Unɪted Utilities Plc - 2366616

Directors' report

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

The chairman's statement, the chief executive's review and the operational, corporate responsibility and financial reviews on pages 2 to 27 report on the group's activities during the year and on likely future developments.

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

The business for the annual general meeting
Details of the resolutions to be proposed at the 2002 annual general meeting are set out in the notice calling the meeting. There is also a full explanation of the resolutions in the leaflet containing the notice, enclosed with this report.

People – key contributors to corporate success
The group's employees are key to achieving the business strategy and enhancing shareholder value. The group is making special efforts to recruit new employees from ethnic minority communities and is seeking more applications from people with disabilities. A review of key employee and safety issues arising in the year is contained within the corporate responsibility review on pages 20 to 23.

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

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

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

Fulfilling social and environmental responsibilities
As described in the corporate responsibility review on pages 20 to 23, the group seeks to manage its total impact on society as a responsible corporate citizen. Full details are set out in the company's separate social and environmental impact report, which is an important part of the company's integrated approach to reporting on the group's overall performance, together with the annual report, the annual review and the web site.

Charitable donations by the group in the year amounted to £755,392 (2001 – £806,697). 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.

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 28 and 29. 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 34 to 39.

Substantial shareholdings in the company
At 31 May 2002, the directors were not aware of any notifiable interests in the company's issued ordinary share capital.

Creditor payment policy and practice
The group does not follow any specific external code or standard on payment practice. Its policy is normally to pay suppliers according to terms of business agreed with them on entering into binding contracts and to keep to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts. The group and the company had 57 days (2001: 43 days) and 36 days (2001: 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
31 May 2002

Report on governance

The Combined Code

The board is committed to high standards of corporate governance. Throughout the year to 31 March 2002, the company has been in compliance with the provisions set out in Section 1 of 'The Combined Code Principles of Good Governance and Code of Best Practice' issued by the Financial Services Authority. This statement together with the remuneration report on pages 34 to 39 describes the way in which these principles of governance are applied within the company.

The board

The board is scheduled to meet ten times each year with additional meetings called if required.

The board has a formal schedule of matters reserved to it, which ensures that it takes all major strategy, policy and investment decisions affecting the group. In particular it is responsible for business planning and risk management and for the development of group policies including such areas as health and safety, and on social, environmental and ethical issues.

The board has adopted policies governing the rights of directors to obtain independent professional advice. The board also has access to the services of the company secretary who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. The appointment or removal of the company secretary is a matter reserved for the decision of the board.

The board has established a governance framework which encourages all directors to bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments, and standards of conduct.

Suitable training is made available to all directors upon first appointment and subsequently as necessary.

Delegating and working through committees

The directors of subsidiary companies are responsible at law for those business entities. They are tasked with the delivery of the targets set within the budgets approved by the group board and for the implementation of group strategy and policy across their businesses. United Utilities Water PLC, for example, is a sizeable business in its own right and its board includes two independent non-executive directors (Phillida Entwistle and Deborah Morton). The group's governance structure ensures that all decisions are made by the most appropriate people in such a way that the decision-making process itself does not unnecessarily delay progress.

The board has formally delegated specific responsibilities to board committees, including the audit, remuneration, approvals, nomination and treasury committees.

The roles of the audit and remuneration committees are described on pages 33, 34 and 35.

The approvals committee considers and approves expenditure and investment proposals within limits delegated by the board. Its members are the executive directors, the group strategic planning director and the company secretary.

The nomination committee meets on an ad-hoc basis and 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) together with the chief executive.

The treasury committee considers and approves borrowing, leasing, bonding and other banking facilities within limits set by the board. Its members are the chairman, the chief executive, the group finance director and one of the other executive directors together with, for more significant or complex transactions, one other non-executive director.

Chairman and CEO

Separate individuals have been appointed to the positions of chairman and of chief executive. The board has agreed clearly defined responsibilities for the roles and has adopted a set of guiding principles to govern the relationship between them. The chairman is primarily responsible for the working of the board. The chief executive is responsible for running the business and for implementing board strategy and policy.

Senior independent director

Sir Peter Middleton has been appointed as senior independent director. The terms of reference of the senior independent director state that his primary duty is to ensure that the views of each non-executive director are given due consideration. Other duties of the post include authority to call a meeting of the non-executive directors and to conduct periodic performance appraisals of the chairman.

Board balance

The board aims to maintain a balance of executive and non-executive directors. The directors have a wide and diverse range of business experience and expertise as their biographies on pages 28 and 29 demonstrate. There are presently four executive and six non-executive directors. All non-executive directors are independent and free from any business or other relationship that could compromise their independent judgement.

Supply of information

The quality of the contribution that directors, particularly non-executives, can make is directly dependent on the quality of the information they receive. Accordingly, all directors receive comprehensive information on a regular basis. Board papers are normally distributed a week in advance of the relevant meeting to allow sufficient time for directors to be fully briefed. The papers are sufficiently detailed to enable the directors to obtain a thorough grasp of the management and financial performance of the company and the operating businesses. Minutes of committee meetings are circulated to all board members.

Appointments to the board

The board initially appoints all new directors, having first considered recommendations made to it by the nomination committee. Following such appointment, the director is required to retire and seek election at the next annual general meeting. There is a process of rotation that ensures that approximately one-third of all directors are required to retire and seek re-election at each annual general meeting, and that no director serves for more than three years without being proposed for re-election at an annual general meeting.

Report on governance *continued*

Shareholders

Publications and the web

The interim report, the annual report and the annual review remain the primary means the board has of communicating during the year with all the company's shareholders. However, the board recognises the growing importance of the internet as a means of communicating widely, quickly and cost-effectively. A library of information about the company is available 24 hours-a-day, world-wide at www.unitedutilities.com. Financial news releases are made available on the site contemporaneously with release through other news channels and anyone with an e-mail address can register free of charge to receive an e-mail alert upon the posting of each new release.

Institutional shareholders

There is a planned, on-going programme of investor meetings and presentations which take place throughout the year, both in the UK and overseas. During the year, representatives of the board met with 101 different funds, representing 52 per cent of the company's issued share capital. This, together with regular announcements of significant events affecting the group and frequent updates on current trading, emphasises our commitment to keep our equity and debt investors informed of developments affecting the group. The board regards this programme as important to improve investors' awareness of the business and for the board to gain an understanding of investors' priorities.

The annual general meeting

The board encourages shareholders to exercise their right to vote at the annual general meeting. The notice calling the meeting is sent to shareholders at least 20 working days before the meeting and separate resolutions are proposed on each substantially separate issue. Presentations are made on the progress and performance of the business prior to the formal business of the meeting. Shareholders are encouraged to participate through a question and answer session and individual directors or, where appropriate, the chairman of the relevant committee, respond to those questions directly. The chairman discloses to the meeting the number of proxy votes received for and against each resolution following the show of hands on that resolution. Shareholders have the opportunity to talk informally to the directors before and after the formal proceedings.

Accountability and audit

Statement of directors' responsibilities for the accounts

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 and cash flows 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 have been followed, subject to any departure and explanation described in the notes to the accounts.

The directors have a legal responsibility 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 also have a general legal responsibility 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 external auditor's statement about its reporting responsibilities is set out on page 41.

Financial reporting and going concern

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 have adopted the going concern basis in preparing these financial statements. This is based upon a review of the group's budget for 2002/03, the five-year business plan and investment programme, together with the available cash and committed borrowing facilities available to the group. The board also took into account contingent liabilities and other risk factors as interpreted by the 'Guidance on Going Concern and Financial Reporting for Directors of Listed Companies registered in the United Kingdom', published in November 1994.

Internal control system – evaluating and managing risk

The board is responsible for the group's internal control framework and for reviewing its effectiveness. Throughout the year under review and up to the date of this report, the board has operated procedures meeting the requirements of the Combined Code relating to internal control as set out in the September 1999 guidance 'Internal Control Guidance for Directors on the Combined Code' produced by the Institute of Chartered Accountants in England and Wales. Each year the board reviews all controls, including financial, operational and compliance controls and risk management procedures. The internal control system is designed to manage, rather than to eliminate, the risk of failure to achieve the company's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The key features of the internal control system are:

- A control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business;
- Comprehensive business planning and financial reporting procedures including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- A monthly board review of key performance indicators to assess progress towards objectives;
- Monthly meetings prior to each board meeting of the group executive committee, a forum in which the executive directors, the managing directors of the group's businesses, the group functional directors and the company secretary exchange information and discuss strategic and operational issues which are of group-wide importance;
- Regular monitoring of risks and control systems throughout the year by the operating businesses;
- A self-certification process, subject to both internal and external audit, whereby the operating businesses are required to confirm that the system of internal control is operating effectively;
- A strong internal audit function to provide independent scrutiny of internal control systems and risk management procedures;
- A quarterly risk management forum chaired by the group finance director, and comprising the company secretary, the group internal audit manager and senior representatives from each of the operating businesses, to scrutinise key risks in depth;

- A quarterly sustainable development forum chaired by the chief executive, and comprising the managing directors of United Utilities Service Delivery and United Utilities Contract Solutions, the head of environment and the community and three external professional specialists, Walter Menzies, Clive Jeanes and Dr Mark Everard. The role of the forum is to advise on environmental policy and, in particular, to identify risks to the environment, recommend targets, and monitor performance against those targets;
- An annual risk assessment exercise involving self-assessment by management of all business risks in terms of impact, likelihood and control strength and an objective challenge of that assessment by the internal audit team;
- An annual health and safety performance review carried out by our in-house safety professionals in addition to the normal health and safety risk assessment and management processes carried on within each of the operating businesses;
- Centralised treasury operations operating within defined limits and subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

The audit committee and the auditor

The audit committee has written terms of reference which clearly set out its authority 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. The committee met four times in the year to 31 March 2002.

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. It also keeps under review the effectiveness of the group's internal control systems (including financial, operational and compliance controls and risk management procedures). It considers reports from the internal and external auditors and from management and reports and makes recommendations to the board.

The audit committee also keeps under review the scope and results of the external 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 external auditor, seeking to balance the maintenance of objectivity and value for money. In the year under review the fee for non-audit work was £647,000 (2001 – £746,000) which comprised £611,000 (2001 – £696,000) primarily relating to due diligence and regulatory work and £36,000 (2001 – £50,000) relating to the filing of the F3 registration statement in the USA.

All non-statutory audit or non-tax compliance services provided by the auditor must be reported to the audit committee and prior approval is required from the chairman of the audit committee for any such projects likely to incur fees in excess of £250,000. In granting such approval, the chairman of the audit committee is required to consider the cumulative proportion of fees paid for such work compared with the statutory audit fees.

In May 2002, the board established a committee, consisting of the chairman, chief executive, group finance director and the chairman of the audit committee, to conduct a formal audit tender process. The process has been initiated as a matter of good governance and to ensure that the company continues to receive best value for its audit services.

Report on remuneration

Reward philosophy

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. The group must ensure its remuneration arrangements attract and keep the right people.

The group's overall policy aims are to:

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

The board believes that share ownership is an effective way of bringing together the interests of employees and shareholders. The company promotes greater ownership of its shares by offering employees the opportunity to build up a shareholding through share option schemes. The company was proud to receive awards from ProShare in December 2001 for Best Use of Innovation in an Employee Share Plan and Best Financial Education Programme for Employees.

The company expects executive directors and other senior executives to acquire and hold shares at least to the value of their annual salary. To assist them in satisfying this minimum share ownership target, it may pay incentive awards partly or wholly in shares.

Non-executive directors

Non-executive directors are appointed for an initial period of three years, which may be renewed for further three-year terms thereafter. However, as with all directors, they are subject to re-election at an annual general meeting at least every three years. They do not have contracts of service and, in the event of early termination for whatever reason, they are not entitled to compensation. They may not participate in the performance share plan, the annual bonus arrangement, the pension scheme, the healthcare arrangements, the company share option scheme 1999, or the employee ShareSave scheme. The company repays the reasonable expenses they incur in carrying out their duties as directors.

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.

The annual fee paid to non-executive directors is £30,000. Appropriate amounts are paid for additional and special responsibilities. The chairmen of the audit and remuneration committees receive an additional £5,000 each year. A payment of £150,000 is made each year to BAE SYSTEMS plc in respect of Sir Richard Evans' duties as non-executive chairman. Sir Peter Middleton receives an additional £20,000 each year for his responsibilities as deputy chairman and Jane Newell receives an additional £15,000 each year for her responsibilities as chairman of the company's major pension schemes.

Non-executive directors' remuneration for the year to 31 March 2002 is set out in the following table:

	Total Fees	
	2002 £'000	**2001 £'000**
Sir Richard Evans	**180.0**	67.5
Norman Broadhurst	**35.0**	35.0
Sir Peter Middleton	**50.0**	150.0
Jane Newell	**45.0**	45.0
Andrew Pinder	**17.5**	–
John Seed	**35.0**	35.0
Totals	**362.5**	332.5

Notes

- Andrew Pinder became a director on 1 September 2001

Executive directors

Reward policy

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

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

The remuneration committee

The remuneration committee makes recommendations to the board on the group's framework of executive remuneration and its cost. The committee approves, on the board's behalf, the general recruitment terms, remuneration benefits, employment conditions and severance terms for executive management. It decides the specific recruitment terms, remuneration benefits, employment conditions, pension rights, compensation payments and severance terms for the executive directors and for other senior executives. The committee met six times in the year to 31 March 2002.

In its work, the committee considers fully the principles of good governance and the code of best practice. During the year, it took professional advice from within and outside the company, principally from Monks Partnership, William M Mercer and Addleshaw, Booth & Co. The board accepted the committee's recommendations without amendment. The chairman of the board ensures the company talks to its major shareholders about matters to do with remuneration.

The committee's members are Norman Broadhurst, Sir Richard Evans, Sir Peter Middleton, Jane Newell, Andrew Pinder and John Seed (who is the committee's chairman). Sir Richard Evans was appointed as an additional committee member on 29 January 2002. 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 his own remuneration.

Elements of remuneration

In deciding the executive directors' total remuneration package and individual elements of it, the remuneration committee assesses where the company should be positioned relative to other companies. It makes appropriate comparisons but treats them with caution.

The committee aims for an appropriate balance between fixed basic pay and benefits and variable short and long-term rewards. The incentive plan introduced in 1996 linked a large part of executive directors' remuneration to the group's and each individual's performance. It brought together the short and long-term interests of shareholders and executives. New incentive arrangements (the performance share plan and annual bonus arrangements) were introduced from 1 April 2000 to meet the challenges the group now faces. They strengthen the link between shareholders' and executive directors' interests. Variable or at risk pay represents almost sixty per cent of executive directors' total remuneration.

The main elements of directors' remuneration are illustrated in the table below:

	A		B		C				D	
	Gross salary		Annual bonus		Other benefits		Total emoluments for executive directors		Long-term incentives for performance periods ended	
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000	**2002 £'000**	2001 £'000
John Roberts	**366.7**	311.7	**210.1**	168.3	**21.8**	134.4	**598.6**	614.4	–	–
Simon Batey	**271.7**	260.0	**155.6**	140.4	**16.7**	140.8	**444.0**	541.2	–	–
Les Dawson	**208.8**	83.3	**119.6**	45.0	**50.0**	39.2	**378.4**	167.5	–	–
Gordon Waters	**198.8**	180.8	**113.9**	97.6	**18.3**	19.3	**331.0**	297.7	–	–
Totals	**1046.0**	835.8	**599.2**	451.3	**106.8**	333.7	**1,752.0**	1,620.8	–	–

Notes

- 50 per cent of the value of the annual bonus shown above for 2001 was awarded as conditional shares in the company to be held in trust for three years under the deferred share plan.
- John Roberts was the highest paid director in the year ended 31 March 2002.
- Benefits for 2000/01 include relocation costs of £114,100 for John Roberts and exceptional recruitment costs of £125,000 for Simon Batey and £32,000 for Les Dawson.
- Benefits for 2001/02 include relocation costs of £31,700 for Les Dawson.

A 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.

Following its annual review in 2001, the committee agreed the following changes to the annual salaries of executive directors:

	1 Sept 2001 £'000	1 Sept 2000 £'000
John Roberts	400.0	320.0
Simon Batey	280.0	260.0
Les Dawson	215.0	–
Gordon Waters	210.0	183.0

Notes

- Les Dawson was appointed on 1 November 2000 at an annual salary of £200,000.

B Annual bonus

The annual bonus motivates the executive directors and other senior executives to achieve the group's key operational and strategic objectives. Awards depend on achieving quantified financial and non-financial targets. The non-financial targets may include measures related to the licensed multi-utility operations' performance against customer service standards and the group's environmental performance. Awards can be up to 60 per cent of annual salary. Annual bonus awards may be made partly or wholly in shares where a participant has still to satisfy the company's minimum share ownership target.

For 2002, executive directors could earn annual bonus awards worth up to 60 per cent of their salary. 24 per cent was allocated to the group's PBEIT (profit before exceptional items, interest and tax) target and 24 per cent to the group's PBET (profit before exceptional items and tax) target. For each of the measures, payments would not be made until an initial target was achieved, at which point a quarter of the bonus became payable. The full PBEIT or PBET bonus element was only payable for achieving or exceeding a demanding stretch target. The remaining 12 per cent was allocated across quantified environmental and employee-related targets and a customer service target related to each of the company's water, wastewater and electricity distribution operations. If a target was achieved, the whole of the bonus allocated to that target was payable; if it was not achieved, none was payable.

The results for the year showed that the group's PBEIT performance did not meet the stretch target. Consequently, the bonus payable for this element was restricted to 21.29 per cent. The group's PBET, environmental, employee-related and customer service targets were fully achieved. This equated to an overall achievement of 95.4 per cent of the maximum.

As a result, the following annual bonus payments have been made:

	Maximum award (% of salary)	Actual award (% of salary)	Aggregate value **2002 £'000**
John Roberts	60	57.29	**210.1**
Simon Batey	60	57.29	**155.6**
Les Dawson	60	57.29	**119.6**
Gordon Waters	60	57.29	**113.9**

In previous years, some or all of the bonus was paid as contingent shares to be held in trust for a set period. Details of shares held on such a deferred basis during the year are set out below:

	Award in respect of	Contingent interest in shares at date of award		Contingent interest in shares at 31 March 2001		Contingent interest in shares added during the year		Shares transferred to executive during the year		Contingent interest in shares at 31 March 2002	
		No.	Value £'000	No.	Value £'000	No.	Value £'000	No.	Value £'000	No.	Value £'000
John Roberts	2000	10,471	69.8	11,200	68.5	850	5.3	–	–	12,050	73.6
	2001	12,906	84.1	–	–	1,091	6.8	–	–	13,997	85.5
Simon Batey	2001	10,766	70.2	–	–	909	5.7	–	–	11,675	71.3
Les Dawson	2001	3,450	22.5	–	–	291	1.8	–	–	3,741	22.9
Gordon Waters	2000	6,008	40.1	6,426	39.3	487	3.0	–	–	6,913	42.2
	2001	7,484	48.8	–	–	632	3.9	–	–	8,116	49.6

Notes

- The 2000 awards were made under the former short-term incentive plan. The values are the bonuses for that year which were paid wholly as contingent shares to be held in trust, based on a share price of 667 pence. This was the average of the mid-market prices of a share over the 30 business days starting 15 business days before 31 March 2000.
- The 2001 awards were made on 1 June 2001 under the terms of the deferred share plan whereby 50 per cent of the value of the annual bonus was paid as contingent shares (to be held in trust for three years), based on a share price of 652 pence. This was the average of the mid-market prices of a share for the three business days immediately prior to the award date.
- The value of the contingent interest in shares on 31 March 2001 is based on the mid-market price of a share on 30 March 2001 of 612 pence (31 March 2001 was not a trading day).
- The contingent interest in shares added during the year is calculated by taking the values of notional dividends payable on 1 October 2001 and 11 February 2002 on the shares in trust and dividing by the mid-market prices of a share on those dates. These were 629.5 pence and 604 pence respectively.
- The value of the contingent interest in shares on 31 March 2002 is based on the mid-market price of a share on 28 March 2002 of 611 pence (28 March 2002 was the last trading day prior to the year end).
- 12,050 and 6,913 shares in respect of the 2000 award were transferred to John Roberts and Gordon Waters respectively upon their release from the plan on 30 May 2002. The values on the date of transfer were £78,168 and £44,845 respectively, based on a share price 648.7 pence on that day.

C Other benefits

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

D Long-term incentives

(i) Long-term incentive plan

The long-term incentive plan has been phased out and replaced by the performance share plan. The final allocations of shares in respect of long-term awards made under the scheme are due to be made in respect of the performance periods ended on 31 March 2002. However, no allocations will be made because the relevant criteria were not met.

Under the plan, the company's total shareholder return (TSR) performance is compared with that of other companies over consecutive financial years. The comparison is made with 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 comprises FTSE 100 companies excluding the utility companies.

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

No allocation is 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 contingent shares 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.

The long-term awards made to John Roberts and Simon Batey were their first awards under the plan. The proportion of that award which would vest was based on the company's comparative and absolute TSR performance and growth in earnings per share over the two years ended 31 March 2002. The company's TSR performance relative to the FTSE 100 excluding utility companies placed it 32nd out of 83. The company's TSR performance against the FTSE 100 utility companies placed it 7th out of 18. However, no allocation will be made because the company did not achieve the growth in earnings per share target.

The long-term award for Gordon Waters was based on the company's comparative and absolute TSR performance and growth in earnings per share over the three years ended 31 March 2002. The company's TSR performance relative to the FTSE 100 excluding utility companies placed it 49th out of 81 and, therefore, no allocation will be made. The company's TSR performance against the FTSE 100 utility companies placed it 10th out of 20. However, no allocation will be made because the company did not achieve the growth in earnings per share target.

(ii) Performance share plan

The performance share plan was adopted at the annual general meeting held on 21 July 2000. Participation in the performance share plan is restricted to executive directors and other senior executives, selected at the discretion of the plan's trustee (United Utilities Employee Share Trust Limited) on the recommendation of the remuneration committee. Participants are awarded a right to acquire shares (or, at the discretion of the trustee, the cash equivalent) worth up to 80 per cent of an executive's yearly salary as at the date of grant. The number of shares awarded is based on the market price of a share at the award date. However, the proportion of that award that will vest depends on the group's performance against specified targets over a performance period. This period is usually not less than three years' duration, beginning at the start of the financial year during which the award is made.

For those awards granted on 29 March 2001 and 9 July 2001, the performance measure is the company's total shareholder return (TSR) compared with a group of 27 and 25 companies respectively, comprising major water and electricity companies and industrial and service companies of broadly the same size as the company with most of their revenues earned in the UK. Awards will not vest unless the remuneration committee is satisfied that the company's recorded TSR performance is consistent with the achievement of appropriate measures of underlying business performance. Subject to that, if the company's TSR performance is at the median of the comparator group, participants may receive 33 per cent of the maximum number of shares in their award. If the company's TSR performance places it in the upper quartile, participants may receive the maximum number of shares in their award. The proportion of the award which the participant may receive for the company's TSR performance ranking between the median and upper quartile of the comparator group will be calculated on a straight-line basis. No award will vest if the company's TSR performance is below the median of the comparator group.

	Award details						Contingent scheme interest at 1 April 2001		**Contingent scheme interest at 31 March 2002**	
	Award date	Performance period	Maximum value		Market price of a share	Max. no. of shares	Max. no. of shares	Max. value	**Max. no. of shares**	**Max. value**
			% of salary	£'000	pence			£'000		**£'000**
John Roberts										
2000/01	29.03.01	01.04.00 to 31.03.03	80	256.0	607.5	42,139	42,139	257.9	**42,139**	**257.5**
2001/02	09.07.01	01.04.01 to 31.03.04	80	256.0	652.0	39,263	–	–	**39,263**	**239.9**
total							42,139	257.9	**81,402**	**497.4**
Simon Batey										
2000/01	29.03.01	01.04.00 to 31.03.03	80	208.0	607.5	34,238	34,238	209.5	**34,238**	**209.2**
2001/02	09.07.01	01.04.01 to 31.03.04	80	208.0	652.0	31,901	–	–	**31,901**	**194.9**
total							34,238	209.5	**66,139**	**404.1**
Les Dawson										
2000/01	29.03.01	01.04.00 to 31.03.03	65	130.0	607.5	21,399	21,399	131.0	**21,399**	**130.7**
2001/02	09.07.01	01.04.01 to 31.03.04	80	160.0	652.0	24,539	–	–	**24,539**	**149.9**
total							21,399	131.0	**45,938**	**280.6**
Gordon Waters										
2000/01	29.03.01	01.04.00 to 31.03.03	80	146.4	607.5	24,098	24,098	147.5	**24,098**	**147.2**
2001/02	09.07.01	01.04.01 to 31.03.04	80	146.4	652.0	22,453	–	–	**22,453**	**137.2**
total							24,098	147.5	**46,551**	**284.4**

Notes

- The maximum values shown have been calculated using the mid-market price of a United Utilities PLC share on close of business on the relevant date or, if not a trading day, the last trading day immediately prior to that date.
- The above awards were granted as 'option awards'. The options are exercisable over a period of three months from the vesting date. No consideration is payable by the executives either upon grant of the option award or upon the subsequent exercise of the option.
- No awards vested during the year.

Report on remuneration *continued*

Share options

The directors can join the all-employee ShareSave scheme. They do not participate in the company share option scheme 1999. Further details of ShareSave options, including options exercised during the year, are as follows:

	At 1 April 2001 or on appointment	Granted/ (lapsed) during the year	Exercised during the year	At 31 March 2002	Exercise price per share	First date exercisable	Last date exercisable	Market price on exercise £	Notional gain on exercise £
John Roberts									
ShareSave 2000	3,579	–	–	3,579	471.5p	01.03.2005	31.08.2005	–	–
total	3,579	–	–	3,579					–
Simon Batey									
ShareSave 2001	1,740	–	–	1,740	556.5p	01.03.2004	31.08.2004	–	–
total	1,740	–	–	1,740					–
Les Dawson									
ShareSave 2001	3,032	–	–	3,032	556.5p	01.03.2006	31.08.2006	–	–
total	3,032	–	–	3,032					–
Gordon Waters									
ShareSave 1997	3,623	–	(3,623)	–	476.0p	02.02.2002	01.08.2002	5.99	4,456
ShareSave 2002	–	2,290		2,290	500.0p	01.03.2007	01.08.2007	–	–
total	3,623	2,290	(3,623)	2,290					4,456

Notes

- The mid-market price of a share on 28 March 2002 was 611 pence and the range in the year was 578 pence to 673.5 pence.
- The aggregate notional gain made by directors on the exercise of options during the year (based on the difference between the mid-market price of a share on the day on which options were exercised and the exercise price) was £4,456 (2001 – £nil).

Pension arrangements

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

The Finance Act 1989 restricts the pension benefits that can be paid by the scheme to the current executive directors because the earnings cap limits pensionable earnings for calculating benefits. The company has put in place separate arrangements the effect of which is to provide for them the same pension benefits as for those executives whose pension benefits are not limited by the cap. These arrangements are unfunded.

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

The pension benefits earned by directors are as follows:

	Accumulated total accrued pension at 1 April 2001		Increase in accrued pension during the year			**Accumulated total accrued pension at 31 March 2002**	
	£'000 pa	Transfer value £'000	£'000 pa (net of inflation)	Member contributions £'000	Transfer value (net of member contributions)	**£'000 pa**	**Transfer value £'000**
John Roberts	16.4	245.8	15.0	14.3	203.5	31.5	**458.3**
Simon Batey	8.7	96.3	9.4	13.6	82.8	18.1	**186.4**
Les Dawson	2.8	25.4	7.1	10.4	49.6	9.8	**83.9**
Gordon Waters	39.8	571.5	11.7	14.3	146.7	51.7	**714.9**
Totals	67.7	939.0	43.2	52.6	482.6	111.1	**1,443.5**

Notes

- The accumulated total accrued pension at year end is that which would be paid annually on retirement at age 60 based on service to 31 March 2002.
- The increase in accrued pension during the year excludes any increase for inflation.
- The transfer value figures have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer value of the increase in the accrued pension during the year is net of directors' contributions. The transfer value of benefits at 31 March 2002 and the transfer value of the increase in the accrued pension during the year are based on each director's age and investment conditions at 31 March 2002 (the transfer value of the benefits at 1 April 2001 is based on the director's age and investment conditions at that date).
- Neither the contributions nor the resulting benefits from any additional voluntary contributions paid are reflected in the above table.
- The transfer value represents a liability of the company to make pension payments in the future but not a sum paid or due to the individual.

Contracts of service and compensation for termination

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

If a contract is to be terminated, the remuneration committee will determine such mitigation it considers is fair and reasonable in each circumstance and the compensation that may be paid. 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. The committee reviews this policy each year. No changes were made during the year.

Policy on external appointments

The company recognises that its executive directors may be invited to become non-executive directors of other companies and that exposure to such non-executive duties can broaden experience and knowledge, which will be to the benefit of the company. Subject to board approval (which will not be given if the proposed appointment is with a competing company or would otherwise lead to a conflict of interest), executive directors are allowed to accept non-executive directorships and to retain the fees.

Directors' interests

At 31 March 2002, 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:

	At 1 April 2001 or upon appointment				At 31 March 2002			
	Shares	Share Options	Deferred Shares	Total	**Shares**	**Share Options**	**Deferred Shares**	**Total**
John Roberts	3,000	3,579	11,200	17,779	**3,000**	**3,579**	**26,047**	**32,626**
Simon Batey	42,150	1,740	–	43,890	**42,150**	**1,740**	**11,675**	**55,565**
Les Dawson	–	3,032	–	3,032	**2,000**	**3,032**	**3,741**	**8,773**
Gordon Waters	16,166	3,623	6,426	26,215	**19,789**	**2,290**	**15,029**	**37,108**
Sir Richard Evans	245	–	–	245	**245**	**–**	**–**	**245**
Norman Broadhurst	341	–	–	341	**341**	**–**	**–**	**341**
Sir Peter Middleton	4,574	–	–	4,574	**4,574**	**–**	**–**	**4,574**
Jane Newell	3,419	–	–	3,419	**3,356**	**–**	**–**	**3,356**
Andrew Pinder	–	–	–	–	**–**	**–**	**–**	**–**
John Seed	4,024	–	–	4,024	**4,076**	**–**	**–**	**4,076**

Notes

- Each executive director is a member of the class of discretionary beneficiaries of the United Utilities Employee Share Trust and the United Utilities Qualifying Employee Share Ownership Trust and is therefore treated as having an interest in the shares held by United Utilities Employee Share Trust Limited as trustee of the United Utilities Employee Share Trust (28,921 shares at 31 March 2002) and in the shares held by United Utilities QUEST Trustee Limited as trustee of the United Utilities Qualifying Employee Share Ownership Trust (863,538 shares at 31 March 2002). As at 31 May 2002, United Utilities Employee Share Trust Limited held 9,958 shares and United Utilities QUEST Trustee Limited held 802,682 shares.
- Except as described above, none of the directors had any interest in any share capital of any other group company or in any debenture of any group company.
- From the end of the financial year until 31 May 2002, there have been the following changes in the above interests:

  On 24 April 2002, John Seed's wife reinvested a dividend in the United Utilities personal equity plan and thereby acquired a further 18 shares.

  On 30 May 2002, 12,050 and 6,913 deferred shares were transferred to John Roberts and Gordon Waters respectively upon release from the trust. Gordon Waters sold 2,771 of those shares on the same day.

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

Norman Broadhurst, John Seed and Simon Batey are standing, and are recommended by the board for re-election, at the 2002 annual general meeting. Andrew Pinder is standing for election for the first time having been appointed as an additional director by the board on 1 September 2001. As non-executive directors, Norman Broadhurst, Andrew Pinder and John Seed do not have contracts of service. The company can terminate Simon Batey's contract by giving him one year's notice.

Independent auditor's report

Independent auditor's report to the members of United Utilities PLC

We have audited the financial statements on pages 42 to 74.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report and form 20-F. As described on page 32 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards; the directors have also presented additional information under US requirements. Our responsibilities, as independent auditors, are established by statute in the United Kingdom, auditing standards generally accepted in the United Kingdom and the United States, the Listing Rules of the United Kingdom Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on page 32 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, 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 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

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 2002 and 2001 and the results of its operations and its cash flows for each of the years in the three-year period ended 31 March 2002 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 2002 and consolidated shareholders' equity at 31 March 2002 and 2001, to the extent summarised in note 36 to the accounts.

As described in note 21 the group changed its accounting policy with respect to deferred taxes as of 1 April 2001 and restated the financial statements for the years ended 31 March 2001 and 2000 to reflect the new accounting policy.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester
31 May 2002

Consolidated profit and loss accounts

For the year ended 31 March	Note	Continuing operations: Before exceptional items £m	Continuing operations: Exceptional items £m	2002 Total £m	Continuing operations: Before exceptional items £m	Continuing operations: Exceptional items £m	Discontinued operations £m	Restated 2001 Total £m	Continuing operations: Before exceptional items £m	Continuing operations: Exceptional items £m	Discontinued operations £m	Restated 2000 Total £m
Turnover: group and share of joint ventures	2	**1,876.4**	**–**	**1,876.4**	1,574.4	–	201.5	1,775.9	1,633.9	–	792.0	2,425.9
Less: share of joint venture turnover		**(85.4)**	**–**	**(85.4)**	(78.3)	–	–	(78.3)	(69.6)	–	–	(69.6)
Group turnover		**1,791.0**	**–**	**1,791.0**	1,496.1	–	201.5	1,697.6	1,564.3	–	792.0	2,356.3
Net operating costs	3	**(1,254.3)**	**(11.9)**	**(1,266.2)**	(997.4)	(16.6)	(179.9)	(1,193.9)	(948.8)	(28.6)	(717.5)	(1,694.9)
Group operating profit		**536.7**	**(11.9)**	**524.8**	498.7	(16.6)	21.6	503.7	615.5	(28.6)	74.5	661.4
Share of operating profit of joint ventures	2,13	**14.0**	**–**	**14.0**	10.3	–	–	10.3	4.0	–	–	4.0
Profit before non-operating items, interest and tax	2	**550.7**	**(11.9)**	**538.8**	509.0	(16.6)	21.6	514.0	619.5	(28.6)	74.5	665.4
Profit on disposal of businesses	4			**–**				191.2				–
Profit on ordinary activities before interest				**538.8**				705.2				665.4
Net interest payable and similar charges:												
Group	7			**(216.7)**				(208.7)				(196.1)
Joint ventures	7,13			**(13.9)**				(11.6)				(9.9)
	7			**(230.6)**				(220.3)				(206.0)
Profit on ordinary activities before taxation				**308.2**				484.9				459.4
Taxation on profit on ordinary activities before business disposals	8			**(41.6)**				(69.7)				(92.4)
Exceptional taxation on business disposals	8			**–**				(69.0)				–
Taxation on profit on ordinary activities	8			**(41.6)**				(138.7)				(92.4)
Profit on ordinary activities after taxation				**266.6**				346.2				367.0
Equity minority interest				**(1.6)**				–				–
Profit for the financial year	24			**265.0**				346.2				367.0
Dividends	9,24			**(260.9)**				(254.9)				(248.8)
Retained profit for the financial year				**4.1**				91.3				118.2
Basic earnings per share	10			**47.9p**				62.8p				66.7p
Adjusted basic earnings per share	10			**51.5p**				41.2p				61.2p
Diluted earnings per share	10			**47.7p**				62.5p				66.3p
Adjusted diluted earnings per share	10			**51.3p**				41.0p				60.8p

See accompanying notes to the accounts.

There were no material differences between reported profits and historical cost profits on ordinary activities before taxation in any of the above financial years.

The results of joint venture acquisitions have not been disclosed separately as they do not form a significant part of the group's results.

Prior years' results have been restated to show the effects of applying FRS 19 Deferred Tax as explained in notes 8, 21 and 24.

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

Balance sheets

At 31 March	Note	Group 2002 £m	Group Restated 2001 £m	Company 2002 £m	Company 2001 £m
Fixed assets					
Intangible assets	11	**81.2**	88.6	**–**	–
Tangible assets	12	**6,680.5**	6,385.7	**1.1**	1.8
Investments in subsidiary undertakings	13	**–**	–	**5,565.6**	5,819.5
Investments in joint ventures:					
– share of gross assets		**275.5**	339.5	**–**	–
– share of gross liabilities		**(218.4)**	(248.6)	**–**	–
	13	**57.1**	90.9	**–**	–
Other investments	13	**26.4**	29.3	**3.9**	3.9
		6,845.2	6,594.5	**5,570.6**	5,825.2
Current assets					
Stocks	14	**16.5**	18.0	**–**	–
Debtors	15	**414.6**	436.0	**1,672.1**	1,362.3
Investments	16	**389.5**	405.3	**80.4**	67.6
Cash at bank and in hand		**18.9**	50.7	**17.6**	0.2
		839.5	910.0	**1,770.1**	1,430.1
Creditors: amounts falling due within one year	17	**(1,344.2)**	(1,538.4)	**(1,900.3)**	(1,547.8)
Net current liabilities		**(504.7)**	(628.4)	**(130.2)**	(117.7)
Total assets less current liabilities		**6,340.5**	5,966.1	**5,440.4**	5,707.5
Creditors: amounts falling due after more than one year	18	**(3,478.2)**	(3,093.2)	**(753.1)**	(753.1)
Provisions for liabilities and charges	20	**(310.8)**	(261.8)	**(4.1)**	(4.3)
Net assets		**2,551.5**	2,611.1	**4,683.2**	4,950.1
Capital and reserves					
Called up share capital	24	**555.9**	552.9	**555.9**	552.9
Share premium account	24	**671.6**	656.6	**671.6**	656.6
Profit and loss account	24	**1,308.8**	1,388.0	**910.9**	1,195.8
Other reserves	24	**–**	–	**2,544.8**	2,544.8
Equity shareholders' funds		**2,536.3**	2,597.5	**4,683.2**	4,950.1
Minority interest		**15.2**	13.6	**–**	–
Capital employed		**2,551.5**	2,611.1	**4,683.2**	4,950.1

See accompanying notes to the accounts.

Prior year figures have been restated to show the effects of applying FRS 19 Deferred Tax as explained in notes 8, 21 and 24.

Approved by the board of directors on 31 May 2002 and signed on its behalf by

Sir Richard Evans Chairman

Simon Batey Group Finance Director

Consolidated cash flow statements

For the year ended 31 March	Note	2002 £m	2001 £m	2000 £m
Net cash inflow from operating activities	28	**802.2**	842.5	884.3
Income from joint ventures		**2.1**	–	–
Returns on investments and servicing of finance	29	**(223.7)**	(190.1)	(191.6)
Taxation		**(2.4)**	(1.7)	(37.3)
Capital expenditure and financial investment	30	**(586.0)**	(573.7)	(637.0)
Acquisitions and disposals				
Acquisitions	31	**(2.8)**	(117.1)	(20.7)
Disposals	31	**(7.0)**	312.5	–
		(9.8)	195.4	(20.7)
Equity dividends paid		**(256.1)**	(250.1)	(450.1)
Cash (outflow)/inflow before use of liquid resources and financing		**(273.7)**	22.3	(452.4)
Management of liquid resources	32	**13.4**	(328.7)	(3.1)
Financing				
Issues of shares	33	**18.0**	13.9	3.6
Increase in debt	33, 34	**202.1**	318.1	314.5
		220.1	332.0	318.1
(Decrease)/increase in cash		**(40.2)**	25.6	(137.4)

Reconciliations of net cash flow to movement in net debt

For the year ended 31 March	Note	2002 £m	2001 £m	2000 £m
(Decrease)/increase in cash		**(40.2)**	25.6	(137.4)
Cash inflow from increase in debt and lease financing		**(202.1)**	(318.1)	(314.5)
Cash (inflow)/outflow from management of liquid resources		**(13.4)**	328.7	3.1
Change in net debt resulting from cash flows		**(255.7)**	36.2	(448.8)
Exchange adjustments		**1.3**	(6.2)	(0.1)
Movement in net debt		**(254.4)**	30.0	(448.9)
Opening net debt		**(2,806.4)**	(2,836.4)	(2,387.5)
Net debt at 31 March	34	**(3,060.8)**	(2,806.4)	(2,836.4)

Statements of total recognised gains and losses

For the year ended 31 March	Note	2002 £m	Restated 2001 £m	Group Restated 2000 £m
Profit/(loss) for financial year:				
Group		**267.3**	350.6	374.7
Joint ventures		**(2.3)**	(4.4)	(7.7)
		265.0	346.2	367.0
Unrealised gain on sale of minority interest in Vertex Data Science Limited	31	**–**	34.4	–
Currency translation adjustment on equity investment in Argentina	13	**(79.3)**	–	–
Other exchange adjustments		**1.0**	(6.0)	(0.5)
Total recognised gains and losses for the financial year		**186.7**	374.6	366.5
Prior year adjustment – deferred tax	24	**(232.1)**		
Total gains and losses recognised since last annual report		**(45.4)**		

Reconciliations of movements in equity shareholders' funds

	Group			Company	
For the year ended 31 March	2002 £m	Restated 2001 £m	Restated 2000 £m	2002 £m	2001 £m
Profit/(loss) for financial year	**265.0**	346.2	367.0	**(24.0)**	(194.4)
Dividends	**(260.9)**	(254.9)	(248.8)	**(260.9)**	(254.9)
Retained profit/(loss) for the financial year	**4.1**	91.3	118.2	**(284.9)**	(449.3)
Profit arising on internal restructuring	**–**	–	–	**–**	2,544.8
New share capital issued	**18.0**	13.9	3.6	**18.0**	13.9
Capitalisation of reserves in respect of shares issued via QUEST	**(5.0)**	(1.5)	–	**–**	–
Goodwill on business disposals	**–**	101.0	–	**–**	–
Unrealised gain on sale of minority interest in Vertex Data Science Limited	**–**	34.4	–	**–**	–
Currency translation adjustment on equity investment in Argentina	**(79.3)**	–	–	**–**	–
Other exchange adjustments	**1.0**	(6.0)	(0.5)	**–**	–
Net (decrease)/increase in equity shareholders' funds for the year	**(61.2)**	233.1	121.3	**(266.9)**	2,109.4
Opening equity shareholders' funds	**2,597.5**	2,364.4	2,243.1	**4,950.1**	2,840.7
Equity shareholders' funds at 31 March	**2,536.3**	2,597.5	2,364.4	**4,683.2**	4,950.1

Effect of prior year adjustments on opening equity shareholders' funds

	2002 £m	2001 £m	Group 2000 £m
Opening shareholders funds as previously stated	**2,829.6**	2,517.4	2,305.1
Prior year adjustment (note 24)	**(232.1)**	(153.0)	(62.0)
Opening shareholders funds as restated	**2,597.5**	2,364.4	2,243.1

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 42 to 69 have been prepared under the historical cost convention and 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.

In the year ended 31 March 2002 the group has adopted Financial Reporting standard (FRS) 19 'Deferred Tax', the application of which is reflected in the currrent period and has also resulted in changes to the prior period reported results as per notes 1(o), 8, 21 and 24.

(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) Pre-contract costs

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

(f) Goodwill

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

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 April 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, generally not exceeding 20 years.

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

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

(g) Tangible fixed assets

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

Infrastructure assets

Infrastructure assets comprise a network of water and wastewater systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition, which is included at cost after deducting related grants and contributions.

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the group'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, based on management's judgement and experience, which are principally as follows:

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

Carrying value of tangible fixed assets

The carrying values of fixed assets are reviewed for impairment wherever circumstances indicate that the carrying value of such assets may not be recoverable.

(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.

The group has included the disclosure requirements of Financial Reporting Standard 17 in note 25, together with details of pension and funding arrangements.

(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 to the extent allowed by Statement of Standard Accounting Practice 20. Any excess is taken to the profit and loss account.

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

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

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

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

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

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

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

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

Currency swaps

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

(r) Share-based compensation arrangements

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

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

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

(s) Environmental remediation

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

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

(t) Recent UK accounting pronouncements

FRS 17, 'Retirement Benefits' was issued in December 2000 and is fully effective for accounting periods ending on or after 22 June 2003, with disclosure requirements being implemented earlier. This standard requires an asset or a liability to be recognised in the group accounts for any surplus or deficit in a defined benefit scheme. The group has adopted the disclosure requirements of FRS 17 as set out in note 25.

UITF Abstract 34 'Pre-contract costs' issued in May 2002 and effective for accounting periods ending on or after 22 June 2002, is intended to bring consistency to the accounting treatment of costs incurred in bidding for and securing contracts to supply products or services. The Abstract requires that costs incurred before it is virtually certain that a contract will be obtained should be charged immediately as expenses. Directly attributable costs incurred after that point should be recognised as an asset and charged as expenses during the period of the contract. Costs that have already been charged to the profit and loss account should not be reinstated as an asset when a contract is obtained. On adoption of UITF 34 next year, the net assets of the group will reduce by approximately £11 million on a post tax basis. The current treatment is described in note 1(e).

UITF Abstract 35 'Death-in-service and incapacity benefits' issued in May 2002 clarifies the accounting required by FRS17 'Retirement Benefits' for the cost of death-in-service and incapacity benefits, where such benefits are provided through a defined benefit pension scheme. The Abstract requires that, where the benefits are not wholly insured, the uninsured scheme liability and the cost for the accounting period should be measured, in line with other retirement benefits, using the projected unit method. The effect is that the valuation of uninsured benefits reflects the current period's portion of the full benefits ultimately payable in respect of current members of the scheme; the cost of insured benefits is determined by the relevant insurance premiums.

2 SEGMENTAL INFORMATION

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

	Note	Turnover (1) 2002 £m	Turnover (1) 2001 £m	Turnover (1) 2000 £m	Profit/(loss) before non-operating items, interest and tax (2) 2002 £m	Restated 2001 £m	Restated 2000 £m	Net operating assets (3) 2002 £m	2001 £m	2000 £m
Continuing businesses:										
Licensed multi-utility operations		**1,208.9**	1,201.6	1,356.5	**529.6**	500.9	602.6	**6,200.3**	5,913.7	5,869.3
Asset management services		**385.9**	197.6	177.8	**31.2**	21.0	15.7	**125.2**	206.1	125.4
Customer management outsourcing		**282.9**	211.2	183.0	**15.0**	9.6	12.5	**68.0**	48.7	27.2
Telecommunications		**155.2**	119.5	79.5	**(20.5)**	(20.9)	(15.9)	**224.9**	176.3	97.9
Other activities		**4.6**	9.4	6.4	**7.4**	6.3	8.9	**(58.1)**	(60.3)	(62.0)
Corporate costs		**–**	–	–	**(4.0)**	(3.9)	(3.9)	**–**	–	–
		2,037.5	1,739.3	1,803.2	**558.7**	513.0	619.9	**6,560.3**	6,284.5	6,057.8
Goodwill amortisation		**–**	–	–	**(8.0)**	(4.0)	(0.4)	**–**	–	–
Inter-business eliminations	(4)	**(161.1)**	(164.9)	(169.3)	**–**	–	–	**–**	–	–
Continuing operations, before exceptional charge		**1,876.4**	1,574.4	1,633.9	**550.7**	509.0	619.5	**6,560.3**	6,284.5	6,057.8
Discontinued operations		**–**	201.5	792.0	**–**	21.6	76.9	**–**	–	43.9
Exceptional items	(5)	**–**	–	–	**(11.9)**	(16.6)	(31.0)	**–**	–	–
		1,876.4	1,775.9	2,425.9	**538.8**	514.0	665.4	**6,560.3**	6,284.5	6,101.7
By geographical origin:	(6)									
United Kingdom		**1,789.4**	1,683.3	2,348.7	**527.2**	505.4	654.4	**6,510.1**	6,167.9	6,008.1
Europe		**10.1**	4.5	0.2	**3.7**	(0.1)	0.1	**35.4**	29.8	–
The Americas		**58.3**	65.7	62.8	**3.1**	4.7	5.7	**4.0**	76.4	76.8
Rest of the world		**18.6**	22.4	14.2	**4.8**	4.0	5.2	**10.8**	10.4	16.8
		1,876.4	1,775.9	2,425.9	**538.8**	514.0	665.4	**6,560.3**	6,284.5	6,101.7

The accounting policies for each segment are the same as those appearing on pages 46 to 48.

(1) Turnover includes the group's share of joint venture turnover of £85.4 million (2001 – £78.3 million; 2000 – £69.6 million) primarily relating to asset management services.

(2) Profit before non-operating items, interest and tax comprises group operating profit amounting to £524.8 million (2001 – £503.7 million; 2000 – £661.4 million) and share of operating profits of joint ventures of £14.0 million (2001 – £10.3 million; 2000 – £4.0 million).

(3) Net operating assets comprise fixed assets and net current assets excluding net debt, corporation and deferred taxation and dividends.

(4) The inter-business eliminations totalling £161.1 million (2001 – £164.9 million; 2000 – £169.3 million) are mainly from customer management outsourcing primarily to the licensed multi-utility operations entirely within the United Kingdom.

(5) Business restructuring costs in 2002 of £11.9 million (2001 – £16.6 million) relate to severance costs impacting licensed multi-utility operations £6.5 million (2001 – £13.2 million), asset management services £4.3 million (2001 – £1.1 million), telecommunications £1.1 million (2001 – £0.5 million) and customer management outsourcing £nil (2001 – £1.8 million).

Business restructuring costs in 2000 of £21.5 million relate to the initiatives in response to the regulatory reviews impacting licensed multi-utility operations £14.3 million and customer management outsourcing £7.2 million along with exceptional Year 2000 costs of £9.5 million.

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

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

Notes to the accounts *continued*

3 NET OPERATING COSTS

	2002 Continuing operations Total £m	2001 Continuing operations £m	2001 Discontinued operations £m	2001 Total £m	2000 Continuing operations £m	2000 Discontinued operations £m	2000 Total £m
Employee costs:							
Wages and salaries	**326.0**	252.2	3.9	256.1	232.4	15.5	247.9
Social security costs	**24.8**	21.0	0.1	21.1	18.9	1.2	20.1
Pension contributions (note 25)	**5.0**	6.3	0.4	6.7	5.4	0.4	5.8
	355.8	279.5	4.4	283.9	256.7	17.1	273.8
Capital schemes	**(67.6)**	(50.9)	–	(50.9)	(53.5)	–	(53.5)
	288.2	228.6	4.4	233.0	203.2	17.1	220.3
Depreciation:							
Owned fixed assets	**312.2**	311.4	0.4	311.8	262.1	0.7	262.8
Fixed assets held under finance leases	**4.4**	4.7	–	4.7	5.0	–	5.0
	316.6	316.1	0.4	316.5	267.1	0.7	267.8
Other operating costs:							
Auditor's remuneration	**0.4**	0.3	–	0.3	0.3	–	0.3
Research and development	**1.5**	2.6	–	2.6	2.1	–	2.1
Operating leases:							
– hire of plant and machinery	**4.1**	2.9	–	2.9	4.5	–	4.5
– land and buildings	**7.5**	5.9	–	5.9	5.5	–	5.5
Electricity purchases	**–**	–	150.0	150.0	–	653.2	653.2
Cost of sales	**424.8**	230.2	20.4	250.6	176.8	36.3	213.1
Rents and rates	**68.0**	76.2	0.2	76.4	67.9	1.3	69.2
Customer rebates	**–**	–	–	–	18.5	–	18.5
Amortisation of intangible assets	**8.1**	4.0	–	4.0	0.4	–	0.4
General, administration and other costs	**147.0**	139.3	4.5	143.8	203.9	9.3	213.2
	661.4	461.4	175.1	636.5	479.9	700.1	1,180.0
Other income (note 5)	**(11.9)**	(8.7)	–	(8.7)	(1.4)	(2.8)	(4.2)
	649.5	452.7	175.1	627.8	478.5	697.3	1,175.8
Net operating costs before exceptional items	**1,254.3**	997.4	179.9	1,177.3	948.8	715.1	1,663.9
Exceptional items:							
– Year 2000 costs	**–**	–	–	–	7.1	2.4	9.5
– business restructuring	**11.9**	16.6	–	16.6	21.5	–	21.5
Total net operating costs	**1,266.2**	1,014.0	179.9	1,193.9	977.4	717.5	1,694.9

Fees payable to KPMG Audit Plc and its associates for non-audit services in 2002 were £0.6 million (2001 – £0.7 million; 2000 – £0.4 million) primarily relating to due diligence and regulatory work. During the year, KPMG received no fees for management consultancy. The audit fee for 2002 in relation to the company amounted to £77,000 (2001 – £75,000).

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

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

4 PROFIT ON DISPOSAL OF BUSINESSES

	2002 £m	2001 £m	2000 £m
Energy supply:			
Profit on disposal of business before goodwill	–	305.1	–
Goodwill	–	(101.0)	–
Net profit on disposal of energy supply business	–	204.1	–
Loss on other business disposals	–	(12.9)	–
Profit on disposal of businesses	–	191.2	–

In the year ended 31 March 2001 the group sold its energy supply business to TXU Europe for a cash consideration of £310 million.

5 OTHER INCOME

	2002 £m	2001 £m	2000 £m
Profit/(loss) on disposal of fixed assets	**3.6**	(0.5)	0.7
Net rents receivable	**6.9**	6.3	2.3
Management fees	**0.4**	0.9	1.1
Dividend income	**0.8**	1.2	–
Other	**0.2**	0.8	0.1
	11.9	8.7	4.2

6 EMPLOYEES

	2002	2001	2000
Licensed multi-utility operations	**4,368**	4,764	5,532
Asset management services	**2,076**	407	391
Customer management outsourcing	**6,576**	5,015	3,395
Telecommunications	**743**	618	364
Other activities	**130**	109	71
Discontinued activities:			
Energy supply	–	114	302
Other	–	25	312
Average number of persons employed by the group during the year	**13,893**	11,052	10,367

7 NET INTEREST PAYABLE AND OTHER SIMILAR CHARGES

	2002 £m	2001 £m	2000 £m
Interest payable:			
Group:			
– on bank loans, overdrafts and other loans	**220.8**	205.5	184.6
– on finance leases	**8.0**	10.1	5.1
– finance element of onerous contract provision	–	4.0	15.0
Joint ventures	**13.9**	11.6	9.9
Total interest payable	**242.7**	231.2	214.6
Interest receivable	**(12.1)**	(10.9)	(8.6)
Net interest payable and other similar charges	**230.6**	220.3	206.0

Notes to the accounts continued

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2002 £m	Restated 2001 £m	Restated 2000 £m
Ordinary tax:			
Current tax:			
UK corporation tax at 30%	**15.8**	9.7	–
Overseas tax	**0.4**	0.9	(0.4)
Share of joint ventures' tax	**2.4**	3.1	1.8
Total ordinary current tax	**18.6**	13.7	1.4
Deferred tax:			
Origination and reversal of timing differences	**82.8**	89.0	143.4
Increase in discount	**(59.8)**	(33.0)	(52.4)
Total ordinary deferred tax	**23.0**	56.0	91.0
Total ordinary tax	**41.6**	69.7	92.4
Exceptional tax:			
Current tax:			
Exceptional tax on disposal of businesses	**–**	45.0	–
Deferred tax:			
Origination and reversal of timing differences on business disposals	**–**	24.0	–
Total exceptional tax	**–**	69.0	–
Tax on profit on ordinary activities	**41.6**	138.7	92.4

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

	2002 £m	Restated 2001 £m	Restated 2000 £m
Profit on ordinary activities before tax	**308.2**	484.9	459.4
	%	%	%
UK corporation tax rate	**30.0**	30.0	30.0
Capital allowances in excess of depreciation	**(28.6)**	(15.2)	(31.4)
Other timing differences	**1.7**	(8.1)	0.2
Disposal of businesses	**–**	2.5	–
Net costs not deductible for tax purposes	**2.9**	2.9	1.5
Actual current tax rate	**6.0**	12.1	0.3

9 DIVIDENDS

	2002 £m	2001 £m	2000 £m
Interim dividend of 15.3 pence (2001 – 15.0 pence; 2000 – 14.7 pence)	**84.7**	82.9	80.9
Final dividend of 31.7 pence proposed (2001 – 31.1 pence; 2000 – 30.5 pence)	**176.2**	172.0	167.9
	260.9	254.9	248.8

10 EARNINGS PER SHARE

	2002	Restated 2001	Restated 2000
Profit for the financial year attributable to ordinary shareholders	**£265.0m**	£346.2m	£367.0m
Basic earnings per ordinary share	**47.9p**	62.8p	66.7p
Diluted earnings per ordinary share	**47.7p**	62.5p	66.3p
Adjusted basic earnings per share:	**£m**	£m	£m
Profit for the financial year attributable to ordinary shareholders	**265.0**	346.2	367.0
Adjustments:			
Discontinued operations	**–**	(17.6)	(59.5)
Exceptional items:			
– business restructuring	**11.9**	16.6	21.5
– Year 2000 costs	**–**	–	7.1
Profit on disposal of businesses after taxation	**–**	(122.2)	–
Amortisation of goodwill	**8.0**	4.0	0.4
Adjusted profit for financial year attributable to ordinary shareholders	**284.9**	227.0	336.5
Adjusted basic earnings per ordinary share	**51.5p**	41.2p	61.2p
Adjusted diluted earnings per ordinary share	**51.3p**	41.0p	60.8p

Basic earnings per ordinary share and the adjusted basic earnings per ordinary share have been calculated by dividing profit and the adjusted profit for the financial year attributable to ordinary shareholders by 553.5 million, being the weighted average number of shares in issue during the year (2001 – 551.1 million; 2000 – 550.2 million).

Diluted earnings per ordinary share and adjusted diluted earnings per ordinary share have been calculated by dividing profit and the adjusted profit for the financial year attributable to ordinary shareholders by 555.2 million, being the weighted average number of shares in issue during the year including dilutive shares (2001 – 553.7 million; 2000 – 553.6 million).

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

	2002 million	2001 million	2000 million
Average number of ordinary shares in issue – basic	**553.5**	551.1	550.2
Average number of ordinary shares under option	**10.0**	12.8	15.0
Number of ordinary shares that would have been issued at fair value	**(8.3)**	(10.2)	(11.6)
Average number of ordinary shares in issue – diluted	**555.2**	553.7	553.6

11 INTANGIBLE FIXED ASSETS

	Goodwill £m	Other intangibles £m	Total £m
Cost:			
At 1 April 2001 and 31 March 2002	**84.0**	**9.0**	**93.0**
Amortisation:			
At 1 April 2001	4.4	–	4.4
Charge for the year	7.3	0.1	7.4
At 31 March 2002	**11.7**	**0.1**	**11.8**
Net book value:			
At 31 March 2002	**72.3**	**8.9**	**81.2**
At 31 March 2001	79.6	9.0	88.6

12 TANGIBLE FIXED ASSETS

Group	Land and buildings £m	Infrastructure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost:						
At 1 April 2001	245.3	3,183.8	4,279.9	760.8	490.7	8,960.5
Additions	2.9	73.2	48.6	49.9	450.0	624.6
Grants and contributions	–	(4.6)	–	–	–	(4.6)
Transfers	3.9	26.2	46.9	40.4	(117.4)	–
Disposals	(3.1)	–	(7.3)	(121.5)	–	(131.9)
At 31 March 2002	**249.0**	**3,278.6**	**4,368.1**	**729.6**	**823.3**	**9,448.6**
Depreciation:						
At 1 April 2001	48.6	942.4	1,138.9	444.9	–	2,574.8
Charge for the year	12.5	102.2	131.6	70.3	–	316.6
Disposals	(1.3)	–	(7.3)	(114.7)	–	(123.3)
At 31 March 2002	**59.8**	**1,044.6**	**1,263.2**	**400.5**	**–**	**2,768.1**
Net Book Value:						
At 31 March 2002	**189.2**	**2,234.0**	**3,104.9**	**329.1**	**823.3**	**6,680.5**
At 31 March 2001	196.7	2,241.4	3,141.0	315.9	490.7	6,385.7

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 £90.3 million (2001 – £89.1 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:

	2002 £m	2001 £m
Cost:		
Operational assets	**250.8**	250.8
Fixtures, fittings, tools and equipment	**6.8**	10.6
At 31 March	**257.6**	261.4
Accumulated depreciation:		
Operational assets	**77.2**	72.9
Fixtures, fittings, tools and equipment	**0.6**	3.9
At 31 March	**77.8**	76.8
Net book value:		
Operational assets	**173.6**	177.9
Fixtures, fittings, tools and equipment	**6.2**	6.7
At 31 March	**179.8**	184.6

	2002 £m	2001 £m
Capital commitments:		
Contracted but not provided for	**173.8**	289.7

Company	Fixtures, fittings, tools and equipment £m
Cost:	
At 1 April 2001 and 31 March 2002	**4.8**
Depreciation:	
At 1 April 2001	3.0
Charge for the year	0.7
At 31 March 2002	**3.7**
Net book value:	
At 31 March 2002	**1.1**
At 31 March 2001	1.8

13 FIXED ASSET INVESTMENTS

Group	Joint ventures			Other investments			
	Unlisted £m	Loans £m	Total £m	Unlisted £m	Listed £m	Total £m	Total £m
Cost:							
At 1 April 2001	81.5	9.4	90.9	18.5	10.8	29.3	120.2
Additions	12.5	0.7	13.2	0.1	7.8	7.9	21.1
Share of losses	(2.3)	–	(2.3)	–	–	–	(2.3)
Disposals	0.9	–	0.9	–	(10.8)	(10.8)	(9.9)
Distributions and loan repayments	(2.1)	(2.0)	(4.1)	–	–	–	(4.1)
Goodwill amortisation	(0.7)	–	(0.7)	–	–	–	(0.7)
Exchange adjustments	(41.3)	0.5	(40.8)	–	–	–	(40.8)
At 31 March 2002	**48.5**	**8.6**	**57.1**	**18.6**	**7.8**	**26.4**	**83.5**

Included within unlisted joint ventures is £9.4 million of goodwill principally in respect of the group's investment in AS Tallinna Vesi.

The group's investment in IEBA, the Argentinian electricity utility, which had a carrying value of approximately £41.3 million prior to the devaluation of the Argentine peso, has been extinguished by exchange adjustments. An exchange adjustment of £79.3 million in respect of this investment has been included in the statement of total recognised gains and losses. This has resulted in a provision of £38.0 million being created on the balance sheet in accordance with FRS 9 to reflect the group's share of net liabilities. The group has no financial commitment to IEBA beyond the initial investment made in 1997.

Share of losses comprises share of operating profits £14.0 million, interest charge £13.9 million, taxation charge £2.4 million.

Included within other investments are the listed investments held by Talbot Insurance Ltd, which had a market value of £7.8 million at 31 March 2002.

Company	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Cost:			
At 1 April 2001	5,819.5	3.9	5,823.4
Decrease arising on group restructuring	(253.9)	–	(253.9)
At 31 March 2002	**5,565.6**	**3.9**	**5,569.5**

Notes to the accounts continued

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
Subsidiary undertakings:			
Great Britain:			
United Utilities Water PLC (formerly North West Water Limited)	Ordinary	100%*	Water and wastewater services and network management
United Utilities Electricity PLC (formerly NORWEB plc)	Ordinary	100%*	Electricity distribution and related services
Your Communications Limited	Ordinary	100%*	Telecommunications
Vertex Data Science Limited	Ordinary	87.5%	Customer management outsourcing
United Utilities International Limited	Ordinary	100%*	Consulting services and project management
United Utilities Green Energy Limited	Ordinary	100%*	Renewable energy services
United Utilities Industrial Limited	Ordinary	100%*	Water treatment operations
United Utilities Properti Limited	Ordinary	100%	Property and facilities management
United Utilities Operational Services Limited	Ordinary	100%*	Operation and maintenance of water and wastewater assets of Dwr Cymru
United Utilities Operational Services (Highland) Limited	Ordinary	100%*	Operation and maintenance of wastewater assets
United Utilities Operational Services (Tay) Limited	Ordinary	100%*	Operation and maintenance of wastewater assets
Australia:			
United Utilities Macarthur Operations Pty Limited	Ordinary	100%*	Technical and management services
Yabulu Water Pty Limited	Ordinary	100%*	Technical and management services
Joint ventures:			
Great Britain:			
Catchment Limited	Ordinary	50%*	Contract operations and maintenance services
Catchment (Tay) Limited	Ordinary	33%*	Contract operations and maintenance services
USA:			
US Water LLC	Ordinary	50%*	Contract operations and maintenance services
Argentina:			
Inversora Electrica de Buenos Aires SA	Ordinary	45%*	Electricity supply and distribution
Australia:			
Yan Yean Water Pty Limited	Ordinary	50%*	Water treatment operations
Macarthur Water Pty Limited	Ordinary	50%*	Water treatment operations
Riverland Water Pty Limited	Ordinary	50%*	Water treatment operations
Estonia:			
AS Tallinna Vesi	Ordinary	25.2%*	Contract operations and maintenance services
Bulgaria:			
Sofijska Voda A.D.	Ordinary	40%*	Contract operations and maintenance services

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

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

14 STOCKS

	Group 2002 £m	Group 2001 £m
Raw materials and finished goods	**6.6**	7.2
Work in progress	**9.9**	10.8
	16.5	18.0

15 DEBTORS

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Amounts falling due within one year:				
Trade debtors	**327.6**	305.0	**–**	–
Provisions for doubtful debts	**(70.6)**	(64.4)	**–**	–
	257.0	240.6	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**1,662.1**	1,350.9
Other debtors	**16.8**	33.7	**6.6**	7.7
Prepayments and accrued income	**140.8**	161.7	**3.4**	3.7
	414.6	436.0	**1,672.1**	1,362.3

Within prepayments and accrued income is £36.9 million which falls due after more than one year (2001 – £22.2 million).

16 CURRENT ASSET INVESTMENTS

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Managed funds and short-term deposits	**368.8**	382.2	**80.4**	55.3
Other current asset investments	**20.7**	23.1	**–**	12.3
	389.5	405.3	**80.4**	67.6

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Loans	**71.0**	135.7	**–**	62.6
Bank overdrafts and temporary borrowings	**164.9**	262.3	**142.3**	45.7
Trade creditors	**72.1**	36.7	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**1,520.5**	1,153.2
Dividends	**178.4**	173.9	**178.5**	173.9
Taxation and social security	**200.4**	179.4	**2.6**	47.8
Accruals and deferred income	**657.4**	750.4	**56.4**	64.6
	1,344.2	1,538.4	**1,900.3**	1,547.8

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group 2002 £m	Group 2001 £m	Company 2002 £m	Company 2001 £m
Loans	**3,012.0**	2,640.7	**753.1**	753.1
Obligations under finance leases	**200.6**	200.6	**–**	–
Other creditors	**–**	2.9	**–**	–
Deferred grants and contributions (note 19)	**265.6**	249.0	**–**	–
	3,478.2	3,093.2	**753.1**	753.1

Notes to the accounts continued

19 DEFERRED GRANTS AND CONTRIBUTIONS

	£m
At 1 April 2001	249.0
Received in the year	24.4
Credit to profit and loss account for the year	(7.8)
At 31 March 2002	**265.6**

20 PROVISIONS FOR LIABILITIES AND CHARGES

	Group					Company
	Deferred tax £m	Restructuring £m	Share of net liabilities of joint venture (Argentina) £m	Other £m	Total £m	Other £m
At 1 April 2001	233.0	13.5	–	15.3	261.8	4.3
Utilised	–	(13.2)	–	(7.4)	(20.6)	(0.2)
Profit and loss account	23.0	8.6	–	–	31.6	–
Transfer from investment in joint ventures	–	–	38.0	–	38.0	–
At 31 March 2002	**256.0**	**8.9**	**38.0**	**7.9**	**310.8**	**4.1**

21 DEFERRED TAX

	2002 £m	Restated 2001 £m	Restated 2000 £m
Accelerated capital allowances	**1,106.9**	1,018.8	945.1
Short-term timing differences	**(82.1)**	(76.8)	(116.1)
Undiscounted provision for deferred tax	**1,024.8**	942.0	829.0
Discount	**(768.8)**	(709.0)	(676.0)
Discounted provision for deferred tax	**256.0**	233.0	153.0

The requirements of FRS 19 Deferred Tax, issued in December 2000, are now effective for these financial statements. Accordingly, full provision has been made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation (discounted where material). The effect of FRS 19 is to reduce shareholders' funds by £256.0 million at 31 March 2002 and to increase the tax charges in the years ended 31 March 2002 by £23.0 million, 31 March 2001 by £80.0 million (including £24.0 million of exceptional tax on the disposal of the energy supply business) and 31 March 2000 by £91.0 million.

22 BORROWINGS

	2002 £m	2001 £m
Bank overdrafts and temporary borrowings	**164.9**	262.3
Term loans	**3,083.0**	2,776.4
Finance leases	**200.6**	200.6
	3,448.5	3,239.3

Repayments fall due as follows:

	Year	**2002 £m**	Year	2001 £m
After five years	2008+	**2,614.4**	2007+	2,246.4
From four to five years	2007	**56.6**	2006	444.4
From three to four years	2006	**448.8**	2005	50.0
From two to three years	2005	**54.4**	2004	34.0
From one to two years	2004	**38.4**	2003	66.8
After more than one year		**3,212.6**		2,841.6
Within one year	2003	**235.9**	2002	397.7
		3,448.5		3,239.3

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 4.8 per cent (2001 – 6.1 per cent). The group had available committed bank facilities of £1,010.0 million (2001 – £1,275.0 million) of which £986.2 million was unutilised at 31 March 2002 (2001 – £1,252.3 million). Of the amounts unutilised, £166.0 million expire within one year, £244.4 million expire after one year but in less than two years, and the remaining £575.8 million expire in more than two years.

Term loans

Amounts repayable after more than five years comprise bank and other loans repayable between 2008 and 2053. Interest rates range from 4.875 per cent to 14.83 per cent on £2,386.0 million (2001 – £2,053.4 million) and are at floating rates on £228.4 million (2001 – £193.0 million).

On total borrowings, interest rates range from 0.75 per cent to 14.83 per cent on £2,907.4 million and are at floating rates on £541.1 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	
	2002 £m	2001 £m	**2002 %**	2001 %	**2002 Years**	2001 Years
Fixed rate borrowings:						
Sterling	**978.8**	656.2	**8.2**	8.0	**16.6**	14.0
United States dollars	**753.0**	753.1	**6.5**	6.4	**11.8**	12.8
Euros	**1,091.6**	1,122.5	**5.9**	6.0	**6.0**	6.8
Japanese yen	**84.0**	60.6	**3.6**	1.5	**19.2**	25.0
	2,907.4	2,592.4	**6.7**	6.7	**11.3**	10.8
Floating rate borrowings:						
Sterling	**484.5**	548.0				
Japanese yen	**12.3**	12.3				
United States dollars	**44.3**	86.6				
	541.1	646.9				
Floating rate investments:						
Sterling (including cash)	**(387.7)**	(432.9)				
Net debt at 31 March	**3,060.8**	2,806.4				

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

The fair values of the group's financial instruments are shown on page 61.

Company

Excluding amounts owed to subsidiary undertakings, the company has borrowings totalling £895.4 million (2001 – £861.4 million) of which £142.3 million falls due within one year. The remaining loans totalling £753.1 million comprise £212.1 million repayable in 2005, £298.6 million repayable in 2008 and £242.4 million repayable in 2028.

The loan repayable in 2005 is at a fixed rate of interest of 6.25 per cent, and the loan repayable in 2008 is at a fixed rate of interest of 6.45 per cent. The loan repayable in 2028 is at a fixed rate of interest of 6.875 per cent.

Taking into account off balance sheet instruments, net debt can be analysed as follows:	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed		Weighted average period for which interest is fixed	
	2002 £m	2001 £m	**2002 %**	2001 %	**2002 Years**	2001 Years
Fixed rate borrowings:						
Sterling	**2,569.5**	2,345.0	**7.4**	7.5	**5.5**	6.8
United States dollars	**–**	42.2	**–**	8.2	**–**	0.5
	2,569.5	2,387.2	**7.4**	7.5	**5.5**	6.6
Floating rate borrowings:						
Sterling	**879.0**	852.1				
Floating rate investments:						
Sterling (including cash)	**(387.7)**	(432.9)				
Net debt at 31 March	**3,060.8**	2,806.4				

Floating interest rates are based on LIBOR.

Notes to the accounts *continued*

23 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The primary financial risks faced by the group are interest rate risk and exchange rate risk.

The board has reviewed and agreed policies for managing each of these risks as summarised below. The board has also approved all of the classes of financial instruments used by the group. The group's treasury function, which is authorised to conduct the day-to-day treasury activities of the group, reports at least annually to the board.

The group uses a variety of financial instruments, including derivatives, to raise finance for its operations and to manage the risks arising from those operations.

The group borrows in the major global debt markets in a range of currencies at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective currency profile and interest basis. The effect of the use of derivatives is illustrated in note 22.

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

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

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

As noted above, the group uses derivatives to manage its exposure to currency risk on its borrowings. Subsidiary undertakings make no significant sales or purchases in currencies other than that of the country in which they operate. Accordingly, the group has no material unhedged foreign currency exposures.

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

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

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

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

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

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	2002 Book value £m	2002 Current value £m	2001 Book value £m	2001 Current value £m
Short-term debt and current portion of long-term debt	**235.9**	**235.9**	397.7	397.7
Long-term debt	**3,212.6**	**3,383.6**	2,841.6	3,056.4
	3,448.5	**3,619.5**	3,239.3	3,454.1
Interest rate swaps	**–**	**87.3**	–	86.2
Foreign exchange contracts and swaps	**–**	**(93.6)**	–	(123.4)
Total borrowings	**3,448.5**	**3,613.2**	3,239.3	3,416.9

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

Long-term investments

The fair value of listed investments of £7.8 million is based on year end quoted market prices. For other investments for which there are no quoted market prices, the fair values approximate to the carrying value of £75.7 million.

Current assets and liabilities

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

Long-term receivables and liabilities

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

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

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

Currency and interest rate swaps

The group enters into currency and interest rate swaps in order to manage its foreign currency and interest rate exposures.

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

Hedges

Unrecognised gains and losses on financial assets and liabilities for which hedge accounting has been used at the balance sheet date were £191.7 million and £185.4 million respectively (2001 – £216.4 million and £179.2 million).

The group anticipates that £42.7 million of these gains and £47.8 million of these losses will be realised in the forthcoming financial year. Of the unrecognised gains and losses on hedges as at 1 April 2001 the net loss recognised in the profit and loss account for the year ended 31 March 2002 was £13.8 million.

Notes to the accounts *continued*

24 CAPITAL AND RESERVES

The movements in shareholders' equity as restated are as follows:

	Group and company		Group		Company		
	Called up share capital £m	Share premium account £m	Profit and loss account £m	Total £m	Profit and loss account £m	Other reserves £m	Total £m
At 31 March 1999	549.9	642.1	1,113.1	2,305.1	1,610.8	–	2,802.8
Prior year adjustment for deferred tax	–	–	(62.0)	(62.0)	–	–	–
Restated profit for financial year	–	–	367.0	367.0	283.1	–	283.1
Dividends on ordinary shares	–	–	(248.8)	(248.8)	(248.8)	–	(248.8)
Shares issued net of costs	0.6	3.0	–	3.6	–	–	3.6
Exchange adjustments	–	–	(0.5)	(0.5)	–	–	–
At 31 March 2000	550.5	645.1	1,168.8	2,364.4	1,645.1	–	2,840.7
Restated profit/(loss) for financial year	–	–	346.2	346.2	(194.4)	2,544.8	2,350.4
Dividends on ordinary shares	–	–	(254.9)	(254.9)	(254.9)	–	(254.9)
Shares issued net of costs	2.4	11.5	–	13.9	–	–	13.9
Capitalisation of reserves in respect of shares issued via QUEST	–	–	(1.5)	(1.5)	–	–	–
Goodwill on business disposals	–	–	101.0	101.0	–	–	–
Unrealised gain on sale of minority interest in Vertex Data Science Limited	–	–	34.4	34.4	–	–	–
Exchange adjustments	–	–	(6.0)	(6.0)	–	–	–
At 31 March 2001	552.9	656.6	1,388.0	2,597.5	1,195.8	2,544.8	4,950.1
Profit/(loss) for financial year	–	–	265.0	265.0	(24.0)	–	(24.0)
Dividends on ordinary shares	–	–	(260.9)	(260.9)	(260.9)	–	(260.9)
Shares issued net of costs	3.0	15.0	–	18.0	–	–	18.0
Capitalisation of reserves in respect of shares issued via QUEST	–	–	(5.0)	(5.0)	–	–	–
Currency translation adjustment on equity investment in Argentina	–	–	(79.3)	(79.3)	–	–	–
Exchange adjustments	–	–	1.0	1.0	–	–	–
At 31 March 2002	**555.9**	**671.6**	**1,308.8**	**2,536.3**	**910.9**	**2,544.8**	**4,683.2**

Underlying dividends per ordinary share are 47.0 pence (recommended) in 2002, 46.1 pence in 2001 and 45.2 pence in 2000.

As allowed by section 230(4) of the Companies Act 1985, the company has not presented its own profit and loss account. The amount of group loss for the financial year dealt with in the company's profit and loss account is £24.0 million (2001 – £194.4 million loss; 2000 – £283.1 million profit) after accounting for dividends receivable from subsidiary undertakings of £6.9 million (2001 – £23.1 million; 2000 – £331.5 million).

The cumulative amount of goodwill included in reserves resulting from acquisitions during the years ended 2002, 2001, 2000 and prior years, before FRS 10 became effective, net of goodwill attributable to subsidiaries or businesses demerged or disposed of prior to 31 March 2002, amounts to £1,023.9 million (2001 – £1,023.9 million; 2000 – £1,124.9 million). The cumulative amount of negative goodwill included in the reserves is £nil at 31 March 2002 (2001 – £nil; 2000 – £nil). Consolidated retained earnings at 31 March 2002 include retained losses of joint ventures and associated undertakings of £9.6 million (2001 – £7.3 million; 2000 – £2.9 million). The cumulative amount of exchange adjustments included within consolidated retained earnings is £(11.2) million (2001 – £(12.2) million; 2000 – £(6.2) million).

A prior year adjustment of £233.0 million for deferred tax has been made against the group profit and loss account reserve balance at 31 March 2001 of £1,620.1 million, along with £0.9 million related to deferred tax in respect of the Cap Gemini Ernst & Young transaction as detailed in note 31.

Apart from dividends from United Utilities Water PLC and United Utilities Electricity 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 authorised ordinary share capital of the company was 800,000,000 ordinary shares of £1 each. The allotted and fully paid share capital of the company at 31 March 2002 was 555,942,338 ordinary shares (552,901,025 ordinary shares at 31 March 2001; 550,511,886 ordinary shares at 31 March 2000).

3,041,313 ordinary shares were allotted during the year ended 31 March 2002 (2001 – 2,389,139 ordinary shares; 2000 – 642,760 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 £18.0 million (2001 – £13.9 million; 2000 – £3.6 million).

Since 31 March 2002, 49,150 shares have been allotted on the exercise of options and at 31 May 2002, the company's issued share capital, credited as fully paid, was £555,991,488.

During the year ended 31 March 2001, an internal restructuring resulted in a profit of £2,544.8 million in the company's accounts. This profit, as it arose on an internal restructuring, is not distributable and is shown within other reserves. The restructuring has had no effect on the group accounts. Certain assets of a subsidiary, United Utilities Electricity PLC, were transferred to other subsidiaries of the company. Under the Companies Acts this transfer would have required the company to recognise an impairment in the carrying value of United Utilities Electricity PLC and a reduction in the profit and loss account by that amount. As the transfer did not result in any overall loss in value of the company's investments, in order to show a true and fair view, it is necessary to depart from the Act and reallocate an amount from the cost of investment in United Utilities Electricity PLC to other subsidiaries. There is no effect on the group accounts.

The employee sharesave scheme is available to all eligible employees and the company share option scheme is for senior executives (excluding, with effect from the introduction of the group's incentive plan, executive directors and other executives participating in the plan). The former is based on SAYE savings contracts with options exercisable within a six-month period from the conclusion of a three, five or seven-year period as appropriate from the date of grant. Under the terms and conditions of this scheme, for every month (up to no more than six months) an employee fails to contribute the agreed monthly amount determined under the rules of the scheme, the last date exercisable will be delayed by one month. Options under the latter scheme are exercisable in a period beginning no earlier than three years (five years for discounted options under the former executive share option scheme, which are no longer granted) and ending no later than ten years from the date of grant. Details of the criteria for exercising these options is shown in the report on remuneration. Options outstanding under the share option schemes at 31 March, together with their exercise prices and dates, were:

	2002	2001	Exercise price	Normal dates of exercise
Employee sharesave scheme	–	20,139	440.6p (1)	1999 or 2001
	7,848	159,445	404.8p (1)	2000 or 2002
	–	109,034	481.0p (1)	2001
	99,720	2,475,951	476.0p (1)	2002
	682,778	1,039,524	616.5p (1)	2001 or 2003
	391,203	485,837	707.5p (1)	2002 or 2004
	3,841,976	4,471,965	471.5p (1)	2003 or 2005
	1,678,910	2,057,825	556.5p (1)	2004 or 2006
	1,971,047	–	500.0p (1)	2005 or 2007
Executive share option scheme	–	15,571	324.1p (3)	1995 to 2002
	–	27,901	275.7p (2)	1997 to 2002
	2,713	2,713	392.7p (3)	1995 to 2002
	904	3,810	334.2p (2)	1997 to 2002
	12,978	23,826	463.4p (3)	1996 to 2003
	18,038	29,402	394.2p (2)	1998 to 2003
	4,650	8,138	446.9p (3)	1996 to 2003
	7,942	12,655	380.2p (2)	1998 to 2003
	120,718	158,700	566.9p (3)	1997 to 2004
	66,262	88,922	482.2p (2)	1999 to 2004
	38,912	47,826	530.1p (3)	1997 to 2004
	32,617	37,460	450.8p (2)	1999 to 2004
	45,518	75,163	479.8p (3)	1997 to 2004
	43,420	75,315	408.2p (2)	1999 to 2004
	56,155	56,155	564.0p (3)	1998 to 2005
	21,252	21,252	479.8p (2)	2000 to 2005
	151,450	178,950	584.5p (3)	1998 to 2005
	178,448	230,502	544.5p (3)	1999 to 2006
	328,909	331,409	628.0p (3)	2000 to 2007
	169,500	182,500	632.0p (3)	2000 to 2007
	562,249	562,499	768.5p (3)	2000 to 2007
	155,750	155,750	886.0p (3)	2001 to 2008
	310,250	310,250	868.0p (3)	2001 to 2008
	968,451	968,451	768.0p (3)	2002 to 2009
Company share option scheme	**402,728**	402,728	615.5p (3)	2002 to 2009
	1,005,559	1,005,560	680.0p (3)	2003 to 2010
	527,293	527,293	666.0p (3)	2003 to 2010
	983,462	–	652.0p (3)	2004 to 2011
	542,814	–	589.0p (3)	2005 to 2012
	15,432,424	16,360,421		

(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 2002 and 31 March 2001, 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 2002, options were granted under the option schemes in respect of a total of 3,538,123 ordinary shares (2001 – 3,636,897 ordinary shares), options for 3,079,711 ordinary shares (2001 – 2,179,862 ordinary shares) were exercised and options for 1,386,409 ordinary shares (2001 – 1,999,714 ordinary shares) lapsed or were cancelled.

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. 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 2002 was 863,538 with a market value of £5,276,217 based on the mid-market price of a share at that date of 611.0 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) (the 'Schemes'), of which the ESPS is closed to new employees. UUPS also includes a defined contribution section which constitutes less than 0.5% of the total asset value. 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, Mercer Human Resource Consulting, using the projected unit method. For this purpose, the actuarial assumptions adopted are based upon investment growth of 6.0 per cent per annum, pay growth of 4.0 per cent per annum and increases to pensions in payment and deferred pensions of 2.5 per cent per annum. The actuarial value of the assets was taken as the market value of the assets.

The last actuarial valuations of the two Schemes were carried out as at 31 March 2001. The combined market value of the group's share of the assets of the two Schemes at the valuation date was £1,833.0 million. Using the assumptions adopted for SSAP 24 the combined actuarial value of the assets represented 113 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP 24, the surplus in the Schemes is being spread over the future working lifetime of the existing members.

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

The group also operates a series of unfunded, unapproved retirement benefit schemes. The cost of the unfunded, unapproved retirement benefit schemes is included in the total pension cost, on a basis consistent with SSAP 24 and the assumptions set out above. In accordance with these unfunded arrangements, the group has made payments to former directors, including lump sum payments, of £205,946 in total in the year ended 31 March 2002 (2001 – £231,388; 2000 – £267,632). The total pension cost for the period was £5.0 million (2001 – £6.7 million; 2000 – £5.8 million). A prepayment of £36.9 million is included in the balance sheet at 31 March 2002 (2001 – £22.2 million). Information about the pension arrangements for executive directors is contained in the report on remuneration.

FRS 17 Transitional Disclosures

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP24. A new pension cost accounting standard, FRS 17, must be used for the figures that will be shown in the accounts for the year ending 31 March 2004 and subsequent years. Under transitional arrangements, the group is required to disclose the following information and the figures that would have been shown under FRS 17 in the current balance sheet.

The latest formal valuations of the Schemes were carried out as at 31 March 2001. The valuation of liabilities detailed below has been derived by projecting forward the position at 31 March 2001 and has been performed by an independent actuary, Mercer Human Resource Consulting. FRS 17 gives the present value of pension liabilities by discounting pension commitments (including an allowance for salary growth), at an AA corporate bond yield. The major financial assumptions used by the actuary were as follows:

	At 31 March 2002
Discount rate	6.00%
Pensionable salary growth	4.30%
Pension increases	2.80%
Price inflation	2.80%

The assets and liabilities of the Schemes, along with the expected rates of return on the Schemes' assets as at 31 March 2002 were as follows:

	At 31 March 2002	
	Expected rate of return	Total £m
Equities	8.25%	**1,137.5**
Property	8.25%	**73.5**
Bonds	6.00%	**233.0**
Gilts	5.25%	**302.5**
Other	5.25%	**28.3**
Market value of assets		**1,774.8**
Present value of Schemes' liabilities		**(1,753.2)**
Net surplus in the Schemes		**21.6**
Related deferred tax liability		**(6.5)**
Net pension asset		**15.1**

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve as at 31 March 2002 and 31 March 2001 would be as follows:

	2002 £m	2001 £m
Net assets excluding pension asset	**2,551.5**	2,611.1
SSAP 24 prepayment, net of deferred tax	**(25.8)**	(15.5)
Accruals for unfunded scheme	**5.4**	4.6
Pension asset	**15.1**	142.4
Net assets including pension asset	**2,546.2**	2,742.6
Profit and loss reserve excluding pension asset	**1,308.8**	1,388.0
SSAP 24 prepayment, net of deferred tax	**(25.8)**	(15.5)
Accruals for unfunded scheme	**5.4**	4.6
Pension asset	**15.1**	142.4
Profit and loss reserve including pension asset	**1,303.5**	1,519.5

Over the year to 31 March 2002 the group contributed to UUPS at 11.6% of pensionable salaries. From 1 April 2002 the company contribution rate was changed and now varies by benefit category. The current rates range from 12.8% to 25.5% of pensionable salaries. In addition, further contributions are made to cover the cost of additional severance benefits granted. No company contributions are paid to ESPS. Member contributions to ESPS are currently reduced from their normal rates, by 2.5% of pensionable salaries.

Notes to the accounts continued

26 LEASE COMMITMENTS

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

	31 March 2002		31 March 2001	
	Land and buildings £m	Plant and machinery £m	Land and buildings £m	Plant and machinery £m
Leases which expire:				
Within one year	0.1	0.8	0.5	0.6
Between two and five years	2.2	6.7	1.9	4.2
After five years	9.9	–	4.3	–
	12.2	7.5	6.7	4.8

Minimum future lease payments under finance leases and minimum rental commitments under non-cancellable operating leases of property, plant and equipment at 31 March 2002 were as follows:

	Finance leases £m	Operating leases £m
2003	–	6.8
2004	2.6	6.2
2005	4.6	5.5
2006	6.4	4.4
2007	12.1	4.1
Thereafter	174.9	182.5
Total	200.6	209.5

27 CONTINGENT LIABILITIES

The company guaranteed certain loans and overdrafts of group undertakings up to a maximum amount of £508.4 million (2001 – £572.9 million), including £505.8 million (2001 – £485.5 million) relating to United Utilities Water PLC's loans from European Investment Bank.

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

28 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASHFLOWS

	2002 £m	2001 £m	2000 £m
Group operating profit	524.8	503.7	661.4
Exceptional charges within operating profit	11.9	16.6	31.0
Operating profit before exceptional charges	536.7	520.3	692.4
Depreciation	316.6	316.5	267.8
Amortisation of goodwill and intangible assets	8.1	4.0	0.4
(Profit)/loss on disposal of tangible fixed assets	(3.6)	0.5	(0.7)
Stocks decrease/(increase)	3.1	(6.1)	(0.6)
Debtors decrease/(increase)	3.4	(65.8)	6.2
Creditors (decrease)/increase	(45.1)	73.9	(41.3)
Outflow related to exceptional items	(17.0)	(0.8)	(39.9)
	802.2	842.5	884.3

29 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2002 £m	2001 £m	2000 £m
Interest received	**12.1**	1.2	3.7
Interest paid on bank loans, overdrafts and other loans	**(227.8)**	(181.2)	(183.1)
Interest paid on finance leases	**(8.0)**	(10.1)	(12.2)
	(223.7)	(190.1)	(191.6)

30 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2002 £m	2001 £m	2000 £m
Purchase of tangible fixed assets, net of grants and contributions	**(590.6)**	(593.7)	(660.9)
Sale of tangible fixed assets	**12.2**	32.2	6.9
Purchase of intangible fixed assets	**–**	(9.0)	–
Purchase of fixed asset investments	**(20.4)**	(6.6)	(5.3)
Sale of fixed asset investments other than joint ventures	**12.8**	3.4	22.3
	(586.0)	(573.7)	(637.0)

31 ACQUISITIONS AND DISPOSALS

	Acquisitions			Disposals		
	2002 £m	2001 £m	2000 £m	2002 £m	2001 £m	2000 £m
Fixed assets	**–**	(92.4)	(7.8)	**–**	120.0	–
Net current (liabilities)/assets	**(2.8)**	(3.7)	(0.6)	**(7.0)**	56.9	–
Provisions for liabilities and charges	**–**	0.1	–	**–**	(171.9)	–
Fair value of net assets acquired/book value of net assets disposed	**(2.8)**	(96.0)	(8.4)	**(7.0)**	5.0	
Cost of disposal				**–**	15.3	–
Goodwill acquired/written back on disposal	**–**	(25.2)	(12.3)	**–**	101.0	–
Consideration of undertakings acquired	**(2.8)**	(121.2)	(20.7)			
Profit on disposals				**–**	191.2	–
	(2.8)	(121.2)	(20.7)	**(7.0)**	312.5	–
Less:						
– Cash included in undertakings acquired/disposed	**–**	0.1	–	**–**	–	–
– Deferred consideration	**–**	4.0	–	**–**	–	–
Cash consideration	**(2.8)**	(117.1)	(20.7)	**(7.0)**	312.5	–
Comprising:						
– (Outflow)/inflow arising on:						
– current year's acquisitions/disposals	**–**	(115.7)	(20.7)	**–**	312.5	–
– previous year's acquisitions/disposals	**(2.8)**	(1.4)	–	**(7.0)**	–	–
	(2.8)	(117.1)	(20.7)	**(7.0)**	312.5	–

On 31 March 2001 the group acquired the business process outsourcing business of Cap Gemini Ernst & Young, the consideration for the acquisition consisted of a maximum 15% interest in a subsidiary, Vertex Data Science Limited depending on the size of the business transferred and the achievement of certain business performance objectives over the following three years. The transactions did not affect group cashflow. The gain resulting from the exchange of assets was reflected in the Statement of total recognised gains and losses. A put option was granted to Cap Gemini Ernst & Young in respect of the shareholding in Vertex Data Science Limited and Cap Gemini Ernst & Young granted a call option to the group over the same shareholding. The put and call options may be exercised, subject to certain conditions, in the period July 2003 to June 2005.

Notes to the accounts continued

32 MANAGEMENT OF LIQUID RESOURCES

	2002 £m	2001 £m	2000 £m
Decrease/(increase) in bank deposits, certificates of deposit and managed funds	**13.4**	(328.7)	(3.1)

33 FINANCING

	Financing – shares			Financing – debt				Total
	Shares issued by company							
	Share capital £m	Share premium £m	Total £m	Loans £m	Short-term borrowings other than overdrafts £m	Finance leases £m	Total £m	£m
At 1 April 1999	(549.9)	(642.1)	(1,192.0)	(2,063.9)	(314.5)	(201.7)	(2,580.1)	(3,772.1)
Exchange adjustments	–	–	–	(0.1)	–	–	(0.1)	(0.1)
Financing:								
– New finance	(0.6)	(3.0)	(3.6)	(97.8)	(325.6)	–	(423.4)	(427.0)
– Finance repaid	–	–	–	107.3	–	1.6	108.9	108.9
Cash flow	(0.6)	(3.0)	(3.6)	9.5	(325.6)	1.6	(314.5)	(318.1)
At 1 April 2000	(550.5)	(645.1)	(1,195.6)	(2,054.5)	(640.1)	(200.1)	(2,894.7)	(4,090.3)
Exchange adjustments	–	–	–	(5.5)	0.2	–	(5.3)	(5.3)
Financing:								
– New finance	(2.4)	(11.5)	(13.9)	(763.8)	–	–	(763.8)	(777.7)
– Finance repaid	–	–	–	47.4	398.8	(0.5)	445.7	445.7
Cash flow	(2.4)	(11.5)	(13.9)	(716.4)	398.8	(0.5)	(318.1)	(332.0)
At 1 April 2001	(552.9)	(656.6)	(1,209.5)	(2,776.4)	(241.1)	(200.6)	(3,218.1)	(4,427.6)
Exchange adjustments	–	–	–	1.2	–	–	1.2	1.2
Financing:								
– New finance	(3.0)	(15.0)	(18.0)	(443.4)	–	–	(443.4)	(461.4)
– Finance repaid	–	–	–	135.6	105.7	–	241.3	241.3
Cash flow	(3.0)	(15.0)	(18.0)	(307.8)	105.7	–	(202.1)	(220.1)
At 31 March 2002	**(555.9)**	**(671.6)**	**(1,227.5)**	**(3,083.0)**	**(135.4)**	**(200.6)**	**(3,419.0)**	**(4,646.5)**

		Repayment dates	Currency	Rate %	Amount £m
Loans repaid	European Investment Bank	various	£	various	29.7
	Netherlands guilder loan	19 December	€	9.31	42.6
	US dollar loan	27 September	$	floating	42.3
	Sterling loan	24 July	£	11.625	20.0
	Local authority	various	£	various	1.0
					135.6

34 ANALYSIS OF NET DEBT

	Cash	Financing – debt: Loans					Current asset investments	Net debt
		Due after one year	Due within one year	Short-term borrowings other than overdrafts	Finance leases	Total		
	£m	£m	£m	£m	£m	£m	£m	£m
At 31 March 1999	142.2	(1,956.6)	(107.3)	(314.5)	(201.7)	(2,580.1)	50.4	(2,387.5)
Exchange adjustments	–	(0.1)	–	–	–	(0.1)	–	(0.1)
Cash flow	(137.4)	(97.8)	107.3	(325.6)	1.6	(314.5)	3.1	(448.8)
Other non-cash changes	–	52.3	(52.3)	–	–	–	–	–
At 31 March 2000	4.8	(2,002.2)	(52.3)	(640.1)	(200.1)	(2,894.7)	53.5	(2,836.4)
Exchange adjustments	(0.9)	–	(5.5)	0.2	–	(5.3)	–	(6.2)
Cash flow	25.6	(638.5)	(77.9)	398.8	(0.5)	(318.1)	328.7	36.2
At 31 March 2001	29.5	(2,640.7)	(135.7)	(241.1)	(200.6)	(3,218.1)	382.2	(2,806.4)
Exchange adjustments	0.1	1.2	–	–	–	1.2	–	1.3
Cash flow	(40.2)	(372.5)	64.7	105.7	–	(202.1)	(13.4)	(255.7)
At 31 March 2002	(10.6)	(3,012.0)	(71.0)	(135.4)	(200.6)	(3,419.0)	368.8	(3,060.8)

Cash and short-term borrowings

	Cash at bank	Short-term borrowings			Net total	Cash (at bank and overdrafts)
		Overdrafts	Other	Total		
	£m	£m	£m	£m	£m	£m
At 31 March 1999	164.8	(22.6)	(314.5)	(337.1)	(172.3)	142.2
Cash flow	(134.3)	(3.1)	(325.6)	(328.7)	(463.0)	(137.4)
At 31 March 2000	30.5	(25.7)	(640.1)	(665.8)	(635.3)	4.8
Exchange adjustments	(0.9)	–	0.2	0.2	(0.7)	(0.9)
Cash flow	21.1	4.5	398.8	403.3	424.4	25.6
At 31 March 2001	50.7	(21.2)	(241.1)	(262.3)	(211.6)	29.5
Exchange adjustments	0.1	–	–	–	0.1	0.1
Cash flow	(31.9)	(8.3)	105.7	97.4	65.5	(40.2)
At 31 March 2002	18.9	(29.5)	(135.4)	(164.9)	(146.0)	(10.6)

35 RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year.

32 MANAGEMENT OF LIQUID RESOURCES

	2002 £m	2001 £m	2000 £m
Decrease/(increase) in bank deposits, certificates of deposit and managed funds	**13.4**	(328.7)	(3.1)

33 FINANCING

	Financing – shares			Financing – debt				Total
	Shares issued by company							
	Share capital £m	Share premium £m	Total £m	Loans £m	Short-term borrowings other than overdrafts £m	Finance leases £m	Total £m	£m
At 1 April 1999	(549.9)	(642.1)	(1,192.0)	(2,063.9)	(314.5)	(201.7)	(2,580.1)	(3,772.1)
Exchange adjustments	–	–	–	(0.1)	–	–	(0.1)	(0.1)
Financing:								
– New finance	(0.6)	(3.0)	(3.6)	(97.8)	(325.6)	–	(423.4)	(427.0)
– Finance repaid	–	–	–	107.3	–	1.6	108.9	108.9
Cash flow	(0.6)	(3.0)	(3.6)	9.5	(325.6)	1.6	(314.5)	(318.1)
At 1 April 2000	(550.5)	(645.1)	(1,195.6)	(2,054.5)	(640.1)	(200.1)	(2,894.7)	(4,090.3)
Exchange adjustments	–	–	–	(5.5)	0.2	–	(5.3)	(5.3)
Financing:								
– New finance	(2.4)	(11.5)	(13.9)	(763.8)	–	–	(763.8)	(777.7)
– Finance repaid	–	–	–	47.4	398.8	(0.5)	445.7	445.7
Cash flow	(2.4)	(11.5)	(13.9)	(716.4)	398.8	(0.5)	(318.1)	(332.0)
At 1 April 2001	(552.9)	(656.6)	(1,209.5)	(2,776.4)	(241.1)	(200.6)	(3,218.1)	(4,427.6)
Exchange adjustments	–	–	–	1.2	–	–	1.2	1.2
Financing:								
– New finance	(3.0)	(15.0)	(18.0)	(443.4)	–	–	(443.4)	(461.4)
– Finance repaid	–	–	–	135.6	105.7	–	241.3	241.3
Cash flow	(3.0)	(15.0)	(18.0)	(307.8)	105.7	–	(202.1)	(220.1)
At 31 March 2002	**(555.9)**	**(671.6)**	**(1,227.5)**	**(3,083.0)**	**(135.4)**	**(200.6)**	**(3,419.0)**	**(4,646.5)**

		Repayment dates	Currency	Rate %	Amount £m
Loans repaid	European Investment Bank	various	£	various	29.7
	Netherlands guilder loan	19 December	€	9.31	42.6
	US dollar loan	27 September	$	floating	42.3
	Sterling loan	24 July	£	11.625	20.0
	Local authority	various	£	various	1.0
					135.6

34 ANALYSIS OF NET DEBT

	Cash	Financing – debt					Current asset investments	Net debt
		Loans		Short-term borrowings other than overdrafts	Finance leases	Total		
		Due after one year	Due within one year					
	£m	£m	£m	£m	£m	£m	£m	£m
At 31 March 1999	142.2	(1,956.6)	(107.3)	(314.5)	(201.7)	(2,580.1)	50.4	(2,387.5)
Exchange adjustments	–	(0.1)	–	–	–	(0.1)	–	(0.1)
Cash flow	(137.4)	(97.8)	107.3	(325.6)	1.6	(314.5)	3.1	(448.8)
Other non-cash changes	–	52.3	(52.3)	–	–	–	–	–
At 31 March 2000	4.8	(2,002.2)	(52.3)	(640.1)	(200.1)	(2,894.7)	53.5	(2,836.4)
Exchange adjustments	(0.9)	–	(5.5)	0.2	–	(5.3)	–	(6.2)
Cash flow	25.6	(638.5)	(77.9)	398.8	(0.5)	(318.1)	328.7	36.2
At 31 March 2001	29.5	(2,640.7)	(135.7)	(241.1)	(200.6)	(3,218.1)	382.2	(2,806.4)
Exchange adjustments	0.1	1.2	–	–	–	1.2	–	1.3
Cash flow	(40.2)	(372.5)	64.7	105.7	–	(202.1)	(13.4)	(255.7)
At 31 March 2002	(10.6)	(3,012.0)	(71.0)	(135.4)	(200.6)	(3,419.0)	368.8	(3,060.8)

Cash and short-term borrowings	Cash at bank	Short-term borrowings			Net total	Cash (at bank and overdrafts)
		Overdrafts	Other	Total		
	£m	£m	£m	£m	£m	£m
At 31 March 1999	164.8	(22.6)	(314.5)	(337.1)	(172.3)	142.2
Cash flow	(134.3)	(3.1)	(325.6)	(328.7)	(463.0)	(137.4)
At 31 March 2000	30.5	(25.7)	(640.1)	(665.8)	(635.3)	4.8
Exchange adjustments	(0.9)	–	0.2	0.2	(0.7)	(0.9)
Cash flow	21.1	4.5	398.8	403.3	424.4	25.6
At 31 March 2001	50.7	(21.2)	(241.1)	(262.3)	(211.6)	29.5
Exchange adjustments	0.1	–	–	–	0.1	0.1
Cash flow	(31.9)	(8.3)	105.7	97.4	65.5	(40.2)
At 31 March 2002	18.9	(29.5)	(135.4)	(164.9)	(146.0)	(10.6)

35 RELATED PARTY TRANSACTIONS

There were no material related party transactions during the year.

36 SUMMARY OF DIFFERENCES BETWEEN UK AND US GENERALLY ACCEPTED ACCOUNTING PRICIPLES

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

(a) Pensions
Under UK and US GAAP, pensions costs are determined on a systematic basis over the length of service of employees. US GAAP is more prescriptive in the application of the actuarial method, actuarial assumptions to be applied in the calculation of pensions costs and the allocation of costs to accounting periods. Further, the actuarial valuation under US GAAP must be carried out on an annual basis.

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

Under US GAAP capacity sales are required to be accounted for as operating leases unless title under the lease is transferred to the lessee.

Under UK GAAP the transfer of title is only one of the factors taken into account when determining the accounting treatment.

(c) Infrastructure renewals costs
Under UK GAAP, expenditure on infrastructure assets relating to increases in capacity or enhancement of the network, and on maintaining the operating capability of the network in accordance with defined standards of service, is treated as an addition to fixed assets. Under US GAAP, only expenditure relating to increases in capacity or enhancement of the network is capitalised. This is then depreciated in accordance with paragraph (d) below.

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

(d) Depreciation of infrastructure assets
Under UK GAAP, the depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the company's independently certified asset management plan. Under US GAAP, depreciation is charged on infrastructure assets in equal annual instalments over a period of 100 years, being the estimated economic life under US GAAP.

(e) Provisions
Generally, provision accounting under UK GAAP is substantially the same as under US GAAP.

Onerous contracts
Following the adoption of Financial Reporting Standard 12 in 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. The onerous contract provision was released to the disposal account on the sale of the energy supply business in August 2001, see paragraph (h) opposite.

Accounting for joint ventures
Under UK GAAP, an investor is required to account for its proportionate share of net liabilities in a loss-making joint venture, even where there is no obligation to fund those liabilities. Where this is the case, an investor's share of the net liabilities of an investment is shown as a provision rather than a negative fixed asset. As described in note 13 the group recorded a provision of £38.0 million in 2002 to reflect its proportionate share of the net liabilities of an investment in Argentina. Under US GAAP, an investor should discontinue recording losses of an investment when the investment has been reduced to zero, unless the investor has an obligation or commitment to fund those liabilities. As the group is not obligated or committed to funding the net liabilities of this investment, no such provision has been recorded under US GAAP.

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

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

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

(h) Profit on disposal of energy supply business
Under UK GAAP, goodwill attributable to the energy supply business of £101.0 million had been previously written off directly to reserves. On disposal in August 2001 this goodwill was included in the profit and loss account as a realised cost of disposal. Under US GAAP this goodwill was capitalised and amortised and the net goodwill of £89.2 million (after charging amortisation of £11.8 million) was treated as a cost of disposal.

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

(i) Fair value of derivative instruments
Under UK GAAP, the group does not recognise derivatives at fair value on the balance sheet. Interest differentials on derivative instruments are charged to the profit and loss account as interest costs in the period to which they relate. Changes in the market value of futures trading contracts are reflected in the profit and loss account in the period in which the change occurs.

Under US GAAP the group adopted SFAS 133, "Accounting for Derivatives Instruments and Hedging Activities," as amended by SFAS 137 and 138. SFAS 133 requires that all derivative instruments are recognised as assets or liabilities on the balance sheet and measured at fair value, regardless of the purpose or intent for holding them. Changes in the fair value of derivative instruments are recognised periodically either in earnings or shareholders' equity (as a component of other comprehensive income), depending on whether the derivative is designated as a hedge of changes in fair value or cash flows. For derivatives designated as fair value hedges, changes in fair value of the hedged item and the derivative are recognised currrently in earnings. For derivatives designated as cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognised in accumulated other comprehensive income on the balance sheet until the hedged item is recognised in earnings. The ineffective portion of the fair value changes are recognised in earnings immediately. The group has elected not to designate any of its derivative instruments as hedges for US GAAP accounting purposes. As a result, all current year movements in fair value of the group's derivative instruments are recorded in earnings.

In accordance with the transition provisions of SFAS 133, the group recorded, at 1 April 2001, a net-of-tax cumulative-effect reduction of £88.1 million in accumulated other comprehensive income within shareholders' equity to recognise at fair value all derivatives that were previously designated as cash flow hedging instruments. Of the transition adjustment of £88.1 million in accumulated comprehensive income, £23.7 million has been reclassified into earnings at 31 March 2002.

Additionally, a fair value adjustment increased debt by £163.0 million which was offset by a corresponding amount to record derivatives previously designated as fair value hedging instruments. The fair value adjustment to debt is being amortised over the period of the debt in accordance with the transitional rules.

Derivatives previously designated as cash flow and fair value hedges are now marked to market. Consequently, the group's earnings under US GAAP may be more volatile because of the effect of derivative instruments.

(j) Currency translation adjustments

Under UK GAAP, currency translation adjustments on net borrowings are taken to reserves to offset the foreign exchange exposure on foreign investments. The group's investment in IEBA, the Argentinian electricity utility, which had a carrying value of approximately £41.3 million prior to the devaluation of the Argentine peso, has been extinguished by exchange adjustments. An exchange adjustment of £79.3 million in respect of this investment has been recorded in the statement of total recognised gains and losses under UK GAAP. This has resulted in a provision of £38.0 million being created on the balance sheet in accordance with Financial Reporting Standard 9 to reflect the group's share of net liabilities as discussed in paragraph (e).

Under US GAAP, the foreign currency translation adjustment on certain borrowings would not be available for this offset unless they meet the stringent criteria specified under SFAS 133 for a designated hedge. Under US GAAP this would be expensed through the income statement.

(k) Deferred taxes

Under UK GAAP, deferred taxes are treated in accordance with Financial Reporting Standard 19. This allows the full provision for deferred tax on all timing differences to be discounted. Deferred tax is not recognised where the carrying amount of assets and liabilities of an acquisition are amended to its fair value by way of a revaluation.

Under US GAAP, no discounting is allowed. Deferred tax also arises in relation to the tax effect of the other US GAAP adjustments.

The 2001 and 2000 US GAAP adjustments for deferred taxes in notes 36(p) and 36(q) have been restated as a result of the adoption of FRS 19 under UK GAAP as described in note 21.

(l) 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.

(m) Share compensation costs

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

At 31 March 2002, the group had a number of share-based compensation plans, which are described in note 24 of the group's financial statements. The group recognises compensation costs for US GAAP purposes in accordance with the requirements of APB Opinion No. 25.

(n) Earnings per share (EPS)

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

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

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

	2002 million	2001 million	2000 million
Weighted average number of shares under US GAAP – basic EPS	**553.5**	551.1	550.2
Common stock equivalents – dilutive share options	**1.7**	1.2	2.8
Weighted average number of shares under US GAAP – diluted EPS	**555.2**	552.3	553.0

Notes to the accounts *continued*

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

Statement of Financial Accounting Standards No. 141 (SFAS 141) (Business Combinations) and Statement of Financial Accounting Standards No. 142 (SFAS 142) (Goodwill and Other Intangible Assets)

In July 2001, the FASB issued Statement No. 141, *Business Combinations*, and Statement No. 142, *Goodwill and Other Intangible Assets*. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after 30 June 2001 as well as all purchase method business combinations completed after 30 June 2001. Statement 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognised and reported apart from goodwill, noting that any purchase price allocable to an assembled workforce may not be accounted for separately. Statement 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortised, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 will also require that intangible assets with definite useful lives be amortised over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.*

Under Statement 141, any goodwill and any intangible asset determined to have an indefinite useful life that are acquired in a purchase business combination completed after 30 June 2001 will not be amortised, but will continue to be evaluated for impairment in accordance with the appropriate pre-Statement 142 accounting principles. Goodwill and intangible assets acquired in business combinations completed before 1 July 2001 will continue to be amortised prior to the adoption of Statement 142.

Statement 141 requires, upon adoption of Statement 142, the group to evaluate its existing intangible assets and goodwill that were acquired in prior purchase business combinations, and to make any necessary reclassifications in order to conform with the new criteria in Statement 141 for recognition apart from goodwill. Upon adoption of Statement 142, the group will be required to reassess the useful lives and residual values of all intangible assets acquired in purchase business combinations, and make any necessary amortisation period adjustments by the end of the first interim period after adoption. In addition, to the extent an intangible asset is identified as having an indefinite useful life, the group will be required to test the intangible asset for impairment in accordance with the provisions of Statement 142 within the first interim period. Any impairment loss will be measured as of the date of adoption and recognised as the cumulative effect of a change in accounting principle in the first interim period.

In connection with the transitional goodwill impairment evaluation, Statement 142 will require the group to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. Any transitional impairment loss will be recognised as the cumulative effect of a change in accounting principle in the group's statement of earnings.

As of the date of adoption, the group expects to have unamortised goodwill of approximately £979 million and unamortised identifiable intangible assets of approximately £9 million which will be subject to the transition provisions of Statements 141 and 142. Amortisation expense related to goodwill was £34.8 million and £31.6 million for the years ended 31 March 2002 and 2001 respectively.

Because of the extensive effort needed to comply with adopting Statements 141 and 142, it is not practicable to estimate the impact of adopting these Statements on the group's financial statements at the date of this report, including whether any transitional impairment losses will be required to be recognised as the cumulative effect of a change in accounting principle.

Statement of Financial Accounting Standards No.143 (SFAS 143) (Accounting for Asset Retirement Obligations)

FASB Statement No.143, *Accounting for Asset Retirement Obligations* (Statement No.143), requires an enterprise to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and or normal use of the assets. The enterprise also is to record a corresponding increase to the carrying amount of the related long-lived asset (i.e., the associated asset retirement costs) and to depreciate that cost over the life of the asset. The liability is changed at the end of each period to reflect the passage of time (i.e. accretion expense) and changes in the estimated future cash flows underlying the initial fair value measurement. Because of the extensive use of estimates, most enterprises will record a gain or loss when they settle the obligation. Enterprises are required to adopt Statement No. 143 for fiscal years beginning after 15 June 2002. The group has not evaluated the impact on the consolidated financial statements of adopting this standard.

Statement of Financial Accounting Standards No.144 (SFAS 144) (Accounting For the Impairment or Disposal of Long-Lived Assets)

FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, addresses financial accounting and reporting for the impairment or disposal of long lived assets. While Statement No.144 supersedes FASB Statement No.121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, it retains many of the fundamental provisions of that Statement. Statement No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects Of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*, for the disposal of a segment and extends that reporting to a *component of an entity* that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale.

Statement No. 144 is effective for fiscal years beginning after 15 December 2001 and interim periods within those fiscal years. The group has not yet determined the impact, if any, the adoption of this standard will have on its financial position or results of operations.

Statement of Financial Accounting Standards No.145 (Rescission of FASB Statement No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections).

In April 2002, the FASB issued Statement No. 145, *"Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections."* Statement No. 145 provides for the rescission of several previously issued accounting standards, new accounting guidance for the accounting for certain lease modifications and various technical corrections that are not substantive in nature to existing pronouncements. Statement No. 145 will be adopted for accounting periods beginning after 1 January 2003, except for the provisions relating to the amendment of Statement No. 13, which will be adopted for transactions occurring subsequent to 15 May 2002. Adoption of Statement No. 145 is not expected to have a material impact on the consolidated financial statements.

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

For the year ended 31 March	Note	2002 £m	Restated 2001 £m	Restated 2000 £m
Net income in accordance with UK GAAP		**265.0**	346.2	367.0
US GAAP adjustments:				
– Pension costs	36(a)	**16.5**	(4.0)	(5.0)
– Telecommunications capacity sales	36(b)	**(3.7)**	(4.1)	–
– Infrastructure renewals costs	36(c)	**24.5**	21.0	2.4
– Depreciation of infrastructure assets	36(d)	**(22.0)**	(21.3)	(19.9)
– Share compensation costs	36(m)	**0.4**	(4.8)	–
– Provisions and fair value adjustments	36(e)	**–**	(10.0)	4.0
– Capitalisation of interest	36(f)	**47.9**	44.0	46.3
– Amortisation of capitalised interest	36(f)	**(9.4)**	(8.4)	(7.5)
– Amortisation of goodwill	36(g)	**(26.7)**	(27.6)	(29.2)
– Profit on disposal of business	36(h)	**–**	(24.2)	–
– Fair value of derivative instruments	36(i)	**(41.6)**		
– Currency translation adjustment	36(j)	**(41.3)**	–	–
– Deferred taxes	36(k)	**(55.4)**	(116.4)	64.3
– Tax effect of US GAAP adjustments	36(k)	**(4.0)**	7.4	(6.0)
Net income in accordance with US GAAP		**150.2**	197.8	416.4
Net income in accordance with US GAAP from:				
Continuing operations		**150.2**	72.6	372.8
Discontinued operations		**–**	125.2	43.6
Total		**150.2**	197.8	416.4
Net income per £1 ordinary share (pence) in accordance with US GAAP basic method from:				
Continuing operations		**27.1**	13.2	67.8
Discontinued operations		**–**	22.7	7.9
Total	36(n)	**27.1**	35.9	75.7
Net income per £1 ordinary share (pence) in accordance with US GAAP diluted method from:				
Continuing operations		**27.1**	13.1	67.4
Discontinued operations		**–**	22.7	7.9
Total	36(n)	**27.1**	35.8	75.3

Notes to the accounts *continued*

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

At 31 March	Note	2002 £m	Restated 2001 £m
Shareholders' equity in accordance with UK GAAP	24	**2,536.3**	2,597.5
US GAAP adjustments:			
– Pensions	36(a)	**(19.4)**	(35.9)
– Telecommunications capacity sales	36(b)	**(7.8)**	(4.1)
– Infrastructure renewals costs	36(c)	**83.2**	58.7
– Depreciation of infrastructure assets	36(d)	**(188.8)**	(166.8)
– Share compensation costs	36(m)	**(4.4)**	(4.8)
– Provisions for net liabilities of joint ventures	36(e)	**38.0**	–
– Capitalisation and amortisation of interest	36(f)	**415.0**	376.5
– Goodwill	36(g)	**897.8**	924.5
– Fair value of derivative instruments	36(i)	**(133.5)**	
– Deferred taxes	36(k)	**(829.0)**	(773.6)
– Income taxes on US GAAP adjustments	36(k)	**(43.5)**	(67.0)
– Dividends	36(l)	**176.2**	172.0
Shareholders' equity in accordance with US GAAP		**2,920.1**	3,077.0

(r) Classification differences between UK and US GAAP

Provisions for liabilities and charges

Provisions for liabilities and charges under UK GAAP include £16.8 million (2001 – £19.5 million; 2000 – £44.1 million) which are due within one year and which would be reclassified to current liabilities under US GAAP. The remainder of the provisions would be reclassified as long-term liabilities under US GAAP.

Pensions

The definition of current assets and liabilities differs under UK and US GAAP. Under UK GAAP an amount of £36.9 million is included in prepayments and accrued income under current debtors (see note 15) which would be treated as a long term asset for US GAAP.

Grants

Under UK GAAP, grants (other then capital contributions towards infrastructure assets) are disclosed within deferred grants and contributions as creditors in the balance sheet. Under US GAAP, these amounts would be set against the assets to which they relate, and £265.6 million (2001 – £249.0 million; 2000 – £228.2 million) would be reclassified from long-term liabilities to tangible fixed assets.

Exceptional items

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

Under US GAAP, all exceptional items, except for the gain on sale of businesses, would have been reflected within operating profit. In 2002, a profit of £nil (2001 – profit of £167.0 million; 2000 – profit of £nil) would have been included within discontinued operations.

Discontinued operations

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

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

(s) Cash flows

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

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

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

	2002 £m	2001 £m	2000 £m
Net cash provided by operating activities	**578.2**	650.7	655.4
Net cash used in investing activities	**(595.8)**	(378.3)	(657.7)
Net cash used by financing activities	**(14.3)**	(251.3)	(132.0)
Effect of exchange rate changes on cash	**0.1**	(0.9)	–
Net (decrease)/increase in cash and cash equivalents	**(31.8)**	20.2	(134.3)
Cash and cash equivalents at beginning of year	**50.7**	30.5	164.8
Cash and cash equivalents at end of year	**18.9**	50.7	30.5

Five year summary

Profit and loss accounts	Restated 1998 £m	Restated 1999 £m	Restated 2000 £m	Restated 2001 £m	2002 £m
Group turnover	2,150	2,277	2,356	1,698	**1,791**
Net operating costs	(1,603)	(1,620)	(1,695)	(1,194)	**(1,266)**
Group operating profit	547	657	661	504	**525**
Share of operating profits of joint ventures and associated undertakings	6	2	4	10	**14**
Profit on disposal of businesses	7	–	–	191	**–**
Net interest payable and other similar charges	(162)	(203)	(206)	(220)	**(231)**
Profit on ordinary activities before taxation	398	456	459	485	**308**
Tax charge on profit on ordinary activities	(58)	(164)	(92)	(139)	**(41)**
Profit on ordinary activities after taxation	340	292	367	346	
Exceptional taxation – windfall tax	(415)	–	–	–	**–**
	(75)	292	367	346	**267**
Minority interest	2	–	–	–	**(2)**
(Loss)/profit for financial year	(73)	292	367	346	**265**
Dividends	(229)	(243)	(249)	(255)	**(261)**
Retained (loss)/profit for the financial year	(302)	49	118	91	**4**
Balance sheets					
Fixed assets	5,439	5,913	6,302	6,594	**6,845**
Net current liabilities	(1,431)	(991)	(1,134)	(628)	**(505)**
Creditors falling due after more than one year	(1,682)	(2,376)	(2,434)	(3,093)	**(3,478)**
Provisions for liabilities and charges	(166)	(304)	(370)	(262)	**(311)**
Net assets	2,160	2,242	2,364	2,611	**2,551**
Equity share capital and share premium	1,179	1,192	1,195	1,209	**1,227**
Reserves and retained profits	982	1,051	1,169	1,388	**1,309**
Minority interest	(1)	(1)	–	14	**15**
Capital employed	2,160	2,242	2,364	2,611	**2,551**

Useful information for shareholders

Key events for shareholders during the year

The company is holding its 2002 annual general meeting on Wednesday, 31 July 2002 at the Bridgewater Hall, Manchester. It will start at 11.00 am. The notice calling the meeting and a full explanation of the resolutions to be proposed at the meeting are set out in the leaflet sent to shareholders with this report.

During the next year, the company will:

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

Keeping you in the picture

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

www.unitedutilities.com

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

American Depositary Receipt holders can get a copy of the annual report on form 20-F, which is filed with the Securities and Exchange Commission in the US, from the depositary (see 'Enquiring about the American listing' below).

Other shareholders can get a copy from Jane Gilmore, compliance manager, at Dawson House, Great Sankey, Warrington WA5 3LW (telephone: 01925 237000; e-mail: jane.gilmore@uuplc.co.uk).

Copies of the separate regulatory accounts for the year ended 31 March 2002 for the licensed water and electricity distribution businesses, which have to be given to the water and energy regulators, are available free of charge. If you would like copies, please contact Jane Gilmore.

Enquiring about your shareholding

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

The registrar's website allows shareholders with on-line internet access to view details of their shareholdings, to vote at general meetings and to register to receive communications electronically. The service is secure – data transferred to you is encrypted and you have a personal user ID and PIN; free – as long as you have a computer and access to the internet; and easy to use – you just need your user ID and PIN to log on.

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

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

www.shareview.co.uk

Communicating in alternative formats

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

Paying your dividends direct to your account

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

Dealing in United Utilities shares cost effectively

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

www.natweststockbrokers.co.uk

Holding your shares tax efficiently

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

www.halifax.co.uk/sharedealing

Donating shares to the ShareGift scheme

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

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

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

www.sharegift.org

Enquiring about the American listing

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

www.adrbny.com

Avoiding unsolicited mail

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

www.mpsonline.org.uk