

## Delivering efficiency and quality

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

### Our business

During the five years to 2005, we are carrying out the largest single investment programme in the UK water industry, requiring a total investment of £3 billion. Such is the scale of the programme, that £1 of every £4 to be invested in drinking water and environmental improvements in England and Wales over the five-year period will be spent in north west England. In addition, the business is on track to deliver its efficiency targets over the five year period to 2005. In the calendar year 2002, the business continued to improve quality with 99.81 per cent of drinking water samples meeting the quality standards at customers' taps compared with 99.78 per cent the previous year. In the long-term, AMP3 capital investment is designed to address wastewater compliance issues by 2005. In advance of this, operational improvements and additional investment have already delivered enhanced performance of wastewater assets.

Capital investment in the period was in excess of £588 million. By 31 March 2003 United Utilities Water had delivered around a third of the 1,200 regulatory capital enhancement outputs required through its capital investment programme over the 2000-05 period, and was ahead of the schedule set by the water regulator. This year's programme includes 920km of water mains rehabilitation, the completion of water treatment improvements at 20 works, the closure of 174 unsatisfactory intermittent discharges and the substantial replacement of assets at 5 wastewater treatment works and 2 pumping stations. However, the next two years will be challenging as the programme peaks both in terms of investment and delivery of outputs. We have already put in place robust processes to address this challenge, such as framework agreements with contractors and standardising the design and construction of our assets.

Capital investment is anticipated to peak this year at almost £3 million per day, with United Utilities Water expecting to deliver around 300 combined sewer overflow and quality enhancement outputs at its water and wastewater treatment works.

### Our customers

A new payment card system was successfully delivered to 450,000 customers this year, supporting our drive to improve income and debt management. The business has also developed new products including a home telephone service for domestic water customers.

We have maintained performance in the key areas for customer service and exceeded the expectations set out in our regulatory business plan. The level of complaints continues to fall with a 7 per cent reduction compared to last year. Since 1997/98 we have seen an overall reduction of 44 per cent.

Customers with special needs receive help in a package of ExtraCare services. During the year, we introduced new services including freephone contact numbers and a dedicated emergency line for dialysis customers in the event of an emergency shut-off. We have signed up to the 'national cold calling protocol' programme, aimed at reducing the risk from bogus callers. Employees follow a set procedure when calling on customers, including the use of a new large-style ID card to help people with visual impairment.

### Our people

Our UCan culture change programme started two years ago and initially we focused on unlocking potential, improving self-awareness and looking at behaviour. We are emphasising the 'United' in



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ED3 \*EUKURITLUM\* 0043  
COMPANIES HOUSE 15/08/03

United Utilities – acting as one company with several different business strands. It is not a quick win, but getting the culture right is absolutely essential for the success of today's company. Last year's employee opinion survey showed a significant improvement over the previous year and shows that initiatives under way are successful and have had a huge positive impact on all employees. There is no room for complacency, and next year we will also focus on career development and employee well-being. Work is continuing on improving health and safety, and the year saw a 27 per cent reduction in notifiable and reportable accidents.

### Manchester 2002

In 2002 one of our biggest challenges and successes was the Commonwealth Games. The United Utilities group supplied the utility infrastructure to the main stadium and spent two years planning for the event, evaluating and managing risks to ensure continuity of supplies. United Utilities was an official sponsor, and the name and logo were televised across the world. The dedication and teamwork involved from employees was recognised when United Utilities employees were named Team of the Year at the Utility Industry Achievement Awards.

### Regulation

The Water Bill introduces a number of improvements to the regulatory regime. We welcome its recognition of long-term water resource planning principles from the Water Framework Directive. Environmental and quality issues will continue to drive investment, but customer issues, such as odour control, sewer flooding and the continuing need to maintain existing assets, also need to be addressed.

We also welcome Ofwat's decision last year to change the minimum notice period to terminate the licence to 25 years, increasing certainty for the benefit of all stakeholders.

### Looking forward

The next price review is currently the biggest issue on the horizon for the business. By 2005 the water industry will have had 15 years of incentive based regulation, which means the scope for future efficiency improvements is diminished. The industry will have to work closely with the regulator to balance the desire for further substantial quality improvements against affordable price increases for customers, and the returns required to attract new funding for the industry.

**John Roberts**  
Chairman, United Utilities Water PLC

## Operational and financial review

This year we have delivered a capital investment programme of more than £588 million, at the same time as continuing to deliver our target for efficiencies and improving customer service.

### Water supply operations

Drinking water quality remains high with 99.81 per cent compliance at customers' taps in north west England, improving from 99.78 per cent the previous year.

More than a million customers are enjoying better water quality with the commissioning of a new treatment process at Oswestry water treatment works. The £18.5 million project was completed two months ahead of schedule. The process eliminates trihalomethanes from a supply of up to 205 megalitres daily to customers in Cheshire and Merseyside.

### Wastewater operations

The north west of England achieved its best ever bathing water quality results in 2002, with 36 out of 37 bathing waters passing strict EU standards compared to only 6 when sampling began in 1988. Coastal waters have been getting steadily cleaner for over a decade and our investment programme is continuing to make a real difference to the environment and the quality of life in north west England.

River water quality in north west England continues to improve, thanks largely to the ongoing investment programme on wastewater treatment. 92.4 per cent of river length in north west England is now rated as of good or fair quality. The Environment Agency has announced that river water quality in the region is the best it has been for over 200 years.

We take our responsibilities to protect the environment very seriously. A wide range of initiatives has been introduced and we are confident that there will be further improvement in environmental performance in 2003.

Last year, 29 of 42 district councils decided to end their sewer management contracts with United Utilities Water and the responsibility for handling the service for the equivalent of 75 per cent of the population of the region is now back under our direct control.

### Financial results

We continue to invest heavily in our water and wastewater networks. Gross capital investment for the year was in excess of £588 million bringing the total investment in improving water and wastewater services in the north west to approximately £5.8 billion since privatisation.

Turnover increased by £19.9 million to £971.9 million resulting from income from new connections and the impact of an increase in RPI.

Operating costs increased by £55.1 million to £621.6 million resulting from cost increases arising from new assets constructed as part of the capital investment programme and increased bad debt charges, offset by efficiency savings.

Operating profit decreased to £350.3 million from £385.5 million in the previous year.

Net finance charges have also increased due to our continued significant investment programme. The overall result of the above is a reduction in profit before tax of £38.9 million to £198.5 million.

### Taxation

The current UK mainstream corporation tax credit in 2002/03 and low charge in 2001/02 reflects the effects of the high level of accelerated tax allowances arising from the capital investment.

The effective current ordinary tax credit of 4.6 per cent compares with a charge of 6.6 per cent in 2001/02.

The effects of deferred tax increase the effective ordinary tax charge to 27.0 per cent compared with 9.1 per cent in 2001/02.

Deferred tax is £62.9 million in 2002/03 compared with £6.1 million in 2001/02. The increased charge in 2002/03 is primarily due to the effects of lower gilt interest rates on the discount of the full potential liability.

## Operational and financial review (continued)

### Capital structure and treasury policy

The level of capital expenditure which the company is obliged to incur is such that it cannot be wholly financed by internally generated resources. As a result, the company raises finance regularly to fund the long term assets required to meet regulatory obligations. In the year, total borrowings increased by £522.0 million to £2,983.6 million, while net debt rose by £272.8 million to £2,487.4 million.

Net finance charges rose by £3.7 million to £151.8 million reflecting the increase in borrowings, and movements in interest rates.

Operating within policies approved by the board, the treasury function does not act as a profit centre and does not undertake any speculative trading activity. We ensure sufficient funding is available to meet foreseeable needs and maintain reasonable headroom for contingencies.

Long-term borrowings are structured or hedged to match earnings, which are largely in sterling, indexed to inflation and subject to regulatory price reviews every five years. Exposure to interest rate movements for the following 12 months is largely eliminated at the start of each financial year using short-term hedges. The credit quality of counterparties and individual aggregate exposures are reviewed annually.

Moody's Investors Service rates the credit of United Utilities Water PLC as A2 on a long basis with a stable outlook and P-1 on a short-term basis. Equivalent ratings published by Standard and Poor's Rating Services are A- long-term with a positive outlook and A-2 short-term.

The United Utilities group's €4 billion medium term and \$1.5 billion short term note issuance programmes continue to provide effective funding.

During the period, the company arranged £427 million of term funding. This comprises various bonds from the medium term note programme (£50 million of which remains undrawn at the year end).

We have also raised £75 million in medium term bank loans and extended £25 million of committed bank facilities.

Liquidity as at 31 March 2003 provided by cash and short-term current investments totalled £455.5 million. This, together with undrawn committed bank facilities of £295.0 million gives the company liquid pre-funding of the investment programme.

During the year the company also drew down £150 million from a £200 million borrowing facility provided by the European Investment Bank signed in December 2000 bringing the total commitment to the company at 31 March 2003 from the European Investment Bank to £625.8 million. This valuable source of funding supports our investment programme over the coming years and is the largest single external investor in the company.

### Interest rate management

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

The company's borrowings at 31 March 2003 are set out in note 19 on pages 20 to 22.



**Steven Beaumont**  
Finance Director  
United Utilities Water PLC

# Directors' report

for the year ended 31 March 2003

## Principal activities

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

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

## Profits and dividends

The results for the year, set out in the profit and loss account on page 6, show that turnover for the year ended 31 March 2003 increased to £971.9 million, an increase of 2.1 per cent over the previous year. Profit for the year after tax was £144.8 million (2002 - £215.8 million). An interim dividend of 15.05 pence per share (2002 - 14.85 pence) was paid in February 2003. The directors recommend a final dividend of 30.44 pence per share (2002 - 30.05 pence) for the year to 31 March 2003. Preference share dividends totalled £9.1 million (2002 - £9.1 million).

## Regulation

As required by paragraph 3.1 of Condition K of the licence, the directors are satisfied that as at 31 March 2003, if a special administration order had been made under section 23 of the Water Industry Act 1991 in respect of United Utilities Water PLC, the company would have had available to it sufficient rights and assets (not including financial resources) to have enabled the special administrator to manage the affairs, business and properties of the company so that the purpose of the order could have been achieved.

The directors have issued a certificate under Condition F6A of the Licence stating that the company will have available to it sufficient financial and management resources and facilities to enable it to carry out, for at least twelve months, its regulated activities. This certificate also confirms that all contracts entered into with any associated company included all necessary provision and requirements concerning the standard of service to be supplied by the company to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

## Employment policies

Employees are key to achieving our business goals and the company is committed to improving the skills of its people. The company respects the dignity and rights of every employee, supports them in performing various roles in society and challenges prejudice and stereotyping.

The company is committed to involving employees through open and regular communications about business changes to allow a free flow of information and ideas.

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

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

The company encourages participation in the group's all employee 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 44 days of purchases (2002 - 54 days) outstanding at the end of the financial year.

## Directors

The directors of the company during the year ended 31 March 2003 are set out below. All were directors for the whole year except where otherwise indicated.

## Non-executive directors

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

## Executive directors

J E Roberts\* Chairman (and Chief Executive, United Utilities PLC)  
R D Armstrong  
J A Barnes  
S G Batey\*  
S Beaumont  
M F Bradbury (resigned 1 April 2003)  
C H Elphick  
J Lang (appointed 13 February 2003)

## Executive directors – resigned during the year

L W Dawson\* (resigned 25 March 2003)

\*Director, United Utilities PLC

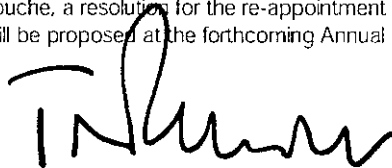
Details of directors' interests in ordinary shares of United Utilities PLC are set out in note 5 to the accounts.

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

During the year, KPMG Audit Plc resigned as the company's auditors. The directors used their powers under the Companies Act 1985 to appoint Deloitte & Touche as the company's auditors to fill the vacancy created by KPMG Audit Plc's resignation.

On 1 August 2003, Deloitte & Touche will transfer their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. However, at present they remain the company's auditors and have signed the financial statements in that capacity. It is the current intention of the directors to use the company's statutory power to give consent to the appointment of Deloitte & Touche being treated as extending to Deloitte & Touche LLP at the appropriate time. Accordingly, although the financial statements have been signed in the name of Deloitte & Touche, a resolution for the re-appointment of Deloitte & Touche LLP will be proposed at the forthcoming Annual General Meeting.



By order of the board  
**Tim Rayner**  
Secretary  
15 July 2003

## 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 the company and group at the end of the financial year and of the profit or 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 42 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. 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, subject to any departure and explanation described in the notes to the accounts. 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 (see page 4).

## Independent auditor's report

to the members of United Utilities Water PLC

We have audited the financial statements of United Utilities Water PLC for the year ended 31 March 2003 which comprise the profit and loss account, the balance sheets, the cash flow statement, the notes to the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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 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 company and other members of the group is not disclosed.

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and 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 United Kingdom 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 circumstances of the company and the group, 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 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 affairs of the company and the group as at 31 March 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



### Deloitte & Touche

Chartered Accountants and Registered Auditor  
Manchester  
15 July 2003

## Consolidated profit and loss account

for the year ended 31 March

	Note	2003 £m	2002 £m
<b>Turnover</b>	1(b)	<b>971.9</b>	952.0
Net operating costs (including exceptional credit of £2.9m – 2002 charge of £9.2m)	3	<b>(621.6)</b>	(566.5)
<b>Operating profit</b>		<b>350.3</b>	385.5
Net finance charges	7	<b>(151.8)</b>	(148.1)
<b>Profit on ordinary activities before taxation</b>		<b>198.5</b>	237.4
Tax on profit on ordinary activities	8	<b>(53.7)</b>	(21.6)
<b>Profit for the financial year</b>		<b>144.8</b>	215.8
Dividends	9	<b>(205.6)</b>	(203.0)
<b>Transfer to reserves</b>	21	<b>(60.8)</b>	12.8

See accompanying notes to the accounts.

The above profit and loss account relates to continuing operations.

## Reconciliations of movements in shareholders' funds

for the year ended 31 March

	Group and Company	Group and Company
	2003 £m	2002 £m
Profit for the financial year	<b>144.8</b>	215.8
Dividends	<b>(205.6)</b>	(203.0)
Net movement in shareholders' funds for the year	<b>(60.8)</b>	12.8
Opening shareholders' funds	<b>2,189.3</b>	2,176.5
<b>Closing shareholders' funds</b>	<b>2,128.5</b>	2,189.3

There are no recognised gains or losses in the current financial year and preceding financial year, other than as stated in the profit and loss account, and as such no statement of total recognised gains and losses has been prepared.

# Balance sheets

as at 31 March 2003

	Note	Group		Company	
		2003 £m	2002 £m	2003 £m	2002 £m
<b>Fixed assets</b>					
Tangible assets	10	5,253.9	4,924.7	5,253.9	4,924.7
Investments	11	0.4	0.4	0.4	0.4
		5,254.3	4,925.1	5,254.3	4,925.1
<b>Current assets</b>					
Stock		3.0	2.9	3.0	2.9
Debtors	12	265.3	287.9	265.3	287.9
Investments	13	453.0	185.0	453.0	185.0
Cash at bank and in hand		2.5	24.3	2.5	24.3
		723.8	500.1	723.8	500.1
<b>Creditors</b>					
Amounts falling due within one year	14	(709.7)	(604.0)	(709.7)	(604.0)
<b>Net current (liabilities)/assets</b>		14.1	(103.9)	14.1	(103.9)
<b>Total assets less current liabilities</b>		5,268.4	4,821.2	5,268.4	4,821.2
<b>Creditors</b>					
Amounts falling due after more than one year	15	(2,890.9)	(2,440.1)	(2,890.9)	(2,440.1)
<b>Provisions for liabilities and charges</b>	17,18	(249.0)	(191.8)	(249.0)	(191.8)
<b>Net assets</b>		2,128.5	2,189.3	2,128.5	2,189.3
<b>Capital and reserves</b>					
Share capital	20	655.3	655.3	655.3	655.3
Share premium account	20	647.8	647.8	647.8	647.8
Profit and loss account	21	825.4	886.2	825.4	886.2
<b>Shareholders' funds</b>		2,128.5	2,189.3	2,128.5	2,189.3
<b>Shareholders' funds may be analysed as:</b>					
Equity interests		1,905.1	1,965.9	1,905.1	1,965.9
Non-equity interests		223.4	223.4	223.4	223.4
		2,128.5	2,189.3	2,128.5	2,189.3

See accompanying notes to the accounts.

Approved by the board of directors on 15 July 2003 and signed on its behalf by:

Steven Beaumont  
Finance Director

# Consolidated cash flow statement

for the year ended 31 March 2003

	2003 £m	2003 £m	2002 £m	2002 £m
<b>Net cash inflow from operating activities</b>		<b>602.7</b>		650.4
<b>Returns on investments and servicing of finance</b>				
Interest received	10.7		16.3	
Interest paid	(158.6)		(164.3)	
Interest element of finance lease repayments	(8.0)		(7.9)	
Dividends received	7.9		-	
Non-equity dividends paid	(9.1)		(9.1)	
Net cash outflow from returns on investment and servicing of finance		<b>(157.1)</b>		(165.0)
<b>Taxation</b>		<b>5.8</b>		(11.8)
<b>Capital expenditure</b>				
Purchase of tangible fixed assets	(545.0)		(402.0)	
Grants and contributions received	13.5		4.7	
Disposal of tangible fixed assets	2.0		5.4	
Net cash outflow for capital expenditure		<b>(529.5)</b>		(391.9)
<b>Equity dividends paid</b>		<b>(194.7)</b>		(191.4)
<b>Cash outflow before use of liquid resources</b>		<b>(272.8)</b>		(109.7)
<b>Management of liquid resources</b>				
Short-term deposits		<b>(268.0)</b>		70.5
<b>Financing</b>		<b>548.4</b>		58.3
<b>Increase in cash and overdrafts</b>		<b>7.6</b>		19.1

## Notes to the cash flow statement

for the year ended 31 March

	2003 £m	2002 £m
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit	<b>350.3</b>	385.5
Depreciation	<b>250.2</b>	228.0
Amortisation of grants and contributions	<b>(3.3)</b>	-
Profit on disposal of tangible fixed assets	<b>(1.7)</b>	(4.3)
Stocks increase	<b>(0.1)</b>	(0.5)
Debtors decrease	<b>14.9</b>	33.8
Creditors (decrease)/increase	<b>(1.9)</b>	8.0
Movement in other provisions	<b>(5.7)</b>	(0.1)
Net cash inflow from operating activities	<b>602.7</b>	650.4



## Notes to the cash flow statement (continued)

	2003 £m	2002 £m
<b>Reconciliation of net cash flow to movement in net debt</b>		
Increase in cash and overdrafts in the year	7.6	19.1
Cash inflow from increase in debt and lease financing	(548.4)	(58.3)
Cash used to increase/(decrease) liquid resources	268.0	(70.5)
<b>Movement in net debt in the year</b>	<b>(272.8)</b>	<b>(109.7)</b>
<b>Net debt at 1 April 2002</b>	<b>(2,214.6)</b>	<b>(2,104.9)</b>
<b>Net debt at 31 March 2003</b>	<b>(2,487.4)</b>	<b>(2,214.6)</b>

	2003 £m	2002 £m
<b>Analysis of cash flows for headings netted in the cash flow statement</b>		
<b>Financing</b>		
Debt due within a year:		
- new short-term group loans	30.4	6.4
Debt due beyond a year:		
- new long-term loans	584.6	53.0
- repayment of long-term external loans	(66.6)	(1.1)
<b>Net cash inflow from financing</b>	<b>548.4</b>	<b>58.3</b>

	At 1 April 2002 £m	At 1 April 2002 £m	Cashflow £m	Cashflow £m	At 31 March 2003 £m	At 31 March 2003 £m
<b>Analysis of changes in net debt</b>						
Cash at bank, in hand	24.3		(21.8)		2.5	
Overdrafts	(29.8)		29.4		(0.4)	
		(5.5)		7.6		2.1
Parent undertaking loans	37.7		3.0		40.7	
Debt due after one year	(2,165.6)		(566.1)		(2,731.7)	
Debt due within one year	(66.6)		4.8		(61.8)	
Finance leases	(199.6)		9.9		(189.7)	
		(2,394.1)		(548.4)		(2,942.5)
Current asset investments		185.0		268.0		453.0
<b>Net debt</b>		<b>(2,214.6)</b>		<b>(272.8)</b>		<b>(2,487.4)</b>

# Notes to the accounts

## 1 Accounting policies

### (a) Basis of preparation of financial statements

The consolidated financial statements of United Utilities Water PLC and its subsidiary (together '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 water and wastewater systems. Expenditure on infrastructure assets relating to increases in capacity or enhancement of the network and on maintaining the operating capability of the network in accordance with defined standards of service is treated as an addition, which is included at cost after deducting grants and contributions. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost and is classified as infrastructure renewals expenditure.

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

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

#### (ii) Other assets

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

#### (iii) 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.

### (e) Grants and contributions

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

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

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

### (f) Leased assets

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

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

## Notes to the accounts (continued)

### (g) Fixed asset investments

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

### (h) Stocks

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

### (i) Pensions

The company participates in a number of defined benefit schemes, operated by United Utilities PLC, which are independent of the company'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 company has followed the transitional arrangements of FRS 17 'Retirement Benefits' in these financial statements. Details of pension arrangements and funding benefits are set out in note 22.

### (j) Taxation

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

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

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

### (k) Financial instruments

#### 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 accrual 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 amortised to interest expense over the period of the hedged position, to the extent that the original liability remains outstanding.

In order to qualify for hedge accounting, the notional amount of the company'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 company enters into currency swaps to manage its exposure to fluctuations in currency rates. Principal amounts are revalued at exchange rates prevailing at the date of the company balance sheet and included in the sterling value of the debt. In order for such swaps 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 to the company's operations. Where they do, exchange gains and losses are taken directly to reserves and are included in the statement of total recognised gains and losses in accordance with SSAP 20 'Foreign currency transactions'.

## Notes to the accounts (continued)

**2 Segmental information**

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

**3 Net operating costs**

Group and company	2003 £m	2002 £m
<b>Employee costs:</b>		
Wages and salaries	89.3	84.8
Social security costs	6.0	5.8
Pension contributions (note 22)	6.4	4.3
	<b>101.7</b>	94.9
Capital schemes	(32.1)	(30.1)
Charges to provisions	(1.1)	(5.4)
	<b>68.5</b>	59.4
<b>Depreciation:</b>		
Owned fixed assets	149.3	121.4
Fixed assets held under finance leases	4.2	4.4
	<b>153.5</b>	125.8
Non-infrastructure depreciation	96.7	102.2
	<b>250.2</b>	228.0
<b>Other operating costs include:</b>		
Other operating costs	267.8	263.0
Raw materials and consumables	35.0	20.4
Auditor's remuneration	0.1	0.1
Research and development	0.9	0.9
Operating leases:		
– hire of plant and machinery	1.1	2.7
– land and buildings	0.9	0.9
Other income (note 4)	(2.9)	(8.9)
	<b>302.9</b>	279.1
<b>Total net operating costs</b>	<b>621.6</b>	566.5

Managed service fees and asset charges from group undertakings are contained within other operating costs. Fees payable to Deloitte & Touche and its associates for non-audit services from the date of their appointment as auditors were £0.1 million, primarily relating to regulatory work. The audit fee for 2003 in relation to the company amounted to £0.1 million.

Fees payable to the group's former auditors KPMG Audit Plc and its associates for non-audit services in 2002, were £0.1 million, primarily relating to regulatory work. The audit fee for 2002 in relation to the company amounted to £0.1 million.

The prior year figures have been restated due to a reclassification of cost from other operating costs to wages and salaries.

**4 Other income (see note 3)**

	2003 £m	2002 £m
Profit on disposal of fixed assets	1.7	4.3
Net rents receivable	1.2	1.2
Other	–	3.4
	<b>2.9</b>	8.9

## Notes to the accounts (continued)

## 5 Directors

The aggregate emoluments of the directors in 2003 amounted to £967,031 (2002 - £879,979). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of the highest paid director (R D Armstrong) in 2003 amounted to £267,574 (2002: R D Armstrong - £255,847).

At 31 March 2003 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 on United Utilities PLC are dealt with in that company's accounts).

	2003 Interest in shares			2002 or appointment Interest in shares		
	Ordinary Shares	Executive option scheme	Employee sharesave scheme	Ordinary Shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	13,017	3,767	1,823	16,799	3,767	2,054
J A Barnes	8,765	22,175	2,060	7,050	29,924	1,819
S Beaumont	4,013	26,984	1,823	1,959	26,984	2,054
M F Bradbury	11,845	43,364	2,920	11,156	43,364	2,679
C H Elphick	9,638	23,636	2,866	11,938	23,636	2,290
P G S Entwistle	1,500	-	-	90	-	-
J Lang	21	-	-	-	-	-
D E Morton JP	-	-	-	-	-	-

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

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

	Share options at 31 March 2002 or on appointment	Options granted during the year	Weighted average exercise price per share	First date exercisable	Last date exercisable	Options exercised during the year	Market price on exercise
<b>Employee sharesave scheme</b>							
R D Armstrong	2,054	-	471.5p	1 Mar 2003	1 Sep 2003	2,054	592p
	-	1,823	490.0p	1 Mar 2006	1 Sep 2006	-	-
J A Barnes	1,819	-	556.5p	1 Mar 2006	1 Sep 2006	-	-
	-	241	490.0p	1 Mar 2006	1 Sep 2006	-	-
S Beaumont	2,054	-	471.5p	1 Mar 2003	1 Sep 2003	2,054	589p
	-	1,823	490.0p	1 Mar 2008	1 Sep 2008	-	-
M F Bradbury	2,147	-	471.5p	1 Mar 2005	1 Sep 2005	-	-
	532	-	500.0p	1 Mar 2005	1 Sep 2005	-	-
	-	241	490.0p	1 Mar 2006	1 Sep 2006	-	-
C H Elphick	2,290	-	500.0p	1 Mar 2007	1 Sep 2007	-	-
	-	576	490.0p	1 Mar 2006	1 Sep 2006	-	-
<b>Executive option scheme</b>							
R D Armstrong	3,767	-	529.6p				
J A Barnes	22,175	-	732.3p				
	775	-	479.8p	15 Dec 1997	15 Dec 2004	775	630p
	2,519	-	566.9p	20 Jan 1997	20 Jan 2004	2,519	630p
	2,519	-	463.4p	6 Jan 1996	6 Jan 2003	2,519	630p
	258	-	408.2p	15 Dec 1999	15 Dec 2004	258	630p
	839	-	482.2p	20 Jan 1999	20 Jan 2004	839	630p
	839	-	394.2p	6 Jan 1998	6 Jan 2003	839	630p
S Beaumont	26,984	-	721.2p				
M F Bradbury	43,364	-	679.6p				
C H Elphick	23,636	-	582.2p				

The mid-market price of a share on the 31 March 2003 was 586.0 pence. The range in the year was 551.5 pence to 668.0 pence.

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

## Notes to the accounts (continued)

**5 Directors (continued)**

The aggregate notional gain made by directors on the exercise of options during the year (based on the difference between the mid-market price of a share on the day which options were exercised and the exercise price) was £15,629 (2002 - £39,911). None of the options shown above lapsed during the year.

The United Utilities Pension Scheme is an exempt approved pension scheme with defined benefit and defined contribution sections of membership. It contains sections which are 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 the age of 50 if the company agrees.

The Finance Act 1989 restricts the pensions 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 total pension benefits as for those executives who are not limited by the cap. These arrangements are unfunded.

The accrued pension at 31 March 2003 for R D Armstrong, the highest paid director, was £98,154 (2002 R D Armstrong - £89,236 per annum).

**6 Employees**

	2003	2002
Licensed utility operations	3,108	3,199

**7 Net finance charges**

	2003 £m	2002 £m
<b>Interest payable and similar charges:</b>		
On bank loans, overdrafts and other loans	117.9	105.9
On finance leases	2.2	7.9
Group undertakings	51.4	50.6
Total interest payable and similar charges	171.5	164.4
<b>Investment income:</b>		
Income received from current asset investments	(7.9)	-
Interest receivable and similar income		
- Group undertakings	(6.0)	(5.2)
- External	(5.8)	(11.1)
Net finance charges	151.8	148.1

## Notes to the accounts (continued)

## 8 Taxation on profit on ordinary activities

## (a) Analysis of charge in period

	2003 £m	2002 £m
<b>Current tax:</b>		
UK corporation tax at 30%	(3.4)	15.5
Prior year tax adjustments	(5.8)	-
<b>Total current tax</b>	<b>(9.2)</b>	<b>15.5</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	61.6	62.1
Increase in discount	(4.5)	(56.0)
Prior year tax adjustments	5.8	-
<b>Total deferred tax</b>	<b>62.9</b>	<b>6.1</b>
<b>Tax on profit on ordinary activities</b>	<b>53.7</b>	<b>21.6</b>

The prior year tax adjustments are amendments in relation to the tax treatment of a finance lease.

## (b) Factors affecting tax charge for period

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

	2003 £m	2002 £m
Profit on ordinary activities before tax	198.5	237.4
	%	%
UK corporation tax rate	30.0	30.0
Capital allowances in excess of depreciation	(34.2)	(26.7)
Other timing differences	3.2	0.6
Prior year tax adjustments	(2.9)	-
Non taxable (income)/costs	(0.7)	2.7
<b>Actual current tax rate</b>	<b>(4.6)</b>	<b>6.6</b>

The prior year tax adjustments is an amendment in relation to the tax treatment of a finance lease.

## Notes to the accounts (continued)

## 9 Dividends

	2003 £m	2002 £m
Interim dividend of 15.05 pence per share (2002 - 14.85 pence)	65.0	64.2
Final dividend of 30.44 pence per share recommended (2002 - 30.05 pence)	131.5	129.7
Preference share dividend 7.00 pence per share (2002 - 7.00 pence)	9.1	9.1
	<b>205.6</b>	<b>203.0</b>

United Utilities Water PLC has increased its ordinary dividend payment to United Utilities Service Delivery PLC by 1.3 per cent to £196.5 million gross for the year. The dividend policy this year is consistent with the management of the economic risks of the business. United Utilities Water PLC has also paid a preference dividend of £9.1 million for the year to United Utilities Service Delivery PLC.

## 10 Tangible fixed assets

Group and company	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Fixtures, fittings tools and equipment £m	Assets in course of construction £m	Total £m
Cost:						
At 1 April 2002	199.5	3,278.7	2,446.6	533.1	514.5	6,972.4
Additions	1.1	62.9	53.4	24.5	446.9	588.8
Grants and contributions	-	(9.1)	-	-	-	(9.1)
Transfers	11.2	101.4	159.9	28.1	(300.6)	-
Disposals	(1.4)	-	(17.9)	(28.3)	-	(47.6)
<b>At 31 March 2003</b>	<b>210.4</b>	<b>3,433.9</b>	<b>2,642.0</b>	<b>557.4</b>	<b>660.8</b>	<b>7,504.5</b>
Depreciation:						
At 1 April 2002	51.8	1,044.5	663.2	288.2	-	2,047.7
Charge for the year	8.3	96.7	102.2	43.0	-	250.2
Disposals	(1.3)	-	(17.9)	(28.1)	-	(47.3)
<b>At 31 March 2003</b>	<b>58.8</b>	<b>1,141.2</b>	<b>747.5</b>	<b>303.1</b>	<b>-</b>	<b>2,250.6</b>
Net book value:						
<b>At 31 March 2003</b>	<b>151.6</b>	<b>2,292.7</b>	<b>1,894.5</b>	<b>254.3</b>	<b>660.8</b>	<b>5,253.9</b>
At 31 March 2002	147.7	2,234.2	1,783.4	244.9	514.5	4,924.7

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. As a consequence, the cost of fixed assets, as adjusted for any amortisation in the year, is £85.1 million (2002 - £76.0 million) lower than it would have been had this treatment not been adopted.



## Notes to the accounts (continued)

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

Expenditure on maintaining the operating capability of the water and wastewater network in accordance with defined standards of service is capitalised, and depreciation is charged on the expenditure over the period of the Asset Management Plan, in accordance with FRS 15. The amount capitalised in fixed assets is as follows:

	£m
Excess expenditure over depreciation at 1 April 2002 on maintaining the operating capability of the network	28.9
Expenditure on maintaining the network in the year	67.5
Depreciation for the year	(96.7)
<b>Excess depreciation over expenditure at 31 March 2003</b>	<b>(0.3)</b>

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

	2003 £m	2002 £m
Cost:		
Operational structures	250.8	250.8
Fixtures, fittings, tools and equipment	0.5	0.5
<b>At 31 March</b>	<b>251.3</b>	<b>251.3</b>
Accumulated depreciation:		
Operational structures	(81.4)	(77.2)
Fixtures, fittings, tools and equipment	(0.5)	(0.5)
<b>At 31 March</b>	<b>(81.9)</b>	<b>(77.7)</b>
Net book value:		
Operational structures	169.4	173.6
Fixtures, fittings, tools and equipment	-	-
<b>At 31 March</b>	<b>169.4</b>	<b>173.6</b>

The depreciation charge for the year for assets held under finance leases is £4.2 million (2002 - £4.4 million).

	2003 £m	2002 £m
Capital commitments:		
Contracted but not provided for	399.2	160.5

## Notes to the accounts (continued)

**11 Fixed asset investments**

	Shares in subsidiary undertakings £m	Other investments £m	Total £m
<b>Group and company</b>			
Cost:			
At 1 April 2002 and 31 March 2003	0.0	0.4	0.4

Details of subsidiary, with regard to the company, and other investments, with regard to the company and group, 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

Other investments	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 Deferred shares of 1 pence each	0.06% 0.06%	Cash collection service

**12 Debtors**

	Group and Company 2003 £m	Group and Company 2002 £m
Trade debtors	127.6	152.3
Amounts owed by group undertakings	53.2	65.2
Other debtors	28.0	11.8
Prepayments and accrued income	56.5	58.6
	<b>265.3</b>	<b>287.9</b>

Amounts owed by group undertakings represent amounts owed by parent and fellow subsidiary undertakings, which include £40.7 million floating rate loans (2002 - £49.4 million). Within prepayments and accrued income is £11.7 million which falls due after more than one year (2002 - £7.5 million).

**13 Current asset investments**

	Group and Company 2003 £m	Group and Company 2002 £m
Cash on deposit	168.0	10.0
Other unlisted investments	285.0	175.0
	<b>453.0</b>	<b>185.0</b>

Maturity profile of cash on deposit is overnight to 12 months, with amounts repayable on maturity.

## Notes to the accounts (continued)

**14 Creditors: amounts falling due within one year**

	Group and Company	Group and Company
	2003 £m	2002 £m
Loans	31.4	66.6
Bank overdrafts and temporary borrowings	0.4	29.8
Obligations under finance leases	108.7	-
Trade creditors	15.6	21.5
Amounts owed to parent and fellow subsidiary undertakings	54.4	66.1
Dividends	131.5	129.8
Other creditors	7.9	0.4
Taxation and social security	17.0	2.4
Accruals and deferred income	342.8	287.4
	<b>709.7</b>	<b>604.0</b>

**15 Creditors: amounts falling due after more than one year**

	Group and Company	Group and Company
	2003 £m	2002 £m
Loans	2,277.2	1,711.1
Obligations under finance leases	81.0	199.6
Amounts owed to parent and fellow subsidiary undertakings	454.5	454.5
Other creditors	4.1	3.9
Deferred grants and contributions (note 16)	74.1	71.0
	<b>2,890.9</b>	<b>2,440.1</b>

**16 Deferred grants and contributions (see note 15)**

	£m
Group and company	
As at 1 April 2002	71.0
Received in the year	6.4
Profit and loss account	(3.3)
<b>At 31 March 2003</b>	<b>74.1</b>

## Notes to the accounts (continued)

**17 Provision for liabilities and charges**

	Deferred tax (note 18) £m	Restructuring £m	Total £m
Group and company			
As at 1 April 2002	186.1	5.7	191.8
Utilised	–	(2.8)	(2.8)
Profit and loss account	62.9	(2.9)	60.0
<b>At 31 March 2003</b>	<b>249.0</b>	<b>–</b>	<b>249.0</b>

**18 Deferred tax**

	Group and Company 2003 £m	Group and Company 2002 £m
Accelerated capital allowances	949.5	881.6
Short-term timing differences	(32.0)	(31.5)
Undiscounted provision for deferred tax	917.5	850.1
Discount	(668.5)	(664.0)
<b>Discounted provision for deferred tax</b>	<b>249.0</b>	<b>186.1</b>

**19 Borrowings**

	Group and Company 2003 £m	Group and Company 2002 £m
Bank overdrafts and temporary borrowings	30.8	29.8
Term loans	2,763.1	2,232.2
Finance leases	189.7	199.6
	<b>2,983.6</b>	<b>2,461.6</b>

**Repayments fall due as follows:**

	Year ending 31 March 2003 £m	Year ending 31 March 2002 £m
After five years	2009+ 1,375.7	2008+ 1,784.6
From four to five years	2008 881.5	2007 52.2
From three to four years	2007 46.5	2006 444.4
From two to three years	2006 463.7	2005 50.0
From one to two years	2005 45.3	2004 34.0
After more than one year	2,812.7	2,365.2
Within one year	2004 170.9	2003 96.4
	<b>2,983.6</b>	<b>2,461.6</b>

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2009 and 2053. Interest rates range from 0.75 per cent to 14.83 per cent (2002: 0.75 per cent to 14.83 per cent) on £1,106.8 million (2002: £1,557.7 million) and are at floating rates on £268.9 million (£2002: £226.9 million).

## Notes to the accounts (continued)

## 19 Borrowings (continued)

## Bank overdrafts and temporary borrowings

The group had available unutilised committed bank facilities of £295million (2002 - £320 million). The amounts currently unutilised expire as follows:

	£m
One to two years	55.0
After two years	240.0
<b>Total</b>	<b>295.0</b>

## 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	
	2003 £m	2002 £m	2003 %	2002 %	2003 years	2002 years
Fixed rate borrowings – sterling	2,432.1	2,064.1	7.0	7.2	2.9	4.1
Floating rate borrowings – sterling	551.5	397.5				
	<b>2,983.6</b>	2,461.6				
Floating rate parent undertaking loan – sterling	(40.7)	(37.7)				
Short-term investments – sterling	(453.0)	(185.0)				
Cash at bank	(2.5)	(24.3)				
<b>Net debt at 31 March 2003</b>	<b>2,487.4</b>	2,214.6				

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.

	2003 Book value £m	2003 Fair value £m	2002 Book value £m	2002 Fair value £m
Short-term debt and current portion of long-term debt	170.9	170.9	96.4	96.4
Long-term debt	2,812.7	3,142.0	2,365.2	2,428.8
	2,983.6	3,312.9	2,461.6	2,525.2
Interest rate swaps	-	5.5	-	38.4
Foreign exchange contracts and swaps	-	(179.7)	-	(32.3)
<b>Total financial instruments</b>	<b>2,983.6</b>	<b>3,138.7</b>	<b>2,461.6</b>	<b>2,531.3</b>

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 £315.2 million and £141.0 million respectively (2002 - £137.3 million and £143.4 million).

The group anticipates that £55.5 million of these gains and £80.3 million of these losses will be realised in the forthcoming financial year (2002 - £41.1 million and £39.3 million). Of the unrecognised gains and losses on hedges as at 1 April 2002, the net gain in the period's profit and loss account was £10.5 million.

## Notes to the accounts (continued)

**20 Called up share capital and share premium accounts**

	Group and Company	Group and Company
	2003 £m	2002 £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
130,000,000 7% preference shares of £1 each	130.0	130.0
93,437,000 0% preference shares of £1 each	93.4	93.4
	<b>655.3</b>	655.3
Share premium account	<b>647.8</b>	647.8

Preference shareholders are not entitled to receive notice of, attend or vote at, any general meeting of the company. However, preference shareholders receive priority to other classes of shareholders on a winding up, liquidation or other return of capital to shareholders of the company. The preference shares have a redemption date of 1 October 2099.

**21 Profit and loss account**

	Group and Company
	2003 £m
At 1 April 2002	886.2
Profit for the year	(60.8)
<b>At 31 March 2003</b>	<b>825.4</b>

As allowed by section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The company's profit for the financial year before dividends is £144.8 million.

**22 Pensions**

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

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

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

For UUPS, the employer's contributions have been assessed in accordance with the advice of Mercer Human Resource Consulting using different assumptions from 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 from those described above.

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

The total pension cost for the period was £6.4 million (2002 – £4.3 million). A prepayment of £11.7 million is included in the balance sheet at 31 March 2003 (2002 – £7.5 million).

## Notes to the accounts (continued)

## 22 Pensions (continued)

The company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. As permitted by FRS 17 Retirement Benefits, these schemes will be accounted for by the company when the accounting standard is fully adopted, as if the scheme were a defined contribution scheme. The latest full actuarial valuations were carried out at 31 March 2001 and were updated for FRS 17 purposes by qualified independent actuaries. Information in respect of the schemes as a whole is set out below.

*FRS 17 transitional disclosure*

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. A new pension cost accounting standard, FRS17 'Retirement benefits', was originally intended to be applied in the accounts for the year ending 31 March 2004 and subsequent years. However, during the year, the Accounting Standards Board (ASB) has deferred the full implementation of FRS 17. Under transitional arrangements, the group is required to disclose the following information about its pension arrangements and the figures that would have been shown under FRS 17 in the financial statements.

The latest formal actuarial 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 the pension liabilities by discounting pension commitments (including an allowance for salary growth), at an AA corporate bond yield. Deferred pensions are revalued to retirement age in line with the schemes' rules and statutory requirements. The major financial assumptions used by the actuary were as follows.

	At 31 March 2003	At 31 March 2002
Discount rate	5.50%	6.00%
Pensionable salary growth	4.00%	4.30%
Pension increases	2.50%	2.80%
Price inflation	2.50%	2.80%

The assets and liabilities of the United Utilities PLC group wide Schemes, along with the expected rates of return on the Schemes' assets as at 31 March 2003 and 31 March 2002 were as follows:

	At 31 March 2003		At 31 March 2002	
	Expected rated of return	Total £m	Expected rated of £m	Total £m
Equities	7.50%	1,008.0	8.25%	1,137.5
Property	7.50%	3.5	8.25%	73.5
Bonds	5.50%	217.4	6.00%	233.0
Gilts	4.50%	314.3	5.25%	302.5
Other	4.50%	24.2	5.25%	28.3
Market value of assets		1,567.4		1,774.8
Present value of Schemes' liabilities		(1,993.2)		(1,753.2)
Implied (deficit)/surplus in the Schemes		(425.8)		21.6
Related deferred tax asset/(liability)		127.7		(6.5)
Net pension (liability)/asset under FRS 17		(298.1)		15.1



## Notes to the accounts (continued)

**23 Operating leases**

	Land and buildings 2003 £m	Plant and machinery 2003 £m	Land and buildings 2002 £m	Plant and machinery 2002 £m
The company and group is committed to making the following payments during the year:				
Leases which expire:				
Within one year	-	0.1	-	0.3
Between two and five years	-	0.9	-	2.4
After five years	0.9	-	0.9	-
	<b>0.9</b>	<b>1.0</b>	0.9	2.7

**24 Related party transactions**

The company has disclosed transactions with its ultimate holding company and associated companies within the United Utilities group in note 8 of the *Regulatory Accounts*.

**25 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

The Regulatory Accounts on pages 28 to 42 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.

## Independent auditor's report

to the Director General of Water Services ("the Regulator") on the Regulatory Accounts of United Utilities Water PLC ("the Appointee" or "the Company")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2003 which comprise the historic cost accounts, comprising the profit and loss account and balance sheet, and the current cost accounts comprising the profit and loss account, balance sheet, cash flow statement, the notes to the cash flow statement and the related notes numbered 1 to 8. These have been prepared under the accounting policies set out therein.

This report is made solely to the Regulator in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 ("the Licence"). Our audit work has been undertaken so that we might state to the Regulator those matters that we have agreed to state to them in our report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for our audit work, for our report, or for the opinions we have formed to anyone other than the Regulator.

### Basis of preparation

The Regulatory Accounts have been prepared under the historical and current cost conventions (as applicable) and in accordance with Condition F of the Company's Licence, Regulatory Accounting Guidelines ("the RAGs") issued by the Regulator and the accounting policies set out in the notes to the Regulatory Accounts.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of Generally Accepted Accounting Practice in the United Kingdom ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

### Respective responsibilities of the Regulator, the Directors and auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Condition F of the Company's Licence are set out in the statement of directors' responsibilities on page 5.

Our responsibility is to audit the Regulatory Accounts in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as stated in the 'Basis of audit opinion', below and having regard to the draft guidance dated 30 May 2003 contained in Audit Technical Release XX/03 'Reporting to Regulators of Regulated Entities'.

We report to you our opinion as to whether the Regulatory Accounts contain the information required to be published and submitted to the Regulator to comply with Condition F of the Company's regulatory licence, that the historic and current cost financial statements have been properly prepared in accordance with, as appropriate, Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator and that the information provided is in agreement with the underlying accounting records. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the other information contained within the Regulatory Accounts and consider the implications for our report if we become aware of any misstatements or material inconsistencies with the Regulatory Accounts.

### Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are consistently applied and adequately disclosed.

## Independent auditor's report (continued)

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 Accounts are free from material misstatement, whether caused by fraud or other irregularity or error.

However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under United Kingdom auditing standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory accounts of the Company on which we reported on 15 July 2003, which are prepared for a different purpose. We do not, and will not, by virtue of this report assume any responsibility, whether in contract, negligence or otherwise, in relation to our audits of the Company's statutory financial statements required by the Companies Act 1985.

### Audit opinions

i) *Unqualified opinion in respect of regulatory compliance*  
In our opinion the Regulatory Accounts contain the information for the year to 31 March 2003 required to be published and submitted to the Regulator by United Utilities Water PLC to comply with Condition F of the Instrument of Appointment, granted by the Secretary of State for the Environment, of the Company as a water and sewerage undertaker under the Water Industry Act 1991. In respect of this information we report that in our opinion:

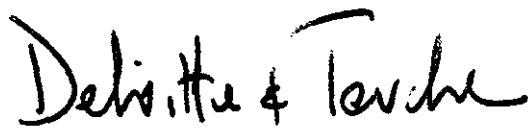
- a. proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- b. the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services;
- c. the Regulatory historical cost accounting statements on pages 28 to 29, present fairly the revenues and costs, assets and liabilities of the Company and its appointed business in accordance with the Company's Licence and Regulatory Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issue by the Regulator; and

- d. the Regulatory current cost accounting information on pages 30 to 40 present fairly the revenues and costs, assets and liabilities of the Company and its appointed business in accordance with the Company's licence and in accordance with Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator.

### ii) *Qualified opinion on Historic cost accounts in respect of FRS12 and FRS15*

As explained on page 29, to comply with the instructions of the Regulator, the Regulatory Accounts do not comply with FRS12 Provisions, Contingent Liabilities and Contingent Assets and FRS15 Tangible Fixed Assets in respect of infrastructure renewals accounting. Adoption of FRS12 and FRS15 would have required restatement of the cost and accumulated depreciation of infrastructure fixed assets to reflect infrastructure renewals expenditure, depreciation and retirement of assets since the year ended 31 March 1991, when renewals accounting was first adopted. Accordingly, infrastructure renewals provisions as at 31 March 2002 and 31 March 2003 would have been included within infrastructure fixed assets. The non-compliance with FRS12 and FRS15 in respect of infrastructure renewals accounting would have had no effect on the profit and loss account for the years ended 31 March 2002 and 31 March 2003 other than to reclassify the infrastructure renewals charges as depreciation.

Except for non-compliance with FRS12 and FRS15 in respect of infrastructure renewals, in our opinion, the historical cost Regulatory Accounts on pages 28 to 29 prepared under the historical cost convention, present fairly the revenues, costs, assets and liabilities of the Company and its appointed business.



**Deloitte & Touche**  
Chartered Accountants and Registered Auditors  
Manchester  
15 July 2003

# Summarised company historical cost profit and loss account

for the year ended 31 March 2003

	2003 £m	2002 £m
<b>Turnover</b>	<b>971.9</b>	952.0
Operating costs	(624.5)	(572.0)
Operating income	1.7	4.3
<b>Operating profit</b>	<b>349.1</b>	384.3
Other income	9.1	1.2
Net interest payable	(159.7)	(148.1)
<b>Profit on ordinary activities before taxation</b>	<b>198.5</b>	237.4
Taxation	(53.7)	(21.6)
<b>Profit for the year</b>	<b>144.8</b>	215.8
Dividends	(205.6)	(203.0)
<b>Retained (loss)/profit for the year</b>	<b>(60.8)</b>	12.8

# Summarised company historical cost balance sheet

as at 31 March 2003

	2003 £m	Restated 2002 £m
<b>Fixed assets</b>		
Tangible fixed assets	5,254.2	4,895.8
Investments	0.4	0.4
<b>Total fixed assets</b>	<b>5,254.6</b>	<b>4,896.2</b>
<b>Current assets</b>		
Stock	3.0	2.9
Debtors	224.6	267.0
Cash at bank	2.5	24.3
Short-term investments	493.7	234.8
<b>Total current assets</b>	<b>723.8</b>	<b>529.0</b>
<b>Creditors: amounts falling due within one year</b>		
Borrowings	(170.9)	(96.4)
Dividends payable	(131.5)	(129.8)
Other creditors	(407.6)	(377.8)
<b>Total creditors</b>	<b>(710.0)</b>	<b>(604.0)</b>
<b>Net current assets/(liabilities)</b>	<b>13.8</b>	<b>(75.0)</b>
<b>Total assets less current liabilities</b>	<b>5,268.4</b>	<b>4,821.2</b>
<b>Creditors: amounts falling due after more than one year</b>		
Borrowings	(2,812.7)	(2,365.9)
Other creditors	(4.1)	(3.2)
<b>Total creditors</b>	<b>(2,816.8)</b>	<b>(2,369.1)</b>
Provisions for liabilities and charges		
- Deferred tax	(249.0)	(186.1)
- Other provisions	-	(5.7)
Deferred income	(74.1)	(71.0)
<b>Net assets employed</b>	<b>2,128.5</b>	<b>2,189.3</b>
<b>Capital and reserves</b>		
Called up share capital	655.3	655.3
Share premium	647.8	647.8
Profit and loss account	825.4	886.2
<b>Capital and reserves</b>	<b>2,128.5</b>	<b>2,189.3</b>

In the preparation of the statutory accounts, the company has followed industry practice and adopted the infrastructure renewals accounting basis as set out in FRS 15 'Tangible fixed assets'. However, for the purposes of the regulatory accounts, Ofwat has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. The infrastructure renewals accrual of £0.3 million in 2003 (£28.9 million prepayment - 2002) is therefore shown within creditors, not fixed assets.

The prior year figures have been restated due to the reclassification of a group loan of £49.4 million from non-trade debtors, to cash and investments in accordance with Ofwat guidance.

# Current cost profit and loss account

for the year ended 31 March 2003

	Note	2003 £m	2002 £m
<b>Turnover</b>	2	<b>971.9</b>	952.0
Current cost operating costs	3	(700.6)	(662.8)
Operating income	2	0.9	1.6
		<b>272.2</b>	290.8
Working capital adjustment	2	2.7	0.5
<b>Current cost operating profit</b>		<b>274.9</b>	291.3
Other income		9.1	1.2
Net interest payable		(159.7)	(148.1)
Financing adjustment		75.4	30.9
<b>Current cost profit on ordinary activities before taxation</b>		<b>199.7</b>	175.3
Taxation			
- Current tax		9.2	(15.5)
- Deferred tax		(62.9)	(6.1)
<b>Current cost profit attributable to shareholders</b>		<b>146.0</b>	153.7
Dividends		(205.6)	(203.0)
<b>Current cost loss retained</b>		<b>(59.6)</b>	(49.3)

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

# Current cost balance sheet

as at 31 March

	Note	2003 £m	Restated 2002 £m
Tangible assets	4	<b>36,340.7</b>	34,977.2
Third party contributions since 1989-90		(196.4)	(181.2)
Working capital	6	(157.2)	(87.8)
<b>Net operating assets</b>		<b>35,987.1</b>	34,708.2
Cash and investments		494.0	234.8
Non-trade debtors		28.4	6.0
Non-trade creditors due within one year		(252.3)	(145.9)
Creditors due after one year		(2,817.1)	(2,369.4)
Provisions for liabilities and charges			
- Deferred taxation		(249.0)	(186.1)
- Other provisions		-	(5.7)
Dividends payable		(131.5)	(129.8)
<b>Net assets employed</b>		<b>33,059.6</b>	32,112.1
<b>Capital and reserves</b>			
Called up share capital		655.4	655.4
Share premium account		647.8	647.8
Profit and loss account		(288.9)	(229.3)
Current cost reserve		32,045.3	31,038.2
<b>Shareholders' funds</b>		<b>33,059.6</b>	32,112.1

The prior year figures have been restated due to the reclassification of a group loan of £49.4 million from non-trade debtors, to cash and investments in accordance with Ofwat guidance.

# Current cost cash flow statement

for the year ended 31 March 2003

	2003 £m	2003 £m	Restated 2002 £m	Restated 2002 £m
<b>Net cash flow from operating activities</b>		<b>610.7</b>		629.7
<b>Returns on investments and servicing of finance</b>				
Interest received	10.7		16.3	
Interest paid	(158.6)		(145.1)	
Interest in finance lease rental	(8.0)		(7.9)	
Non-equity dividends paid	(9.1)		(9.1)	
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(165.0)</b>		(145.8)
<b>Taxation received/(paid)</b>		<b>5.8</b>		(11.8)
<b>Capital expenditure and financial investment</b>				
Gross cost of purchase of fixed assets	(477.6)		(323.7)	
Receipt of grants and contributions	13.5		9.3	
Infrastructure renewals expenditure	(67.5)		(80.8)	
Disposal of fixed assets	2.0		5.4	
<b>Net cash outflow from investing activities</b>		<b>(529.6)</b>		(389.8)
<b>Equity dividends paid</b>		<b>(194.8)</b>		(191.2)
<b>Management of liquid resources</b>				
Short-term deposits		(259.3)		21.1
<b>Net cash outflow before financing</b>		<b>(532.2)</b>		(87.8)
<b>Financing</b>		<b>539.8</b>		106.9
<b>Increase in cash and overdrafts</b>		<b>7.6</b>		19.1

## Notes to the current cost cash flow statement

	2003 £m	2002 £m
<b>Reconciliation of current cost operating profit to net cash flow from operating activities</b>		
Current cost operating profit	274.9	291.3
Working capital adjustment	(2.7)	(0.5)
Changes in stocks	-	(0.5)
Receipts from other income	9.1	1.2
Current cost depreciation	245.4	217.2
Effect of other deferrals and accruals on operating activity cashflow	(3.9)	-
Current cost profit on disposal of fixed assets	(0.9)	(1.6)
Decrease in debtors and prepaid expenses	14.9	33.7
Increase in creditors and accrued expenses	12.1	8.2
Infrastructure renewals expenditure	67.5	80.8
Movement in other provisions	(5.7)	(0.1)
<b>Net cash inflow from operating activities</b>	<b>610.7</b>	629.7

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 cash flow statement (continued)

	2003 £m	2002 £m
<b>Analysis of cash flows for headings netted in the cash flow statement</b>		
<b>Financing</b>		
Capital element in finance lease rentals	(9.9)	-
New bank loans	627.9	108.8
Repayment of bank loans	(78.2)	(1.9)
<b>Net cash inflow from financing</b>	<b>539.8</b>	<b>106.9</b>

	At 1 April 2002 £m	At 1 April 2002 £m	Cashflow £m	Cashflow £m	At 31 March 2003 £m	At 31 March 2003 £m
<b>Analysis of changes in net debt</b>						
Cash at bank, in hand	24.3		(21.8)		2.5	
Overdrafts	(29.8)		29.4		(0.4)	
		(5.5)		7.6		2.1
Debt due after one year	(2,165.6)		(566.1)		(2,731.7)	
Debt due within one year	(78.2)		16.4		(61.8)	
Finance leases	(199.6)		9.9		(189.7)	
		(2,443.4)		(539.8)		(2,983.2)
Current asset investments		234.4		259.3		493.7
<b>Net debt</b>		<b>(2,214.5)</b>		<b>(272.9)</b>		<b>(2,487.4)</b>



# Notes to the current cost accounts

## 1 Current cost accounting policies

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

An Asset Management Plan (AMP) survey of existing assets as at 31 March 1998 was undertaken during 1998/99 and the adjustments to asset values as a result of that exercise was included within the tangible fixed asset note. In the intervening years, between AMP surveys, values are restated to take account of changes in the general level of inflation as measured by changes in the Retail Price Index (RPI), and any other significant changes in asset records identified during the year.

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

### (a) Tangible fixed assets

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

#### (i) Operational assets

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

Specialised operational assets are valued on the basis of information provided by the 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 below).

#### (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.

#### (iii) Depreciation adjustment

This is the difference between depreciation based on the current cost value of assets in these financial statements and depreciation charged in arriving at historical cost profit.

#### (iv) Disposal of fixed assets adjustment

This is the difference between the book values of realised assets in the current cost financial statements and in the historical cost financial statements.

### (d) Allocation of costs to principal services

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

## Adjustments to the current cost accounts (continued)

## 2 Analysis of turnover and operating income

	2003			2002		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
<b>Turnover</b>						
Tariff basket						
- Measured	122.8	174.7	297.5	117.8	175.2	293.0
- Unmeasured	265.4	291.4	556.8	258.2	288.7	546.9
- Trade effluent	-	22.5	22.5	-	15.5	15.5
	388.2	488.6	876.8	376.0	479.4	855.4
Non-tariff basket						
- Revenue grants	0.3	-	0.3	0.2	-	0.2
- Large user revenues	39.8	30.0	69.8	41.3	33.5	74.8
- Other sources	5.4	0.8	6.2	4.7	1.0	5.7
- Third party services	18.8	-	18.8	13.1	2.8	15.9
<b>Total turnover</b>	<b>452.5</b>	<b>519.4</b>	<b>971.9</b>	<b>435.3</b>	<b>516.7</b>	<b>952.0</b>
<b>Operating income</b>						
Current cost profit on disposal of fixed assets	0.7	0.2	0.9	1.3	0.3	1.6
Working capital adjustment	1.3	1.4	2.7	0.2	0.3	0.5
<b>Total Operating income</b>	<b>2.0</b>	<b>1.6</b>	<b>3.6</b>	<b>1.5</b>	<b>0.6</b>	<b>2.1</b>

## Notes to the current cost accounts (continued)

### 3 Current cost operating costs for the year ended 31 March 2003

Service analysis	Water services			Sewerage services			
	Resource and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewerage service subtotal £m
<b>Direct costs</b>							
Employment costs	8.2	7.7	15.9	1.9	11.3	6.3	19.5
Power	4.4	4.6	9.0	1.4	7.8	3.7	12.9
Agencies	-	-	-	4.7	-	-	4.7
Hired and contracted services	1.5	11.7	13.2	7.6	3.9	8.8	20.3
Materials and consumables	5.0	0.9	5.9	0.1	2.6	2.9	5.6
Service charges EA	11.1	-	11.1	1.7	3.3	-	5.0
Other direct costs	-	1.6	1.6	0.4	0.7	0.3	1.4
<b>Total direct costs</b>	30.2	26.5	56.7	17.8	29.6	22.0	69.4
General and support expenditure	12.7	23.9	36.6	3.6	17.4	10.0	31.0
Functional expenditure	42.9	50.4	93.3	21.4	47.0	32.0	100.4
<b>Operating expenditure</b>							
Customer services			30.6				30.8
Scientific services			5.9				2.9
Other business activities			2.8				2.8
Total business activities			39.3				36.5
Local authority rates			26.2				21.3
Doubtful debts			21.5				25.4
Exceptional items			(1.3)				(1.6)
Total opex less third party services			179.0				182.0
Third party services – operating expenditure			15.2				-
Total operating expenditure			194.2				182.0
<b>Capital maintenance</b>							
Infrastructure renewals expenditure	9.8	34.1	43.9	23.6	-	-	23.6
Infrastructure renewals accrual/(prepayment)	(0.1)	3.4	3.3	10.8	-	-	10.8
Current cost depreciation (allocated)	52.2	23.1	75.3	8.2	76.0	20.9	105.1
Amortisation of deferred credits			(2.3)				(1.6)
Business activities current cost depreciation (non allocated)			31.4				33.0
Capital maintenance excluding third party services			151.6				170.9
Third party services – capital maintenance			1.9				-
Total capital maintenance			153.5				170.9
<b>Total operating costs</b>			347.7				352.9
<b>CCA (MEA) values:</b>							
Service activities	3,108.5	9,433.0	12,541.5	21,241.7	1,635.9	530.0	23,407.6
Business activities			171.0				187.9
Totals			12,712.5				23,595.5
Services for third parties			32.1				0.6
<b>Total</b>			12,744.6				23,596.1

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

## Notes to the current cost accounts (continued)

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

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

## Notes to the current cost accounts (continued)

## 4 Current cost analysis of fixed assets by asset type and service for the year ended 31 March 2003

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	
<b>Gross replacement cost:</b>									
At 1 April 2002	11,006.4	2,718.7	299.6	14,024.7	20,457.7	3,972.2	318.0	24,747.9	38,772.6
AMP adjustment	-	-	79.7	79.7	-	-	86.3	86.3	166.0
RPI adjustment	340.6	84.1	8.3	433.0	633.1	123.1	8.3	764.5	1,197.5
Disposals	-	(16.3)	(18.3)	(34.6)	-	(12.6)	(17.2)	(29.8)	(64.4)
Additions	63.4	175.5	20.6	259.5	76.3	162.7	20.8	259.8	519.3
<b>At 31 March 2003</b>	<b>11,410.4</b>	<b>2,962.0</b>	<b>389.9</b>	<b>14,762.3</b>	<b>21,167.1</b>	<b>4,245.4</b>	<b>416.2</b>	<b>25,828.7</b>	<b>40,591.0</b>
<b>Depreciation:</b>									
At 1 April 2002	-	1,687.4	125.9	1,813.3	-	1,853.2	128.9	1,982.1	3,795.4
AMP adjustment	-	-	75.5	75.5	-	-	81.8	81.8	157.3
RPI adjustment	-	52.2	2.9	55.1	-	57.3	3.0	60.3	115.4
Disposals	-	(16.1)	(18.2)	(34.3)	-	(11.9)	(17.0)	(28.9)	(63.2)
Charge for the year	-	75.3	32.8	108.1	-	105.1	32.2	137.3	245.4
<b>At 31 March 2003</b>	<b>-</b>	<b>1,798.8</b>	<b>218.9</b>	<b>2,017.7</b>	<b>-</b>	<b>2,003.7</b>	<b>228.9</b>	<b>2,232.6</b>	<b>4,250.3</b>
<b>Net book value:</b>									
<b>At 31 March 2003</b>	<b>11,410.4</b>	<b>1,163.2</b>	<b>171.0</b>	<b>12,744.6</b>	<b>21,167.1</b>	<b>2,241.7</b>	<b>187.3</b>	<b>23,596.1</b>	<b>36,340.7</b>
At 31 March 2002	11,006.4	1,031.3	173.7	12,211.4	20,457.7	2,119.0	189.1	22,765.8	34,977.2

## Operational assets by service for the year ended 31 March 2003

Service analysis	Water services			Sewerage services		
	Specialised operational assets £m	Non- specialised operational assets £m	Total £m	Specialised operational assets £m	Non- specialised operational assets £m	Total £m
<b>Gross replacement cost:</b>						
At 1 April 2002	2,664.2	54.5	2,718.7	3,910.4	61.8	3,972.2
RPI adjustment	82.4	1.7	84.1	121.2	1.9	123.1
Disposals	(16.0)	(0.3)	(16.3)	(12.4)	(0.2)	(12.6)
Additions	173.6	1.9	175.5	160.6	2.1	162.7
<b>At 31 March 2003</b>	<b>2,904.2</b>	<b>57.8</b>	<b>2,962.0</b>	<b>4,179.8</b>	<b>65.6</b>	<b>4,245.4</b>
<b>Depreciation:</b>						
At 1 April 2002	1,679.6	7.8	1,687.4	1,844.9	8.3	1,853.2
RPI adjustment	52.0	0.2	52.2	57.1	0.2	57.3
Disposals	(16.0)	(0.1)	(16.1)	(11.8)	(0.1)	(11.9)
Charge for the year	74.5	0.8	75.3	104.2	0.9	105.1
<b>At 31 March 2003</b>	<b>1,790.1</b>	<b>8.7</b>	<b>1,798.8</b>	<b>1,994.4</b>	<b>9.3</b>	<b>2,003.7</b>
<b>Net book value:</b>						
<b>At 31 March 2003</b>	<b>1,114.1</b>	<b>49.1</b>	<b>1,163.2</b>	<b>2,185.4</b>	<b>56.3</b>	<b>2,241.7</b>
At 31 March 2002	984.6	46.7	1,031.3	2,065.5	53.5	2,119.0

## Notes to the current cost accounts (continued)

**5 Regulatory capital value**

	2003 £m
Opening RCV for the year	4,873.0
Capital expenditure	666.0
Infrastructure renewals expenditure	99.0
Infrastructure renewals charge	(105.0)
Grants and contributions	(18.0)
Depreciation	(199.0)
Outperformance of regulatory assumptions (5 years in arrears)	(160.0)
Closing RCV carried forward	5,156.0
Average RCV (2002/03 year average prices)	4,948.0

The numbers included above are as published by Ofwat and therefore do not agree with other actual values reflected in the company's regulatory financial statements. All costs have been indexed to March 2003 (RPI - 179.9) prices except for the average RCV, which is shown at year average prices (RPI - 177.5) in accordance with Ofwat's regulatory accounting guidelines. Capital efficiencies will be taken into account in the calculation for the next periodic review.

**6 Working capital**

	2003 £m	Restated 2002 £m
Stocks	3.0	2.9
Trade debtors	127.6	152.2
Working cash balances	2.2	(5.4)
Trade payments in advance	52.9	49.0
Prepayments and other debtors	3.6	16.0
Trade creditors	(15.6)	(21.5)
Short-term capital creditors	(158.0)	(116.3)
Infrastructure renewals accrual	(32.0)	(17.9)
Other trade accruals	(126.8)	(110.2)
Payroll related taxation and social security contributions	(2.2)	(2.4)
Group trade creditors	(11.9)	(34.2)
<b>Total working capital</b>	<b>(157.2)</b>	<b>(87.8)</b>

Prior year figures have been restated due to a reclassification between trade payments in advance and prepayments and other debtors.

**7 Movement on current cost reserve**

	2003 £m	2002 £m
At 1 April	31,038.2	30,612.5
AMP adjustment	8.7	-
RPI adjustments:		
Fixed assets	1,082.1	459.5
Working capital	(2.7)	(0.5)
Financing	(75.4)	(30.9)
Grants and third party contributions	(5.6)	(2.4)
<b>At 31 March</b>	<b>32,045.3</b>	<b>31,038.2</b>

## Notes to the current cost accounts (continued)

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

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

#### Borrowings and sums lent

The following loans from associated companies existed at 31 March 2003:

	£m	Interest rate
United Utilities PLC – 750m US \$ Bonds	454.5	6.25 to 6.875%

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

The following loans to associated companies existed at 31 March 2003:

	£m	Interest rate
United Utilities PLC	40.0	4.41% to 4.58%

#### Dividends paid to associated undertakings

During the year dividends payable to United Utilities Service Delivery PLC totalled £205.6 million. This comprised a final dividend for the year ended 31 March 2003 of £131.5 million, an interim dividend of £65.0 million and a 7 per cent preference share dividend of £9.1 million.

The ordinary dividend increased by 1.3 per cent in 2002/03. The company's dividend policy is to declare dividends which are consistent with the company's performance and the management of the economic risk of the business. This policy has resulted in dividend growth broadly in line with inflation in the first three years of this review period.

## Notes to the current cost accounts (continued)

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

## Supply of services

Services supplied to United Utilities Water PLC from associated companies.

Nature of transactions	Company	Terms of supply	Total value of service £m
Managed services	Vertex Data Science Limited	Market tested rates based on actual activity undertaken and other market testing	68.0
Accommodation and facility services	United Utilities Facilities and Property Services Limited	Other market testing including benchmarking	12.8
Systems development	Vertex Data Science Limited	Market tested rates based on actual activity undertaken and other market testing	15.6
Group management charge	United Utilities PLC	Recharge of costs	9.5

Note – The Group Management charge of £9.5 million from United Utilities PLC represents 51.4 per cent of the total management charge to subsidiaries. Approximately 80 per cent of the charge is allocated by activity.

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

Accommodation and facility services include accommodation and telephony.

Services supplied by United Utilities Water PLC to associated companies.

Nature of transactions	Company	Terms of supply	Total value of service £m
Facility services	United Utilities Electricity PLC	Recharge of costs	12.9
Asset charges	United Utilities Facilities and Property Services Limited	Other market testing	5.9

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

Turnover of associated companies

	Turnover of associated company £m
Vertex Data Science Limited	323.0
United Utilities Electricity PLC	310.4
United Utilities Facilities and Property Services Limited	42.3



# Five year summary

## Current cost profit and loss account

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Turnover	971.9	971.7	988.0	1,083.9	1,028.2
Current cost operating costs	(700.6)	(676.5)	(704.6)	(708.9)	(686.5)
Operating income	0.9	1.6	4.9	(0.4)	(3.3)
Working capital adjustment	2.7	0.5	(0.3)	2.8	3.1
	274.9	297.3	288.0	377.4	341.5
Other income	9.1	1.2	2.3	2.6	2.4
Net interest	(159.7)	(151.2)	(144.0)	(134.0)	(128.2)
Financing adjustment	75.4	31.5	52.5	51.4	35.1
Current cost profit on ordinary activities before taxation	199.7	178.8	198.8	297.4	250.8
Taxation	(53.7)	(22.0)	(50.5)	(4.1)	(97.1)
Current cost profit on ordinary activities after taxation	146.0	156.8	148.3	293.3	153.7
Dividends	(205.6)	(207.2)	(206.4)	(208.7)	(343.8)
Current cost retained profit/(loss)	(59.6)	(50.4)	(58.1)	84.6	(190.1)

Note: All figures in the summary have been restated at current year prices using movements in the average RPI. The figures for 1999 and 2000 do not reflect any adjustments for the impact of FRS 19 deferred taxation.

## Current cost balance sheet

	2003 £m	2002 £m	2001 £m	2000 £m	1999 £m
Tangible fixed assets	36,340.7	35,658.7	35,551.1	35,535.6	37,796.9
Third party contributions since 1989-90	(196.4)	(184.7)	(181.8)	(173.6)	(165.3)
Working capital	(157.2)	(89.5)	(40.4)	15.8	(109.1)
Net operating assets	35,987.1	35,384.5	35,328.9	35,377.8	37,522.5
Cash and investments	494.0	239.4	264.3	0.4	0.4
Non-trade debtors	28.4	6.1	58.5	53.4	62.5
Non-trade creditors	(252.3)	(148.8)	(110.6)	(509.7)	(409.1)
Creditors due after one year	(2,817.1)	(2,415.6)	(2,431.4)	(1,776.0)	(1,676.4)
Provisions	(249.0)	(195.5)	(192.0)	(5.7)	(3.4)
Dividends payable	(131.5)	(132.3)	(131.5)	(131.8)	(132.6)
Net assets employed	33,059.6	32,737.8	32,786.2	33,008.4	35,363.9
Capital and reserves					
Called up share capital	655.4	668.2	677.1	692.7	690.4
Share premium account	647.8	660.4	669.2	684.6	702.0
Profit and loss account	(288.9)	(233.8)	(186.0)	22.3	(62.8)
Current cost reserve	32,045.3	31,643.0	31,625.9	31,608.8	34,034.3
Total capital and reserves	33,059.6	32,737.8	32,786.2	33,008.4	35,363.9

Note: All figures in the summary have been restated at current year prices using movements in the year-end RPI. The figures for 1999 and 2000 do not reflect any adjustments for the impact of FRS 19 deferred taxation.

## Regulatory accounts commentary

This review should be read in conjunction with the chairman's review and the director's report that form part of the statutory financial statements.

### Movements from prior year and five year trends

#### Turnover and operating costs

The factors outlined in the Operating and Financial review contribute to the movements in turnover and operating costs during the period.

Over the five year period turnover has been impacted by the price review, which reduced income in 2001, and then increased over the next two years. Measured sales now represent 38 per cent of total sales, compared with 33 per cent in 1998/99 as new properties are always connected with a measured supply.

During the five year period there has been a trend of increased depreciation and infrastructure renewals charges reflecting the increases in this capital investment programme. Further increases in costs have resulted from the commissioning of new schemes in the Quality/New Obligations programmes partly offset by efficiency improvements.

#### Other income

The increase from the prior year results from increased short-term investments, due to increased prefunding.

#### Net interest

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

#### Financing adjustment

The financing adjustment over the period is a result of the uplift in the RPI figure. Note 1 c(ii) on page 33 contains further explanation on this adjustment.

#### Taxation

The factors outlined in the Operating and Financial review contribute to the movements in taxation during the period. The tax charge is comparatively high in 1998/99 due to the utilisation of surplus ACT prior to its abolition.

#### Dividends

The 1998/99 payments include a special dividend associated with the windfall tax. Excluding this payment dividends have risen broadly in line with inflation over the period. The basis of the dividend is outlined on page 39 of the Notes to the current cost accounts under the heading "Dividends paid to associated undertakings".

#### Tangible fixed assets

Tangible assets increased by £1,363.5 million during the year as a result of the continued investment as part of the asset management programme together with the RPI adjustment to restate the asset values in real terms, offset by the depreciation in the year. The reduction in 1999/2000 mainly reflects the Periodic Review asset revaluation offset by additions in the year.

#### Working Capital

Movements in working capital for the period are outlined in note 6 on page 38. Trade Debtors have fallen by £24.6m mainly due to an increase in the year-end debt provision and additional write-offs of old uncollectable debt during the year.

Short-term capital creditors have increased reflecting the increase in the capital expenditure programme in the period.

The increase in the infrastructure renewals accrual is mainly due to prioritising effort on the non-infrastructure maintenance programme.

#### Cash and investments

The increase over the five year period is as a result of prefunding our capital expenditure needs. Long term debt is raised when the market opportunity presents itself. The sums raised are placed in short term investments until required by the business.

#### Non trade creditors

The reduction in non trade creditors since 2000 is due to a reclassification of certain intercompany funding balances from short to long-term. The rise in the period is largely due to long-term debt becoming payable within the next 12 months.

#### Creditors due after one year

The increased level of creditors since 1999 predominantly reflects the long term debt raised to fund the capital investment programme and the subsequent prefunding.

#### Provisions

The increase in provisions from 1999/2000 mainly reflects the implementation of FRS 19 Deferred Taxation.

#### Atypical amounts

Atypical amounts in the year were the release of a restructuring provision of £3.5 million offset by Section 74 Fines reflecting a charge of £3 million and a power cost of £0.2 million relating to additional pumping on the removal of trihalomethanes.

#### Changes in the treatment of expenditure

There have been no changes in the treatment of expenditure in 2002/03.

#### Basis of allocation of expenditure

The revenues, costs, assets and liabilities are directly allocated to the appointed business and any other activity or associated company, except where they relate to common support services. Those relating to common support services are apportioned on the basis of the demands made on each of these support services by each principal service or activity. Notes to the current cost accounts item 1 (d) on page 33 also outline the cost allocation policy to principal services.

#### Help for vulnerable metered customers

The company has provided help to vulnerable metered household customers who face hardship resulting from high water use for essential purposes. This support amounts to approximate £43,000.