customer service and efficiency.

CUSTOMER SATISFACTION

A customer satisfaction survey was carried out in autumn 1999. This indicated that 93 per cent of domestic customers were satisfied with Norweb Distribution.

Norweb Distribution was awarded the Charter Mark in August, for excellence in public service, for the third time.

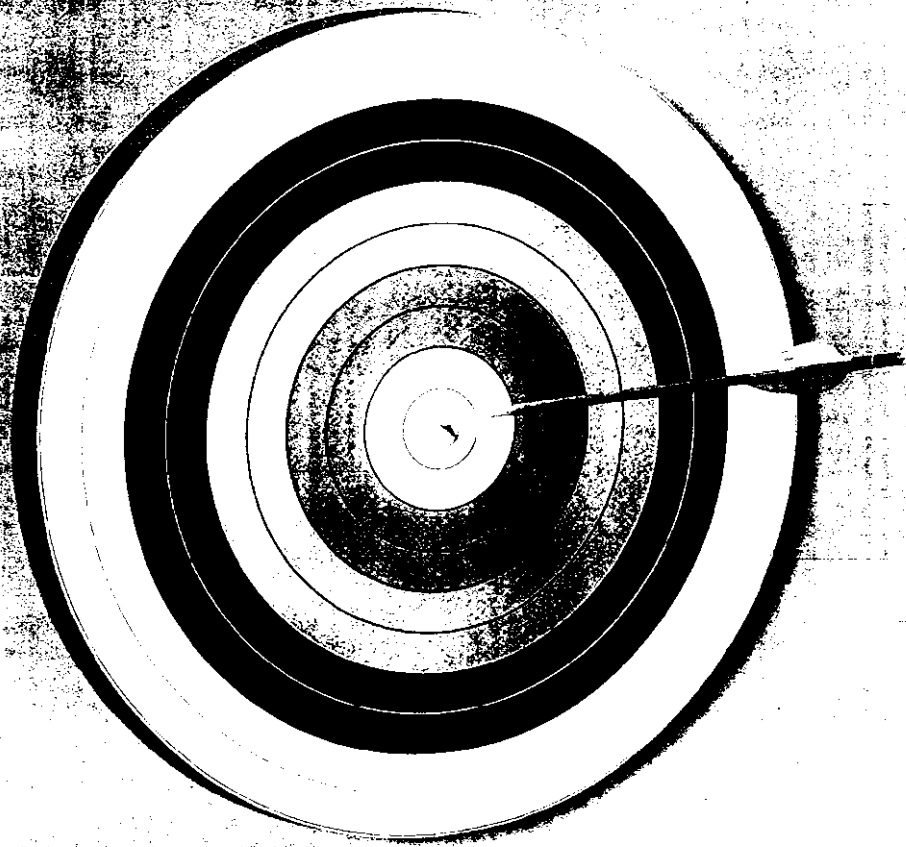
The storms which hit North West England were not as severe in 1999 as in the previous two years, but Norweb Distribution benefited from the lessons learned on those occasions. The newly established incident centre co-ordinated the efforts to restore customers' electricity supplies.

SUSTAINING QUALITY

The employee opinion survey carried out in summer 1999 showed a positive trend in Norweb Distribution's employees' level of satisfaction. Other key measures such as satisfaction with communication also showed positive trends.

Norweb Distribution was awarded Investor in People status in April 1999, and its construction and maintenance services division retained their Lloyd's Register quality assurance accreditation.

Health and safety is always of paramount concern, and the business received the Royal Society for Prevention of Accidents Gold Award in June 1999.



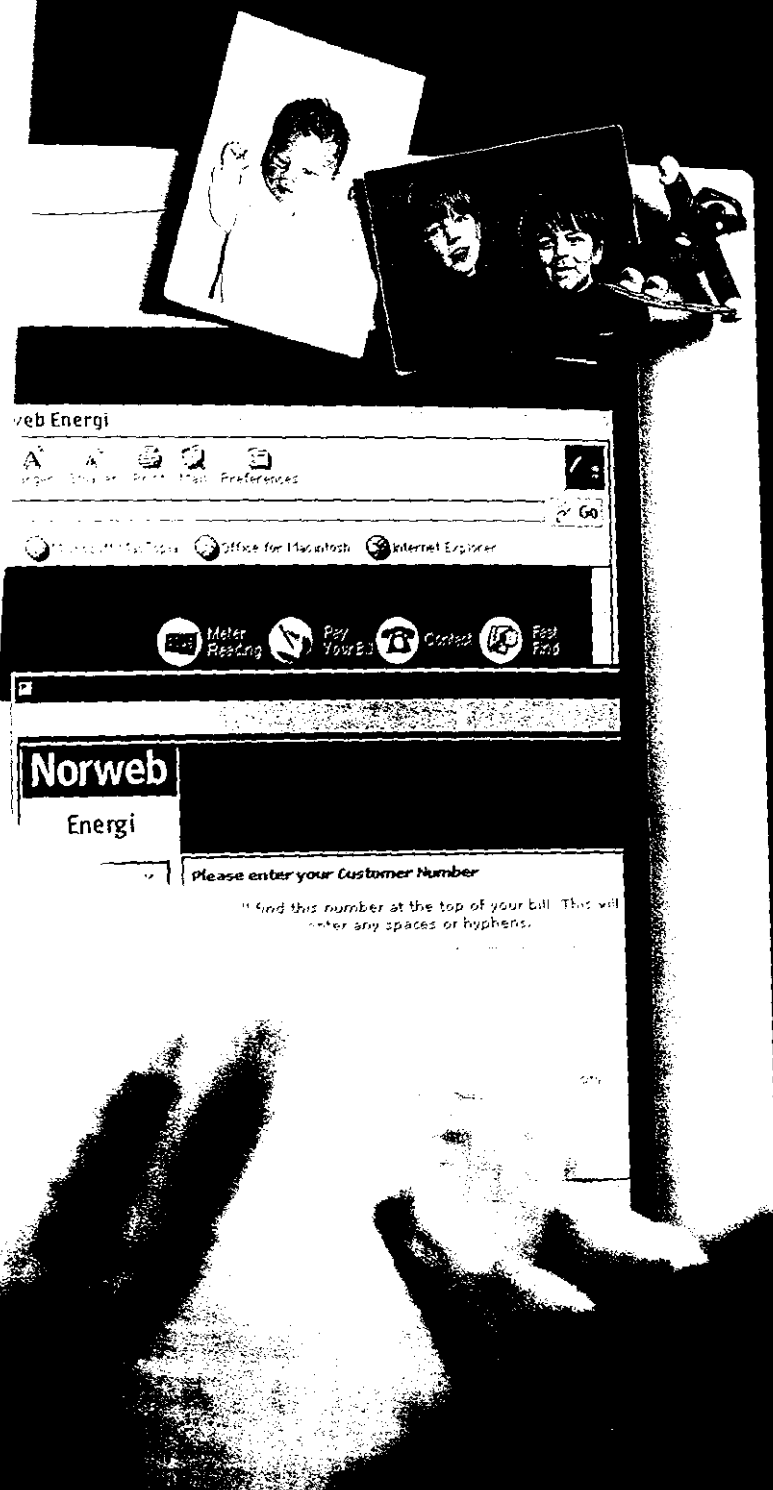
Our regulated businesses will save over £400 million in operating costs over five years

The recent regulatory price reviews have accelerated our drive for efficiency, rather than started it. We have a culture of continuous improvement. So, for example, we take part in major international benchmarking programmes to seek innovative solutions and implement the lessons. Cost reduction is a constant ongoing exercise.

We are pressing forward vigorously with our programme to meet our operating cost reduction targets of £400 million over five years: £300 million from North West Water and £100 million from Norweb Distribution.

Some 44 per cent of North West Water's contribution will be secured by initiatives in place during 2000/01. Norweb Distribution has already put in place initiatives to meet £42 million of its target.

We are maximising the potential for synergy savings, combining our regulated businesses into a single licensed asset management business to drive out additional cost savings. Delivering efficiency is not simply about cost cutting, but also taking advantage of eBusiness solutions to streamline business processes and procurement.



The Internet is a fast and efficient channel to market

During the year, Norweb Energi launched a number of Internet-based initiatives. A paperless on-line application process is successfully winning new customers at lower cost than traditional sales channels.

The Norweb Energi web site guides a visitor through all the necessary steps, from comparing information on annual costs through to signing up for gas and electricity on-line.

Norweb Energi introduced on-line meter reading for customers in March 1999, and began to promote the service on electricity and gas bills.

Customers can now pay their bill and, if they have provided meter readings on-line, view their bill on-line. This will build into a payments and billing history for customers to view.

Special needs customers can also register on-line, including selection of a visitor password to help protect themselves against bogus callers.

Other sales features on the web site include an on-line personal loan application form. Customers can apply for a Norweb Energi personal loan of up to £20,000.

The 'Saving you more and more' section of the Norweb Energi web site also offers gas boiler maintenance insurance, electrical wiring insurance, and world wide travel insurance that is hard to beat on price.

“profits were up by 37.5 per cent to £76.2 million, of which gas contributed £2.6 million”

BUSINESS PERFORMANCE

Electricity supply

Turnover was adversely affected by domestic tariff price reductions of 0.7 per cent in line with regulatory price limits, and customer losses due to the introduction of full competition.

Despite the 8.4 per cent fall in turnover, operating profit increased by 33.1 per cent to £73.6 million, partly as a result of effective management of purchase costs against highly volatile purchasing conditions but also because of the seasonal effect of customer losses. This compared with an increase of 70.2 per cent in 1998/99.

Operating profit is highly dependent on the forecasting and management of electricity purchase, which is the principal cost in the business. Operating costs included £653.2 million for electricity purchase, compared with £714.5 million and £761.1 million in the previous years.

All Norweb Energi's customers have been able to choose their supplier since the end of May 1999. During the period in which the competitive market establishes itself, the regulator has a revised form of price cap.

Under Norweb's public electricity supply licence, increases in average prices to domestic and small business customers were capped at RPI minus 3.4 per cent for the year ended 31 March 1999, and RPI minus 3.0 per cent for the year ended 31 March 2000.

A review of the supply price control was completed at the end of 1999 and, from April 2000, price control applies only to domestic customers. Charges to domestic customers will reduce in the year ending 31 March 2001 on average by 4.8 per cent, and will not increase in real terms in the year ending 31 March 2002, subject to provisions for adjustments to enable the pass through of distribution and transmission use of system charges and fossil fuel levy.

Gas supply

Norweb Energi has continued to build on its position as the leading independent gas supplier in North West England. The growth in customer numbers is supported by low-risk purchase contracts, which will underpin margins in the medium term.

Turnover grew by 40.1 per cent to £103.1 million, compared with the previous year. Despite the continuing investment in acquiring new customers, the costs of which are written off immediately, operating profit improved to £2.6 million from £0.1 million in the previous year. In 1997/98, the marketing costs and the additional overhead cost of gearing up for an increased customer base resulted in an operating loss of £6.3 million.

£ million	2000	1999	1998
Turnover	1,097.2	1,159.1	1,120.9
Operating costs	(1,021.0)	(1,103.7)	(1,094.7)
Operating profit	76.2	55.4	26.2

- Operating profit increased by 37.5 per cent to £76.2 million
- 2.3 million recorded customer accounts
- Domestic customer satisfaction at a record 90 per cent

£ million	2000	1999	1998
Turnover	994.1	1,085.5	1,097.1
Operating costs	(920.5)	(1,030.2)	(1,064.6)
Operating profit	73.6	55.3	32.5

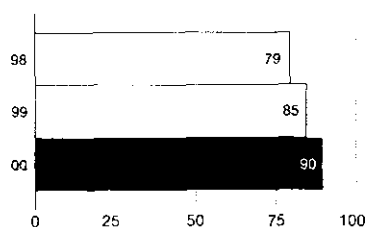
- Electricity supply operating profit increased to £73.6 million

£ million	2000	1999	1998
Turnover	103.1	73.6	23.8
Operating costs	(100.5)	(73.5)	(30.1)
Operating profit	2.6	0.1	(6.3)

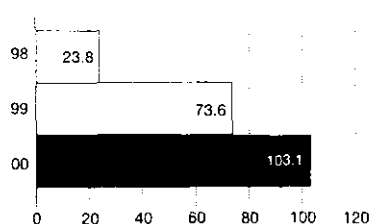
- Gas supply turnover increased by 40.1 per cent
- Gas supply operating profit increased to £2.6 million

HIGHLIGHTS

CUSTOMER SATISFACTION %



GAS TURNOVER £m



SALE OF NORWEB ENERGI

In March 2000, the group announced its intention to sell Norweb Energi. The disposal is making good progress and will be completed as soon as practicable.

The directors believe that a sale at this time will realise the greatest value for shareholders and is also in the best interests of Norweb Energi. The nature of the electricity market is changing to present new and increased risks that the directors are not prepared to take on behalf of shareholders.

NETA

The new electricity trading arrangements (NETA) are set to change the way electricity suppliers buy their electricity. NETA forms one leg of the Government's energy policy and is intended to create a more commodity-style wholesale trading market and ultimately reduce prices to the customer.

The Electricity Pool – the central organisation that generators have to sell to and suppliers buy from – is to be abolished. Suppliers in the new market will buy energy directly from the generators.

Norweb Energi's preparations for NETA are well advanced. It anticipates being in a position to take part in national trials this coming September and to go live later in the year.

ACCOUNT WINS

During the year, Norweb Energi's business sales teams retained and acquired major national energy accounts.

Iceland Frozen Foods extended its electricity contract until September 2001 for its chain of over 700 high street stores and depots. Under a partnership initiative, Norweb Energi automatically dials Iceland's on-site generators each night and down-loads a programme instructing the generators when to run the following day, based on expected electricity prices. This enables Iceland to minimise its electricity running costs and maximise the efficient use of its generators.

A contract with 168 different tariffs has been designed for Castle Cement, based in the

Midlands and with quarries and cement factories throughout the country. The business buys electricity at the best possible rate, and both Norweb Energi and Castle Cement share the benefits if Castle Cement saves the cost of electricity on certain days by switching production schedules. Castle Cement's manufacturing centres receive daily information detailing electricity price trends, to help plan production and avoid peak price times.

Norweb Energi has recaptured the contract to supply electricity to 4,000 of BT's 7,000 telephone exchanges. This is currently the largest single contract of its type in the under 100kW market in the UK.

CUSTOMER SATISFACTION

Domestic customer satisfaction has risen to 90 per cent, the highest level since tracking began.

BRAND AWARENESS

Norweb Energi is the most recognised independent gas supply brand in the UK and is now also ranked second in electricity.

Over 300,000 customers have joined the Norweb Energi Goldsaver reward card scheme, which offers dual fuel customers savings at 30,000 outlets such as Pizza Hut, Debenhams, WH Smith and Mothercare.

The partnership with Tesco, launched in 1998, allows Norweb Energi customers to earn ClubCard points from gas and electricity bills. This has been the most successful loyalty scheme in the sector, and over 500,000 Norweb Energi customers have taken up the offer. To date, they have collected over 200 million ClubCard points through the scheme.

UTILITIES BILL

This proposed legislation, which relates primarily to the energy industry, will have a significant effect on the way Norweb Energi conducts its business. It will continue to monitor the bill's progress and express its interest through the concerted efforts of the Electricity Association and other trade bodies.

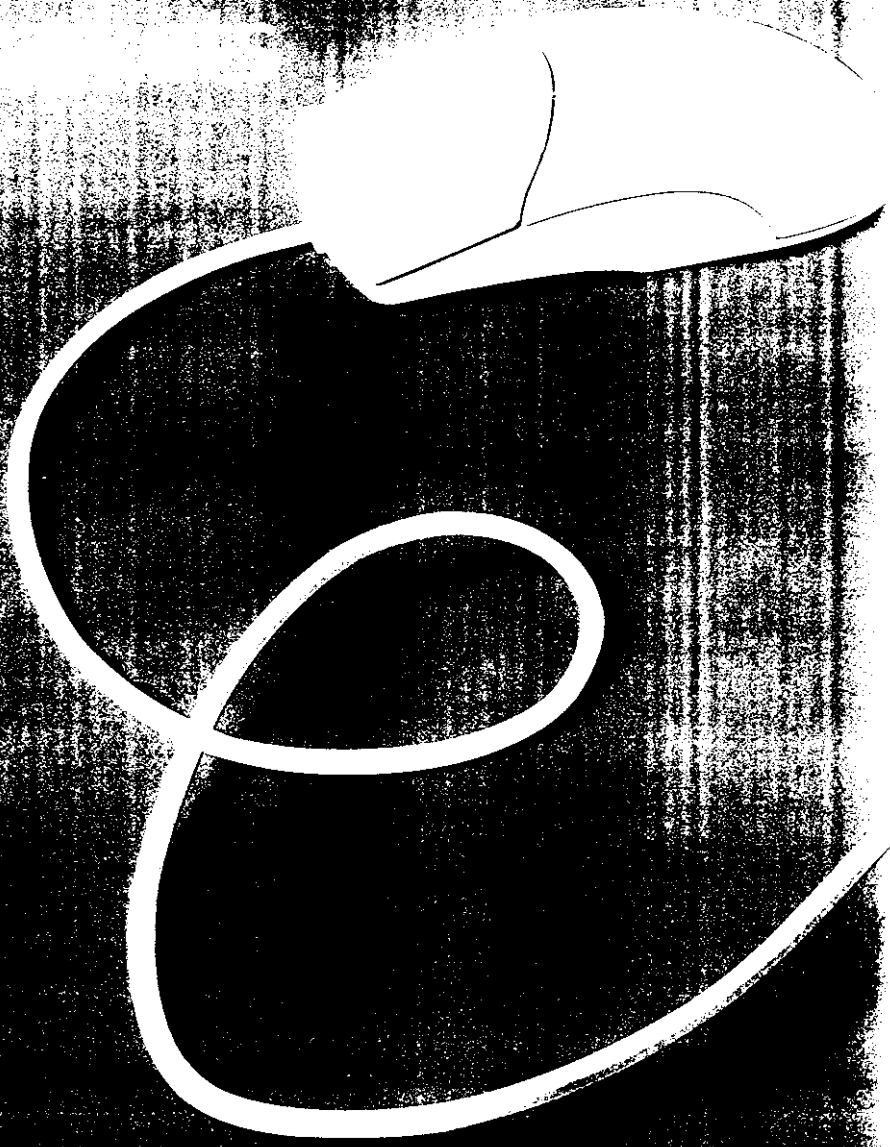
The Internet offers radical ways to reduce our costs and improve services to customers. We created an eBusiness directorate in November, reporting to the Chief Executive, and a team of directors from the business is developing cross-business projects as generic solutions. The aim is not simply to overlay Internet technology on existing processes, but to change the way we run our business.

We are creating the first major multi-utility trade exchange in Europe as a joint venture with Scottish Power and Northern Electric, both for procurement and as an interface with other major European utilities.

Our eBusiness strategy is developing services for domestic, small business and large business customers, and we are the first major UK utility to enable customers to view and pay bills on-line.

We are developing on-line processes for operational and project management, and IT areas such as recruitment, expenses management and personnel records. Our literature is a growing resource for knowledge management across the group and we are making access to the web more widely available to our employees.

Business is radically





Managing a growing business with a growing team

Managing a growing business has meant intensive recruitment across key areas of sales, product management, customer operations and engineering. Over the year, Norweb Telecom recruited on average two people a week, bringing in significant experience from elsewhere in the industry. This resulted in a 34 per cent increase in numbers to over 400 at the year end.

Building the right team with the capability to fulfil our business ambitions has been key to our success with customers. Our sales force is fully supported with product education programmes, and with an increasingly complex range of solutions we can provide technical support for customers, to identify the best approach.

We operate in a highly dynamic environment and have been imaginative in the way we use

external parties to support business expansion – particularly in construction. In the final quarter, we were delighted to extend the team when around 70 people joined us following the acquisition of *InterCell*, which strengthened our mobile and data expertise.

Key to the retention of our talent is a clear sense of purpose regarding our future, and the planned flotation is a common goal providing a focus for continued growth. Reflecting the growth in the business, Norweb Telecom moved to new offices in Manchester in November, where switch equipment has also been located. In addition, our new network management centre was opened in Bolton in November, with some 50 people and state-of-the-art facilities reflecting our existing and planned network capability.

“turnover rose by 59.2 per cent to £79.1 million, and investment in the network increased to £125 million”

BUSINESS PERFORMANCE

Strong growth in Norweb Telecom's business saw turnover increase by 59.2 per cent to £79.1 million, reflecting a rise in switched minutes of 161 per cent to 1.3 billion. This rapid growth continued the trend of previous years. In 1998/99, turnover increased by 112 per cent.

The results for 1999/2000 show an operating loss of £16.3 million compared with a loss of £5.5 million in 1998/99 and a profit of £0.2 million in 1997/98. The operating loss arose mainly from the continued investment in the business to drive future sales and profit contribution, as well as losses relating to digital powerline activities.

CAPITAL INVESTMENT

Norweb Telecom's £45 million capital investment in 1999/2000 continued the development of its national network, currently 2,500 kilometres in length. Total investment in the network now stands at £125 million. The additional investment extended the reach and increased the capacity of its network infrastructure in North West England and the Midlands, and expanded its high bandwidth inter city network linking the major towns and cities of the UK. In January, Norweb Telecom launched its business services in the Midlands following the roll-out of network capability.

FLOTATION

The group announced in December its intention to realise value through a partial flotation of Norweb Telecom within 12 to 18 months.

GROWTH STRATEGY

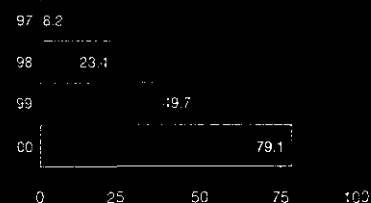
Norweb Telecom's market thrust is on focused and competitive telecommunications services for business customers. Key customers include small and medium sized enterprises, and specialist sectors such as local government, education, health and emergency services. The business is well placed in its chosen market segments to benefit from significant future growth, and it is now marketing its services on a national basis.

Norweb Telecom is seeking to broaden its product range, both organically and by acquisition. In February, it acquired Intercell Limited, a mobile telephone reseller and Intercell Communications Limited, a reseller of fixed line telecommunications. These add substantially to Norweb Telecom's business user customer base and provide a strong platform from which to develop mobile expertise and services, and fixed/mobile bundled services.

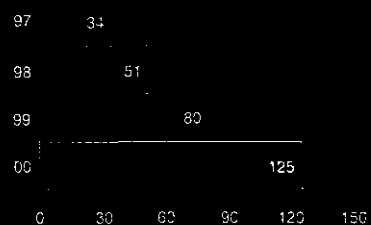
It has strengthened its resilient fibre-optic network through a combination of investment and commercial arrangements with other telecommunications operators. Through its focus on complete telecommunications solutions to the business sector, Norweb Telecom offers cost effective products and services. These include future value-added services, targeted at its chosen markets, such as virtual call centre solutions, virtual ISP, wireless ISP, unified messaging and managed data solutions. Norweb Telecom has invested £1.8 million in a new billing suite to enhance customer service performance.

£ million	2000	1999	1998
Turnover	79.1	49.7	23.4
Operating costs	(95.4)	(55.2)	(23.2)
Operating (loss)/profit	(16.3)	(5.5)	0.2

- Turnover up 59.2 per cent to £79.1 million



- Cumulative network investment up from £80 million to £125 million

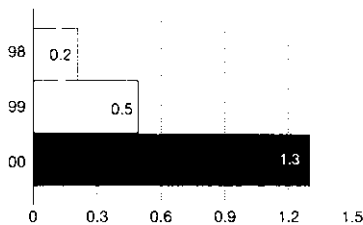


- Roll-out of network to Birmingham and London and commitment to roll out to Glasgow, Edinburgh and Newcastle upon Tyne

HIGHLIGHTS

- Switched minutes increased by 161 per cent

SWITCHED MINUTES billions



- Acquisition of Intercell in February 2000 – mobile expertise and new sales channel
- New products prepared for launch: mobile, e-commerce, data
- Major launch of business services in the Midlands

SALES WINS AND MARKETING

To enhance its sales channels, Norweb Telecom strengthened its direct sales forces, which are focused on small corporates, small and medium sized enterprises, and specialist industry sectors. Wins during the year included Shell Gas, Manchester United and Peel Holdings, and Manchester Airport extended its contract.

Contract wins in areas where it has specific sector expertise include:

- Health – National Health Service Trusts, including Lancashire, Southport and Ormskirk;
- Education – Lancaster University and Liverpool John Moores University; and
- Emergency Services – Cumbria Police, Greater Manchester County Fire Service and Lancashire Constabulary.

Following the completion of its network to the Midlands and its initial metropolitan area network in Birmingham, Norweb Telecom launched services in the Midlands in January. Initial sales wins include Eversheds solicitors and Firmin.

Norweb Telecom markets its flexible solutions for business customers with innovative advertising. A good example is its high profile advertising within Manchester Airport, including the newly branded Norweb Telecom bridge unveiled during the year. It launched the 'Norweb Telecom always ahead' campaign in January.

PRODUCTS AND SERVICES

Norweb Telecom has accelerated its product development, through the effective implementation of available telecommunications solutions in its chosen markets. This often involves working with partners who are industry leaders in their respective fields and who have undertaken the primary research and development. The product range is developing away from

predominantly fixed voice services towards voice and mobile data solutions and eBusiness.

During the year, Norweb Telecom launched an advanced private branch exchange (PBX) solution specifically targeted at small and medium sized business customers. In addition, a range of innovative products to be marketed as simple solutions to business will be introduced during 2000/01.

NETWORK DEVELOPMENT

The network comprises 80 points of presence. During the year, Norweb Telecom increased its network reach to around 2,500 kilometres, comprising synchronous digital hierarchy (SDH) fibre based network and local access networks, combining to form the high speed inter-city network. It is also rolling out dense wave division multiplexing technology (DWDM), which will increase future capacity substantially.

Metropolitan area networks in Manchester and Birmingham will be enhanced in future, with further networks expected in specifically targeted regions.

DIGITAL POWERLINE TECHNOLOGY

In September 1999, the group announced its intention to close its digital powerline joint venture with Nortel. Despite the proven ability of the technology, the projected volumes and profitability within the competitive broadband access market were considered insufficient to justify the investment required. Accordingly, the NOR.WEB DPL business, as well as Norweb Telecom's digital powerline project in North West England, were discontinued. However, the group is exploring ways to maintain an interest in the potential of this technology.



Every employee plays a role in business success, and our goal is to develop a co-operative, positive culture across the group. We aim to be forward-looking, keeping a step ahead of customer needs and changes in our markets, and demonstrate our commitment by investing in all employees.

Internal business plans are well communicated, and employees have personal goals and development plans aligned with business goals. All our UK businesses – North West Water, Norweb Distribution, Norweb Energi,

Norweb Telecom, and Vertex – have been awarded Investor in People status. We pioneer ground-breaking trade union partnership agreements, for example between Vertex and UNISON, and involve employees in company policy through structured consultation.

The employee sharesave scheme helps to strengthen involvement and brings together the interests of employees and shareholders. The year saw a record take up, increasing the number of employees involved in the scheme from 63 per cent to 71 per cent.

In March 2000, Vertex signed a 10-year contract worth up to £140 million to provide operator services to telecommunications giant Cable & Wireless. This is a highly significant contract win in a target market, and paves the way for further expansion in the sector. Services include national and international directory enquiries, Call Connect for mobiles, operator assistance and 999 emergency service facilities. Over 1,000 employees have joined Vertex under the arrangement.

Vertex is a leading player in UK business process outsourcing. Its primary focus is on customer relationship management (CRM), a rapidly expanding outsourcing sector. Effective CRM is a valuable source of operational efficiency and competitive advantage. Competitive and governmental pressures are forcing private and public sector organisations to adopt CRM

strategies and increasing numbers are seeking help through outsourcing arrangements.

The Cable & Wireless contract is in line with Vertex's targets and grows its external order book to nearly £220 million. The contract substantially changes the balance of its business portfolio, significantly increasing its revenue from outside the United Utilities group.

Vertex solutions are backed by excellence in training, communications, people management, culture change management, and business transformation – critically important components in successful outsourcing. Through its performance and development process and improved training and coaching, Vertex aims to recruit, retain and develop a skilled and motivated workforce to deliver improved services to Cable & Wireless customers.

“Vertex has grown its external order book to nearly £220 million, and substantially changed the balance of its business portfolio”

BUSINESS PERFORMANCE

Sales growth in the year of 12.3 per cent to £183.0 million reflected increasing volumes in both external business and internally managed services for group businesses. The Littlewoods BetDirect, Independent Energy and London Borough of Ealing contracts are now fully operational, and internal group customers have increased their service requirements in several process areas. Operating profit increased by 7.8 per cent to £12.5 million, mainly reflecting the impact of increased sales.

In 1998/99, application software assets were transferred back to North West Water to put Vertex on the same operational basis as other business process outsourcing companies. Excluding the effect of these changes, turnover and operating profit were respectively 3.3 per cent and 17.2 per cent higher in 1998/99 than the previous year.

External turnover grew by 65.7 per cent to £16.4 million, compared with £9.9 million in 1998/99 and £3.2 million in 1997/98. External sales accounted for 9.0 per cent of turnover in 1999/2000, compared with 6.1 per cent in 1998/99 and 2.0 per cent in 1997/98.

Continued success in its target markets (the private sector, the utilities and the public sector) during 1999/2000 demonstrated substantial progress in its strategy for winning external business. The external order book grew by 170 per cent to nearly £220 million.

NEW CONTRACTS

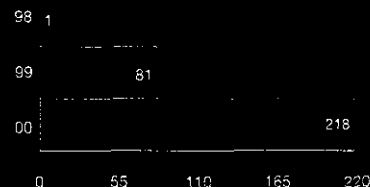
In March 2000, Vertex signed a 10-year contract worth up to £140 million to provide a range of operator services to Cable & Wireless. This contract win is a key stage in Vertex's development, underpins its external market expansion, and significantly increases its revenue from outside the group. There are more details on page 22.

In April 1999, Vertex was awarded an extended five-year contract worth £30 million with its existing customer, Littlewoods, to manage BetDirect, the telephone-based betting service for a wide range of sporting events. The initial contract was intended simply as a pilot, and allowed Littlewoods to trial BetDirect in Scotland. But it proved so successful that Littlewoods decided to continue the outsourcing arrangement when it launched the service nationally.

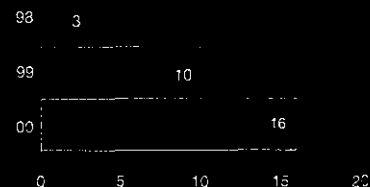
Vertex helped Littlewoods to benefit from a vitally important, fast start-up operation, using state-of-the-art customer contact centre technology. In just over four weeks, Vertex and BetDirect successfully created an exclusive package to service BetDirect's initial needs. This included specialist training on new software; provision and management of an IT infrastructure including PCs, servers and networking; provision and management of all telephony; and the recruitment and training of a highly skilled team of customer service representatives. The tailor-made service now includes a multi-site, virtual call centre configuration allowing for flexibility and expansion of services to cover peaks in call volume.

£ million	2000	1999	1998
Turnover	183.0	162.9	193.8
Operating costs	(170.5)	(151.3)	(165.2)
Operating profit	12.5	11.6	28.6

- Turnover increased by 12.3 per cent
- External order book grew by 170 per cent



- £140 million contract with Cable & Wireless for operator services
- £30 million contract with Littlewoods BetDirect



- Business-wide ISO 9000 quality assurance
- Investor in People accreditation

CUSTOMER CONTACT CENTRES

- Warrington
- Bolton
- Knowsley
- Ealing
- Glasgow
- Birmingham
- Plus billing and payments centre and two IT data centres in Warrington

CURRENT SERVICES

- CRM (transactional and added-value)
 - Customer contact solutions
 - Call centre implementation and management
 - Data mining
 - Customer segmentation
 - Customer analysis
- Customer services
 - Telephony (customer enquiry handling)
 - Operator services
 - Tele-marketing (inbound and outbound)
 - Housing benefits administration
 - Fault management
- Billing services
 - Bill payment
 - Bill despatch
 - Payment processing
 - Document handling
- Field services
 - Meter reading
 - Meter fixing
 - Meter inspection
- IT services
 - Infrastructure management
 - Support and maintenance
 - IT service desk
- IT programmes
 - Technology solutions for clients
- IT business solutions
 - Technology solutions for new business
 - Strategic product development

In January 2000, the London Borough of Ealing extended Vertex's contract to manage its benefits administration services.

Vertex had responded to the original challenge by improving accuracy in the assessment of benefits, improving the recovery rate of over-paid benefit, and creating a more defined and efficient interface between the benefits service and other council departments. This was underpinned by investment in new IT.

Following the greatly improved service delivery performance, Vertex was asked to implement the optional, more complex, anti-fraud requirements of the verification framework under the Fraud Act.

The smooth transfer of council employees under TUPE regulations, allied to Vertex's close working relationship and national Best Value framework agreement with UNISON, were vital factors in the early stages of the seven-year contract.

During the year, Vertex signed a consortium agreement with PricewaterhouseCoopers and Oracle to offer one-stop customer service solutions incorporating design through to delivery of integrated end-to-end customer service operations.

Also during the year, vts (the new brand name for Vertex Training Services) won two contracts with Bethell Engineering and SCECO, a Saudi Arabian electricity company, and also signed a three-year deal with Fusion Provida.

DEVELOPING EMPLOYEE RELATIONS

Vertex is actively working with trade unions to establish partnership approaches. This has created a positive and constructive employee relations environment.

For example, UNISON and Vertex have jointly bid for and received Department of Trade and Industry funding for the programme, Learning to Work in Partnership, supported by Ruskin College, Oxford.

Vertex also has a partnership agreement with the AEEU, GMB and TGWU within field services. Its national agreement with UNISON in local government has facilitated an agreement in principle at Ealing to move to competence-based pay from service-based pay.

Vertex is also actively engaged in discussions with the CWU in relation to the Cable & Wireless contract, quickly establishing a positive relationship.

QUALITY ASSURANCE

Vertex has now been awarded a company-wide certificate of ISO 9000 quality assurance. This means it joins a select group of companies with such a certificate, and is another powerful message to the external market that Vertex is a business whose success is founded on quality.

In July, Vertex achieved investor in People status, independent recognition of the quality of its training and development programmes and employee communications. The development of its activities in the wider market place requires the continued provision of high standards of service by quality people.

Vertex also won national awards for employee communications and the RoSPA Gold Award for field services for the fourth time.

CHARTER MARK

Vertex helped North West Water gain the Charter Mark for the first time, and helped Norweb achieve the Charter Mark for the third consecutive time.

The London Borough of Ealing was also awarded a Charter Mark for its benefits service. This was a fast-track application and Vertex made a significant contribution to its success.



help

Customer relationship management is defining the way we do business

The successful organisations in the 21st century will acquire the right customers, at the right cost and maximise their value through effective customer relationship management (CRM). By listening to what customers say, understanding what they want and building genuine relationships, organisations will identify and retain their most profitable customers.

Vertex has developed a dynamic and flexible approach to CRM. Its central feature is to bring together the disparate CRM activities which are undertaken by separate functions across an

organisation. By integrating transactional-based CRM activities with value-enhancing CRM activities (such as data mining, customer segmentation and behavioural analysis), clients can build profitable relationships with their customers.

People, process management, systems, technology and infrastructure underpin the approach. In a year, Vertex handles over 100 million telephone calls, prints and sends out 36 million bills, processes 53 million payment transactions and collects over £2 billion in revenue for its CRM clients.

Asset management skills win new contracts in target markets

United Utilities International has established a presence in its target market of eastern Europe. In November 1999, it signed a strategic partnership agreement with the Municipality of Bielsko-Biala in Poland, to provide the expertise to improve the quality of their water and wastewater services. United Utilities International and International Water (UK) Limited also acquired approximately 25 per cent of the shares in Aqua S.A., the water and wastewater utility which serves Bielsko-Biala and neighbouring communities. The city, with around 200,000 people, is one of the largest in the south of Poland, and Aqua serves a total population of over 300,000. Aqua has been engaged in a capital investment programme, largely funded through a World Bank loan, to upgrade its facilities and management systems.

In December, United Utilities International and International Water secured a contract to operate water and wastewater services for Sofia, Bulgaria, with a population of 1.2 million. The consortium will invest US\$65.5 million over the next three years in Sofia's water and wastewater networks. Investment over the 25 years of the concession will total more than US\$200 million. Drawing on the core skills of United Utilities and International Water, the joint venture will develop new facilities, comprehensively refurbish the water supply system and establish a customer service centre.

The Sofia water and wastewater concession is seen as an important feature of the city's development. It will be closely watched by other European cities currently preparing to privatise their water and wastewater services.

“International continued to deliver improved operating performance and won new contracts”

BUSINESS PERFORMANCE

Operating profit improved by £2.9 million reflecting the improvement in operating performance and effective targeting of development expenditure. The results benefited from the successful commencement of further operations in Australia and Scotland and additional contracts for the operation of water and wastewater assets by US Water.

The trend of increasing operating profit, including associates, reflects contributions from the new projects together with steady improvements from existing activities. This was in spite of the deep economic recession in Argentina which, together with new lower tariff arrangements and federal tax reform, meant that EDEA suffered a decline in profitability in the year following a very strong performance the previous year.

United Utilities International continued its focused and lower cost approach to opportunities, to meet the group's strict financial and area criteria. International development projects are inherently speculative and can take several years to come to fruition. The group's objective is to secure long term investment and operational sources of income whilst limiting its financial exposure.

ARGENTINA – EDEA ELECTRICITY DISTRIBUTION AND SUPPLY

EDEA, the group's joint venture electricity distribution and supply company, continued to deliver excellent value to its 400,000 customers in the Province of Buenos Aires, despite the economic recession which adversely affected trading conditions.

Although a recovery in the country's economy appears to be underway, the next 12 months remain challenging. The company is accelerating plans to reduce its cost base, improve gross margins and develop non-regulated business ventures. It is also introducing new commercial and technical measures aimed at reducing energy losses and improving payment and collection, whilst enabling poorer customers to obtain affordable electricity.

The company is also reinforcing its high voltage transmission system to reduce energy costs and improve security of supply during peak demand. A new 132kv transmission line will be commissioned within 12 months and, as part of the longer term strategy, EDEA is developing a new 500kv line into its major demand centre.

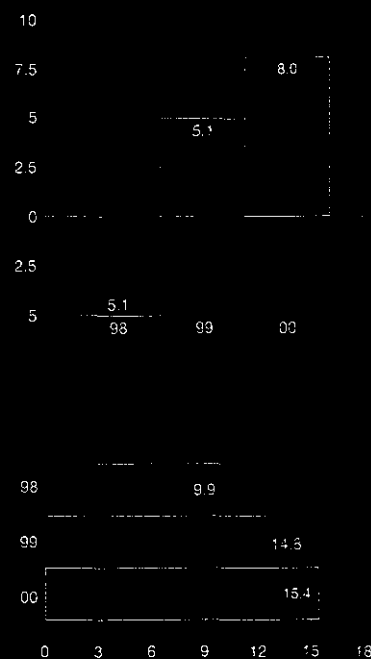
AUSTRALIA

The construction phase of the Riverland Water project in South Australia was completed in September. The 10 water treatment plants were commissioned five months ahead of schedule, and some 150,000 residents are now able to drink clear water from the tap.

In May 2000, United Utilities Australia signed a contract with Queensland Nickel Industries to design, build and operate an advanced industrial wastewater treatment plant to recover process water from mine wastes.

£million	2000	1999	1998
Turnover	9.3	7.5	7.7
Operating profit before development costs	15.4	14.8	9.9
Development costs	(7.4)	(9.7)	(15.0)
Operating profit/(loss) after development costs	8.0	5.1	(5.1)

- Operating profit after development costs increased to £8.0 million



HIGHLIGHTS

- New contract wins in Bulgaria and Poland, in eastern Europe target market
- Australia – award of a contract for a design, build and operate industrial wastewater project in the mining sector
- Manila Water Company – continuing improvements in service quality and financial performance
- Scotland – successful commissioning of Inverness wastewater treatment works and start to construction at Tay
- Scotland – award of preferred bidder for Moray Coast wastewater PFI scheme

CANADA

NWW Canada signed an agreement with York Region, Ontario, to provide project management services for design and construction of the \$30 million state-of-the-art Georgina water treatment plant. It will also undertake an advisory role during the operational phase. This contract extends its successful joint activities with the York Region.

MANILA WATER COMPANY

Significant improvement was made in the company's financial performance during the year. In late 1999, successful negotiations were held with international and local banks to put funding arrangements in place up to 2003.

The provision of water supplies to depressed communities accelerated and the territory management concept was successfully implemented. This improved customer service and over 50,000 households were connected, bringing the number connected to over 390,000. Overall quality compliance was 98.8 per cent for 1999, and billed volume increased from 594 to 650 million litres a day.

SCOTLAND

Highlands wastewater scheme

The first full year of operation of the Fort William wastewater treatment works was completed without a tariff failure day, generating 100 per cent of eligible income. The plant is already making a positive environmental impact, with significant improvement in the quality of the receiving water.

In April 2000, the operation achieved ISO9002 quality assurance and ISO14001 environmental accreditation.

Commissioning of the new Inverness wastewater treatment works began in the early part of 2000.

Tay wastewater scheme

Detailed design work on the £100 million Tay wastewater scheme for Dundee and Angus is well underway and the site is fully established. Construction has started and is making rapid progress to a tight timescale.

This is the second major public finance initiative (PFI) contract to be awarded by the

North of Scotland Water Authority to the Catchment consortium, owned by United Utilities, International Water and Morrison Construction. Catchment will design, build, finance and operate the project. The 28-year operation and maintenance contract will be undertaken by Caledonian Water, a subsidiary of United Utilities.

Moray Coast wastewater scheme

In May 2000, the Catchment consortium was awarded preferred bidder status for the Moray Coast wastewater PFI project by the North of Scotland Water Authority. The £60 million scheme involves financing, design and construction of three new wastewater treatment works for a population of some 50,000 people. The 27-year operation and maintenance contract will be undertaken by Caledonian Water.

THAILAND

The legal dispute between Noss Consortium, in which North West Water International is a partner, and the Bangkok Metropolitan Authority, relating to the contract which was terminated by the consortium in March 1998, is now proceeding to full arbitration.

US WATER

US Water was restructured during the year to improve its efficiency. It is establishing a strong reputation and won several new contracts, including preferred bidder status for operation and maintenance of a 250 million litres a day wastewater treatment facility at Springfield, Massachusetts. The company also successfully negotiated a new contract at Southern Pines, North Carolina, for continued operation of this award-winning water treatment facility for the next seven years.

Following selection of US Water as operator, the Easton, Pennsylvania, wastewater treatment works was removed from the Environmental Protection Agency's list of violating facilities. This recognition of US Water's high operational standards restores Easton's eligibility for federal grants.

In the first year of its water services contract for Camden City, Pennsylvania, US Water has brought about significant improvements in service levels, water quality, and metering and billing services.

“sound progress with improvement in profits and robust financial ratios”



The group has made sound progress in 1999/2000 and the conclusion of the regulatory review processes during the year has given us much needed clarity on their future financial impact. Improvement in profits and a moderation in dividend growth have enabled the group to maintain robust financial ratios. Next year, dividend cover and interest cover will be substantially lower. This is entirely consistent with the low risk nature of our business and reflects the board's confidence in the strategy we are pursuing.

We are determined to meet, and where possible exceed, our regulatory targets. The way we respond to the reductions in revenues facing our regulated businesses is fundamental. We aim to reduce operating costs in these businesses by £400 million over the next five years and we have already taken action to deliver the majority of these savings. We have set aside £21.5 million in 1999/2000 for restructuring initiatives to deliver the cost reductions.

The group results for 1999/2000 are discussed below. The results of the individual business segments are discussed in the preceding business reports.

GROUP RESULTS

Financial highlights	2000 £m	1999 £m	1998 £m
Turnover from continuing operations	2,356.3	2,276.9	2,150.2
Operating profit	696.4	691.0	597.0
Profit before tax and exceptional items	490.4	487.8	434.5
Profit before tax	459.4	455.9	397.7
Profit after tax	458.0	467.9	373.5
Adjusted earnings per share	88.9p	91.4p	77.1p
Earnings/(Loss) per share	83.2p	85.6p	(7.4)p
Dividend per share	45.2p	44.3p	40.8p
Operating cash flow per share	160.7p	148.3p	127.9p
Interest cover	3.6	3.7	4.0
Dividend cover	2.0	2.1	1.9

Notes

- (1) Operating profit is defined as profit from continuing operations before non-operating items, exceptional items, interest and tax.
- (2) Profit before tax and exceptional items is defined as profit from continuing operations before tax and exceptional items.
- (3) Adjusted earnings per share excludes exceptional charges and the results of divested businesses.
- (4) The 1998 dividend excludes the 1.36 pence per share enhancement.
- (5) Interest cover is calculated before exceptional items and the financing charge related to the onerous contract provisions.
- (6) Dividend cover is calculated as adjusted earnings per share divided by dividend per share.

Turnover from continuing operations increased by 3.5 per cent in 1999/2000 to £2,356.3 million, compared with an increase of 5.9 per cent in the previous year. Growth over the period principally reflected price increases in our water and wastewater business, volume growth in telecommunications and in gas supply, offset by price cuts and the effect of competition in electricity supply.

Operating profit increased marginally during the year reflecting sound improvement in water and wastewater, energy supply and international operations, which were offset by reductions in electricity distribution, telecommunications and other activities.

Growth moderated over the previous year reflecting the changes in income under/over recovery position in electricity distribution (£11.9 million), additional losses in telecommunications (£10.8 million) as the business continued to grow rapidly, and a lower contribution from other activities (£9.9 million). Total group operating costs (excluding exceptional items) increased by 4.8 per cent in 1999/2000, compared to 1.8 per cent in the previous year.

Net interest expense for the year increased by £2.8 million to £206.0 million, compared with £203.2 million in 1998/99 and £162.5 million in 1997/98. The small increase in 1999/2000 reflected the higher group borrowings used to fund the substantial capital investment programme in the regulated utility businesses and the deferred dividend payments from 1998/99, offset by the impact of lower interest rates.

Profit before tax increased by 0.8 per cent in 1999/2000 to £459.4 million, and included exceptional charges of £31.0 million in respect of Year 2000 costs (£9.5 million) and restructuring initiatives in response to the regulatory reviews (£21.5 million).

Profit before tax increased by 14.6 per cent in 1998/99 to £455.9 million, and included an exceptional charge of £31.9 million in respect of Year 2000 costs. Profit before tax in 1997/98 of £397.7 million included £6.8 million exceptional profit on disposal of businesses and exceptional restructuring costs of £43.6 million.

Adjusted earnings per share fell by 2.7 per cent to 88.9 pence, compared to the 18.5 per cent increase in the previous year. The fall in the year reflected the absence of tax credits in 1999/2000 compared to 1998/99. The calculation of the adjusted earnings per share is set out in note 10 to the accounts.

The trend in earnings per share mirrors the movements in adjusted earnings per share. Earnings per share was also affected by the exceptional items in each year as described above. The windfall tax of £414.8 million was the principal reason for the loss per share of 7.4 pence in 1997/98.

Operating cash flow per share increased to 160.7 pence from 148.3 pence in 1998/99 and 127.9 pence in 1997/98. These increases reflect growth in our allowed revenues and improved management of working capital.

DIVIDENDS

The proposed full year dividend of 45.2 pence per share represents an increase of 2.0 per cent over the 1998/99 dividend. Dividend cover has decreased to 2.0 times. The dividend for 1999/2000 will form the base for future dividends and growth above this level will depend on the performance of the group's businesses.

TAXATION

The tax charge for the year arose from charges attributable to overseas tax and joint ventures. UK corporation tax has been and continues to be low. This reflects the impact of tax allowances on the high level of capital investment undertaken by the group and, in 1999/2000, the benefits of ACT tax planning established in earlier years.

The tax credit for 1998/99 arose due to one-off ACT savings from the delayed payment of the 1997/98 final and 1998/99 interim dividends.

The effective tax charge of 0.3 per cent compares with a credit of 2.6 per cent and a charge of 6.1 per cent in 1998/99 and 1997/98 respectively. The underlying rate is expected to remain lower than the current standard corporation tax rate of 30 per cent due to the continuing impact of tax allowances on capital expenditure exceeding accounting depreciation.

The exceptional tax charge for 1997/98 related to the windfall tax – a special one-off tax on the privatised utilities introduced by the Government.

CASH FLOWS

Operating cash flow increased to £884.3 million, from £811.4 million in 1998/99 and £684.1 million in 1997/98 reflecting the factors set out above in the description of operating cash flow per share. Tax paid in 1998/99 and 1997/98 principally reflected the payment of the windfall tax.

A significant level of investment continued to be made, mainly as a result of North West Water's capital investment programme. This investment has been made to secure higher standards of drinking water, and cleaner river and coastal waters.

The deferral of the final dividend for 1997/98 and the interim dividend for 1998/99 resulted in virtually no dividend payments in 1998/99 compared with £114.2 million in 1997/98. Accordingly, two years' dividend payments were made in 1999/2000, totalling £450.1 million.

Net debt increased by £448.9 million to £2,836.4 million at the year end. Gearing, measured as net debt divided by equity shareholders' funds, increased to 113 per cent at 31 March 2000, compared to 104 per cent and 105 per cent at 31 March 1999 and 1998 respectively.

TREASURY POLICY

Operating within policies approved by the board, the group's treasury function does not act as a profit centre and does not undertake any speculative trading activity. We ensure sufficient funding is available to meet foreseeable needs and maintain reasonable headroom for contingencies. Long term borrowings are structured or hedged to match earnings, which are largely in sterling, indexed to inflation and subject to regulatory price reviews every five years. Exposure to interest rate movements for the following 12 months is largely eliminated at the start of each financial year using short term hedges. The credit quality of counterparties and individual aggregate exposures are reviewed annually.

DEBT FINANCING

Following the regulatory reviews, the credit rating agencies reassessed our ratings. The credit ratings of United Utilities PLC are A3 long term and P2 short term from Moody's Investors Service and BBB+ long term and A2 short term from Standard and Poor's Ratings Services. The agencies have designated these long term ratings as stable.

The group's \$3.0 billion medium term and \$1.5 billion short term note issuance programmes continue to provide effective funding. Following specific investor demand during the year, the group issued £90 million of debt capital under the medium term note issuance programme. The debt was tailored to investors' requirements, with maturities ranging from three to 30 years. During the year, a total of £2.6 billion of revolving finance was raised using the group's short term note issuance programme with outstanding debt averaging £426 million during the year.

The group's net debt of some £2,836 million at 31 March 2000 comprised £1,539 million of bonds, £666 million of medium term bank derived finance, £515 million of loans from the European Investment Bank, £200 million of long term leasing, and £84 million of cash. At 31 March 2000, the group had £1,265 million of committed but unutilised medium term bank facilities.

INTEREST RATE MANAGEMENT

We manage interest rate exposure by seeking to match financing costs as closely as possible with the revenues generated by our assets. Our exposure to interest rate fluctuations is managed in the medium term through the use of interest rate swaps, and in the short term is managed through the use of financial futures contracts traded on LIFFE. The weighted average interest rate was 7.1 per cent, compared to 7.9 per cent in 1998/99 and 7.9 per cent in 1997/98.

US GAAP RESULTS

	2000	
	UK	US
	£m	£m
Result for the year	458.0	416.4
Equity shareholders' funds	2,517.4	3,090.1

	1999	
	UK	US
	£m	£m
Result for the year	468.3	261.9
Equity shareholders' funds	2,305.1	2,916.0

	1998	
	UK	US
	£m	£m
Result for the year	(39.5)	(73.5)
Equity shareholders' funds	2,046.9	2,857.7

Note

Under US GAAP, the result after taxation and minority interests and equity shareholders' funds at the year end are as shown above. Differences result principally from the differing accounting treatment of pension costs, infrastructure assets, provisions, interest incurred on construction projects, goodwill, taxation, deferred taxation and the recognition of the dividend payments. A detailed reconciliation between UK and US GAAP is set out in note 36 to the accounts.

1. SIR PETER MIDDLETON (AGE 66)

Chairman

Sir Peter joined the board as a non-executive director in January 1994.

After National Service, he joined HM Treasury, serving as Permanent Secretary from 1983 to 1991.

He is chairman of Barclays PLC and was deputy chairman of Barclays Bank and chairman of Barclays Capital from 1991 to May 1998. He is a non-executive director of Bass Plc.

Sir Peter attended the Universities of Sheffield and Bristol and was a visiting fellow at Nuffield College, Oxford from 1981 to 1989. He has been a member of the Council of the Manchester Business School and the London Business School and is Chancellor of Sheffield University.

Sir Peter is chairman of the Institute of Contemporary British History, a governor of the National Institute of Economic and Social Research and a governor of the Ditchley Foundation. He is a member of the Financial Reporting Council.

2. JOHN ROBERTS (AGE 54)

Chief Executive

John joined the board as Chief Executive in September 1999.

He had previously been a director of Hyder plc and chief executive of Hyder Utilities, and before that, chief executive of South Wales Electricity after its acquisition by Hyder.

Before joining Hyder in 1996, John had been chief executive of Manweb Plc from 1992. He joined Manweb in 1967 as a graduate trainee, having graduated from Liverpool University as an electronics and electrical engineer. He worked in engineering, corporate planning and finance before being appointed finance director in 1984 and subsequently managing director in 1991.

John is a non-executive director of Volex Plc and a member of the Royal Commission on Environmental Pollution. He has been president of the Electricity Association, chairman of Young Enterprise Wales, chairman of the Electricity Pension Trustees Limited and a member of the CBI Wales Council.

John is a chartered engineer, a Fellow of the Institution of Electrical Engineers, a fellow of the Chartered Association of Certified and Corporate Accountants and a Companion of the Institute of Management.



3. SIMON BATEY (AGE 46)

Group Finance Director

Simon joined the board as Group Finance Director in April 2000.

He had previously been group finance director of AMEC plc from 1992 and prior to that deputy finance director. He was closely involved in the reshaping of the group through a number of major investments and disposals, the development of its policy towards private finance initiatives, and the successful defence of a hostile bid for the group. He also served on the boards of Fairclough Homes Group Limited and the major French electrical contractor SPIE SA, in which AMEC is a substantial minority shareholder.

After graduating from Oxford, where he read Geography at Keble College, Simon joined Armitage & Norton (now part of KPMG) where he trained and qualified as a chartered accountant, and worked in a number of management posts. He was appointed a partner in the Manchester office in 1985. He left to join AMEC in 1987.

Simon is a Fellow of the Institute of Chartered Accountants in England and Wales.

4. JOHN BECKITT (AGE 52)

Managing Director, Norweb Energi

John was appointed to the board in 1995, having joined the group in 1994 as Managing Director, Process Equipment.

He was appointed Managing Director, Energy and Telecommunications in 1997 and is now responsible for Norweb Energi and is Chairman of NORWEB plc.

John graduated from Birmingham University as a chemical engineer in 1968 and joined ICI.

He was responsible for the design, commissioning and operation of some of ICI's major UK facilities before returning to Cheshire in a number of regional and international business management roles.

John managed the successful restructuring of a number of businesses before managing the turnaround of ICI's Soda Ash facilities in mid-Cheshire between 1983 and 1987.

John then became international business manager of ICI's Klea CFC and HFC refrigerants business before joining the group.

5. GORDON WATERS (AGE 53)

Managing Director, United Utilities International

Gordon is responsible for all the group's involvement in both power and water outside England. He joined the group in 1996, and was appointed to the board in 1997.

A qualified civil engineer and structural engineer, he graduated from the City University London in 1969. He joined a major UK consulting engineering practice before working for number of major UK construction companies involved in large civil engineering projects both in the UK and overseas.

From 1983 to 1987, he worked for Mowlem Construction becoming construction director for their regional civil engineering division based in North West England.

From 1987 to 1996, he worked for Tarmac Construction Limited, becoming managing director of the civil engineering division in 1992, and joining the board of Tarmac Construction Limited in 1993. He was responsible for all their major projects and regional civil engineering companies and specialist companies both in the UK and overseas. In 1995, he joined the board of TBV Power Limited and became additionally responsible for all Tarmac's involvement in power, both internationally and in the UK.

6. NORMAN BROADHURST (AGE 58)

Chairman of the Audit Committee

Norman was appointed a non-executive director in April 1999.

He retired from his position as finance director with Railtrack Plc in March 2000. Before joining Railtrack in 1994, he was joint deputy chief executive, finance/commercial, with VSEL Plc and prior to that, finance director.

Norman worked for Platt Saco Lowell Limited for 11 years from 1970, becoming finance director. He joined the China Light and Power Company Limited in Hong Kong in 1981 as financial controller and then divisional manager, finance and administration. In 1986, he was appointed finance director of United Engineering Steels Limited. He joined VSEL in 1990.

Born in North West England, Norman is a chartered accountant and is also a non-executive director of Clubhaus Plc, Chloride Plc, Old Mutual Plc and Taylor Woodrow PLC.

7. SIR RICHARD EVANS (AGE 57)

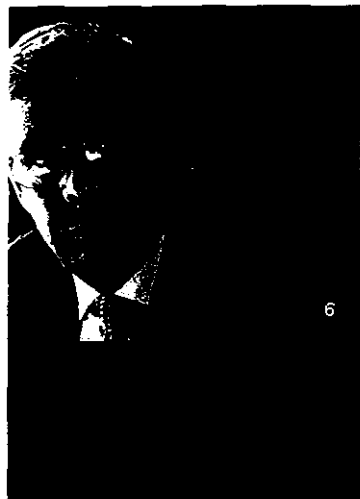
Sir Richard was appointed a non-executive director in September 1997.

Born in North West England, he has worked in the aircraft and aerospace industry for more than 30 years. He became chief executive of British Aerospace PLC in 1990, and was appointed chairman in May 1998.

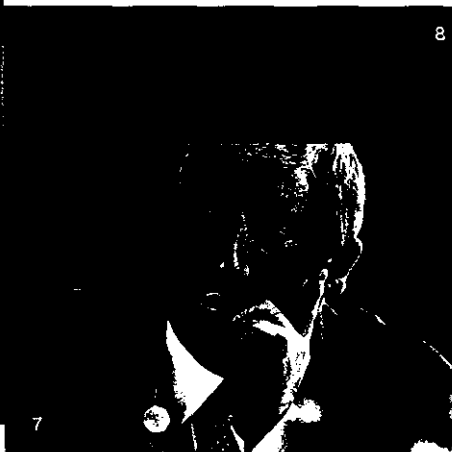
He has had a long association, through BAC and BAe, with their Warton division in Lancashire, where he was deputy managing director from 1983 to 1986. He joined the board of British Aerospace in 1987 as marketing director.

He was a director of the programme management companies for the Anglo/French Jaguar aircraft and for the Anglo/German/Italian Tornado aircraft, and a director of the Airbus company.

Sir Richard was awarded the CBE in 1986 for services to export, and was knighted in the 1996 Queen's birthday honours. He is a Deputy Lieutenant of Lancashire, an honorary member of the NSPCC Council, and the principal supporter of the BAe Charity Challenge.



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8. JANE NEWELL (AGE 56)

Jane joined the board as a non-executive director in September 1996. She is Chairman of the United Utilities Pension Scheme and the Norweb Group of the Electricity Supply Pension Scheme.

She spent 10 years as an international civil servant before reading French and Linguistics at Victoria University of Wellington, where she won a University Grants Committee doctoral scholarship. After returning to the UK in 1983, she spent eight years as administrator and fundraiser for the Liverpool School of Tropical Medicine, where she subsequently became a member of the Council, and chairman of Council from 1995 to 1997.

In 1992, Jane was appointed a founder trustee and subsequently chairman of the Maxwell Pensioners Trust by the Secretary of State for Social Security, for which work she was awarded an OBE in 1997. She is also a trustee of the Glaxo Wellcome Pension Plan and of the Dixon Group's Pension Scheme, and a director of John Snow International Research and Training (UK) Limited.

She is an external assessor for the Home Office for promotions in the police, prison and fire services, a JP on the South Western Bench in Inner London, and Pro Chancellor and chairman of the board of governors of South Bank University.

9. JOHN SEED (AGE 61)

Chairman of the Remuneration Committee

John joined the board as a non-executive director in March 1996.

John was formerly chief executive of South Western Electricity plc. A chartered engineer, he spent 29 years with Eastern Electricity, holding a number of engineering and general management posts before becoming director of engineering in 1982. He was appointed deputy chairman of South Western Electricity in 1986, becoming managing director at privatisation and then chief executive in 1992.

He is also a non-executive director of Prism Rail plc, British Smaller Companies VCT plc and Waste Power Limited, and chairman of Warren Associates Limited. He was a non-executive director of the Bath Royal United Hospital Trust from 1990 to 1997, and of Rebus Group plc from 1997 to 1999. He was chairman of Great Western Assured Growth plc from 1991 to 1997 and of Windelectric Limited from 1996 to 1999.

John is a Fellow of the Institute of Electrical Engineers and a Companion of the Institute of Management. He is also a Fellow of the Royal Society of Arts.