

UNITED UTILITIES WATER LIMITED
2366678

Directors' report

Principal activities

United Utilities Water Limited provides water supply and sewerage services in North West England in accordance with its licence held under the Water Industry Act 1991. The company changed its name from North West Water Limited with effect from 1 April 2001.

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

Profits and dividends

The results for the year, set out in the profit and loss account on page 6, show that turnover for the year ended 31 March 2001 reduced to £953.5 million, a reduction of 7.8 per cent over the previous year. Profit for the year after tax was £224.2 million (2000 – £324.2 million).

An interim dividend of 14.56 pence per share was paid in February 2001. The directors recommend a final dividend of 29.46 pence per share for the year to 31 March 2001. Preference share dividends totalled £9.1 million.

Regulation

As required by paragraph 3.1 of Condition K of the licence, the directors state that they are satisfied that as at 31 March 2001, if a special administration order had been made under section 23 of the Water Industry Act 1991 in respect of United Utilities Water Limited, the company would have had available to it sufficient rights and assets (not including financial resources) to have enabled the special administrator to manage the affairs, business and properties of the company so that the purpose of the order could have been achieved.

Employment policies

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

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

The company encourages participation in the group's save-as-you-earn share schemes.

Research and development

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

Creditor payment policy and practice

The policy is normally to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the company seeks to adhere to the payment terms provided the relevant goods and services have been supplied in accordance with the contracts. The group and company had 39 days of purchases outstanding at the end of the financial year.

Directors

The directors of the company during the year ended 31 March 2001 are set out below. All were directors for the whole year except where otherwise indicated.

Non-executive directors

P G S Entwistle, non-executive director
D E Morton JP, non-executive director

Executive directors

J E Roberts*, Chairman (and Chief Executive, United Utilities PLC)
R D Armstrong
J A Barnes (resigned 31 October 2000, re-appointed 30 January 2001)
S G Batey* (appointed 23 May 2000)
M F Bradbury
S W Chaplin
L W Dawson* (appointed 1 November 2000)
C H Elphick
R C Emerson (appointed 1 November 2000)

*Director, United Utilities PLC

Directors – resigned during the year

H R Croft (resigned 30 September 2000)
R G Bradbury (resigned 31 October 2000)
P E McCloskey (resigned 31 October 2000)
C South (resigned 31 October 2000)

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

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

Auditor

A resolution to re-appoint KPMG Audit Plc as auditor to the company will be proposed at the annual general meeting.

By order of the board

Tim Rayner, Secretary

21 June 2001



Directors' responsibilities

in respect of the preparation of financial statements

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

The directors consider that in preparing the financial statements on pages 6 to 36 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards and all Regulatory Accounting Guidelines issued by the Office of Water Services which they consider to be applicable to these financial statements have been followed. After making enquiries, the directors are of the opinion that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they

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

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

In addition, the directors have responsibility for ensuring that the company keeps proper accounting records sufficient to enable the historical cost and current cost information required by Condition F of the licence to be prepared, having regard to all relevant Regulatory Accounting Guidelines.

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

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

Auditor's report

to the members of United Utilities Water Limited

We have audited the financial statements on pages 6 to 22.

Respective responsibilities of directors and auditors

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group as at 31 March 2001 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc Chartered Accountants
Registered Auditor
Manchester, 21 June 2001

Consolidated profit and loss account

for the year ended 31 March 2001

	Note	2001 £m	2000 £m
Turnover	1(b)	953.5	1,033.9
Net operating costs (including exceptional costs of £3.4m, 2000 £14.6m)	3	(577.1)	(581.2)
Operating profit		376.4	452.7
Net interest payable	7	(138.5)	(124.6)
Profit on ordinary activities before taxation		237.9	328.1
Tax on profit on ordinary activities	8	(13.7)	(3.9)
Profit for the financial year		224.2	324.2
Dividends on equity and non-equity shares	9	(199.2)	(195.5)
Transfer to reserves	19	25.0	128.7

All of the results derive from continuing operations.

The group has no recognised gains or losses other than the profit for the year.

Reconciliations of movements in shareholders' funds

for the year ended 31 March 2001

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Profit for the financial year	224.2	324.2	224.2	324.2
Dividends	(199.2)	(195.5)	(199.2)	(195.5)
Transfer to reserves	25.0	128.7	25.0	128.7
Issue of preference shares	-	18.3	-	18.3
Net movement in shareholders' funds for the year	25.0	147.0	25.0	147.0
Opening shareholders' funds	2,331.5	2,184.5	2,331.5	2,184.5
Closing shareholders' funds	2,356.5	2,331.5	2,356.5	2,331.5

Balance sheets

at 31 March 2001

	Note	Group		Company	
		2001 £m	2000 £m	2001 £m	2000 £m
Fixed assets					
Tangible assets	10	4,746.6	4,632.5	4,746.6	4,632.5
Investments	11	0.3	0.3	0.4	0.4
		4,746.9	4,632.8	4,747.0	4,632.9
Current assets					
Stock		2.4	2.5	2.4	2.5
Debtors	12	316.4	307.8	316.4	305.4
Short-term investments		255.5	–	255.5	–
Cash at bank		19.9	17.6	19.9	17.6
		594.2	327.9	594.2	325.5
Creditors					
Amounts falling due within one year	13	(559.2)	(883.0)	(540.2)	(880.7)
Net current assets/(liabilities)		35.0	(555.1)	54.0	(555.2)
Total assets less current liabilities					
		4,781.9	4,077.7	4,801.0	4,077.7
Creditors					
Amounts falling due after more than one year	14	(2,419.5)	(1,740.8)	(2,438.6)	(1,740.8)
Provisions for liabilities and charges	16	(5.9)	(5.4)	(5.9)	(5.4)
Net assets		2,356.5	2,331.5	2,356.5	2,331.5
Capital and reserves					
Equity share capital	18	431.9	431.9	431.9	431.9
Share premium account	18	647.8	647.8	647.8	647.8
Profit and loss account	19	1,053.4	1,028.4	1,053.4	1,028.4
Equity shareholders' funds		2,133.1	2,108.1	2,133.1	2,108.1
Non-equity share capital	18	223.4	223.4	223.4	223.4
Shareholders' funds		2,356.5	2,331.5	2,356.5	2,331.5

Approved by the board of directors on 21 June 2001 and signed on its behalf by



Stan Chaplin
Finance Director

Consolidated cash flow statement

for the year ended 31 March 2001

	2001 £m	2001 £m	2000 £m	2000 £m
Net cash inflow from operating activities		623.4		627.2
Returns on investments and servicing of finance				
Interest received	10.2		6.1	
Interest paid	(122.9)		(130.8)	
Interest element of finance lease repayments	(10.2)		(5.1)	
Non-equity dividends paid	(9.1)		(9.1)	
Net cash outflow from returns on investment and servicing of finance		(132.0)		(138.9)
Taxation		(13.2)		(77.9)
Capital expenditure				
Purchase of tangible fixed assets	(397.4)		(500.2)	
Grants and contributions received	8.2		7.2	
Disposal of tangible fixed assets	15.7		2.2	
Net cash outflow for capital expenditure		(373.5)		(490.8)
Equity dividends paid		(187.6)		(184.0)
Cash outflow before use of liquid resources		(82.9)		(264.4)
Management of liquid resources				
Short-term deposits		(255.5)		-
Financing				
Issue of preference share capital	-		18.3	
Increase of debt	304.5		271.5	
Net cash inflow from financing		304.5		289.8
(Decrease)/Increase in cash		(33.9)		25.4

Notes to the cash flow statement

for the year ended 31 March 2001

	2001 £m	2000 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	376.4	452.7
Depreciation	242.2	192.6
Profit on disposal of tangible fixed assets	(1.3)	(0.8)
Stock decrease/(increase)	0.1	(0.2)
Debtors (increase)/decrease	(7.4)	36.9
Creditors increase/(decrease)	13.4	(54.0)
Net cash inflow from operating activities	623.4	627.2

Notes to the cash flow statement (continued)

	2001 £m	2000 £m
Reconciliation of net cash flow to movement in net debt		
(Decrease)/Increase in cash in the year	(33.9)	25.4
Cash inflow from increase in debt and lease financing	(304.5)	(271.5)
Cash used to increase liquid resources	255.5	–
Movement in net debt in the year	(82.9)	(246.1)
Net debt at 1 April 2000	(2,022.0)	(1,775.9)
Net debt at 31 March 2001	(2,104.9)	(2,022.0)

	2001 £m	2000 £m
Analysis of cash flows for headings netted in the cash flow statement		
Financing		
Issue of preference share capital	–	18.3
Debt due within a year:		
– repayment of short-term group loans	(24.8)	(17.6)
– (repayment)/new short-term bank loans	(310.5)	228.5
Debt due beyond a year:		
– new long-term loans	735.8	162.3
– repayment of long-term group loans	(65.0)	–
– repayment of long-term external loans	(30.6)	(100.0)
Capital element of finance lease repayments	(0.4)	(1.7)
Net cash inflow from financing	304.5	289.8

	At 1 April 2000 £m	Cashflow £m	At 31 March 2001 £m
Analysis of changes in net debt			
Long-term loans	(1,504.0)	(676.4)	(2,180.4)
Finance leases	(200.0)	0.4	(199.6)
Short-term loans	(346.6)	346.6	–
Parent undertaking short-term loan	(20.7)	20.7	–
Overdrafts	(8.3)	(36.1)	(44.4)
Borrowings	(2,079.6)	(344.8)	(2,424.4)
Parent undertaking loans	40.0	4.1	44.1
Short-term investments	–	255.5	255.5
Cash in hand	17.6	2.3	19.9
Net debt	(2,022.0)	(82.9)	(2,104.9)

Notes to the accounts

1 Accounting policies

(a) Basis of preparation of financial statements

The consolidated financial statements of United Utilities Water Limited and its subsidiary (the group) have been prepared under the historical cost convention and in accordance with applicable accounting standards and, except for the treatment of certain grants and contributions (note (e) below), with the Companies Act 1985.

(b) Turnover

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

(c) Research and development

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

(d) Tangible fixed assets

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

(i) Infrastructure assets

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

The depreciation charge for infrastructure assets is the estimated level of annual expenditure required to maintain the operating capability of the network which is based on the company's independently certified asset management plan.

(ii) Other assets (including properties, overground plant and equipment)

Other assets are included at cost less accumulated depreciation. Additions are included at cost.

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

Other assets are depreciated evenly over their estimated economic lives which are principally as follows:

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

(e) Grants and contributions

Grants and contributions receivable relating to infrastructure assets have been deducted from the cost of tangible fixed assets. This is not in accordance with the Companies Act 1985 which requires tangible fixed assets to be shown at cost and hence grants and contributions

as deferred income. This departure from the requirements of the Companies Act 1985 is, in the opinion of the directors, necessary for the financial statements to show a true and fair view as while a provision is made for depreciation of infrastructure assets, these assets do not have determinable finite lives and therefore no basis exists on which to recognise grants and contributions as deferred income. The effect of this treatment on the value of tangible fixed assets is disclosed in note 10.

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.

(f) Leased assets

Assets financed by leasing arrangements which transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised in the 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. 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. 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 as incurred.

(g) Fixed asset investments

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

(h) Stocks

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

(i) Pensions

Most of the company's employees belong to pension schemes which provide for defined benefits based on final pensionable pay. Pension costs are charged against profits over the estimated remaining service lives of employees. Details of pension arrangements and funding are set out in note 20.

(j) Deferred taxation

Provision is made for deferred taxation where an asset or a liability is considered likely to arise in the foreseeable future.

(k) Financial instruments

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

2 Segmental information

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

3 Net operating costs

	2001 £m	2000 £m
Employee costs:		
Wages and salaries	81.6	93.3
Social security costs	7.4	8.1
Pension contributions (note 20)	4.4	9.5
	93.4	110.9
Capital schemes	(28.8)	(25.2)
Infrastructure renewals	–	(6.2)
	64.6	79.5
Depreciation:		
Owned fixed assets	137.8	111.7
Fixed assets held under finance leases	4.7	4.7
	142.5	116.4
Non-infrastructure depreciation	99.7	76.2
Infrastructure depreciation	242.2	192.6
Other operating costs include:		
Other operating costs	250.0	286.5
Raw materials and consumables	22.0	24.6
Auditor's remuneration	0.1	0.1
Research and development	1.8	1.5
Operating leases:		
– hire of plant and machinery	1.0	1.5
– land and buildings	1.4	0.5
Other income (note 4)	(6.0)	(5.6)
	270.3	309.1
Total net operating costs	577.1	581.2

Managed service fees and asset charges from group undertakings are contained within other operating costs.
Fees payable to the auditor and its associates for non-audit services in 2001 were £46,000 (2000 – £248,000).

4 Other income

	2001 £m	2000 £m
Profit on disposal of fixed assets	1.3	0.8
Net rents receivable	2.2	2.4
Other	2.5	2.4
	6.0	5.6

Notes to the accounts (continued)

5 Directors

The aggregate emoluments of the directors in 2001 amounted to £1,410,086 (2000 – £1,464,676). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of the highest paid director (H R Croft) in 2001 amounted to £330,599 (2000 – £277,033).

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

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

The accrued pension at 31 March 2001 for H R Croft was £150,857 per annum (2000 – £120,189 per annum).

At 31 March 2001 and the prior year, the directors and their families had the following interests, all of which were beneficial interests, in the ordinary shares and options to subscribe for ordinary shares in United Utilities PLC (details of the interests of directors of United Utilities PLC are dealt with in that company's accounts).

	2001 Share options			2000 or on appointment Share options		
	Ordinary shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	11,208	12,293	3,173	12,373	12,293	3,173
J A Barnes	3,450	29,924	5,419	4,950	20,549	3,600
M F Bradbury	10,686	43,364	3,596	10,355	32,512	3,596
S W Chaplin	3,743	14,100	2,177	3,715	5,828	2,177
C H Elphick	8,315	23,636	3,623	9,579	23,636	3,623
R C Emerson	1,156	23,572	1,330	1,156	23,572	724
P G S Entwistle	90	–	–	90	–	–

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

Details of directors' options granted for ordinary shares during the year are as follows:

	Options granted during the year	Exercise price per share	Scheme	First date exercisable	Last date exercisable
J A Barnes	9,375	680.0	Executive option	10 July 2003	10 July 2010
	1,819	556.5	Sharesave	1 March 2006	1 September 2006
M F Bradbury	10,852	680.0	Executive option	10 July 2003	10 July 2010
S W Chaplin	8,272	680.0	Executive option	10 July 2003	10 July 2010
R C Emerson	606	556.5	Sharesave	1 March 2006	1 September 2006

The directors exercised no options for ordinary shares during the year.

The mid-market share price on 31 March 2001 was 612.0 pence.

The range during the year was 566.0 pence to 740.0 pence.

6 Employees

	2001	2000
Average number of persons employed	3,492	4,116

7 Net interest payable

	2001 £m	2000 £m
Interest payable:		
On bank loans, overdrafts and other loans	77.6	66.9
On finance leases	10.2	5.0
Group undertakings	60.4	59.3
Total interest payable	148.2	131.2
Interest receivable:		
Group undertakings	(4.7)	(5.0)
External	(5.0)	(1.6)
Net interest payable	138.5	124.6

8 Taxation on profit on ordinary activities

	2001 £m	2000 £m
UK Corporation Tax at 30% (2000 – 30%)	13.7	3.9
The full potential deferred tax liability is:		
Accelerated tax allowances on buildings, plant and equipment		
Infrastructure assets	500.5	471.4
Other assets	317.5	254.5
Other timing differences	(30.0)	(25.0)
	788.0	700.9

No deferred tax liability is provided in the company's accounts.

Notes to the accounts (continued)

9 Dividends

	2001 £m	2000 £m
Interim dividend of 14.56 pence per share (2000 – 14.28 pence)	62.9	61.7
Final dividend of 29.46 pence per share recommended (2000 – 28.88 pence)	127.2	124.7
Preference share dividend 6.98 pence per share (2000 – 6.98 pence)	9.1	9.1
	199.2	195.5

10 Tangible fixed assets

Group and company	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Fixtures, fittings tools and equipment £m	Assets in course of construction £m	Total £m
Cost:						
At 1 April 2000	205.7	2,916.8	2,103.0	528.3	536.4	6,290.2
Additions	1.4	111.5	51.3	0.8	206.3	371.3
Grants and contributions	–	(4.4)	–	–	–	(4.4)
Inter-group transfer	(14.4)	–	–	(0.2)	–	(14.6)
Transfers	6.8	160.0	244.8	20.0	(431.6)	–
Disposals	(2.0)	–	(3.6)	(28.5)	–	(34.1)
At 31 March 2001	197.5	3,183.9	2,395.5	520.4	311.1	6,608.4
Depreciation:						
At 1 April 2000	41.7	842.6	521.8	251.5	0.1	1,657.7
Charge for the year	8.1	99.7	70.6	63.8	–	242.2
Inter-group transfer	(5.1)	–	–	(0.1)	–	(5.2)
Disposals	(1.3)	–	(3.5)	(28.1)	–	(32.9)
At 31 March 2001	43.4	942.3	588.9	287.1	0.1	1,861.8
Net book value:						
At 31 March 2001	154.1	2,241.6	1,806.6	233.3	311.0	4,746.6
At 31 March 2000	164.0	2,074.2	1,581.2	276.8	536.3	4,632.5

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence, the net book value of fixed assets is £71.4 million (2000 – £67.0 million) lower than it would have been had this treatment not been adopted.

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 2001.

10 Tangible fixed assets (continued)**Infrastructure renewals**

	£m
Excess expenditure over depreciation at 1 April 2000 on maintaining the operating capability of the network	59.2
Expenditure on maintaining the network in the year	90.8
Depreciation for the year	(99.7)
Excess expenditure over depreciation at 31 March 2001	50.3

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

	2001 £m	2000 £m
Cost:		
Operational structures	250.8	250.8
Fixtures, fittings, tools and equipment	4.1	4.8
At 31 March	254.9	255.6
Accumulated depreciation:		
Operational structures	(73.0)	(68.4)
Fixtures, fittings, tools and equipment	(3.9)	(4.5)
At 31 March	(76.9)	(72.9)
Net book value:		
Operational structures	177.8	182.4
Fixtures, fittings, tools and equipment	0.2	0.3
At 31 March	178.0	182.7

The depreciation charge for the year for assets held under finance leases is £4.7 million (2000 – £4.7 million).

	2001 £m	2000 £m
Capital commitments:		
Contracted but not provided for	175.4	183.8

Notes to the accounts (continued)

11 Fixed asset investments

			Investments £m
Group			
Cost:			
At 1 April 2000 and 31 March 2001			0.3
	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Company			
Cost:			
At 1 April 2000 and 31 March 2001			0.4
	0.1	0.3	0.4

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

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

12 Debtors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Amounts falling due within one year:				
Trade debtors	147.2	130.2	147.2	130.2
Amount owed by group undertakings	66.3	56.3	66.3	56.3
Other debtors	12.1	9.8	12.1	9.8
Prepayments and accrued income	90.8	111.5	90.8	109.1
	316.4	307.8	316.4	305.4

Amounts owed by group undertakings represent amounts owed by parent and fellow subsidiary undertakings, which includes £44.1 million floating rate loans (2000 – £40.0 million).

13 Creditors: amounts falling due within one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Loans	31.2	30.4	31.2	30.4
Bank overdrafts and temporary borrowings	44.4	354.9	44.4	21.0
Obligations under finance leases	–	0.4	–	0.4
Trade creditors	10.4	9.0	10.4	9.0
Amounts owed to group undertakings	41.6	60.0	41.6	391.6
Dividends	127.2	124.7	127.2	124.7
Other creditors	1.1	1.6	1.1	1.6
Taxation and social security	2.0	6.8	2.0	6.8
Accruals and deferred income	301.3	295.2	282.3	295.2
	559.2	883.0	540.2	880.7

Amounts owed to group undertakings totals £41.6 million (2000 – £60.0 million) in respect of amounts owed to parent and fellow subsidiary undertakings.

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Loans	1,694.7	954.0	489.3	521.2
Obligations under finance leases	199.6	199.6	199.6	199.6
Amounts owed to group undertakings	454.5	519.6	1,679.0	952.4
Other creditors	4.4	7.0	4.4	7.0
Deferred grants and contributions (note 15)	66.3	60.6	66.3	60.6
	2,419.5	1,740.8	2,438.6	1,740.8

Amounts owed to group undertakings represents amounts owed to parent and fellow subsidiary undertakings.

Notes to the accounts (continued)

15 Deferred grants and contributions

	£m
Group and company	
As at 1 April 2000	60.6
Received in the year	8.2
Profit and loss account	(2.5)
At 31 March 2001	66.3

16 Provision for liabilities and charges

	Restructuring £m
Group and company	
As at 1 April 2000	5.4
Utilised	(5.4)
Profit and loss account	5.9
At 31 March 2001	5.9

17 Borrowings

	2001 £m	2000 £m
Bank overdrafts and temporary borrowings	44.4	375.6
Term loans	2,180.4	1,504.0
Finance leases	199.6	200.0
	2,424.4	2,079.6

Repayments fall due as follows:

	Year	2001 £m	Year	2000 £m
After five years	2007+	1,751.8	2006+	1,440.6
From four to five years	2006	444.9	2005	36.2
From three to four years	2005	50.5	2004	34.0
From two to three years	2004	34.5	2003	66.6
From one to two years	2003	67.1	2002	95.8
After more than one year		2,348.8		1,673.2
Within one year	2002	75.6	2001	406.4
		2,424.4		2,079.6

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2007 and 2053. Interest rates range from 1.5 per cent to 14.83 per cent on £1,819.7 million and are at floating rates on £604.7 million.

Bank overdrafts and temporary borrowings

The group had available committed bank facilities of £545 million (2000 – £545 million) of which £545 million was unutilised at 31 March 2001 (2000 – £545 million). The amounts currently unutilised expire as follows:

	£m
From one to two years	370.0
After two years	175.0

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

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed		Weighted average period for which interest is fixed	
	2001 £m	2000 £m	2001 %	2000 %	2001 Years	2000 Years
Fixed rate borrowings – sterling	1,709.7	1,276.1	7.1	6.9	5.4	6.8
Floating rate borrowings – sterling	714.7	782.8				
Floating rate parent undertaking loan – sterling	–	20.7				
	2,424.4	2,079.6				
Floating rate parent undertaking loan – sterling	(44.1)	(40.0)				
Short-term investments – sterling	(255.5)	–				
Cash at bank	(19.9)	(17.6)				
Net debt at 31 March	2,104.9	2,022.0				

Floating rate borrowings are based on LIBOR.

Financial instruments and risk management

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

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

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

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

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

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

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

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

a) Interest rate swaps

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

Notes to the accounts (continued)

b) Financial futures

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

c) Forward contracts

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

d) Currency swaps

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

Fair values of financial instruments

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

	2001 Book value £m	2001 Current value £m
Short-term debt and current portion of long-term debt	75.6	75.6
Long-term debt	2,348.8	2,444.3
	2,424.4	2,519.9
Interest rate swaps	-	44.4
Foreign exchange contracts and swaps	-	(65.7)
Total financial instruments	2,424.4	2,498.6

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

Current assets and liabilities

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

Long term receivables and liabilities

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

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

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

Currency and interest rate swaps

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

Hedges

Unrecognised gains and losses on financial assets and liabilities for which hedge accounting has been used at the balance sheet date were £168.2 million and £146.7 million respectively (2000 – £25.3 million and £108.9 million).

The group anticipates that £20.0 million of these gains and £18.5 million of these losses will be realised in the forthcoming financial year (2000 – £3.1 million and £5.5 million). Of the unrecognised gains and losses on hedges as at 1 April 2000, the net loss recognised in the period's profit and loss account was £2.4 million.

18 Called up share capital and share premium accounts

	2001 £m	2000 £m
Authorised share capital		
650,000,000 ordinary shares of £1 each	650.0	650.0
223,437,000 preference shares of £1 each	223.4	223.4
Allotted and fully paid share capital		
431,930,000 ordinary shares of £1 each	431.9	431.9
223,437,000 preference shares of £1 each	223.4	223.4
Share premium account	647.8	647.8

The preference shares have no entitlement to any dividends paid by the company. Preference shareholders are not entitled to receive notice of, attend or vote at, any general meeting of the company. However, preference shareholders receive priority to other classes of shareholders on a winding up, liquidation or other return of capital to shareholders of the company.

19 Profit and loss account

	Group £m	Company £m
At 1 April 2000	1,028.4	1,028.4
Profit for the year	25.0	25.0
At 31 March 2001	1,053.4	1,053.4

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

Notes to the accounts (continued)

20 Pensions

The company participates in the United Utilities PLC's two funded defined benefit schemes – the United Utilities Pension Scheme (UUPS) and the Electricity Supply Pension Scheme (ESPS), of which the ESPS is closed to new employees. The assets of these schemes are held in trust funds independent of United Utilities PLC's finances.

For UUPS and ESPS, the pension cost under the accounting standard SSAP24 has been assessed in accordance with the advice of a firm of actuaries, William M Mercer Limited, using the projected unit method. For this purpose, the actuarial assumptions adopted are based upon investment growth of 6.5 per cent per annum, pay growth of 4.5 per cent per annum and increases to pensions in payment and deferred pensions of 3 per cent per annum. The actuarial value of the assets was taken as 89 per cent of the market value of the assets as at 31 March 1998.

The last actuarial valuations of the two schemes were carried out as at 31 March 1998. The combined market value of United Utilities PLC's share of the assets of the two schemes at the valuation date was £1,718.5 million. Using the assumptions adopted for SSAP24 the combined actuarial value of the assets represented 115 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension costs under SSAP24, the surplus in the schemes is being spread over the future working lifetime of the existing members.

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. For UUPS, the employer's contributions have been assessed in accordance with the advice of William M Mercer Limited using the assumptions and methods described above.

The company also operates a series of unfunded, unapproved retirement benefit schemes. The cost of the unfunded, unapproved retirement benefit schemes is included in the total pension cost, on a basis consistent with SSAP24 and the assumptions set out above.

The total pension cost for the period was £4.4 million (2000 – £9.5 million). The movement year on year reflects the recognition of a prepayment on the balance sheet of £5.9 million as at 31 March 2001 (2000 – nil).

21 Operating leases

	Land and buildings 2001 £m	Plant and machinery 2001 £m	Land and buildings 2000 £m	Plant and machinery 2000 £m
The company is committed to making the following payments during the year:				
Leases which expire:				
Within one year	0.4	0.2	0.2	0.3
Between two and five years	–	0.7	0.4	0.6
After five years	0.9	–	0.9	–
	1.3	0.9	1.5	0.9

22 Related party transactions

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

23 Ultimate parent undertaking

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

Regulatory accounting information

Introduction

The current cost accounts on pages 24 to 36 have been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services.

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

Auditor's contract

The contract of appointment with the auditor satisfies the requirements of paragraph 9.2 of Condition F of the licence "namely that the auditors

will provide such further explanation or clarification of their reports, and such further information in respect of the matters which are the subject of their reports, as the Director General may reasonably require".

Basis of allocations and apportionments

The revenues, costs, assets and liabilities are directly allocated to the appointed business and any other activity or associated company, except where they relate to common support services. Those relating to common support services are apportioned on the basis of the demands made on each of the support services by each principal service or activity.

Auditor's report

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

We have audited the historical cost financial statements on pages 6 to 22, which have been prepared under the accounting policies set out on page 10, and the current cost financial information on pages 24 to 36, which has been prepared under the accounting policies set out on pages 28 and 29.

Respective responsibilities of directors and auditors

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

Basis of audit opinion

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

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

Opinion

In our opinion the regulatory financial statements contain the information for the year to 31 March 2001 required to be published and submitted to you by United Utilities Water Limited ("the Appointee") to comply with Condition F of the licence by the Secretary of State for the Environment to the Appointee as a water and sewerage undertaker under the Water Industry Act 1991.

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

- (i) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the licence;
- (ii) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the licence and has been properly prepared in accordance with the Regulatory Accounting Guidelines numbers 1 to 4 issued by the Office of Water Services;
- (iii) the financial statements on pages 6 to 22 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business;
- (iv) the summarised accounts on pages 24 and 25 have, as explained on page 25, been properly prepared from the financial statements on pages 6 to 22 to reflect the adoption of infrastructure renewals accounting as required by the Regulatory Accounting Guidance and, except for the effect of the departure from accounting standards inherent in this requirement, give, under the historical cost convention and together with the information in the financial statements on pages 6 to 22, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business; and
- (v) the current cost financial information on pages 24 to 36 has been properly prepared in accordance with Regulatory Accounting Guideline 1, Accounting for Current Costs, issued in May 1992 by the Office of Water Services.

KPMG Audit Plc Chartered Accountants
Registered Auditor
Manchester, 21 June 2001

Summarised company historical cost profit and loss account

for the year ended 31 March 2001

	2001 £m	2000 £m
Turnover	953.5	1,015.5
Operating costs	(583.5)	(565.0)
Operating income	4.7	0.8
Operating profit	374.7	451.3
Other income	2.2	2.4
Net interest payable	(139.0)	(125.6)
Profit on ordinary activities before taxation	237.9	328.1
Taxation	(13.7)	(3.9)
Profit for the year	224.2	324.2
Dividends	(199.2)	(195.5)
Retained profit for the year	25.0	128.7

Summarised company historical cost balance sheet

at 31 March 2001

	2001 £m	2000 £m
Fixed assets		
Tangible fixed assets	4,696.3	4,573.2
Investments	0.4	0.4
	4,696.7	4,573.6
Current assets		
Stock	2.4	2.4
Debtors	366.8	364.5
Short-term deposits	255.5	-
Cash at bank	19.9	17.6
	644.6	384.5
Creditors: amounts falling due within one year		
Borrowings	(75.6)	(409.2)
Dividends payable	(127.2)	(124.7)
Other creditors	(356.6)	(346.5)
	(559.4)	(880.4)
Net current assets/(liabilities)	85.2	(495.9)
Creditors: amounts falling due after more than one year		
Borrowings	(2,348.8)	(1,673.2)
Other creditors	(4.4)	(7.0)
	(2,353.2)	(1,680.2)
Provision for liabilities and charges	(5.9)	(5.4)
Deferred income	(66.3)	(60.6)
Net assets employed	2,356.5	2,331.5
Capital and reserves		
Called up share capital	655.3	655.3
Share premium	647.8	647.8
Profit and loss account	1,053.4	1,028.4
Capital and reserves	2,356.5	2,331.5

The above historical cost balance sheet is prepared in accordance with infrastructure renewals accounting for regulatory purposes. However, the historical cost accounting balance sheet stated on page 7 reflects the adoption of FRS15, Tangible Fixed Assets, for the financial year 2000/01 and the prior year. The infrastructure renewals prepayment of £50.3 million in 2001 (£59.2 million – 2000) is therefore shown within fixed assets, not within debtors.

Current cost profit and loss account

for the year ended 31 March 2001

	Note	2001 £m	2000 £m
Turnover	2	953.5	1,015.5
Current cost operating costs	3	(680.0)	(664.2)
Profit/(loss) on disposal of fixed assets	2	4.7	(0.4)
Working capital adjustment	2	(0.3)	2.6
Current cost operating profit		277.9	353.5
Other income		2.2	2.4
Net interest payable		(139.0)	(125.5)
Financing adjustment		47.4	48.2
Current cost profit on ordinary activities before taxation		188.5	278.6
Taxation		(13.7)	(3.9)
Current cost profit attributable to shareholders		174.8	274.7
Dividends on equity and non-equity shares		(199.2)	(195.5)
Current cost (loss)/profit retained		(24.4)	79.2

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

Current cost balance sheet

at 31 March 2001

	Note	2001 £m	2000 £m
Tangible assets	4	34,412.0	33,623.7
Third party contributions since 1989-90		(176.0)	(164.2)
Working capital	5	(39.1)	15.0
Net operating assets		34,196.9	33,474.5
Cash and investments		255.8	0.4
Non-trade debtors		56.6	50.5
Non-trade creditors due within one year		(107.1)	(482.3)
Creditors due after one year		(2,353.5)	(1,680.5)
Provisions for liabilities and charges		(5.8)	(5.4)
Dividends payable		(127.2)	(124.7)
Net assets employed		31,915.7	31,232.5
Capital and reserves			
Called up share capital		655.4	655.4
Share premium account		647.8	647.8
Profit and loss account		(3.3)	21.1
Current cost reserve		30,615.8	29,908.2
Total capital and reserves		31,915.7	31,232.5

Current cost cash flow statement

for the year ended 31 March 2001

	2001 £m	2001 £m	2000 £m	2000 £m
Net cash flow from operating activities		608.2		615.0
Returns on investments and servicing of finance				
Interest received	10.2		6.1	
Interest paid	(142.8)		(131.6)	
Interest in finance lease rental	(10.2)		(5.1)	
Non-equity dividends paid	(9.1)		(9.1)	
Net cash outflow from returns on investments and servicing of finance		(151.9)		(139.7)
UK corporation tax paid		(13.2)		(77.9)
Capital expenditure				
Gross cost of purchase of fixed assets	(290.8)		(418.6)	
Receipt of grants and contributions	8.2		7.2	
Infrastructure renewals expenditure	(90.8)		(81.6)	
Disposal of fixed assets	15.7		2.2	
Net cash outflow from investing activities		(357.7)		(490.8)
Equity dividends paid		(187.6)		(186.4)
Management of liquid resources				
Short-term deposits		(255.5)		
Net cash outflow before financing		(357.7)		(279.8)
Financing				
Proceeds from issue of preference share capital	-		18.3	
Capital element of finance lease rentals	(0.4)		(1.7)	
New bank loans	444.6		407.3	
Repayment of short-term group loans	(24.8)		(17.6)	
Repayment of long-term group loans	(65.0)		-	
Repayment of long-term external loans	(30.6)		(100.0)	
Net cash inflow from financing		323.8		306.3
(Decrease)/Increase in cash		(33.9)		26.5

Note to the current cost cash flow statement

	2001 £m	2000 £m
Reconciliation of current cost operating profit to net cash flow from operating activities		
Current cost operating profit	277.9	353.5
Working capital adjustment	0.3	(2.6)
Changes in stocks	0.1	(0.2)
Receipts from other income	2.2	2.4
Current cost depreciation	238.2	207.9
Current cost (profit)/loss on disposal of fixed assets	(4.7)	0.4
(Increase)/decrease in debtors and prepaid expenses	(7.3)	31.0
Increase/(decrease) in creditors and accrued expenses	17.1	(61.2)
Infrastructure renewals expenditure	90.8	81.6
Movement in provisions	(6.4)	2.2
Net cash inflow from operating activities	608.2	615.0

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

Notes to the current cost accounts

1 Current cost accounting policies

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

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

(a) Tangible fixed assets

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

(i) Operational assets

Non-specialised operational assets are valued on the basis of open market value for existing use at 31 March 1993 and have been expressed in real terms by indexing using the Retail Price Index (RPI) since that date.

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

The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described on page 29).

(ii) Infrastructure assets

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

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

(iii) Other fixed assets

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

(b) Grants and other third party contributions

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

(c) Real financial capital maintenance adjustments

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

(i) Working capital adjustment

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

(ii) Financing adjustment

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

(d) Allocation of costs to principal services

Direct costs are charged to the sub-service areas to which they are attributable whereas business activities and indirect costs are allocated on an activity basis using quantitative measures reflecting consumption of service.

2 Analysis of turnover and operating income

	2001			2000		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
Turnover						
Measured	113.9	168.2	282.1	143.2	191.9	335.1
Unmeasured	261.5	295.4	556.9	253.5	345.5	599.0
Trade effluent	–	48.1	48.1	–	48.7	48.7
Revenue grants	0.1	–	0.1	0.1	–	0.1
Large user revenues	38.0	–	38.0	–	–	–
Other sources	6.3	3.5	9.8	6.0	4.2	10.2
Third party services	13.1	5.4	18.5	15.2	7.2	22.4
	432.9	520.6	953.5	418.0	597.5	1,015.5
Operating costs/income						
Current cost profit/(loss) on disposal of fixed assets	2.2	2.5	4.7	(0.3)	(0.1)	(0.4)
Working capital adjustment	(0.1)	(0.2)	(0.3)	1.3	1.3	2.6

The above figures are shown net of customer rebates for each category.

Notes to the current cost accounts (continued)

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

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

The depreciation charge from an associated company has been reclassified as business activities capital cost in accordance with RAG4.

3 Current cost operating costs for the year ended 31 March 2000

Service analysis	Water services			Sewerage services			
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewerage service subtotal £m
Direct costs							
Employment costs	10.0	17.7	27.7	0.6	11.5	5.0	17.1
Power	4.1	4.5	8.6	0.2	7.7	3.6	11.5
Agencies	–	–	–	12.2	–	–	12.2
Hired and contracted services	3.2	6.4	9.6	0.4	3.7	8.0	12.1
Materials and consumables	5.1	2.7	7.8	–	2.5	3.5	6.0
Service charges EA	10.4	–	10.4	1.4	2.9	–	4.3
Other direct costs	–	2.0	2.0	0.2	1.1	0.2	1.5
Total direct costs	32.8	33.3	66.1	15.0	29.4	20.3	64.7
General and support expenditure	13.6	17.6	31.2	1.8	15.0	9.3	26.1
Functional expenditure	46.4	50.9	97.3	16.8	44.4	29.6	90.8
Operating expenditure							
Customer services			28.6				27.7
Scientific services			7.9				3.9
Other business activities			1.0				1.0
Total business activities			37.5				32.6
Local authority rates			30.0				19.7
Doubtful debts			10.5				15.5
Exceptional items			9.2				5.3
Total opex less third party services			184.5				163.9
Third party services – operating expenditure			17.9				4.7
Total operating expenditure			202.4				168.6
Capital maintenance							
Infrastructure renewals expenditure	6.5	40.8	47.3	34.3	–	–	34.3
Infrastructure renewals accrual/(prepayment)	(2.4)	(1.5)	(3.9)	6.2	–	0.3	6.5
Current cost depreciation (allocated)	44.2	22.0	66.2	7.3	62.2	17.5	87.0
Amortisation of deferred credits			(1.5)				(1.2)
Business activities current cost depreciation (non allocated)			28.4				28.8
Capital maintenance excluding third party services			136.5				155.4
Third party services – capital maintenance			1.3				–
Total capital maintenance			137.8				155.4
Total operating costs			340.2				324.0
CCA (MEA) values:							
Service activities	2,660.8	8,843.5	11,504.3	19,748.2	1,473.0	469.6	21,690.8
Business activities			192.6				205.4
Total			11,696.9				21,896.2
Services for third parties			26.6				4.0
Total			11,723.5				21,900.2

Notes to the current cost accounts (continued)

4 Current cost analysis of fixed assets by asset type and service for the year ended 31 March 2001

Service analysis	Water services				Sewerage services				Total £m
	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	Infrastructure assets £m	Operational assets £m	Other tangible assets £m	Subtotal £m	
Gross replacement cost:									
At 1 April 2000	10,522.0	2,503.9	277.7	13,303.6	19,673.0	3,618.6	289.2	23,580.8	36,884.4
RPI adjustment	237.5	56.5	6.1	300.1	444.0	81.7	6.0	531.7	831.8
Disposals	–	(3.9)	(6.1)	(10.0)	–	(3.7)	(5.4)	(9.1)	(19.1)
Additions	55.2	51.4	14.4	121.0	35.5	106.8	15.6	157.9	278.9
At 31 March 2001	10,814.7	2,607.9	292.1	13,714.7	20,152.5	3,803.4	305.4	24,261.3	37,976.0
Depreciation:									
At 1 April 2000	–	1,494.9	85.2	1,580.1	–	1,597.0	83.6	1,680.6	3,260.7
RPI adjustment	–	33.7	1.8	35.5	–	36.0	1.7	37.7	73.2
Disposals	–	(0.4)	(4.3)	(4.7)	–	(0.2)	(3.7)	(3.9)	(8.6)
Charge for the year	–	69.8	34.8	104.6	–	97.8	36.3	134.1	238.7
At 31 March 2001	–	1,598.0	117.5	1,715.5	–	1,730.6	117.9	1,848.5	3,564.0
Net book value:									
At 31 March 2001	10,814.7	1,009.9	174.6	11,999.2	20,152.5	2,072.8	187.5	22,412.8	34,412.0
At 31 March 2000	10,522.0	1,009.0	192.5	11,723.5	19,673.0	2,021.6	205.6	21,900.2	33,623.7

Operational assets by service for the year ended 31 March 2001

Service analysis	Water services			Sewerage services			Total £m
	Specialised operational assets £m	Non- specialised operational assets £m	Total £m	Specialised operational assets £m	Non- specialised operational assets £m	Total £m	
Gross replacement cost:							
At 1 April 2000	2,452.1	51.8	2,503.9	3,560.1	58.5	3,618.6	
RPI adjustment	55.3	1.2	56.5	80.4	1.3	81.7	
Disposals	(0.4)	(3.5)	(3.9)	–	(3.7)	(3.7)	
Additions	47.4	4.0	51.4	102.4	4.4	106.8	
At 31 March 2001	2,554.4	53.5	2,607.9	3,742.9	60.5	3,803.4	
Depreciation:							
At 1 April 2000	1,488.6	6.3	1,494.9	1,590.5	6.5	1,597.0	
RPI adjustment	33.6	0.1	33.7	35.9	0.1	36.0	
Disposals	(0.2)	(0.2)	(0.4)	–	(0.2)	(0.2)	
Charge for the year	69.0	0.8	69.8	96.9	0.9	97.8	
At 31 March 2001	1,591.0	7.0	1,598.0	1,723.3	7.3	1,730.6	
Net book value:							
At 31 March 2001	963.4	46.5	1,009.9	2,019.6	53.2	2,072.8	
At 31 March 2000	963.5	45.5	1,009.0	1,969.6	52.0	2,021.6	

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

The average RCV for 2000/01 assumed in the 1999 Determination is £4,582 million, inflated to 2000/01 prices using the actual Retail Price Index. This is consistent with information contained in the 2001 Annual Return to the Director General.

5 Working capital

	2001 £m	2000 £m
Stocks	2.4	2.5
Trade debtors	147.2	130.2
Working cash balances	(24.6)	10.4
Trade creditors	(10.4)	(9.0)
Short-term capital creditors	(111.0)	(135.2)
Infrastructure renewals prepayment/(accrual)	3.4	12.3
Other trade accruals	(108.8)	(93.7)
Trade payments in advance	6.4	1.3
Payroll related taxation and social security	(2.0)	(2.7)
Group trade debtors/(creditors)	(26.2)	(8.9)
Prepayments and other debtors	84.5	107.8
Total working capital	(39.1)	15.0

6 Movement on current cost reserve

	2001 £m	2000 £m
At 1 April	29,908.2	31,405.0
AMP adjustment	-	(2,295.4)
RPI adjustments:		
Fixed assets	758.4	853.4
Working capital	0.3	(2.6)
Financing	(47.4)	(48.2)
Grants and third party contributions	(3.7)	(4.0)
At 31 March	30,615.8	29,908.2

Notes to the current cost accounts (continued)

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

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

Borrowings and sums lent

The following loans from associated companies existed at 31 March 2001:

	£m	Interest rate
United Utilities PLC – 750m US \$ Bonds	454.5	6.25 to 6.875%
North West Water Finance plc		
Eurobonds	1,082.5	4.875 to 6.625%
Other loans	117.3	1.212 to 5.477%

United Utilities Water Limited operates a daily zero balancing sweep banking arrangement with its parent United Utilities PLC. This has resulted in a total of £1.0 million net interest payable to United Utilities PLC for the year.

The following loans to associated companies existed at 31 March 2001:

	£m	Interest rate
United Utilities PLC	40.0	6.274%

Dividends paid to associated undertakings

During the year dividends payable to the parent company totalled £199.2 million. This comprised a final dividend for the year ended 31 March 2001 of £127.2 million, an interim dividend of £62.9 million and a 7% preference share dividend of £9.1 million.

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

The ordinary dividend increased by 2% in 2000/01 broadly in line with inflation. This increase results from a base level of growth consistent with the management of the economic risk of the business.

Guarantees and securities

United Utilities Water Limited guarantees the loans of North West Water Finance plc which total to £1,199.8 million.

Information technology

United Utilities Water Limited has a contract with Vertex Data Science Limited for further expenditure on software and system assets. The expenditure totalling £20.9 million was incurred to progress software and system developments.

Supply of services

Services supplied by United Utilities Water Limited to associated companies

Nature of transaction	Company	Terms of supply	Total value of service £m
Facility services	United Utilities PLC	Negotiated market rates and recharge of costs	0.4
Facility services	Vertex Data Science Limited	Negotiated market rates	6.8
Facility and operational services	United Utilities International	Negotiated market rates and recharge of costs	3.1
Facility services	Your Communications	Negotiated market rates	1.0
Support services	Norweb	Recharge of costs	17.9

Note – Facility services include accommodation and support services.

Services supplied to United Utilities Water Limited by associated companies

Nature of transaction	Company	Terms of supply	Total value of service £m
Management charge	United Utilities PLC	Recharge of costs	9.5
Managed services	Vertex Data Science Limited	Market tested rates based on actual activity undertaken	70.0
Facility services	Your Communications	Negotiated market rates	3.5
Electricity/gas supplies	Norweb	Published tariffs/ pool prices, negotiated market rates, competitive tendering	7.4

Note – The Group Management charge of £9.5 million from United Utilities PLC represents 58.3% of the total management charge to subsidiaries. About 80% of the charge is allocated by activity.

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

Turnover of associated companies

	Turnover of associated company £m
United Utilities PLC	6
Vertex Data Science Limited	237
United Utilities International	19
Your Communications	111
Norweb	496

Five year summary

Current cost profit and loss account

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Turnover	953.5	1,046.0	992.3	965.4	940.7
Current cost operating costs	(680.0)	(684.1)	(662.5)	(653.1)	(616.3)
Operating income/(expense)	4.7	(0.4)	(3.2)	(3.8)	(8.5)
Working capital adjustment	(0.3)	2.7	3.0	3.3	2.6
	277.9	364.2	329.6	311.8	318.5
Other income	2.2	2.5	2.3	2.7	3.8
Net interest	(139.0)	(129.3)	(123.8)	(112.2)	(96.0)
Financing adjustment	47.4	49.6	33.9	42.3	28.2
Current cost profit on ordinary activities before taxation	188.5	287.0	242.0	244.6	254.5
Taxation	(13.7)	(4.0)	(93.7)	(55.7)	(7.8)
Current cost profit on ordinary activities after taxation	174.8	283.0	148.3	188.9	246.7
Dividends	(199.2)	(201.4)	(331.8)	(322.0)	(394.2)
Current cost retained profit/(loss)	(24.4)	81.6	(183.5)	(133.1)	(147.5)

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

Current cost balance sheet

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Tangible fixed assets	34,412.0	34,397.0	36,585.9	36,397.6	35,992.5
Third party contributions since 1989-90	(176.0)	(168.0)	(160.0)	(151.1)	(141.7)
Working capital	(39.1)	15.3	(105.6)	(151.3)	(98.5)
Net operating assets	34,196.9	34,244.3	36,320.3	36,095.2	35,752.3
Cash and investments	255.8	0.4	0.4	0.3	0.6
Non-trade debtors	56.6	51.7	60.5	34.9	75.2
Non-trade creditors	(234.3)	(620.9)	(524.3)	(912.6)	(629.9)
Creditors due after one year	(2,353.5)	(1,719.2)	(1,622.8)	(923.1)	(779.5)
Provisions	(5.8)	(5.5)	(3.3)	(11.9)	(31.0)
Net assets employed	31,915.7	31,950.8	34,230.8	34,282.8	34,387.7
Capital and reserves					
Called up share capital	655.4	670.5	668.3	523.4	521.2
Share premium account	647.8	662.7	679.5	693.8	717.8
Profit and loss account	(3.3)	21.6	(60.8)	125.8	253.5
Current cost reserve	30,615.8	30,596.0	32,943.8	32,939.8	32,895.2
	31,915.7	31,950.8	34,230.8	34,282.8	34,387.7

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