United Utilities

United Utilties PLC
Registered in England and Wales
Registered number: 2366616
Registered office:
Birchwood Point Business Park
Birchwood Boulevard
Birchwood
Warrington WA3 7WB
United Kingdom

Telephone: 01925 285000
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United Utilities PLC Annual Report on Form 20-F

United Utilities

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Annual Report on Form 20-F

691.0

Operating profit before exceptional items up 15.7% to £691.0 million

91.4

Adjusted earnings per share up 18.5% to 91.4 pence

487.8

Profit before tax and exceptional items up 12.3% to £487.8 million

44.3

Total dividend of 44.3 pence per share for the year

Table of contents

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

☐ **Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**
or
☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
for the fiscal year ended 31 March 1999
or
☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission file number: 82–1–14744

United Utilities PLC

(Exact name of Registrant as specified in its charter)

England

(Jurisdiction of incorporation or organisation)

Birchwood Point Business Park, Birchwood Boulevard, Birchwood, Warrington WA3 7WB, United Kingdom

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12 (b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares each of which represents 2 Ordinary Shares	New York Stock Exchange
Ordinary Shares of £1 each	New York Stock Exchange*

*Not for trading, but only in connection with the registration of American Depositary Shares representing such Ordinary Shares, pursuant to the requirements of the Securities and Exchange Commission

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the Annual Report.

Ordinary Shares of £1 each 549,869,126 (as of 31 March 1999)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 ☐ Item 18 ☒

Introduction

In this report references to "company" or "United Utilities" are to United Utilities PLC, either alone or together with its consolidated subsidiaries, as the context requires. References to "group" are to United Utilities PLC together with its consolidated subsidiaries. References to "Norweb" are to NORWEB plc and to "North West Water" are to North West Water Limited, which are both wholly owned subsidiaries of the company.

References to the "1999 annual report to shareholders" are to the United Utilities PLC Annual Report and Accounts 1999.

References are also made to specific terms which bear the following meanings:

— "Gigawatt" (GW)	– a gigawatt is a unit of power equal to one billion (one thousand million) watts.
— "Gigawatt-hour" (GWh)	– one gigawatt-hour represents one hour of electricity consumption at a constant rate of 1GW.
— "Kilowatt" (kW)	– a kilowatt is a unit of power equal to one thousand watts.
— "Kilolitre"	– one kilolitre equals one thousand litres.
— "Megalitre" (Ml)	– one megalitre equals one million litres.

The company's registered office is located at Birchwood Point Business Park, Birchwood Boulevard, Birchwood, Warrington WA3 7WB, England and its telephone number is 00-44-1925-285-000.

The company's financial year ends on 31 March of each year. Unless the context otherwise requires, references in this report to "financial year" are to the twelve months ending on 31 March of that year. Unless otherwise indicated, the financial information contained in this report has been prepared in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP). The annual reports and audited consolidated financial statements contain a reconciliation to accounting principles generally accepted in the United States (US GAAP) of net income and shareholders' equity. Unless otherwise indicated, a reference in this report to "consolidated financial statements" is to the audited consolidated financial statements of the company (together with accompanying notes) prepared at the end of each financial year, included in this report. Unless otherwise indicated, financial information for the group included in this report is presented on a consolidated basis and references to "turnover" (revenue) with respect to a business segment are to the gross turnover of such segment.

Cautionary statement regarding forward-looking statements

This annual report on Form 20-F contains certain forward-looking statements with respect to the financial condition, results of operations and business of the company.

Statements that are not historical facts, including statements about the company's beliefs and expectations, are forward-looking statements. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "potential", "reasonably possible" and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore investors should not rely on them. Forward-looking statements speak only as of the date they are made, and the company undertakes no obligation to update publicly any of them in light of new information or future events.

The company may also make written and/or oral forward-looking statements in its periodic reports to the Securities and Exchange Commission on Forms 6-K, in the annual report to shareholders, in proxy statements, in offering circulars and prospectuses, in press releases and other written materials and in oral statements made by officers, directors or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. The company cautions investors that a number of important factors could cause actual results to differ materially from those anticipated or implied in any forward-looking statements. These factors include: (i) the effect of, and changes in, regulation and government policy; (ii) the effects of competition and price pressures; (iii) the ability of the company to achieve cost savings and operational synergies; (iv) the ability of the company to service its future operation and capital requirements; (v) the timely development and acceptance of new products and services by the company; (vi) the effect of technological changes; and (vii) the company's success at managing the risks of the foregoing. The company cautions that the foregoing list of important factors does not address all the factors that could cause results to differ materially.

PART I

ITEM 1 DESCRIPTION OF BUSINESS

UNITED UTILITIES PLC

United Utilities is the holding company of a multi-utility business in the UK. It is organised into six operating businesses: water and wastewater (North West Water), electricity and gas supply (Norweb Energi), electricity distribution (Norweb Distribution), telecommunications (Norweb Telecom), business process outsourcing (Vertex) and water, wastewater and electricity distribution and supply outside England and Wales (United Utilities International).

WATER AND WASTEWATER

NORTH WEST WATER

North West Water provides water and wastewater services to 2.9 million customer premises (domestic, commercial and industrial) in North West England, which has a population of approximately seven million.

Water services

Water supply

North West Water obtains water from 305 sources including reservoirs, rivers and aquifers. The reservoirs have storage capacities ranging from less than 40 megalitres to almost 85,000 megalitres. North West Water enjoys the advantage of having the majority of its direct reservoirs in the uplands of the Lake District, an area of North West England, where the average annual rainfall is more than twice the national average for England, and the Pennine hills on the eastern edge of North West England, whereas the major population centres in North West England are in the lowlands of Merseyside, Greater Manchester, Lancashire and Cheshire. As a result, a significant proportion of water put into supply flows freely by gravity rather than being pumped.

Water treatment and distribution

North West Water operates 147 primary water treatment works. All water supplied receives treatment with a view to meeting the appropriate standards determined by the Drinking Water Inspectorate, the government regulator of drinking water quality in England and Wales. The type of treatment varies from disinfection only for some borehole and stream sources, to more complex processes using coagulation, clarification, and activated carbon absorption and ozonation for some lowland waters. North West Water also employs a number of new treatment processes including membrane microfiltration. North West Water monitors water quality by analysing samples regularly for both microbiological and chemical parameters.

The average 2,000 megalitres of water distributed per day by North West Water to its customers is delivered through a network of approximately 40,600 kilometres of aqueducts, trunk and distribution mains and 493 service reservoirs.

Wastewater services

Collection

Under its licence, North West Water is responsible for the collection, treatment and disposal of domestic sewage, trade effluent and surface water. Surface water, mainly from groundwater infiltration and highway drainage, forms a major part of the wastewater of which North West Water must dispose. Where practicable, separate sewers are provided for sewage and surface water. North West Water operates and maintains approximately 39,700 kilometres of sewers.

Treatment and disposal

North West Water's wastewater works provide a range of treatments which includes primary, enhanced primary, secondary activated sludge, secondary biological, tertiary activated sludge and tertiary biological. Treated liquid final effluent is discharged into rivers, estuaries or via sea outfalls. In accordance with the European Union Urban Waste Water Treatment Directive, the disposal of sludge into the sea has ceased. The construction of a processing centre at Shell Green, Widnes, has been completed. This centre, which was opened in December 1998, is capable of processing, mainly by incineration, approximately 86,000 tonnes of dry solids per annum.

As required by the European Union Bathing Water Directive, the Environment Agency tests bathing water quality in North West England. In the 1998 bathing season, 24 out of 37 designated bathing waters in the North West region passed EU mandatory standards. A new programme of capital improvement is now underway; this programme is discussed below.

Capital improvement programmes

At the time of privatisation in 1989, the infrastructure inherited by North West Water was in need of substantial repair and replacements. Further improvements have been required in order to comply with applicable UK and European Union environmental regulations.

Gross capital investment for the last financial year was £521.4 million (including £34.9 million of discretionary investment), compared with £502.3 million in the previous year. The total investment in improving water and wastewater services in the North West since privatisation is approximately £4 billion.

Water supply
Investments in the supply, treatment and distribution of clean water have included major improvements to existing water treatment works, improvements to water resources and leakage control initiatives, renewal or refurbishment of old cast iron pipes, improvements to minimise the risk from cryptosporidium at key water treatment works and the maintenance and enhancement of water supply and distribution facilities.

Wastewater
Investments in the collection, treatment and disposal of wastewater have included construction of new and major improvements to existing wastewater treatment works, improvements in sludge treatment and disposal including construction of a processing centre (see above) and refurbishment of the sewerage infrastructure. North West Water has completed its Sea Change programme of wastewater network and treatment projects to meet quality standards for bathing waters in 1997 along the coast of North West England. All North West Water's discharges meet or exceed the required consents. Despite this, certain bathing waters have continued to fail the standards, and North West Water has now started a programme of additional work at the request of the regulators to make further improvements. The regulator has approved the additional programme of work required by the Environment Agency to reduce further stormwater discharges and upgrade a number of wastewater treatment works. The total cost of this additional work is expected to be £59.0 million.

The implementation of a large part of North West Water's capital investment programme is managed by an affiliate of Bechtel Group, Inc. (a large US construction company). The arrangement with Bechtel is designed to increase efficiencies in executing the capital expenditure programme as well as to minimise the company's construction risks.

Water and wastewater regulation

Economic regulation
The Water Industry Act 1991 requires companies engaged in water supply or wastewater services in England and Wales to be licensed. Regulation pursuant to these licences is the responsibility of the Director General of Water Services (DGWS), assisted by the Office of Water Services (Ofwat). The DGWS's current term expires in July 2000. The DGWS also exercises powers under competition legislation and these powers will be significantly enhanced when the Competition Act 1998 comes into force on 1 March 2000.

The DGWS awarded water and wastewater licences in 1989 for a period of 25 years. A licence can be withdrawn in certain circumstances, including failure to comply with an enforcement order made by the DGWS. The UK Government must give 10 years' notice if it does not intend to renew a licence. The DGWS intends to investigate the options for the future of the industry and advise the Government: he has indicated that the present industry structure may change and that less vertical integration would be better for developing competition.

North West Water's licence restricts its conduct in a number of ways. These include prohibitions on discrimination between customers and on cross-subsidies between North West Water's businesses and restrictions on the declaration and payment of dividends. Licence conditions can be modified by the DGWS either with the agreement of the licensee or following an investigation by the UK Competition Commission.

The DGWS regulates water and wastewater charges by capping the average increase in charges which a company can impose in any year over and above inflation. Unlike "rate of return" economic regulation, such as exists in many states of the United States, "price limitation" regulation in the UK is performance based. North West Water's average increase in charges is currently capped at inflation plus 2.5 per cent. The DGWS reviews price limits every five years and new limits will take effect in April 2000. North West Water submitted its strategic business plan to Ofwat in April 1999 and the final price limits are due to be announced by Ofwat in November 1999. The DGWS has stated that he intends to make a downward adjustment to the price limits to reflect the fact that companies have been able to provide services at lower than expected costs. However, to meet investment obligations imposed by the quality regulators and the government, North West Water's business plan envisages no initial price cut and prices having to rise in real terms at the rate of 5.8 per cent a year. This equates to an increase of approximately £13 a year on the average household bill.

There are proposals to tighten the regulatory regime for water in a number of ways. In particular, the Government is proposing new legislation which will remove the power to disconnect water supply for non-payment, or to limit supply with the intention of enforcing payment, for certain premises including private dwellings.

Environmental regulation
The water and wastewater industry in the UK is subject to substantial domestic and European Union regulation, including the Drinking Water Directive, the Bathing Water Directive and the Urban Waste Water Treatment Directive. These European Union directives are implemented by applicable UK laws and regulations, including the Water Act 1989, the Water Industry Act 1991, the Water Resources Act 1991 and the Control of Pollution Act 1974.

All water and wastewater companies have a general duty to exercise their powers to conserve and enhance natural beauty and to promote the efficient use of water. Environmental regulation is the responsibility of the DGWS together with:-

– the Environment Agency, which is responsible for conserving and redistributing water resources and securing the proper uses of those resources, including licensing of water abstraction. The Environment Agency is also responsible for the regulation of discharges to controlled waters, including discharges from wastewater treatment works; and

– the Drinking Water Inspectorate, which enforces water quality.

Regulatory standards are expected to tighten.

ELECTRICITY DISTRIBUTION

NORWEB DISTRIBUTION
Norweb Distribution maintains a network in North West England of approximately 59,000 kilometres of power lines and underground cables and approximately 32,000 substations. This network distributes approximately 23,800 GWh of electricity annually from the National Grid and power stations to approximately 2.2 million customer premises (domestic, commercial and industrial) in North West England.

The income derived from the distribution business is dependent in part on changes in the demand for electricity by customers in North West England. Demand for electricity is affected by such factors as growth and movements in population, social trends, economic and business growth or decline, changes in the mix of energy sources used by customers, weather conditions, energy efficiency measures and other factors.

Electricity regulation
The electricity industry in Great Britain is regulated under the Electricity Act 1989 by the Director General of Electricity Supply (DGES) who is assisted by the Office of Electricity Regulation (Offer). In addition to his regulatory powers, the DGES also exercises powers under UK competition legislation and those powers will be significantly extended by the Competition Act 1998 with effect from 1 March 2000.

Throughout England and Wales, electricity generation, transmission and distribution systems constitute a single integrated network. Almost all electricity generated at power stations in England and Wales is delivered through the National Grid to the local distribution networks. All companies distributing or supplying electricity must be licensed unless they are covered by an exemption. Norweb holds a Public Electricity Supply (PES) licence, which authorises it to distribute and supply electricity in the North West, and second tier supply licences which authorise it to supply electricity outside this area. From 2000 (or 2005 for the second tier supply licence for Scotland), these licences can be terminated on 25 years' notice given by the Secretary of State. The licences can also be revoked in certain circumstances, including where the licensee fails to comply with an enforcement order made by the DGES.

The licences contain various conditions regulating the conduct of the business. In particular, the disposal of any part of the distribution system is restricted; distribution businesses and suppliers which the DGES deems to be in a dominant position must provide services and supplies on non-discriminatory terms and cross-subsidies to or from Norweb's regulated businesses are prohibited. In general, PES licences also contain increasingly strict provisions to maintain and ring-fence the financial and management resources of the licensed businesses. Licence conditions can be modified by the DGES either with the agreement of the licensee or following an investigation by the UK Competition Commission.

Norweb's distribution and supply activities under the PES licence to domestic customers and small business customers in the North West are subject to price controls, which cap the maximum increases in prices charged by reference to the Retail Price Index. Under the present price controls prices for Norweb Distribution are set at RPI-3 per cent for each of the financial years 1998, 1999 and 2000. During the period in which the competitive market establishes itself, the regulator has imposed a revised form of price control on supplies by PES licensees based on a price cap. The price cap for Norweb as a supplier was RPI-3.4 per cent for the year ended 31 March 1999, and is RPI-3.0 per cent for the year ending 31 March 2000. The DGES reviews the form and level of the price controls every 5 years. During the year Norweb made several key submissions to Offer and submitted its business plan at the end of 1998 as part of the current periodic review of prices. Offer will publish initial price determinations in August 1999 and final determinations in late November 1999. New price controls will take effect in April 2000 and are expected to continue the downward pressure on prices.

Electricity suppliers are required to purchase the electricity they require for resale from the central trading market, the “Pool”. The price of electricity in the Pool varies significantly on a half-hourly basis according to customer demand and generation availability and output. In order to reduce their exposure to Pool price volatility, generators and suppliers, including Norweb enter into hedging contracts.

Before September 1998 all regional electricity companies had a monopoly to supply electricity to customers with a peak demand of less then 100 kW in their own licence area. The DGES has opened the supply of electricity to competition in stages and since the end of May 1999 all customers (industrial, commercial and domestic) have been able to choose their supplier. A number of further changes are proposed for the regulation of the electricity industry. These include:-

– proposals to replace the Pool with trading arrangements comprising forwards and futures markets, a short term bilateral market and a balancing market;

– legislation which would enable electricity distribution to be licensed separately from electricity supply. During the year the Government sought views on proposals to separate the existing public electricity supply licences into distinct licenses for distribution and for supply. Pending this legislation, the DGES is seeking to introduce licence modifications which would require distribution businesses to have complete managerial and operational independence from other group activities; and

– additional licence conditions to ring-fence the PES supply and distribution businesses, including a requirement that directors provide a certificate of compliance before making distributions or declaring dividends.

ENERGY SUPPLY

NORWEB ENERGI

Norweb Energi markets and supplies electricity to customers throughout Great Britain. Norweb Energi’s primary objectives in relation to electricity supply are to meet the obligations of Norweb under Norweb’s PES licence, including future proposed amendments to that licence, whilst building customer relationships through which long term value can be maximised from energy sales. Norweb completed all required testing and preparations and entered the first stages of the competitive electricity market on schedule in November 1998. The phased introduction meant that the 2.2 million customers in Norweb’s licence area have been able to choose their supplier since the end of May 1999.

Norweb Energi, through Norweb Gas, also markets and supplies gas to customers in the gas market. Domestic gas supply competition was introduced in Norweb’s region in February 1998 and the market has been fully open to competition since May 1998.

Norweb Energi’s core base for electricity supply is the 2.2 customer premises in North West England. Since the North West opened to competition Norweb Energi has attracted 34,000 domestic customers out of its licence area predominately on a dual fuel basis, with 59,000 customers in the North West area switching supplier.

By May 1999, a focused marketing effort had resulted in over 325,000 domestic customers signing contracts to buy their gas from Norweb Energi. A wide range of marketing initiatives is proving successful, including an alliance with Tesco, a leading grocery retailer in the UK, which gives shoppers loyalty card points if they switch to Norweb Energi for their gas supplies and a marketing link with Page & Moy offering Norweb Energi customers discounts on holidays and savings on leisure activities.

Centrica plc is the leading gas supplier in Great Britain and is expected to remain so for the foreseeable future.

Electricity supply and gas regulation

For a discussion of the regulation of the electricity industry see “Electricity regulation” above.

The gas industry in Great Britain is regulated under the Gas Acts 1986 and 1995 by the Director General of Gas Supply (DGGS), who is assisted by the Office of Gas Supply (Ofgas). In addition to his regulatory powers, the DGGS also exercises powers under UK competition legislation and those powers will be significantly extended by the Competition Act 1998 with effect from 1 March 2000. The conduct of gas suppliers is regulated by licences. Gas supply by Norweb is not subject to price control.

TELECOMMUNICATIONS

NORWEB TELECOM

Norweb Telecom provides voice and data telecommunications services to business customers in North West England. It is continuing to develop its national capability based around purchasing, leasing or swapping fibre optic cable.

Investment has increased the length of the network to almost 1,400km and enhanced switch capacity. Cumulative investment in network infrastructure now stands at £80 million with plans to invest a further £40 million in network infrastructure in the current financial year. At the end of the last financial year, Norweb Telecom had 680 separate customer accounts supplying services to over 1,500 customer sites. New customers during the last financial year included Thomas Cook and Alfred McAlpine.

NOR.WEB DPL Limited is a 50:50 joint venture between United Utilities and Nortel which is planning to bring Digital PowerLine (DPL) technology to the market. DPL allows high-speed data connections to homes, schools and smaller businesses over the existing electricity cables. A loss of £5.9 million was incurred in the year reflecting United Utilities' share of the development and other start up costs of NOR.WEB DPL Limited. A loss of £0.8 million was incurred in preparation for the potential commercial deployment of the technology in North West England.

Telecommunications regulation

Norweb Telecom's activities are principally regulated by the Telecommunications Act 1984 and by the conditions of Norweb's public telecommunications operator (PTO) licence. The Secretary of State for Trade and Industry and the Director General of Telecommunications are the principal regulators of the telecommunications industry in the UK.

PTO licences, including Norweb's, contain a wide range of conditions designed, in particular, to ensure that all PTO licence holders provide a basic range of telecommunication services and meet the requests for interconnection with networks operated by other licensees. PTO licences also contain prohibitions against showing undue preference or discrimination in the provision of telecommunication services. Norweb's PTO licence does not include price controls.

BUSINESS PROCESS OUTSOURCING

VERTEX

Vertex provides a wide range of business process outsourcing services to companies in the United Utilities group and markets those services to other organisations. The principal business services provided by Vertex are:

– *customer services:* customer call handling, postal service, correspondence handling, database management, customer billing services, printing services, debt collection and cash processing;
– *operations systems:* geographic information systems, work management, customer contact, field computing, and plant monitoring and control;
– *IT services:* software and hardware provision and support, service desk provision, consultancy and IT strategy, systems design, data centre management, application management, desktop management, service management, and network management;
– *accounting services:* payroll processing, pension administration, invoice payments, monthly management reporting, ledger control and bank reconciliations;
– *procurement services:* comparative supplier evaluation, benchmarking, contract evaluation and negotiation, transaction processing, inventory management, and logistics; and
– *training services:* technical training, IT training, culture change, transition training, business process re-engineering related training, organisation development, and management training.

Vertex provides business services which are important to a customer's business, but are not the customer's core activities. Vertex provides business services to North West Water, Norweb Distribution, Norweb Energi and Norweb Telecom thus allowing them to concentrate on their core services. Its primary outsourcing focus is in customer relationship management which incorporates contact management, customer acquisitions, billing and payment services, training and information technology.

Outside the United Utilities group, Vertex has enjoyed success during 1998/99 in each of its target markets: private sector, utility and public sector:

– Littlewoods: contract to provide call centre and IT infrastructure services to support the telephone betting service, Bet Direct.

– Independent Energy**:** contract to provide call centre, billing, payment and IT services to assist Independent Energy's entry into the deregulated domestic energy supply market.

– London Borough of Ealing**:** contract to manage the benefits administration services.

– Knowsley Council: preferred supplier to work in partnership with them to create a new model for service delivery for the public sector.

INTERNATIONAL OPERATIONS

UNITED UTILITIES INTERNATIONAL

United Utilities International seeks to exploit United Utilities' core multi-utility skills outside England and Wales. It seeks opportunities globally in selected markets to:

– acquire interests in electricity distribution and supply businesses; and

– obtain operations and maintenance contracts in water and wastewater and, where appropriate, in connection with build, own, operate and transfer contracts, concessions, privatisations, finance and other contracts.

US Water is a company indirectly owned equally by United Utilities and Bechtel. US Water is the principal entity through which the owners pursue water and wastewater projects in most of North America. In January 1999, US Water was awarded a 20-year concession in Camden City, New Jersey.

ITEM 2 DESCRIPTION OF PROPERTY

NORTH WEST WATER

As at 31 March 1999, North West Water had the following principal operating facilities, all of which are owned by North West Water and are freehold, except Sandon Dock which is leasehold:

Location	Description	Approximate area in hectares(1)
Bowland Estate, Lancashire	Reservoir/gathering grounds	10,120
Haweswater Estate, Lake District, Cumbria	Reservoir/gathering grounds	9,900
Longdendale Estate, Cheshire	Reservoir/gathering grounds	7,490
West Pennine Moors, Lancashire	Reservoir/gathering grounds	6,872
Thirlmere Estate, Lake District, Cumbria	Reservoir/gathering grounds	4,850
Huntington, near Chester, Cheshire	Water treatment works	120
Davyhulme, Greater Manchester	Wastewater treatment works	117
Prescot, Merseyside	Water treatment works	72
Woodgate Hill, Greater Manchester	Water treatment works	40
Shell Green, Widnes	Processing centre	12
Watchgate, Cumbria	Water treatment works	12
Sandon Dock, Liverpool	Wastewater treatment works	8

(1) One hectare equals 2.47 acres.

NORWEB DISTRIBUTION

As at 31 March 1999, Norweb Distribution's facilities included approximately 14,000 kilometres of overhead lines and 44,800 kilometres of underground cables operating at 132 kilovolts, 33 kilovolts, 25 kilovolts, 11 kilovolts, 6.6 kilovolts, 3.3 kilovolts, 2.2 kilovolts and 400/230 volts. Norweb holds wayleaves which entitle it to run these lines and cables through private land. These wayleaves are usually terminable by either the landowner or Norweb upon 6 or 12 months' notice. However, Norweb has statutory rights to seek the compulsory retention of a wayleave if termination is sought by the landowner. Although it is not anticipated that any relocation of these facilities will be required, any such relocation of a major portion of these facilities would have a material adverse effect on Norweb Distribution. Norweb Distribution also maintains approximately 32,000 primary and secondary substations located in North West England. These are situated on properties either owned by Norweb or under lease. Norweb Distribution anticipates that it will be able to negotiate lease renewals on satisfactory terms or relocate equipment so that the non-renewal of any such leases would not have a material adverse effect upon Norweb Distribution.

NON-OPERATIONAL FACILITIES

In addition to the properties described above, the company occupies various non-operational properties consisting primarily of offices, depots, warehouses and workshops. These are either owned by the company or leased. It is anticipated that the company will be able to negotiate renewals of any expiring leases, or relocate the relevant facilities, without the same having a material adverse impact on the company. The most significant of these non-operational properties are the company's headquarters and the company's London office both of which are leased by the company, and the North West Water headquarters and operations and customer centres, which are owned by North West Water. Save for the company's London office, these are all located in Warrington. Vertex's headquarters is leased by Vertex Data Science Limited. The separate headquarters of Norweb Distribution and Norweb Energi are owned by Norweb. These properties are located in Manchester.

Norweb also owns an operations and computer centre in Manchester, an operations and customer centre at Bolton and a residential training centre at Chorley, which are used by Vertex.

The company believes that all its properties are in good condition and are adequate for their purpose. The company has a continuing programme of improving and replacing property when considered appropriate to meet the needs of its business operations.

ITEM 3 LEGAL PROCEEDINGS

The company is not aware of any material litigation to which it or any of its subsidiaries is a party, or of which any of their property is the subject, or any such proceedings known to be contemplated by any third party or governmental authority. The company is engaged in litigation in the ordinary course of its operations, such as contract disputes, disputes over easements/wayleaves and other similar property matters, bill collections, personal injury claims and workers' compensation claims.

The company does not believe that such litigation, either individually or in the aggregate, is material. The company maintains insurance and, to the extent that the amounts in dispute may not be covered by such insurance, maintains provisions in those situations where management deems it appropriate in accordance with UK GAAP.

ITEM 4 CONTROL OF REGISTRANT

As far as is known to United Utilities, it is not directly or indirectly owned or controlled by another corporation or by an individual or government. As at 31 March 1999, no person known to United Utilities owned more than 10 per cent of any class of United Utilities' voting securities. As at 31 March 1999, the total amount of voting securities owned by directors and executive officers of United Utilities, as a group, was:

Title of class	Identity of person or group	Amount owned	Percent of class
Ordinary shares of £1 each	Directors and executive officers (17 persons)	107,247*	0.0195

* includes 200 ordinary shares held in the form of ADSs.

In addition, as at 31 March 1999, the directors and executive officers of United Utilities, as a group, held options to purchase 224,702 ordinary shares, all of which options were issued pursuant to United Utilities' employee sharesave scheme, Norweb's employee sharesave scheme, or the executive share option scheme. See "Item 12 Options to purchase securities from registrant or subsidiaries" and note 23 to the consolidated financial statements of the company, appearing on pages 57 to 60 of the 1999 annual report to shareholders, and incorporated by reference herein.

United Utilities does not know of any arrangements which might trigger a change in control of the company.

ITEM 5 NATURE OF TRADING MARKET

The principal trading market for the ordinary shares of the company is the London Stock Exchange. The ordinary shares have been listed on the London Stock Exchange since 12 December 1989. The American Depositary Shares (ADSs), each representing two ordinary shares, are listed on the New York Stock Exchange. The ADSs, evidenced by American Depositary Receipts (ADRs), are issued by the London office of the Bank of New York (BONY), as Depositary under a Deposit Agreement, dated 28 January 1998, between the company, BONY and the holders from time to time of ADRs.

The table below sets out, for the calendar quarters of the financial years indicated, (i) the highest and lowest middle-market quotations for the ordinary shares (as derived from the Daily Official List of the London Stock Exchange); and (ii) the reported high and low sales prices of the United Utilities ADSs on the New York Stock Exchange.

	The London Stock Exchange per ordinary share		New York Stock Exchange per ADS	
	High (p)	Low (p)	High (US$)	Low (US$)
Financial year 1998				
First	709.0	621.5	–	–
Second	778.5	678.5	–	–
Third	789.5	710.0	–	–
Fourth	885.5	767.5	30.6	26.4
Financial year 1999				
First	882.0	789.0	30.75	25.88
Second	957.0	883.5	32.38	27.44
Third	950.0	820.0	32.06	27.63
Fourth	832.0	727.0	27.75	24.81

On 31 March 1999, there were 48 registered holders of 18,511 ordinary shares with addresses in the US. The holdings of these shareholders constituted 0.0034 per cent of the total number of ordinary shares issued at that date.

On 31 March 1999, there was 1 registered holder evidencing 183,670 ADSs (equivalent to 367,340 ordinary shares) with an address in the US. The holding of this shareholder constituted 0.0068 per cent of the total number of ordinary shares issued at that date.

As certain of the ordinary shares and ADRs are held by brokers and other nominees, these numbers may not be representative of the actual number of beneficial owners in the US or the number of ordinary shares and ADRs beneficially held by US persons.

ITEM 6 EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

There are currently no UK laws, decrees or regulations that restrict the export or import of capital, including, but not limited to, foreign exchange capital restrictions, or which affect the remittance of dividends or other payments to non-UK resident holders of the company's securities except as otherwise detailed in "Item 7 Taxation" below.

There are no limitations imposed by UK law or the company's memorandum and articles of association which restrict the right of non-UK resident or non-UK citizen owners, as opposed to UK resident or citizen owners, to hold or vote the ordinary shares. However, non-UK shareholders are not entitled to receive notice from the company, including notices of general meetings, unless they have given the company an address in the UK to which such notices may be sent.

ITEM 7 TAXATION

The following is a summary of the principal US federal and UK tax considerations that are likely to be material to the ownership and disposition of ordinary shares or ADSs by a holder that is a resident of the US for the purposes of the income tax convention between the US and the UK (the "Treaty"), and is fully eligible for benefits thereunder (an "eligible US holder"). The summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a holder of ordinary shares or ADSs. In particular, the summary deals only with eligible US holders that hold ordinary shares or ADSs as capital assets, and does not address the tax treatment of investors that are subject to special tax rules, such as banks, tax-exempt entities, insurance companies, dealers in securities or currencies, persons that hold ordinary shares or ADSs as part of an integrated investment (including a "straddle") comprised of an ordinary share or ADS and one or more other positions, and persons that own, directly or indirectly, 10 per cent or more of the voting stock of the company. This summary is based on the Treaty and the tax laws of the US and the UK in effect on the date hereof, which are subject to change. In this regard, the tax authorities of the US and the UK have announced their intention to renegotiate the Treaty. Prospective purchasers should consult their own advisers as to the tax consequences of an investment in ordinary shares or ADSs in light of their particular circumstances, including the effect of any state, local or other national law.

In general, the beneficial owner of an ordinary share or ADS will be entitled to benefits under the Treaty (and therefore will be an eligible US holder) if it is (i) an individual resident of the US, a US corporation, or a partnership, estate or trust to the extent its income is subject to taxation in the US in its hands or in the hands of its partners or beneficiaries; and (ii) is not also resident in the UK for UK tax purposes. Special rules, including a limitation of benefits provision, may apply in limited circumstances to certain investment or holding companies and tax-exempt entities. The Treaty benefits discussed below generally are not available to US holders that hold ordinary shares or ADSs in connection with the conduct of a business through a permanent establishment, or the performance of personal services through a fixed base, in the UK.

Taxation of dividends

United Kingdom

The Treaty contains provisions that are intended to extend the benefits of the UK integrated tax system to eligible US holders. Under those provisions, when an eligible US holder receives a dividend from the company, it is entitled to receive an additional payment from the UK Inland Revenue (a "Treaty Payment") equal to the amount of the tax credit (the "Tax Credit Amount") allowable under UK law to an individual UK resident, minus a UK withholding tax of 15 per cent of the sum of the cash dividend and the Tax Credit Amount. At the rates that applied to dividends paid on or before 5 April 1999, an eligible US holder receiving a dividend of £80 from the company was entitled to a Tax Credit Amount of £20 which, after the deduction of a withholding tax of £15, resulted in a Treaty Payment of £5 and an aggregate payment to the holder of £85.

As a result of recent changes in UK law, the Tax Credit Amount available in respect of dividends paid after 5 April 1999 has been reduced to one-ninth of the cash dividend, or the equivalent of 10 per cent of the sum of the dividend and the Tax Credit Amount. As a result, the UK withholding tax (which, under UK law, may not exceed the Tax Credit Amount) will fully offset the Tax Credit Amount and eligible US holders will no longer be entitled to receive Treaty Payments.

United States

Eligible US holders will be subject to US tax on the sum of the cash dividend paid by the company and the associated Tax Credit Amount without reduction for UK withholding tax (the "gross dividend"). The gross dividend will constitute foreign source dividend income, and will not be eligible for the dividends received deduction. Dividends paid in UK pounds sterling will be includible in income in a dollar amount calculated by reference to the exchange rate in effect on the day the dividends are received by the eligible US holder (or by the Depositary, in the case of ADSs). If such dividends are converted into dollars on the day they are received, eligible US holders generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

The UK withholding tax imposed under the Treaty will be treated as a foreign income tax. Subject to generally applicable limitations (including limitations applicable to short term US holders and to US holders that enter into hedging transactions in respect of the ordinary shares) foreign income taxes may be claimed as credits against an eligible US holder's federal income tax liability or, at the election of the holder, may be deducted in computing taxable income.

Taxation of capital gains

United Kingdom

Gain realized by an eligible US holder on the sale or other disposition of ordinary shares or ADSs will not be subject to UK taxation.

United States

Gain realized on the sale, exchange or other disposition of ordinary shares or ADSs will be included in income for US tax purposes and will be long term capital gain if the ordinary shares or ADSs were held for more than one year. Long term capital gain realized by an individual holder generally is subject to taxation at a maximum rate of 20 per cent.

Backup withholding tax and information reporting

Distributions made on ordinary shares and proceeds from the sale of ordinary shares or ADSs that are paid within the UK or through certain US-related financial intermediaries to US holders are subject to information reporting and may be subject to a "backup" US withholding tax unless, in general, the US holder complies with certain procedures or is a corporation or other person exempt from such withholding. Holders that are not US persons generally are not subject to information reporting or backup withholding tax, but may be required to comply with applicable certification procedures to establish that they are not US persons in order to avoid the application of such information reporting requirements or backup withholding tax to payments received within the US or through certain US-related financial intermediaries.

Stamp duty and stamp duty reserve tax

A transferee of ordinary shares will generally be required to pay UK stamp duty or stamp duty reserve tax at a rate of 0.5 per cent of the consideration paid for the transfer.

However, no UK stamp duty should be payable on the transfer of an ADS or beneficial ownership of an ADS, provided that any instrument of transfer is executed and remains at all times outside the UK, and no UK stamp duty reserve tax should in any event be payable on an agreement to transfer an ADS or beneficial ownership of an ADS.

ITEM 8 SELECTED FINANCIAL DATA

The selected financial data set out below was extracted or derived from the consolidated financial statements of the company which have been audited by KPMG Audit Plc, Chartered Accountants and Registered Auditor incorporated by reference from the 1999 annual report to shareholders. The selected financial data should be read in conjunction with, and are qualified in their entirety by reference to, such consolidated financial statements and their accompanying notes contained herein, together with the Auditor's report and the Review of Operations and Financial Performance which are incorporated herein by reference from the 1999 annual report to shareholders.

United Utilities prepares its consolidated financial statements in accordance with UK GAAP, which differs in certain significant respects from US GAAP. A description of the significant differences between UK GAAP and US GAAP applicable to United Utilities and a reconciliation of profit after taxation (or net income) and equity shareholders' funds (or shareholders' equity) under UK GAAP and those under US GAAP are set out in note 35 to the consolidated financial statements, appearing on pages 65 to 68 of the 1999 annual report to shareholders, and are incorporated herein by reference. Additional disclosures required by US GAAP are set out in note 36 to the consolidated financial statements, appearing on pages 69 to 71 of the 1999 annual report to shareholders, and are incorporated herein by reference.

The UK Accounting Standards Board has issued certain financial reporting standards which have been adopted since the 1998 financial statements referred to in note 1 to the consolidated financial statements. Accordingly, certain comparative figures within the amounts in accordance with UK GAAP have been restated. This has resulted in a restatement of the US GAAP adjustment for 1998 and previous years referred to in note 35 to the consolidated financial statements.

Selected Consolidated Financial Data

Amounts in accordance with UK GAAP

Financial year	1999 $m	1999 £m	1998 Restated £m	1997 Restated £m	1996 Restated £m	1995 Restated £m
Consolidated income statement data						
Turnover[1]	**3,665.8**	**2,276.9**	2,150.2	2,377.2	1,838.6	1,011.8
Exceptional items[2]	**(51.4)**	**(31.9)**	(36.8)	(196.6)	(30.1)	(36.9)
Net interest payable	**327.2**	**203.2**	162.5	167.0	86.6	47.6
Profit before tax	**734.0**	**455.9**	397.7	224.4	364.0	272.4
Profit/(Loss) after tax and minority interests[9]	**754.0**	**468.3**	(39.5)	175.9	315.8	247.6
Dividends	**(392.2)**	**(243.6)**	(228.8)	(195.3)	(163.8)	(93.9)
Earnings/(Loss) per share	**$1.38**	**85.60p**	(7.40)p	33.50p	72.70p	63.90p
Adjusted earnings per share[13]	**$1.47**	**91.40p**	77.10p	72.80p	74.60p	71.30p
Dividend per share[16]	**$0.71**	**44.30p**	42.16p	37.20p	32.66p	25.55p
Dividend per ADS[12][16]	**$1.43**	**88.60p**	84.32p	74.40p	65.32p	51.10p

As at 31 March	1999 $m	1999 £m	1998 Restated £m	1997 Restated £m	1996 Restated £m	1995 Restated £m
Consolidated balance sheet data						
Total assets	**10,687.0**	**6,637.9**	6,207.4	5,658.2	5,456.3	3,591.2
Long term obligations	**4,124.7**	**2,561.9**	1,908.5	1,485.3	1,469.4	793.5
Equity shareholders' funds	**3,711.2**	**2,305.1**	2,046.9	2,212.9	2,122.6	2,285.5

Financial year	1999 $m	1999 £m	1998 Restated £m	1997 Restated £m	1996 Restated £m	1995 Restated £m[7]
Other financial data						
PBEIT from continuing operations[1][4][6]	**1,112.5**	**691.0**	597.0	597.6	469.9	348.5
Net cash inflow from operating activities	**1,306.4**	**811.4**	684.1	618.7	427.9	468.6
Net cash outflow from returns on investments and servicing of finance	**(260.3)**	**(161.7)**	(137.3)	(121.3)	(137.9)	(56.0)
Net cash (outflow)/inflow from taxation	**(400.2)**	**(248.6)**	(236.3)	29.5	(49.1)	(20.1)
Net cash outflow from capital expenditure and financial investment	**(1,045.4)**	**(649.3)**	(696.7)	(616.4)	(205.3)	(356.2)
Net cash (outflow)/inflow from acquisitions and disposals	**(10.9)**	**(6.8)**	(24.3)	357.5	(1,209.3)	0.6
Net cash outflow from equity dividends paid	**(0.3)**	**(0.2)**	(114.2)	(145.8)	(115.7)	(107.1)
Net cash inflow/(outflow) from management of liquid resources	**395.7**	**245.8**	1.5	(57.3)	(29.3)	18.5
Net cash inflow/(outflow) from financing activities	**261.1**	**162.2**	518.6	(99.6)	1,333.0	52.4
Ratio of earnings to fixed charges[8]	**3.5x**	**3.5x**	3.8x	2.5x	5.5x	6.7x
Adjusted interest cover[10]	**3.7x**	**3.7x**	4.0x	3.9x	5.8x	7.3x
Net leverage[11]	**50.9%**	**50.9%**	51.1%	42.4%	45.5%	21.2%

Amounts in accordance with US GAAP

Financial year	1999 $m	1999 £m	1998 £m	1997 £m	1996[1] £m
Consolidated income statement data					
Turnover[5]	**3,665.8**	**2,276.9**	2,150.2	2,209.1	1,708.6
Non-recurring items[3]	**(51.4)**	**(31.9)**	(30.2)	(120.8)	(23.1)
Operating profit from continuing operations before interest and tax[4]	**917.7**	**570.0**	493.9	373.8	373.7
Profit before tax	**697.9**	**433.5**	414.6	229.6	329.9
Profit/(Loss) after tax and minority interests[9]	**421.7**	**261.9**	(73.5)	93.7	185.9
Basic earnings per share[14]	**$0.77**	**47.9p**	(13.7)p	17.8p	42.8p

As at 31 March	1999 $m	1999 £m	1998 £m	1997 £m	1996[1] £m
Consolidated balance sheet data					
Total assets	**12,423.6**	**7,712.9**	7,506.3	6,947.8	6,827.2
Long term obligations	**5,115.3**	**3,173.6**	2,508.9	2,118.0	2,011.1
Shareholders' equity	**4,694.8**	**2,916.0**	2,857.7	3,031.5	3,071.7

Financial year	1999	1999	1998	1997	1996[1]
Other financial data					
Ratio of earnings to fixed charges[8]	**3.0x**	**3.0x**	3.5x	2.4x	4.9x

(1) In financial year 1996, the results included turnover of £760.8 million, PBEIT from continuing operations of £92.9 million, operating profit from discontinued operations of £6.0 million and exceptional reorganisation costs of £21.4 million in respect of Norweb for the period from acquisition (8 November 1995) to 31 March 1996. Further reorganisation costs relating to this acquisition were incurred, £15.8 million in the year to 31 March 1997 and £36.3 million in the year to 31 March 1998. PBEIT is defined as profit before exceptional items, interest and tax.

(2) Exceptional items comprise:

Financial year	1999 £m	1998 Restated £m	1997 Restated £m	1996 Restated £m	1995 Restated £m
UK GAAP					
Bangkok contract	**–**	–	(83.0)	–	–
Profit/(Loss) on disposal of business	**–**	6.8	(77.1)	7.2	(13.5)
Business restructuring	**–**	(43.6)	(36.5)	(37.3)	(23.4)
Year 2000 costs	**(31.9)**	–	–	–	–
	(31.9)	(36.8)	(196.6)	(30.1)	(36.9)

(3) For US GAAP, the company defines non-recurring items from continuing operations as the US GAAP equivalents of the UK GAAP exceptional items (ie the restructuring charges, the profit/loss on disposals of businesses, the Bangkok provision and Year 2000 costs). These are set out in the table below:

Financial year	1999 £m	1998 £m	1997 £m	1996 £m
US GAAP				
Bangkok	**–**	–	(83.0)	–
Profit/(Loss) on disposal of business	**–**	6.8	0.9	7.8
Business restructuring	**–**	(37.0)	(38.7)	(30.9)
Year 2000 costs	**(31.9)**	–	–	–
	(31.9)	(30.2)	(120.8)	(23.1)

(4) PBEIT and operating profit include the results of associated companies.

(5) Turnover as stated under US GAAP is £168.1 million less than that under UK GAAP for financial year 1997 (1996: £130.0 million). This reflects the elimination of the Norweb retail and generation results as, for US GAAP purposes, these two businesses are treated as current asset investments as detailed in note 35(g) of the consolidated financial statements.

(6) PBEIT is a supplemental financial measure which excludes exceptional items and is being presented to provide additional information about the company's core business performance, as it is positioned to continue in the future. The information relating to PBEIT should be read in conjunction with all of the financial data in the selected financial data, as well as the consolidated financial statements and the notes thereto prepared in accordance with UK GAAP. PBEIT should not be considered as an alternative to profit after tax.

(7) In October 1996, the UK Accounting Standards Board published Financial Reporting Standard 1 (Revised) Cash flow Statements (FRS1 Revised). The 1999, 1998 and 1997 cash flow statements have been prepared in accordance with FRS1 Revised and the cash flow statements for the financial years 1996 and 1995 were restated to comply.
(8) For purposes of calculating the ratio of earnings to fixed charges, "earnings" consists of profit on ordinary activities before tax plus fixed charges and "fixed charges" consists of net interest payable (excluding notional interest relating to onerous electricity purchase contracts).
(9) Profit after tax and minority interests for the financial year ended 31 March 1998 includes an exceptional tax charge of £414.8 million in respect of the windfall tax.
(10) Adjusted interest cover is calculated as the number of times the interest charge for the period (excluding notional interest relating to onerous electricity purchase contracts) is covered by profit before exceptional items, non-operating items, interest and tax.
(11) Net leverage is defined as net debt (loans, finance leases and overdrafts less cash at bank and in hand and managed funds and short term deposits) as a percentage of net debt plus equity shareholders' funds.
(12) Calculated based on a ratio of two ordinary shares to one ADS.
(13) Adjustments are made to profit to eliminate exceptional items and the results of discontinued operations in calculating adjusted earnings per share. A detailed calculation under UK GAAP is shown in note 10 to the consolidated financial statements.
(14) For the purposes of calculating earnings per share, the weighted average number of shares in issue under US GAAP is as per UK GAAP.
(15) Comprehensive income required to be disclosed in accordance with Statement of Financial Accounting Standards No. 130 (Reporting Comprehensive Income) is shown as part of the statement of total recognised gains and losses and the reconciliations of movements in equity shareholders' funds shown on page 37 of the consolidated financial statements.
(16) The final dividend for financial year 1998 included an enhancement of 1.36 pence (0.02US$) per ordinary share.

Dividends

An interim dividend in respect of each financial year is normally declared by United Utilities in November for payment in the following February. The final dividend in respect of each financial year is normally recommended by directors in May and paid in October, following approval by shareholders. The following table sets out the dividends paid on ordinary shares (and for illustrative purposes, on ADSs had they been in existence) in respect of the past five financial years, excluding any associated UK tax credit in respect of such dividends.

						Years ended 31 March
Pence per ordinary share	Note (i)	**1999** **p**	1998 p	1997 p	1996 p	1995 p
Special	(ii)	**–**	–	–	3.80	–
Interim	(iii)	**14.40**	13.16	12.00	9.27	8.35
Final	(iii)	**29.90**	29.00	25.20	19.59	17.20
Total	(iii)	**44.30**	42.16	37.20	32.66	25.55
US $ per ordinary share	(i)	**$**	$	$	$	$
Special		**–**	–	–	0.06	–
Interim	(iii)	**0.23**	0.21	0.19	0.14	0.13
Final	(iii)	**0.48**	0.46	0.41	0.31	0.27
Total		**0.71**	0.67	0.60	0.51	0.40
Total dividend per ADS($)	(i),(ii), (iv)	**1.42**	1.34	1.20	1.02	0.80
The exchange rates at the dividend payment dates were as follows :						
		1999	1998	1997	1996	1995
Exchange rate at special payment date		**n/a**	n/a	n/a	1.58	n/a
Exchange rate at interim payment date		**1.59**	1.63	1.62	1.55	1.58
Exchange rate at final payment date	(v)	**1.60**	1.59	1.61	1.56	1.58

(i) Dividends per ordinary share and per ADS exclude any associated UK tax credit available to certain holders of ordinary shares and ADRs. See "Item 7 Taxation".
(ii) The special dividend was first paid to shareholders in the financial year 1995/96. For all periods after this year, the special dividend will be incorporated in the 'normal' interim and final dividends.
(iii) Payment of the final dividend for the financial year 1998 was delayed until 6 April 1999. The final dividend included an enhancement of 1.36 pence (0.02US$) per ordinary share to compensate for this. Payment of the interim dividend for financial year 1999 was also delayed until 6 April 1999, without enhancement.
(iv) Calculated based on a ratio of two ordinary shares for one ADS.
(v) The exchange rate at the date the 1999 final dividend will be paid is assumed to be £1.00 = $1.60.

Future dividends will be dependent upon the company's earnings, financial condition and other factors. Interim and final dividends paid in the past are not necessarily indicative of future interim and final dividends, or the future relationships between them. A person resident in the UK for tax purposes who receives a dividend from United Utilities is generally entitled to a tax credit (the "associated UK tax credit"), currently at a rate of one-ninth of the net dividend (or 10 per cent of the sum of the net dividend and the associated UK tax credit). For further information, see "Item 7 Taxation".

Cash dividends are paid by United Utilities in pounds sterling. Exchange rate fluctuations will affect the US dollar amounts received by owners of the ADRs on the conversion by the Depositary of such cash dividends paid. In addition, fluctuations in the exchange rate between pounds sterling and US dollars will affect the US equivalent of the quoted pound sterling price of ordinary shares on the London Stock Exchange, and as a result, is likely to affect the market price of ADSs in the US and the ordinary shares in the UK.

Exchange rates

In this report, unless otherwise specified or unless the context requires otherwise, all references to "pound", "sterling", "pounds sterling", "£", "p" and "pence" are to the lawful currency of the United Kingdom of Great Britain and Northern Ireland ("United Kingdom" or "UK"). The company publishes its consolidated financial statements in sterling. In this report, all references to "US dollars", "US$", "$" and "c" are to the lawful currency of the United States ("United States" or "US"). Amounts stated in US dollars, unless otherwise indicated, have been translated from sterling at an assumed rate solely for convenience, and should not be construed as representations that the sterling amounts actually represent such US dollar amounts or could be converted into the US dollars at the rate indicated or any other rate. Unless otherwise indicated, such US dollar amounts have been translated from sterling at the rate of £1.00 = $1.61, the noon buying rate in the City of New York for cable transfers in pounds sterling as certified for customs purposes by the Federal Reserve Bank of New York ("Noon Buying Rate") on 31 March 1999. The Noon Buying Rate on 31 March differs from the actual rates used in the preparation of the company's consolidated financial statements, and US dollar amounts used in this report may differ from the actual US dollar amounts that were translated into sterling in the preparation of such financial statements.

The following table sets out, for the financial year indicated, certain information concerning the Noon Buying Rate for pounds sterling and US dollars per £1.00.

Financial year	High	Low	Average[1]	Period end
1995	$1.64	$1.46	$1.57	$1.62
1996	$1.62	$1.50	$1.57	$1.53
1997	$1.71	$1.49	$1.60	$1.64
1998	$1.70	$1.58	$1.64	$1.68
1999	$1.72	$1.59	$1.65	$1.61

[1] The average of the Noon Buying Rate on the last day of each month during the relevant period.

On 28 May 1999, the Noon Buying Rate was US$1.60 per £1.00.

ITEM 9 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The management's discussion and analysis of financial condition and results of operations appears on pages 6 to 21 of the 1999 annual report to shareholders, incorporated herein by reference. The discussion is designed to comply with the requirements of this item 9.

The focus of the discussion is on the financial statements included in the 1999 annual report to shareholders, which are prepared in accordance with UK GAAP. A summary of differences between UK GAAP and US GAAP and a reconciliation to US GAAP are set out in the consolidated financial statements appearing on pages 65 to 68 of the 1999 annual report to shareholders, and are incorporated herein by reference.

ITEM 9A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk management

The principal financial market risks faced by the company are the risks of interest rate movements, foreign currency movements and price variations in the wholesale electricity trading market. The management of interest rate movement and Pool price variations is discussed below.

Interest rate and foreign currency management

The company uses a combination of interest rate swaps, futures and funding instruments to hedge exposure to interest rate volatility. The company's use of derivative instruments relates directly to underlying indebtedness; no speculative or trading transactions are undertaken. The proportion of debt at effective fixed rates of interest for greater than one year is set in conjunction with the level of floating rate debt and projected regulatory revenues that are exposed to inflationary adjustments (index linked). In addition, the company aims to manage its short term budgetary commitments by ensuring that the majority of floating rate interest is fixed for periods of less than one year through the use of exchange-traded financial futures. The company has limited exposure to foreign currency exchange rate movements. Interest rate management and funding policies are set by the board.

Quantitative disclosure of market risk

The analysis below presents the sensitivity of the market value of the group's financial instruments to selected changes in market rates and prices. The range of changes chosen reflects the group's view of changes that are reasonably possible over a one year period. Market values are quoted values, or, where these are not available, those values obtained by discounting cash flows at market rates and prices. The market values for interest rate risk are calculated by using a standard zero coupon discounted cash flow pricing model.

For long term debt, a favourable change in market value results in a decline in the absolute value of debt. For other financial instruments, a favourable change in market value results in an increase in market value.

Interest rate risk

The sensitivity analysis assumes an instantaneous 1 per cent (100 basis points) move in interest rates for all maturities and all currencies from their levels at 31 March 1999 and 31 March 1998, with all other variables held constant.

	Market value 31 March 1999 £m	Market value change +1% movement £m	Market value change -1% movement £m	Market value 31 March 1998 £m	Market value change +1% movement £m	Market value change -1% movement £m
Long term debt	**(2,250)**	157	(181)	(1,405)	79	(92)
Currency swaps	**46**	(50)	54	(2)	1	(1)
Interest rate swaps	**(47)**	(5)	6	(36)	28	(28)

The movement in fair value of debt and instruments hedging debt will not result in any immediate change to the group's financial statements, since fair values are not recognised on the group balance sheet. An increase in short term interest rates of all currencies of 1 per cent would increase group net interest payable for the year by £5.5 million (1998 – £10.8 million).

Foreign currency risk

The sensitivity analysis assumes an instantaneous 10 per cent change in foreign currency exchange rates against sterling from their levels at 31 March 1999 and 31 March 1998, with all other variables held constant. The +10 per cent case assumes a 10 per cent strengthening of sterling versus all other currencies and the -10 per cent a weakening of sterling.

	Market value 31 March 1999 £m	Market value change +10% movement in foreign exchange rate £m	Market value change -10% movement in foreign exchange rate £m	Market value 31 March 1998 £m	Market value change +10% movement in foreign exchange rate £m	Market value change -10% movement in foreign exchange rate £m
Long term debt	**(2,250)**	116	(118)	(1,405)	37	(45)
Currency swaps	**46**	(115)	115	(2)	(32)	39

Market value changes from movements in currency rates in long term debt, currency swaps and forward contracts hedging debt are taken through the group's statement of total recognised gains and losses in accordance with SSAP 20.

Pool price risk

Almost all electricity generated in England and Wales must be sold to the electricity Pool, and electricity suppliers must buy electricity from the Pool for resale to their customers. The company has procedures in place to minimise exposure to Pool price variations, there being a possibility that a change in Pool prices will increase the cost of electricity purchased from the Pool. These involve Norweb entering into contracts for differences (CfDs). CfDs are contracts which fix the price of electricity for an agreed quantity and duration by reference to an agreed strike price. The company's use of such derivative instruments is related directly to the underlying purchase of electricity from the Pool. Norweb's ability to manage both its purchase risk and its sales price risk depends, in part, on the continuing availability of properly priced risk management mechanisms such as CfDs.

The analysis below presents the sensitivity of the fair value of CfDs to changes in pool prices. The fair value of CfDs has been calculated on the basis set out in note 22 to the consolidated financial statements, located on pages 54 to 56 of the 1999 annual report to shareholders, incorporated by reference herein.

	At 31 March 1999	At 31 March 1998
Purchase commitments under CfDs (MWh)	**66.7 million**	72.8 million
Average pool purchase price in year (£ per MWh)	**£24.61**	£25.32
Fair value of CfDs	**£(258.2) million**	£(299.6) million
Approximate effect on fair value of:		
10 per cent increase in average pool purchase price	**£104.3 million**	£112.7 million
10 per cent decrease in average pool purchase price	**£(104.3) million**	£(112.7) million

The movement in fair values of CfDs will not result in any immediate changes to the group's financial statements, since fair values are not recognised on the group balance sheet.

Prior to its acquisition, Norweb had entered into long term power purchase agreements. These contracts were considered onerous at acquisition because they were at prices significantly higher than could have been contracted for at that time. Provisions of £160.8 million were made at acquisition to provide against the current value of the onerous elements of these contracts. The financial impact of these contracts still exists, together with their associated negative cash flow implications. However, the adverse profit effects of these contracts may not be fully evident in the results of the electricity supply business because of the release of provisions that takes place in the current financial year.

ITEM 10 DIRECTORS AND OFFICERS OF REGISTRANT

The business of the company is managed by the board of directors (the "board"). The company's articles of association provide that at every annual general meeting of the company one third (or the nearest to, but not exceeding one third) of the directors shall retire from office. The directors to retire in each year are the directors who have been longest in office since their appointment or re-appointment. A proposed amendment has been tabled for the 1999 annual general meeting to amend the articles to require directors to retire from office at the third annual general meeting following their re-appointment by shareholders at an annual general meeting. The retiring directors may offer themselves for re-election. The directors may appoint one or more of their number to the office of managing director or to any executive office for such period and on such terms as the directors think fit. The executive directors have two year rolling contracts with the company. The executive officers have contracts which are terminable by the company on serving one year's notice.

The executive directors, the non-executive directors and the executive officers of the company are:

Name	Age	Position	Date appointed
Executive directors			
Derek Green	59	Chief Executive	22 July 1992
Bob Ferguson	56	Group Finance Director	14 October 1992
John Beckitt	51	Managing Director, energy and telecommunications businesses	25 April 1995
Gordon Waters	52	Managing Director, international operations	1 June 1997
Non-executive directors			
Sir Christopher Harding	59	Non-executive director; Chairman; Chairman of the Nomination Committee	1 November 1997
Sir Peter Middleton	65	Non-executive director; Vice Chairman	1 January 1994
Dr Rodney Leach	67	Non-executive director; Chairman of the Audit Committee	1 September 1989
John Seed	60	Non-executive director; Chairman of the Remuneration Committee	1 March 1996
Norman Broadhurst	57	Non-executive director	1 April 1999
Eric Clark	64	Non-executive director	1 April 1993
Sir Richard Evans	56	Non-executive director	1 September 1997
Jane Newell	55	Non-executive director	1 September 1996
Executive officers			
Harry Croft	57	Managing Director, North West Water	30 September 1997
Tom Drury	37	Managing Director, Vertex	1 April 1996
Dr Clive Elphick	42	Group Planning Director	1 December 1994
Howard Kirkham	51	Managing Director, Norweb Distribution	22 January 1996
Tim Rayner	38	Group Secretary	1 April 1998
David Scott	46	Group Human Resources Director	1 June 1998

The executive directors and the non-executive directors were originally appointed to the board on the dates shown opposite. The executive officers were appointed to the positions shown on the dates above. The biographies of the executive directors and the non-executive directors appear on pages 22 and 23 of the 1999 annual report to shareholders which is incorporated herein by reference. Dr Rodney Leach and Eric Clark will retire as directors at the 1999 annual general meeting and not seek re-election. It has been announced that John Roberts will succeed Derek Green as Chief Executive in September 1999. Derek Green will remain a director until January 2000.

The business address of each of the directors is the company's registered office which is Birchwood Point Business Park, Birchwood Boulevard, Birchwood, Warrington, WA3 7WB, England.

Summaries of the functions of the Audit Committee and the Nomination Committee appear in the section "Corporate governance" on pages 25 to 27, and of the Remuneration Committee in the section "Remuneration report"on pages 28 to 32 of the 1999 annual report to shareholders which are incorporated herein by reference.

ITEM 11 COMPENSATION OF DIRECTORS AND OFFICERS

During the financial year 1999, the aggregate amount of compensation paid by the company to all directors and executive officers of the company, as a group, was £3,313,570.

During the financial year 1999, the aggregate amount set aside or accrued by the company to provide pension, retirement or similar benefits for directors and officers of the company, pursuant to any existing plan provided or contributed to by the company was £221,729.

For further information see the remuneration report on pages 28 to 32 of the 1999 annual report to shareholders which is incorporated herein by reference. The figure quoted as compensation above includes incentive plan awards and bonuses, further details of which are discussed in the remuneration report.

ITEM 12 OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

Details regarding options to purchase securities from registrant or subsidiaries appear in note 23 to the consolidated financial statements of the company, appearing on pages 57 to 60 of the 1999 annual report to shareholders, and incorporated herein by reference.

ITEM 13 INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

Other than with respect to employment agreements and compensation arrangements, there have been no material transactions between the company and management during the company's three most recent financial years, nor are there presently proposed to be any material transactions, to which the company or any of its subsidiaries was or is a party and in which any director or executive officer, or 10 per cent shareholder, or any relative or spouse thereof had or is to have a direct or indirect material interest. During the company's three most recent financial years there has been no, and at present there is no, material outstanding indebtedness to the company owed or owing by any director or executive officer of the company or any associate thereof.

PART II

ITEM 14 DESCRIPTION OF SECURITIES TO BE REGISTERED

Not applicable.

PART III

ITEM 15 DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 16 CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

Not applicable.

PART IV

ITEM 17 FINANCIAL STATEMENTS

Not applicable.

ITEM 18 FINANCIAL STATEMENTS

Reference is made to item 19 for a list of all financial statements filed as part of this report.

ITEM 19 FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial statements:

	Annual report to shareholders pages	related notes pages
Incorporated by reference from the 1999 annual report to shareholders:		
Remuneration report	28–32	–
Auditor's report	33	–
Consolidated profit and loss account for each of the three years in the period ended 31 March 1999	34	42–47
Consolidated balance sheets at 31 March 1999 and 1998	35	48–61
Consolidated cash flow statement for each of the three years in the period ended 31 March 1999	36	61–64
Statements of total recognised gains and losses	37	–
Reconciliations of movements in equity shareholders' funds	37	–
Accounting policies	–	38–41
Summary of differences between UK and US GAAP	–	65–68
Additional US GAAP disclosures	–	69–71

The consolidated financial statements listed in the above index which are included in the 1999 annual report to shareholders of United Utilities PLC are hereby incorporated by reference. With the exception of the pages listed in the above index and the items incorporated by reference in items 1, 3, 4, 7, 8, 9, 10, 11 and 12 of this report, the 1999 annual report to shareholders is not to be deemed filed as part of this report.

(b) Exhibits:

(i) The 1999 annual report to shareholders of United Utilities PLC.

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorised.

United Utilities PLC
Registrant

....

Bob Ferguson
Group Finance Director

Dated ......7 June 1999......

Glossary

Term used in annual report	US equivalent or brief description
Accounts	Financial statements
Acquisition accounting	Purchase accounting
Advance corporation tax	No direct US equivalent. Tax paid on company distribution recoverable from UK taxes due on income
Allotted	Issued
Associated undertaking	20 – 50% owned investee
Called-up share capital	Ordinary shares, issued and fully paid
Capital allowances	Tax term equivalent to US tax depreciation allowances
Class of business	Industry segment
Closing rate method	Current rate method
Creditors	Accounts payable/payables
Creditors: amounts falling due after more than one year	Long term debt liabilities
Creditors: amounts falling due within one year	Current liabilities
Debtors	Accounts receivable/receivables
Depreciation	Amortisation
Finance lease	Capital lease
Employee share option	Employee stock option
Equity shareholders' funds	Stockholders' equity
Financial year	Fiscal year
Fixed asset investments	Long term investments
Freehold	Ownership with absolute rights in perpetuity
Freehold land	Land owned
Gearing	Leverage
Group, or consolidated, accounts	Consolidated financial statements
Interest receivable	Interest income
Interest payable	Interest expense
Loan capital	Long term debt
Net asset value	Book value
Nominal value	Par value
Ordinary share	Common stock/share
Pension scheme	Pension plan
Profit	Income (or earnings)
Profit and loss account (reserve)	Retained earnings
Profit and loss account	Income statement
Reconciliation of movements in equity shareholders' funds	Statement of changes in stockholders' equity
Reserves	Stockholders' equity other than capital stock
Share capital	Ordinary shares, capital stock or common stock issued and fully paid
Share premium account	Premiums paid in excess of par value
Shares in issue	Shares outstanding
Stocks	Inventories/operating stocks
Tangible fixed assets	Property, plant and equipment
Turnover	Revenues (or sales)