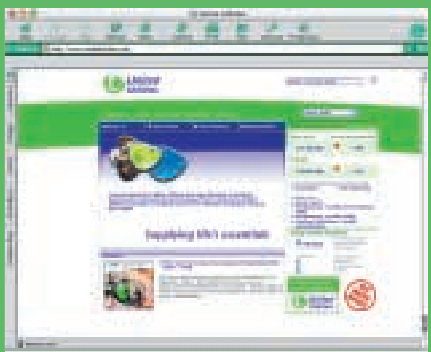
United Utilities Electricity PLC

Regulatory Financial Statements 2003

Contents



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Directors' responsibilities

Statement of directors' responsibilities in respect of the preparation of the regulatory accounts

The directors are required to prepare regulatory accounts for each financial year which give a true and fair view of the assets, liabilities, reserves and provisions of, or reasonably attributable to, the legal entity that contains the distribution business and the corporate function, and of the revenues, costs and cash flows of, or reasonably attributable to, the business for that year.

The regulatory accounts presented represent the legal entity that contains the distribution business and the corporate function.

The directors consider that, in preparing the regulatory accounts, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. All accounting standards they consider applicable have been followed, subject to any departure and explanation described in the notes to the accounts. They consider that the company has selected suitable bases of charges, apportionment and allocation and applied them consistently.

The directors are required to prepare the regulatory accounts on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors have a responsibility in law for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time, the financial position of the business and which enable them to ensure that the regulatory accounts comply with the Companies Act 1985 and requirements issued by Ofgem from time to time.

The directors also have a general responsibility in law for taking such steps as are reasonably open to them to safeguard the company's assets, certain of which may, for regulatory accounting purposes, be allocated or apportioned to separate businesses, and to prevent and detect fraud and any other irregularities.

Licence condition compliance statement

The statements on pages 10 to 30 have been prepared in accordance with draft condition 42 of United Utilities Electricity PLC's Distribution Licence and the draft October 2003 Electricity Distribution Business Regulatory Accounting Guidelines, as amended by subsequent Ofgem communications.

Report on governance

Overview
United Utilities Electricity PLC is part of the United Utilities PLC ("the Group") and complies with the Group Corporate Governance policy as outlined below:

The Combined Code
The company's board is committed to high standards of corporate governance. Throughout the year to 31 March 2003, United Utilities PLC has been in compliance with the provisions set out in Section 1 of 'The Combined Code Principles of Good Governance and Code of Best Practice' issued by the Financial Services Authority. This statement together with the group's reports on governance and remuneration describes the way in which these principles of governance are applied within the company.

The board
The United Utilities Electricity PLC board is scheduled to meet monthly with additional meetings called if required.

In particular it is responsible for business planning and risk management and for the development of policies. The business plan is reviewed at group level and consolidated within an overarching group business plan.

The board has access to the services of the Company Secretary who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

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

Delegating and working through committees
The group's governance structure ensures that all decisions are made by the most appropriate people in such a way that the decision-making process itself does not unnecessarily delay progress. The group board has formally delegated specific responsibilities to board committees, including the audit, remuneration, approvals, nomination and treasury committees.

The roles of the group audit and remuneration committees are detailed in the group's reports on governance and remuneration respectively.

Investment decisions taken by the United Utilities Electricity PLC board above certain limits must be referred to the Group Approvals Committee, and potentially, to the group board for further approval. This is necessary to ensure that major group cash outflows are coordinated and are within the overall group strategic plan.

The United Utilities Electricity PLC Treasury Committee considers and approves borrowing, leasing, bonding and other banking facilities within limits set by the board. Its members are any of two directors, one of which shall be the Group Finance Director (who is also a director of United Utilities Electricity PLC). All decisions must be referred to the Group Treasury Committee to ensure that such facilities are in accordance with group policy, enjoy the benefit of group-wide rates, and to ensure that they are coordinated with facilities negotiated across the group, and do not in any way impinge on or breach the terms of those group facilities.

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

Appointments to the board
The board appoints all new directors.

Shareholders

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

Institutional shareholders
At group level, there is a planned, on-going programme of investor meetings and presentations which take place throughout the year, both in the UK and overseas. This, together with regular announcements of significant events affecting the group and frequent updates on current trading, emphasises our commitment to keep our equity and credit investors informed of developments affecting the group. The board regards this programme as important to improve investors' awareness of the business and for the board to understand investors' priorities.

Financial reporting and going concern
As a regulated business established within a group environment, the company takes measures to ensure that no loans are made available to other group companies and that any dividends paid do not jeopardise the company's own working capital requirements. No cross guarantees are entered into with other group companies and accordingly the company retains financial independence from its parent and other group companies.

Report on governance (continued)

Internal control system – evaluating and managing risk

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

The key features of the internal control system are:

- A control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business;
- Comprehensive business planning and financial reporting procedures including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- Regular review of key performance indicators to assess progress towards objectives;
- Regular monitoring of risks and control systems throughout the year;
- A self-certification process, subject to internal audit, whereby managers are required to confirm that the system of internal control is operating effectively;
- A strong internal audit function to provide independent scrutiny of internal control systems and risk management procedures;
- A quarterly group risk management forum chaired by the United Utilities Group Finance Director, and comprising the Company Secretary, the Group Internal Audit Manager and senior representatives from across United Utilities to scrutinise key risks in depth;
- An annual risk assessment exercise involving self-assessment by management of all business risks in terms of impact, likelihood and control strength and an objective challenge of that assessment by the internal audit team;
- An annual health and safety performance review carried out by our in-house safety professionals in addition to the normal health and safety risk assessment and management processes carried on within each of the operating businesses;
- Centralised United Utilities treasury operations operating within defined limits and subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

Management Structure

The United Utilities Electricity PLC board meet monthly to review performance and make key strategic decisions. Representatives from each directorate have board representation. Since the year end an Electricity management group has been formed to advise the board on a monthly basis.

The group audit committee and the auditor

The group audit committee's constitution and terms of reference are set out in the group's report on governance.

The committee considers reports from the internal and external auditors and from management and makes recommendations to the board. The audit committee keeps under review the nature and extent of non-audit services supplied to the group by the external auditor, seeking to balance the maintenance of objectivity and value for money. In the year under review the fee for United Utilities Electricity PLC's non-audit work was £22,000 (2002 – £20,000). Costs of £100,000 have been incurred in respect of the regulatory procedures for the year ended 31 March 2003, that will be recognised in the accounts of 31 March 2004.

Audited accounts for United Utilities Electricity PLC are prepared, reviewed and approved each year at a duly convened full board meeting of United Utilities Electricity PLC.

In May 2002, the United Utilities PLC Group board began a formal tender process for audit services to ensure that the company continued to receive best value. As a result Deloitte & Touche were appointed in place of KPMG Audit Plc as auditor to the company on 9 September 2002.

Directors' report

Principal activities and business review

The principal activity of the company is the operation of electricity distribution assets.

The distribution of electricity is regulated by the terms of the company's Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority.

The review of the year on page 6 reports on the company's activities during the year and likely future developments.

Profits and dividends

The results for the year, set out in the profit and loss account on page 10, show that turnover for the year end 31 March 2003 increased to £310.4 million (2002 – £289.3 million), an increase of 7.3 per cent over the previous year. Profit for the year after tax was £115.4 million (2002 – £85.3 million).

An interim dividend of 12.07 pence per share was paid in February 2003 (2002 – 11.93 pence). The directors recommend a final dividend of 23.71 pence per share for the year ended 31 March 2003 (2002 – 23.40 pence).

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 aspect of the business.

The company encourages participation in the United Utilities' 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 its 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 with them on 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 company had 29 days of purchases outstanding at the end of the financial year (2002 – 27 days).

Directors

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

J E Roberts* Chairman (and Chief Executive, United Utilities PLC)
S G Batey*
S Beaumont
M J Boxall
M F Bradbury (resigned 4 April 2003)
K M Budinger
J Lang (appointed 10 February 2003)

Directors – resigned during the year
L W Dawson* (resigned 25 March 2003)

* Director of United Utilities PLC. Information relating to remuneration of these directors is provided in that company's accounts.

Details of directors' interests in ordinary shares of United Utilities PLC are set out in note 7 to the accounts. None of the Directors had any interest in the ordinary shares of any other group company within United Utilities PLC.

At no time during the year did any directors 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 transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnership's Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP, with effect from the 1st August 2003 under the provision of section 26 (5) of the Company's Act 1989. 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
6 August 2004

Review of the year

Operational

Key factors affecting the business

United Utilities Electricity PLC manages a 58,000 kilometre distribution network which delivers 25,500 gigawatt hours of electricity annually from the National Grid to 2.3 million customer premises in north west England. The United Utilities' designated area includes 12,500 square kilometres, from Macclesfield to Carlisle and from Blackpool to Settle. This covers a diverse range of terrain and customer mix from isolated farms in Cumbria to areas of heavy industry and dense urban population in Manchester. In addition, multi-utility connections and metering services are provided by the business to domestic, commercial and industrial developers.

The structure of our organisation is entering a period of greater stability following the creation of the Service Delivery operating division in 2000. Service Delivery brings together the management and operation of licensed water and electricity distribution assets to secure multi-utility synergies, acting as the stewards of regulated electricity and water asset bases of the United Utilities Group. This co-ordinated asset management and operations team are focussed upon delivering the programme of cost reductions required from the electricity and water regulators' Price Control Reviews. At the same time we are delivering a capital investment programme this year of over £120 million and improved levels of service in a number of important areas.

On 1 April 2003 United Utilities Electricity PLC entered into a contract with United Utilities Networks Limited to fulfil most of its metering and connection obligations.

We have continued to improve the reliability of our electricity distribution network, reducing the hours lost for customers served by our worst performing circuits by 191,000 during 2002/03.

Overall, the average number of minutes that customers were without supply during the year was 67.7 against a regulatory target of 68.2. 99.8 per cent of supplies were restored within 18 hours.

Projects

This year we invested £7.9 million in improving the quality of supplies to customers, with a further £11.6 million planned for 2003/04. Throughout the entire United Utilities area, programmes of asset replacement work continue on transformers, switchgear and circuits. These programmes improve the safety and reliability of assets, reduce faults and their impact on customers and are essential for the long-term performance of assets. With approximately 60 per cent of all customer interruptions and customer minutes lost attributable to the high voltage (11kV & 6.6kV) network, United Utilities is targeting significant investment into this area. By improving the automated and remote control of the network, fewer customers will lose supply in the event of a fault, and when a fault does occur supplies will be restored more quickly.

Project Cumbria has been developed to provide a programme of reinforcement to the weaker parts of the Cumbrian network in order to improve the security and availability of supply, and we are committed to the investment of £32 million over a five year period to 2005.

Project Cumbria is comprised of many individual schemes, for example performance is improved by refurbishing or replacing old assets with modern equipment and remote control technology has been introduced to reduce the time taken to restore supplies. To date nearly £19 million has been invested with a further £13 million committed in 2003/04.

The focus of our asset replacement and refurbishment programmes is to stabilise and hold constant the fault rates of the network so that improvements in customer service can be delivered by improved response times.

Major projects carried out in 2002/03 and planned for 2003/04 include:

Ashton

A £1.7 million project has provided a new 33kV substation at Ashton Moss which will supply a new commercial development and also reinforce the 6.6kV networks from three other 33kV substations.

A £12.1 million project is underway to install new 132 kV switchgear at Rochdale. Work continues on a £1.3 million scheme to replace Middleton Junction primary substation, to improve the security of supplies in the area and to offer scope for greater capacity on the network.

Manchester

At Sale a £0.9 million project was completed to reinforce the 33kV network by installing a new underground circuit.

A number of projects are scheduled for 2003/04 for the replacement of switchgear with operational restrictions. This will improve the security of supplies in the area, reduce supply restoration times in the event of faults and improve safety for operational staff.

In both the Ashton and Manchester regions the remote control of 70 sites has been completed as part of the Electricity Network Improvement Project. This will benefit customers in rural areas around the Peak District, Macclesfield, New Mills, Wardleworth, Belgrave and Hawk Green.

Bolton

Haydock 33kV substation has been replaced at a cost of £2 million, so reinforcing the network to cater for existing load and anticipated future growth in demand.

At Lostock, a £1.2 million project has replaced 11kV switchgear in order to accommodate future load increases on the network.

One of the 132/33kV transformers at Atherton bulk supply point has been replaced this year. The transformer was becoming a cause for concern due to the detection of gas inside the transformer as demand rose. Replacement of this transformer restores the security of supply of that substation and has also solved complaints from local residents of excessive noise from the substation.

Review of the year (continued)

Preston

A £4.9 million project to replace a 4 kilometre section of the 132kV tower line between Penwortham and Blackburn was completed in the year.

A £1 million reinforcement project was also completed, involving the construction of a new 4.5 kilometres 33kV underground cable and modifications at substations.

Work continues during 2003/04 on a £2.3 million project at Leyland and Wrightington bulk supply points to improve security of supplies by installing 7.2 kilometres of 33kV cable and two new primary transformers.

In both the Preston and Bolton regions the remote control of 75 sites has been completed as part of the Electricity Network Improvement Project. This will benefit customers around Blackburn, Bolton, Chorley, Tarleton, High Walton, Wrightington, Longridge, and Preesall.

Kendal and Carlisle

A project in excess of £7 million is due to start in 2003/04 for the connection of 103MW of embedded generation at Solway Firth. Connecting the output of this windfarm will involve establishing a new 132kV substation and reinforcing a double circuit 132kV overhead line.

During 2002/03 a £1.7 million project at Keswick was completed. The project was undertaken to reduce voltage problems and improve the security of supplies by installing some 12 kilometres of 33kV underground cable together with 33kV switchgear.

A £4.7 million project at Windscale has been completed to replace 132kV switchgear.

A £1.1 million project was completed to install automation and remote control on ten high voltage circuits to give improved quality of supply to customers. This project forms part of the Electricity Network Improvement project to undertake this type of work throughout all of the area covered by the company, with many projects to be undertaken during 2003/04.

During 2003/04 a £1.4 million project is to be undertaken to replace a 1.4 kilometres length of unsatisfactory performing 33kV cable, which forms part of the 15.3 kilometres Ulverston to Grange circuit. The section to be replaced crosses the Leven Estuary via a railway line and a viaduct, making access difficult and time consuming in the event of a fault and so this project is a priority to improve the quality of supplies in that area.

In the Carlisle and Kendal regions, the remote control of 100 sites has been completed as part of the Electricity Network Improvement Project. This will benefit customers in rural areas around Ulverston, Askam, Egremont, Wigton, Kirkby Moor, Capontree, Stainburn and Hutton End.

People

Our UCan culture change programme started two years ago and initially focussed on unlocking potential, improving self-awareness and looking at behaviour. In 2002/03 we emphasised the 'United' in United Utilities – acting as one company with several different business strands. This is a long-term programme designed to develop the business culture, essential for the successful delivery of world-class service to our customers and sustainable performance for our other stakeholders.

Last year's employee opinion survey showed a significant improvement over the previous year, that initiatives underway are successful and have had a huge positive impact on all employees.

Environment

Whilst a high standard of performance is critical to our business success it is not the only measure. We believe that it is just as important to work closely and responsibly with the communities we serve. United Utilities PLC's annual Corporate Responsibility report is published each July and details the activity in these areas across all United Utilities businesses. The following is a brief overview of community and environmental activities in relation to our electricity distribution activities:

- prevention of pollution – programme for oil leak reduction;
- resource efficiency – used oils recycled through reprocessing;
- visual amenity – overhead lines planned to be as unobtrusive as possible;
- education – teaching children about safety and about the industry;
- reporting against the Electricity Association Sustainability Indicators;
- sponsoring Enworks – to improve north west businesses' environmental performance;
- partner in Greenstreets – engaging local people in urban areas in Greater Manchester in planning for and managing new street and garden trees and plants; and
- offsetting tree cutting by supporting planting through Cumbria Woodlands.

Health and Safety

United Utilities Electricity PLC is committed to achieving the highest standards of health and safety in every area of its business. We believe that accidents, injuries, occupational illness and damage to property or the environment can be prevented by the application of sound management practices. We aim to establish and maintain safe working practices for all our activities, services or products that will eliminate or minimise risk to employees, customers, the public and the environment.

We have aligned our safety goals and targets with the new Revitalising Health and Safety strategy launched jointly by the Government and Health and Safety Commission in June 2000. This ten-year strategy seeks significant improvements in workplace health and safety by setting challenging targets aimed at reducing the incidence of work-related ill-health, the number of fatal and major injuries and working days lost caused by injuries and ill-health. This will build on the improvement the business has already achieved in its lost time accident incidence rate. Our risk profile reflects our activities and the overwhelming proportion of accidents involve slips, trips, falls, lifting and handling. We address the underlying cause of such accidents through, for example, behaviour based programmes. Driving at work has also been identified as a key risk and is currently the focus of a major initiative. All identified risks are subject to policies, management systems and specific control measures that are regularly monitored and reviewed. The company is implementing measures to promote employee involvement in health and safety issues and to make consultation arrangements more effective.

Review of the year (continued)

Financial Review

Profit and loss account
Turnover increased by 7.3 per cent in the year to £310.4 million mainly as a result of the growth in competitive multi-utility activities. Operating profit increased by 7.9 per cent from £144.9 million in 2001/02 to £156.4 million reflecting improvements derived from our multi-utility strategy and continuing operating cost efficiencies. Net finance charges increased by £0.4 million to £35.6 million, reflecting an increase in net debt offset by a reduction in interest rates.

Profit before tax increased to £120.4 million compared to £114.4 million in the previous year, reflecting an improvement in the operating efficiency of the business and the benefits of our multi-utility strategy.

We are on target to achieve cumulative operating efficiency savings of £100 million during the 2000-2005 period. At the same time we delivered a capital investment programme this year in excess of £120 million and improved levels of service in a number of important areas.

Balance sheet
Current asset investments have increased mainly 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.

Debtors have increased due to the higher levels of accrued income resulting from an increase in sales activity.

The decrease in creditors less than one year, and the increase in creditors greater than one year primarily reflect a switch from shorter to longer term borrowings as we prefund our capital expenditure requirements.

Provisions have increased in the year due to the impact of deferred taxation (see taxation section below).

Cash flow statement
Net cash flow from operating activities has increased in the year as a result of the increase in operating profit levels.

Capital expenditure has increased to meet our regulatory targets in this price review period.

Capital structure and Treasury Policy
Operating within policies approved by the board, the group's treasury function does not act as a profit centre and does not undertake any speculative trading activity. It ensures 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 sterling and indexed to inflation. Moody's Investors Service rates the credit of United Utilities Electricity PLC as A2 on a long-term 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 company's €4 billion medium-term note issuance programme is available for us to issue both public and privately negotiated bond placements. During this year the company also drew down a £90 million loan facility with European Investment Bank signed in December 2001. This relates to future network refurbishment and provides a new source of liquidity for the company. Net debt increased from £527.3 million to £562.3 million. At 31 March 2003 United Utilities Electricity PLC had £75 million of committed but unutilised medium-term bank facilities (2002 - £100 million). Cash and short term current investments at 31 March 2003 are £159.0 million (2002 - £126.7 million).

Interest policy
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 credit quality of counterparties and individual aggregate exposures are reviewed annually. The company's borrowings at 31 March 2003 are set out in note 18 on page 25.

Taxation
The current UK mainstream corporation tax credit in 2002/03 and low charge in 2001/02 reflect the effects of the accelerated tax allowances arising from the capital investment. The tax credit position in the current year also results from the agreement of prior year tax returns.

The effective current ordinary tax credit of 12.7 per cent compares with a charge of 18.4 per cent in 2001/02.

The effects of deferred tax increase the effective ordinary tax charge to 4.2 per cent compared with 25.4 per cent in 2001/02.

Deferred tax charged to the profit and loss account is £20.3 million in 2002/03 compared with £8.0 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.

Pensions
Details of pensions are recorded in note 8 (c) on page 20.

Dividend policy
The ordinary dividend increased by 1.3 per cent in 2002/03. The company's dividend policy is to declare dividends that 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 the review period.

Independent auditors' report to the gas and electricity markets authority ("the Regulator") and United Utilities Electricity PLC ("the Company")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2003 on pages 10 to 30, which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, the statement of accounting policies and the related notes numbered 1 to 27. These Regulatory Accounts have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition 42 of the Electricity Distribution Licence, as modified by derogations applied for by the Company (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, 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 Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared under the historical cost convention and in accordance with the Regulatory Licence, the draft Regulatory Accounting Guidelines issued by the Regulator on 3 October 2003 (the "RAGs") and the accounting policies set out in the notes to the Regulatory Accounts and such derogations as have been applied for by the Company.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not necessarily 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 Standard Condition 42 of the Regulatory Licence as modified by derogations applied for by the Company and the RAGs are set out in the statement of directors' responsibilities on page 2.

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 guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities'.

We report to you our opinion as to whether the Regulatory Accounts present fairly, in accordance with Standard Condition 42 of the Regulatory Licence as modified by derogations applied for by the Company, the draft Regulatory Accounting Guidelines issued on 3 October 2003 by the Regulator and the accounting policies set out on pages 14 to 15, the results and financial position of the Company. 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 that we require for our audit.

We read the other information presented with the Regulatory Accounts, being the review of the year, the directors' report, the report on governance, and the statement of directors' responsibilities on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the UK Auditing Practices Board, except as noted below. 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.

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 August 2003, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "statutory audit") was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

Audit opinion

In our opinion, the Regulatory Accounts present fairly in accordance with Standard Condition 42 of the Regulatory Licence as modified by derogations applied for by the Company, the draft Regulatory Accounting Guidelines issued by the Regulator on 3 October 2003 and the accounting policies set out on pages 14 to 15 the financial position of the Company as at 31 March 2003 and of its financial performance and cash flows for the year then ended, and have been properly prepared in accordance with those draft Regulatory Accounting Guidelines and accounting policies.

Deloitte & Touche LLP
Chartered Accountants
Manchester
6 August 2004

Profit and loss account

for the year ended 31 March

	Note	2003 £m	2002 £m
Turnover	2	**310.4**	**289.3**
Cost of sales		(50.9)	(37.2)
Gross profit		**259.5**	**252.1**
Distribution costs		(85.6)	(83.3)
Administration costs		(17.5)	(23.9)
Operating profit	3	**156.4**	**144.9**
Income from fixed asset investments		2.1	4.7
Amounts written off investments		(2.5)	–
Profit on ordinary activities before interest		**156.0**	**149.6**
Net finance charges	4	(35.6)	(35.2)
Profit on ordinary activities before taxation		**120.4**	**114.4**
Taxation on profit on ordinary activities	5	(5.0)	(29.1)
Profit for the financial year		**115.4**	**85.3**
Equity dividends	6	(56.1)	(55.4)
Retained profit for the financial year	22	**59.3**	**29.9**

See accompanying notes to the accounts.

All the results shown in the profit and loss account derive from continuing operations.

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

Note of historical cost profit and losses

for the year ended 31 March

	2003 £m	2002 £m
Profit on ordinary activities before taxation	**120.4**	114.4
Difference between historical cost depreciation charge and actual charge based on the revalued amount of tangible assets	**6.6**	6.6
Historical cost profit on ordinary activities before taxation	**127.0**	121.0
Historical cost profit for the financial year retained after taxation, minority interests and dividends	**65.9**	36.5

Reconciliation of movements in shareholders' funds

for the year ended 31 March

	2003 £m	2002 £m
Profit for the financial year	**115.4**	85.3
Dividends	**(56.1)**	(55.4)
Net addition to shareholders' funds	**59.3**	29.9
Opening equity shareholders' funds	**464.4**	434.5
Closing equity shareholders' funds	**523.7**	464.4

Balance sheet

at 31 March

	Note	2003 £m	2002 £m
Fixed assets			
Tangible assets	9	**1,280.1**	1,222.3
Investments in subsidiary undertakings	10	**65.0**	65.0
Other investments	10	**–**	2.5
		1,345.1	1,289.8
Current assets			
Stocks	11	**3.6**	1.9
Debtors	12	**137.9**	83.7
Investments	13	**159.0**	95.5
Cash at bank and in hand		**–**	31.2
		300.5	212.3
Creditors:			
Amounts falling due within one year	14	**(393.5)**	(413.0)
Net current liabilities		**(93.0)**	(200.7)
Total assets less current liabilities		**1,252.1**	1,089.1
Creditors:			
Amounts falling due after more than one year	15	**(633.2)**	(547.4)
Provisions for liabilities and charges	16	**(95.2)**	(77.3)
Net assets		**523.7**	464.4
Capital and reserves			
Called up share capital	20	**78.4**	78.4
Share premium account	21	**4.4**	4.4
Revaluation reserve	21	**194.2**	200.8
Other reserves	21	**8.6**	8.6
Profit and loss account	22	**238.1**	172.2
Equity shareholders' funds		**523.7**	464.4

See accompanying notes to the accounts.

Approved by the board of directors on 6 August 2004 and signed on its behalf by:

Mike Boxall
Director

Cash flow statement

for the year ended 31 March

	Note	2003 £m	2002 £m
Net cash inflow from operating activities	24 (a)	**184.7**	161.7
Returns on investments and servicing of finance	24 (b)	**(34.7)**	(34.0)
Taxation	24 (b)	**(16.2)**	(12.3)
Capital expenditure and financial investment	24 (b)	**(113.0)**	(91.2)
Acquisitions and disposals	24 (b)	**–**	(7.0)
Equity dividends paid		**(55.6)**	(54.7)
Cash outflow before use of liquid resources and financing		**(34.8)**	(37.5)
Management of liquid resources	24 (b)	**(63.5)**	(75.5)
Financing	24 (b)	**97.2**	113.2
(Decrease)/Increase in cash		**(1.1)**	0.2

Reconciliation of net cash flow to movement in net debt

for the year ended 31 March

	Note	2003 £m	2002 £m
(Decrease)/Increase in cash in the year		**(1.1)**	0.2
Cash inflow from increase in debt		**(97.2)**	(113.2)
Cash outflow from management of liquid resources		**63.5**	75.5
Change in net debt resulting from cash flows		**(34.8)**	(37.5)
Amortisation of bond discount		**(0.2)**	(0.2)
Movement in net debt		**(35.0)**	(37.7)
Net debt at 1 April		**(527.3)**	(489.6)
Net debt at 31 March	24 (c)	**(562.3)**	(527.3)

Notes to the accounts

for the year ended 31 March 2003

1 Accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's regulatory accounts.

(a) Basis of preparation of regulatory accounts

These regulatory accounts, which are separate from the statutory accounts, have been prepared under the historical cost convention, modified by the valuation of operational assets and non-operational properties, in accordance with applicable accounting standards and the Companies Act 1985, except where draft Regulatory Accounting Guidelines, dated 3 October 2003, are different or have subsequently been modified, in which case these have been followed.

The October 2003 draft Electricity Distribution Business Regulatory Accounting guidelines have been subsequently amended by Ofgem as follows:

- Remove the requirements to disclose or comply with the terms of paragraphs 5.10 to 5.12 of the guidelines relating to cost allocations, cost attribution and inter-business recharging.
- Permit the company to present the regulatory accounts on a legal entity basis that contains the distribution business and the corporate function.
- Capital contributions are deducted from fixed assets.
- Permit the company to present related party transaction information elsewhere.

These regulatory accounts have been prepared on a United Utilities Electricity PLC company basis which excludes the United Utilities Electricity PLC subsidiaries as agreed with Ofgem in accordance with draft standard licence condition 42(2).

The United Utilities Electricity PLC statutory accounts are prepared on a group basis and are publicly available.

(b) Cash

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

(c) Turnover

Turnover represents the charge for energy distributed during the year and the invoice value of other goods sold and services provided, exclusive of value added tax.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and the related costs as contract activity progresses. Turnover is calculated as the proportion of the total contract value based on the certified percentage level of work completed for the contract.

(d) Cost of sales, distribution costs and administrative expenses

Cost of sales represent the actual costs of obtaining electricity from the National grid, distribution costs are associated with transporting this electricity to our customers and administrative expenses represent the costs of running the business. All costs are reported on an accruals basis.

(e) Research and development

Expenditure on research and development is expensed as incurred.

(f) 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 balance sheet as a prepayment or provision.

The company has followed the transitional arrangements of FRS 17 'Retirement Benefits' in these regulatory accounts. Details of pension arrangements and funding benefits are set out in note 8.

(g) Tangible fixed assets

Tangible fixed assets are included at cost or valuation less accumulated depreciation, freehold land is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated by writing off their cost or valuation evenly over their estimated economic lives which are principally as follows:

Operational structures	Between 5 and 80 years (Mainly between 30 and 80)
Non-operational assets:	
– Freehold buildings	Up to 60 years
– Leasehold buildings	Lower of lease period or remaining economic life up to 60 years
– Fixtures and equipment, vehicles and other	Up to 10 years

Consumers' contributions received have been deducted from the cost of operational fixed assets as required by Ofgem's draft regulatory accounting guidelines.

(h) Fixed asset investments

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

(i) Current asset investments

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

Notes to the accounts (continued)

for the year ended 31 March 2003

(j) Stocks

Stocks (including emergency stock levels) are stated at cost less any provision necessary to recognise damage and obsolescence. The value of work in progress is based on the cost of labour plus appropriate overheads and the cost of materials. Progress invoices are deducted in arriving at the amounts stated.

(k) Long-term contracts

Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account.

(l) 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 regulatory accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the regulatory accounts.

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.

(m) Leased assets

Assets financed by leasing arrangements which transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised on the balance sheet and the corresponding capital cost is shown as an obligation to the lessor. Leasing repayments comprise both a capital and a finance element. The finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

(n) Financial instruments

Debt instruments

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

Interest rate swaps and financial futures

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

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

In order to qualify for hedge accounting, the notional amount of the 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.

(o) Provisions (excluding deferred taxation)

Provisions are raised when the business identifies present obligations which result from a past event, and it is reasonably certain that the business will have to make a transfer of economic benefits, the amount which can be reliably estimated. The provision is utilised when the transfer of economic benefit occurs. Over time any expense incurred relating to a provided amount will be allocated directly to this provision. If it is deemed no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision will be reversed.

(p) Related party transactions

Related party transactions are conducted on an arms length basis with all material transactions being subject to service level agreements. Related party transactions are conducted in line with Regulatory Accounting Guidelines.

Notes to the accounts (continued)

for the year ended 31 March 2003

2 Segmental information

The geographical origin and destination of turnover is all within the United Kingdom. The company has one class of business relating to the distribution of electricity.

3 Operating profit

Operating profit is stated after charging/(crediting):	2003 £m	2002 £m
Depreciation	**54.4**	51.6
Amortisation of consumers' contributions	**(5.6)**	(4.8)
Profit on disposal of fixed assets	**(2.1)**	(2.3)
Auditor's remuneration		
- Statutory audit	**0.1**	–
- Regulatory audit	**–**	–
Research and development	**0.3**	0.2
Operating leases:		
- hire of plant and machinery	**3.1**	0.8
- land and buildings	**0.3**	0.6

Fees payable to Deloitte & Touche LLP and its associates for non-audit services from the date of their appointment as auditors are £100,000, primarily relating to regulatory work.

Fees payable to the company's former auditors, KPMG Audit Plc, and its associates for non-audit services performed in relation to the year ended 31 March 2002 were £22,000, primarily relating to regulatory work.

4 Net finance charges

	2003 £m	2002 £m
Interest payable and similar charges:		
Interest payable on bank loans and overdrafts	**41.5**	34.0
Interest payable to group undertakings	**3.9**	4.5
Total interest payable and similar charges	**45.4**	38.5
Investment income:		
Income received from current asset investments	**(1.5)**	–
Interest receivable and similar income-external	**(8.3)**	(3.3)
Total investment income	**(9.8)**	(3.3)
Net finance charges	**35.6**	35.2

Notes to the accounts (continued)

for the year ended 31 March 2003

5 Taxation

(a) Analysis of charge in period

	2003 £m	2002 £m
Current tax:		
UK corporation tax at 30% (2002:30%)	**16.4**	21.1
Prior years' tax adjustments	**(31.7)**	–
Total current tax	**(15.3)**	21.1
Deferred tax:		
Origination and reversal of timing differences	**20.9**	15.2
Decrease/(Increase) in discount	**6.9**	(7.2)
Prior years' tax adjustments	**(7.5)**	–
Total deferred tax	**20.3**	8.0
Tax on profit on ordinary activities	**5.0**	29.1

A tax credit has arisen in the current year following the agreement of prior years' tax returns.

(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	**120.4**	114.4

	%	%
UK corporation tax rate	**30.0**	30.0
Capital allowances in excess of depreciation	**(12.5)**	(19.1)
Other timing differences	**(4.8)**	5.3
Prior years' tax adjustments	**(26.3)**	–
Net costs not deductible for tax purposes	**0.9**	2.2
Actual current tax rate	**(12.7)**	18.4

Notes to the accounts (continued)

for the year ended 31 March 2003

6(a) Dividends

	2003 £m	2002 £m
Interim dividend of 12.07 pence per share (2002 – 11.93 pence)	**18.9**	18.7
Final dividend proposed of 23.71 pence per share (2002 – 23.40 pence)	**37.2**	36.7
	56.1	55.4

6(b) Earnings per share

	2003	2002
Profit for the financial year (£m's)	**115.4**	85.3
weighted average number of shares (m's)	**156.8**	156.8
Earnings per share (pence)	**73.6**	54.4

7 Directors and their interests

The aggregate emoluments of the directors in 2003 amounted to £351,431 (2002 – £325,077). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of the highest paid director (L Dawson) in 2003 in respect of services to the company amounted to £120,365 (2002 L Dawson – £126,092) details of which are provided in the accounts of United Utilities PLC.

No long-term incentive awards vested in the year ended 31 March 2003 (aggregate value in respect of the year ended 31 March 2002 was nil). Information relating to long-term incentive awards is contained in the accounts on United Utilities PLC.

With the exception of M J Boxall, all directors are members of, and contribute to, the United Utilities Pension Scheme, which 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 an entitlement 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.

M J Boxall is a member of, and contributes to, the Electricity Supply Pension Scheme, a defined benefit scheme which provides on retirement at the age of 60 a pension equal to 1/80th of pensionable earnings (plus 3/80th cash) for each completed year of service. 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 these schemes to directors who joined the company after 1 June 1989 because the earnings cap limits pensionable earnings for calculating benefits. The company has put in place separate arrangements for some of the executive directors affected, the effect of which is to provide for them the same pension benefits as for those executives who are not limited by the cap. These arrangements are unfunded.

The accrued pension at 31 March 2003 for the highest paid director L Dawson was £18,237 (2002 L Dawson – £9,837).

At 31 March 2003, 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. The interests of J Roberts and S Batey in United Utilities PLC are disclosed in that company's accounts.

	At 31 March 2003 Interests in shares			At 1 April 2002 or appointment Interests in shares		
	Ordinary shares	**Executive options**	**Employee sharesave options**	Ordinary shares	Executive options	Employee sharesave options
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
M J Boxall	**162**	**10,676**	**1,575**	–	10,676	1,228
K M Budinger	**–**	**–**	**1,049**	–	–	–
J Lang	**21**	**–**	**–**	–	–	–

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

Notes to the accounts (continued)

for the year ended 31 March 2003

7 Directors and their interests (continued)

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	Share options at 31 March 2003
Employee sharesave scheme								
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	–	–	1,823
M J Boxall	696	–	556.5p	1 Mar 2004	1 Sep 2004	–	–	696
	532	–	500.0p	1 Mar 2005	1 Sep 2005	–	–	532
	–	347	490.0p	1 Mar 2006	1 Sep 2006	–	–	347
M F Bradbury	2,147	–	471.5p	1 Mar 2005	1 Sep 2005	–	–	2,147
	532	–	500.0p	1 Mar 2005	1 Sep 2005	–	–	532
	–	241	490.0p	1 Mar 2006	1 Sep 2006	–	–	241
K M Budinger	–	1,049	490.0p	1 Mar 2006	1 Sep 2006	–	–	1,049
Executive option scheme								
S Beaumont	26,984	–	721.2p					26,984
M J Boxall	10,676	–	665.5p					10,676
M F Bradbury	43,364	–	679.6p					43,364

The mid-market price of a share on the 31 March 2003 was 586.0 pence. The range in the year was 544.5 pence to 668.0 pence.

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

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 £2,413 (2002 – £1,782). None of the options shown above lapsed during the year.

8 Employees

(a) Average number of persons employed (including directors)	2003	2002
Electricity distribution	**1,577**	1,586

(b) Their aggregate remuneration comprised:	2003 £m	2002 £m
Wages and salaries	**52.6**	50.7
Social security costs	**4.1**	4.3
Pension costs	**(4.9)**	(3.4)
	51.8	51.6
Capital schemes and other	**(24.8)**	(20.7)
Charged to the profit and loss account	**27.0**	30.9

Notes to the accounts (continued)

for the year ended 31 March 2003

8 Employees (continued)

(c) Pensions

The company participates in a number of pension schemes principally in the UK. The major schemes are funded defined benefit schemes – the United Utilities Pension Scheme (UUPS) and the Electricity Supply Pension Scheme (ESPS), of which the ESPS is closed to new employees. UUPS also included a defined contributions 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 costs 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' 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, Hewitt Bacon and Woodrow, using different assumptions and methods from those described above. The total pension credit for the period was £4.9 million (2002 – £3.4 million). A prepayment of £18.5 million is included in the balance sheet at 31 March 2003 (2002 – prepayment of £13.2 million).

(d) FRS 17 transitional disclosure

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 schemes were defined contribution schemes. The latest full actuarial valuations were carried out at 31 March 2001 and were updated for FRS 17 purposes to 31 March 2003 by qualified independent actuaries. Information in respect of the schemes as a whole is set out below.

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 company is required to disclose the following information about its pension arrangements and the figures that would have been shown under FRS 17 in the regulatory accounts.

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%

	At 31 March 2003		At 31 March 2002	
	Expected rate of return	**Total £m**	Expected rate of return	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)

for the year ended 31 March 2003

9 Tangible fixed assets

Group and company	Operational £m	Non-operational land and buildings £m	Fixtures and equipment, vehicles and others £m	Assets in course of construction £m	Grants and Contributions £m	Total £m
Cost or valuation at 1 April 2002	1,724.6	43.8	107.6	188.2	(274.3)	1,789.9
Additions	100.8	–	2.0	19.5	(15.3)	107.0
Transfers	84.2	0.7	10.9	(95.8)	–	–
Disposals	(1.4)	(0.5)	(15.3)	–	–	(17.2)
At 31 March 2003	**1,908.2**	**44.0**	**105.2**	**111.9**	**(289.6)**	**1,879.7**
Depreciation at 1 April 2002	564.9	5.3	73.2	–	(75.8)	567.6
Charge for the year	38.4	1.3	14.7	–	(5.6)	48.8
Disposals	(1.4)	(0.3)	(15.1)	–	–	(16.8)
At 31 March 2003	**601.9**	**6.3**	**72.8**	**–**	**(81.4)**	**599.6**
Net book value:						
At 31 March 2003	**1,306.3**	**37.7**	**32.4**	**111.9**	**(208.2)**	**1,280.1**
At 1 April 2002	1,159.7	38.5	34.4	188.2	(198.5)	1,222.3

Grants and contributions received relating to operational assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence the net book value of fixed assets is £208.2 million (2002 – £198.5 million) lower than it would have been had this treatment not been adopted.

The 1997 accounts incorporated a directors' revaluation of operational assets and non-operational land and buildings.

Group and company	Operational £m	Non-operational land and buildings £m	Fixtures and equipment, vehicles and others £m	Assets in course of construction £m	Grants and Contributions £m	Total £m
Historical cost at 31 March 2003						
Cost	1,660.3	54.5	102.2	111.9	(289.6)	1,639.3
Depreciation	(555.7)	(8.0)	(71.1)	–	81.4	(553.4)
Net book value	1,104.6	46.5	31.1	111.9	(208.2)	1,085.9

Operational structures include land and buildings, the net book amount of which comprises:

	2003 £m	2002 £m
Freehold	**54.4**	50.2
Long leasehold	**3.7**	2.9
Short leasehold	**2.9**	2.8
	61.0	55.9

The net book amount of non-operational land and buildings comprises:

	2003 £m	2002 £m
Freehold	**32.1**	32.7
Long leasehold	**3.1**	3.1
Short leasehold	**2.5**	2.7
	37.7	38.5

Included in fixed assets at 31 March 2003 is land at cost or valuation of £9.7 million (2002 – £9.7million) which is not depreciated.

Notes to the accounts (continued)

for the year ended 31 March 2003

9 Tangible fixed assets (continued)

	2003 £m	2002 £m
Capital commitments: Contracted but not provided for	**80.0**	63.6

10 Fixed asset investments

	Subsidiary undertakings £m	Joint ventures £m	Total £m
At 1 April 2002 at cost or valuation	65.0	2.5	67.5
Amounts written off investments	–	(2.5)	(2.5)
At 31 March 2003 at cost or valuation, and net book value	**65.0**	**–**	**65.0**

Details of subsidiary undertakings, joint ventures and other investments, all of which are registered in England and Wales are:

Subsidiary undertakings	Description of holding	Proportion held	Nature of business
NB Gas Limited	Preference shares of £1 each Ordinary shares of £1 each	100% 25%	Dormant
NB Generation Limited	Ordinary shares of £1 each	100%	Dormant
NB Property & Estate Service Limited	Ordinary shares of £1 each	100%	Pursuance of investment opportunities on behalf of United Utilities Electricity PLC
NB Leasing Limited	Ordinary shares of £1 each	100%	Lessor of assets to other companies within the United Utilities Electricity PLC Group
NB Miles Platting Limited	Ordinary shares of £1 each	100%	Dormant

Joint ventures	Description of holding	Proportion held	Nature of business
Nor.Web Limited	Ordinary shares of £1 each	50%	Dormant

Other investments	Description of holding	Proportion held	Nature of business
ESN Holdings Limited	Ordinary shares of £1 each	6.2%	Investment company
National Grid Group plc	Ordinary shares of 11.76p each	Negligible	Energy distribution

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

Notes to the accounts (continued)

for the year ended 31 March 2003

11 Stocks

	2003 £m	2002 £m
Raw materials and consumables	**3.6**	1.9

12 Debtors

	2003 £m	2002 £m
Trade debtors	**44.7**	36.1
Amounts owed by group undertakings	**36.4**	10.7
Amounts owed by subsidiary undertakings	**5.7**	4.5
Other debtors	**0.7**	0.1
Amounts recoverable on long-term contracts	**8.9**	–
Prepayments and accrued income	**41.5**	32.3
	137.9	83.7

Amounts owed by group undertakings represent amounts owed by parent and fellow subsidiary undertakings.

Within prepayments and accrued income is £18.5 million which falls due after more than one year (2002 – £13.2 million).

13 Current asset investments

	2003 £m	2002 £m
Short term deposits	**19.0**	95.5
Managed funds	**140.0**	–
	159.0	95.5

Maturity profile of short-term deposits is overnight to twelve months, with amounts repayable on maturity.

14 Creditors: amounts falling due within one year

	2003 £m	2002 £m
Bank overdrafts and temporary borrowings	**23.3**	53.4
Term loans	**4.4**	4.4
Trade creditors	**7.9**	6.5
Amount owed to group undertakings	**38.3**	43.7
Amounts owed to subsidiary undertakings	**48.6**	48.8
Dividends	**37.2**	36.7
Corporation tax	**107.2**	107.0
Other taxation and social security	**4.3**	4.4
Other creditors	**19.9**	19.4
Accruals and deferred income	**102.4**	88.7
	393.5	413.0

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

Notes to the accounts (continued)

for the year ended 31 March 2003

15 Creditors: amounts falling due after more than one year

	2003 £m	2002 £m
Unsecured bonds	**633.2**	547.4

In 1995 the company issued £200 million 8.875% bonds, due 2026. The discount on the issue of the bonds is being amortised over the life of the bonds. In this financial year the company issued further tranches of this bond which were fungible with the original issue. This raised £359 million at a premium of £109 million over the nominal value of £250 million. This premium is being amortised over the life of the bond.

16 Provisions for liabilities and charges

	Deferred tax (note 17) £m	Restructuring £m	Other £m	Total £m
At 1 April 2002	74.0	2.0	1.3	77.3
Utilised	-	(1.3)	(0.4)	(1.7)
Charged/(credited) to the profit and loss account	20.3	(0.7)	–	19.6
At 31 March 2003	**94.3**	**–**	**0.9**	**95.2**

'Other' mainly comprises the remaining balance of business disposal provisions.

17 Deferred tax

	2003 £m	2002 £m
Accelerated capital allowances	**225.6**	218.0
Short-term timing differences	**(17.8)**	(23.6)
Undiscounted provision for deferred tax	**207.8**	194.4
Discount	**(113.5)**	(120.4)
Discounted provision for deferred tax	**94.3**	74.0

Notes to the accounts (continued)

for the year ended 31 March 2003

18 Borrowings

	2003 £m	2002 £m
Bank overdrafts and temporary borrowings	**83.7**	102.2
Term loans	**637.6**	551.8
	721.3	654.0

Repayments fall due as follows:

	Year ended 31 March	**2003 £m**	Year ended 31 March	2002 £m
Within one year	**2004**	**88.1**	2003	106.6
Within one-two years	**2005**	**4.4**	2004	4.4
Within two-five years	**2006-2008**	**13.3**	2005-2007	13.4
After five years	**2009+**	**615.5**	2008+	529.6
		721.3		654.0

UUE PLC had available, and unutilised, committed bank facilities of £75 million at 31 March 2003 (31 March 2002 – £100 million). All of this £75 million expires in greater than two years.

Loans repayable after 5 years comprise bank and other loans repayable between 2013 and 2026. Interest rates range from 5.612% to 8.875% on £525.5 million (2002 - £529.6 million) prior to the effect of derivative instruments, and are at floating rates on £90 million (2002 - £0).

Taking into account derivative 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	**285.6**	285.4	**8.6**	8.6	**16.7**	17.6
Floating rate borrowings: sterling	**435.7**	368.6				
	721.3	654.0				
Floating rate investments: Sterling (including cash)	**(159.0)**	(126.7)				
Net debt at 31 March	**562.3**	527.3				

Floating rate borrowings are based on LIBOR.

Notes to the accounts (continued)

for the year ended 31 March 2003

19 Financial instruments and risk management

The primary financial risk faced by the company in relation to the treasury function is interest rate risk. The board has reviewed and agreed policies for managing this risk as summarised below. The board has also approved all of the classes of financial instruments used by the company. The treasury function, which is authorised to conduct the day-to-day treasury activities of the company, reports at least annually to the board.

The company uses a variety of financial instruments, including derivatives, to raise finance for its operations and to manage the risks arising from those operations. The company borrows in the major global debt markets in a range of currencies at both fixed and floating rates of interest, using derivatives where appropriate to generate the desired effective currency profile and interest basis. The effect of the use of derivatives is illustrated in note 18.

Under an interest rate swap, the company 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 company's involvement in the instruments, but does not represent its exposure to credit risk which is assessed by reference to the fair value. All transactions are undertaken to manage the risks arising from underlying business activities and no speculative trading is undertaken.

The counterparties to these instruments generally consist of financial institutions and other bodies with good credit ratings. Although the company is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. The company does not believe it is exposed to any material concentrations of credit risk.

The company makes no significant sales or purchases in currencies other than that of the country in which it operates. Accordingly the company has no material unhedged foreign currency exposures.

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

(a) Interest rate swaps

Interest rate swaps are used to manage floating rate borrowings in order to reduce the financial risk to the company from potential future changes in medium-term interest rates. In certain instances interest rate swaps are used to reduce the cost of borrowing in the short term.

(b) Financial futures

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

(c) Forward contracts

The company 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.

Fair value 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 Current value £m**	2002 Book value £m	2002 Current value £m
Short term debt and current portion of long term debt	**88.1**	**88.1**	106.6	106.6
Long term debt	**633.2**	**737.3**	547.4	606.9
	721.3	**825.4**	654.0	713.5
Interest rate swaps	**–**	**(4.8)**	–	25.9
Total borrowings	**721.3**	**820.6**	654.0	739.4

Notes to the accounts (continued)

for the year ended 31 March 2003

19 Financial instruments and risk management (continued)

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

Long-term investments and liabilities
The fair values of these investments, for which there are no quoted market prices, approximate to their carrying value.

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.

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

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

Hedges
Unrecognised gains and losses on financial assets and liabilities for UUE PLC for which hedge accounting has been used at the balance sheet date were £15.2 million and £10.4 million respectively (2002 – £2.2 million and £28.1million respectively).

The company anticipates that £2.6 million of these gains and £2.9 million of these losses (2002 – £0.3 million and £4.2 million) will be realised in the forthcoming financial year. 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 £1.8 million.

20 Share capital

Authorised	2003 £	2002 £
249,999,996 ordinary shares of 50p each (2002 – 249,999,996)	**124,999,998**	124,999,998
4 'A' ordinary shares of 50p each	**2**	2
Special rights redeemable preference share of £1	**1**	1
	125,000,001	125,000,001

Allotted, called up and fully paid	2003 £	2002 £
156,821,341 (2002-156,821,341) ordinary shares of 50p each (2001 – 156,821,341)	**78,410,671**	78,410,671
4 'A' ordinary shares of 50p each	**2**	2
	78,410,673	78,410,673

The "A" ordinary shares and the ordinary shares rank pari passu in all respects, save that dividends may be declared on one class of shares without being declared on the other.

Notes to the accounts (continued)

for the year ended 31 March 2003

21 Reserves

(a) Revaluation reserve	£m
At 1 April 2002	200.8
Transferred to profit and loss account	(6.6)
At 31 March 2003	**194.2**

(b) Other reserves	£m
Capital redemption reserve	
At 1 April 2002 and 31 March 2003	**8.6**
Share Premium account	
At 1 April 2002 and 31 March 2003	**4.4**

22 Profit and loss account

	£m
At 1 April 2002	172.2
Retained profit for the year	59.3
Transferred from revaluation reserve	6.6
At 31 March 2003	**238.1**

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 is committed to making the following payments during the year:				
Leases which expire:				
Within one year	**–**	**0.5**	–	0.3
Between two and five years	**–**	**2.0**	–	3.6
After five years	**0.2**	**–**	5.5	–
	0.2	**2.5**	5.5	3.9

Notes to the accounts (continued)

for the year ended 31 March 2003

24 Notes to the cash flow statement

(a) Net cash inflow from operating activities:	2003 £m	2002 £m
Operating profit	**156.4**	144.9
Depreciation	**54.4**	51.6
Contributions amortised	**(5.6)**	(4.8)
Profit on disposal of fixed assets	**(2.1)**	(2.3)
Stock (increase)/decrease	**(1.7)**	2.8
Debtors (increase)/decrease	**(28.6)**	12.9
Creditors increase/(decrease)	**14.3**	(41.8)
Provisions for liabilities and charges decrease	**(2.4)**	(1.6)
	184.7	161.7

(b) Analysis of cash flows for headings netted in the cash flow statement	2003 £m	2002 £m
Returns on investments and servicing of finance		
Interest paid	**(39.4)**	(35.4)
Interest received	**3.2**	1.4
Dividends received	**1.5**	–
	(34.7)	(34.0)
Taxation		
Corporation tax paid	**(16.2)**	(12.3)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(131.6)**	(116.6)
Consumer contributions received	**15.3**	21.0
Sale of tangible fixed assets	**2.5**	3.6
Income from fixed asset investments	**0.8**	0.8
	(113.0)	(91.2)
Acquisitions and disposals		
Disposals:		
Net current (liabilities)/assets	**–**	(7.0)
Book value of net assets disposed	**–**	(7.0)

Notes to the accounts (continued)

for the year ended 31 March 2003

24 Analysis of cash flows for headings netted in the cash flow statement (continued)

	2003 £m	2002 £m
Management of liquid resources		
Increase in bank deposits and certificates of deposit	**(63.5)**	(75.5)
Financing		
Debt due within one year		
- repayment of short-term borrowings	**(4.4)**	–
- receipt of loan from group undertakings	**11.8**	(158.8)
- repayment of loan to subsidiary undertakings	**(0.2)**	(80.0)
Debt due beyond one year		
- new long-term loans	**90.0**	352.0
	97.2	113.2

(c) Analysis of net debt	At 1 April 2002 £m	Cash flow £m	Other non-cash movement £m	At 31 March 2003 £m
Cash at bank and in hand	31.2	(31.2)	–	**–**
Overdrafts	(53.4)	30.1	–	**(23.3)**
	(22.2)	(1.1)	–	**(23.3)**
Loans due after one year	(547.4)	(90.0)	4.2	**(633.2)**
Short-term borrowing	(4.4)	4.4	(4.4)	**(4.4)**
Current asset investments	95.5	63.5	–	**159.0**
Loan from group undertaking	(48.8)	(11.6)	–	**(60.4)**
Total	(527.3)	(34.8)	(0.2)	**(562.3)**

25 Related party transactions

In accordance with the exemption set out in Financial Reporting Standard 8 (Related Party Transactions), the company has not disclosed transactions with its ultimate holding company or any members of the group.

26 Ultimate parent undertaking

The immediate parent undertaking is United Utilities Service Delivery PLC.

The accounts of the company and its immediate parent undertaking, are consolidated in the group accounts of the ultimate parent undertaking, and ultimate controlling entity of the smallest and largest group, 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.

27 Contingent liabilities

United Utilities Electricity PLC has no significant claims against it that are not fully provided for in the accounts, for either this period or in the prior year.