



United Utilities Water PLC

A scenic landscape photograph showing a large body of water in the foreground, a stone wall along the shore, and a dense forest of trees in the background under a blue sky with white clouds. A person is visible walking on a path to the left.

# Annual Report & Accounts 2004

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For more information on United Utilities  
visit our website.

# Chairman's Statement

## Delivering efficiency and quality

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

## Our business

During the five years to 2005, we are carrying out the largest single investment programme in the UK water industry, requiring a total investment of around £3 billion. Such is the scale of the programme, that £1 of every £4 to be invested in drinking water and environmental improvements in England and Wales over the five-year period will be spent in north west England.

The business had significant success this year improving water quality, wastewater compliance and delivering £864.2 million of capital investment - our highest ever in a single year.

On water quality, we improved our performance to 99.72 per cent on the Drinking Water Inspectorate's water quality index, up from 99.49 per cent in the previous year. We delivered a significant improvement on wastewater compliance, reducing our score on non-compliant works (per head of population served) from 12.12 per cent last year to 0.26 per cent.

United Utilities Water PLC ("the Company") expects to outperform its quality capital investment programme by around 10 per cent during the 2000-05 period. The Company is investing some of this saving in increased capital maintenance in the last two years of the current review period, with the aim of improving the level of service to customers. This new level of maintenance expenditure is in line with our proposals for the next review period, which were submitted to Ofwat in the Company's final business plan.

In January 2004, we welcomed Charlie Cornish, previously Chief Operating Officer with Thames Water, as Managing Director of United Utilities Service Delivery. United Utilities Service Delivery manages the operation of the licensed water and wastewater network assets owned by United Utilities Water PLC, and the electricity distribution assets owned by United Utilities Electricity PLC in north west England.

## Our customers

We delivered major improvements in customer service on our regulatory standards. 93.3 per cent of calls, compared with a regulatory target of 86 per cent, were answered within 30 seconds in the period and 99.1 per cent of bill-related queries were responded to within five days compared with a regulatory target of 99 per cent.

We are now gradually solving the problems associated with long-standing customer debt. The Payment Card system introduced last year has performed well and we now have 360,000 customers on instalment plans plus a further 176,000 cards in issue.

Our new customer billing programme was launched to a small number of customers in March 2004, and we expect to roll out our new billing system to all customers during the next financial year. This investment is intended to improve service for customers and to deliver cost savings from 2005/06.

In December 2003 we received Ofwat's final decision on our Interim Determination of K ("IDoK") application, which allows us to increase real prices by a further 4.4 per cent next year. This increase reflects actual additional costs the Company has experienced since 2000 that were not initially allowed in the current five year regulatory period. In addition to the 4.5 per cent real price rise which was set at the last price review, this brings our total allowed real price increase to 8.9 per cent for the year ending March 2005.

We offer a wide range of options to help customers to budget for their water charges. Weekly, fortnightly or monthly payments are available at a range of convenient locations. For customers in genuine difficulty we offer a "hardship" scheme and liaise closely with money advice providers.



## Our people

We have implemented a major programme of health and safety initiatives to minimise risks and reduce the days lost due to accidents by 34.0 per cent. The company agreed to donate £50 for every day's reduction of lost days due to accidents compared with the previous 12 months, which resulted in a donation of £25,400 to Mencap in 2003/04. This helped us achieve a four star rating and commendation in the first ever British Safety Council audit of our policies, procedures and practices. The Service Delivery business unit also achieved its second successive RoSPA Gold Award for health and safety.

Improving water quality, wastewater compliance and delivering the highest ever capital investment in a single year would have been impossible without the commitment and hard work of our employees. It has been a demanding year, but everyone has risen to the challenge.

## Price Review

The key event for the business this year is the price review and it is essential that we achieve balanced outcomes, which are fair to all our stakeholders.

To ensure that we continue to deliver higher levels of performance during the five years from 2005 to 2010, we are working on new initiatives to improve efficiency and reduce costs. These include a change programme to ensure we have the appropriate business processes, organisation, systems and commercial contracts in place, a realignment of operational strategy to deliver further efficiencies and improvements to scheduling systems.

Our final business plan for water and wastewater services has been submitted to Ofwat. This details our proposed future investment plan, taking into account increasing environmental standards imposed by EU directives, the standards set by the government and our regulators and the wishes of our customers. Our proposal is to spend £3.2 billion, which will involve improving water quality in 1,900 kilometres of river, investing in 75 wastewater treatment works serving 5.2 million people and cleaning or renewing 3,000 kilometres of water mains.

We remain firmly focused on achieving the right outcome from the reviews for all our stakeholders, and continue to expect that the reviews will provide acceptable allowed returns for our shareholders.

## John Roberts

Chairman,  
United Utilities Water PLC

# Operational and financial review

This year we have delivered a capital investment programme of more than £864 million, at the same time as continuing to deliver efficiencies and improving customer service.

## Water supply operations

Drinking water quality remains high at 99.72 per cent on the Drinking Water Inspectorate's water quality index, up from 99.49 per cent in the previous year.

More than 1.5 million customers are enjoying better water quality with the completion of a £34 million project to upgrade Watchgate Water Treatment works near Kendal. The new treatment process removes trihalomethanes from raw water.

The long dry summer of 2003 had an impact on water supply and demand. Our team managed our water resources in such a way as to maintain reservoirs at acceptable levels, without having to use the drought powers granted to us in December 2003.

## Wastewater operations

Our capital investment programme is continuing to make a real difference to the environment in north west England. Around 180 treatment works and hundreds of sewer overflows have been upgraded, contributing to a significant improvement to river and bathing water quality throughout the region.

Amongst the many schemes, new plant costing £12 million has been installed at Bury Wastewater Treatment Works, which serves 170,000 people as well as industry. The project, which included plant to remove ammonia before effluent is discharged to the River Irwell, won an award for innovation and engineering excellence.

The proposed expenditure relating to a number of schemes in our sewer overflow programme (also known as unsatisfactory intermittent discharges), which were identified by the Company as being poor value for money, was eliminated from 2004/05 prices as a result of the IDoK decision. The Company has proposed a revised sewer overflow programme, for these schemes and others, in our final business plan to Ofwat, and discussions are continuing with the Environment Agency in relation to this programme. It is not yet clear as to the extent to which the revised proposal will be accepted by the regulators. If the Company is required to carry out significant additional works, we will seek to recover these costs through the next price review or subsequently.

## Financial results

We continue to invest heavily in our water and wastewater networks. Gross capital investment for the year was in excess of £864 million, bringing the total investment in improving water and wastewater services in the north west to approximately £6.7 billion since privatisation.

Turnover increased by £57.4 million to £1,029.3 million resulting from the real increase of 4.0% in water and wastewater prices.

Operating costs increased by £26.6 million to £648.2 million reflecting a number of factors, principally higher costs and depreciation associated with the expanding asset base as part of the capital investment programme.

Operating profit increased to £381.1 million from £350.3 million in the previous year.

Net finance charges have also increased due to our continued significant investment programme. The overall result of the above is a reduction in profit before tax of £1.0 million to £197.5 million.

As part of United Utilities PLC's continuing aim to become a market leader in the fast developing multi-utility market the metering and connections activities of the group have been brought together in United Utilities Networks Limited. On 1 April 2003, United Utilities Water PLC entered into a contract with United Utilities Networks Limited to fulfil certain metering and connections activities. As part of this reorganisation, the net assets of the metering and connections businesses were sold by the Company to United Utilities Networks Limited.

## Taxation

The current UK mainstream corporation tax credit in 2003/04 reflects the high level of accelerated tax allowances arising from the capital investment.

The effective current ordinary tax credit of 5.7 per cent compares with a credit of 4.6 per cent in 2002/03.

The effect of deferred tax is to increase the effective ordinary tax credit to 20.7 per cent compared to a charge of 27.1 per cent in 2002/03.

The deferred tax credit is £29.7 million compared to a charge of £62.9 million in 2002/03. The credit in 2003/04 is principally due to the impact of increased UK government bond rates on the discount of the full potential liability, whereas the increased charge in 2002/03 reflects the effects of the reduced discount rates.



As part of a £38 million water improvement scheme in Lancashire, a 50-tonne tunnelling machine called Clare helped lay new water pipelines 32 metres underneath the M6, the A6, the London to Glasgow trainline and the Lancaster Canal. The two year project will improve water quality for 600,000 customers in Preston, South Ribble and the Fylde.

## Operational and financial review (continued)

### Capital structure and treasury policy

The level of capital expenditure which the Company is obliged to incur is such that it cannot be wholly financed by internally generated resources. As a result, the Company raises finance regularly to fund the long term assets required to meet regulatory obligations. In the year, total borrowings increased by £183.9 million to £3,167.5 million, while net debt rose by £352.9 million to £2,840.3 million.

Net finance charges rose by £31.8 million to £183.6 million reflecting the increase in borrowings and movements in interest rates.

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

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

Moody's Investors Service rates the credit of United Utilities Water PLC as A2 on a long-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 United Utilities PLC Group's €5 billion medium term and \$1.5 billion short term note issuance programmes continue to provide effective funding options for the Company.

During the period, the Company arranged £315 million of term funding. This comprises various bonds from the medium term note programme. We have also increased bank facilities by £20 million.

Liquidity as at 31 March 2004 provided by cash and short-term current investments totalled £286.5 million. This, together with undrawn committed bank facilities of £315.0 million gives the Company liquid pre-funding of the investment programme.

In addition, the Company issued new ordinary share capital of £100 million during the year. Returns on investment and servicing of finance include £64.0 million of cash received in 2003/04 due to the early termination of certain interest rate swap contracts. This reduced particularly large exposures to swap counterparties. The resultant gain has been deferred in the balance sheet and will be released over the period of the underlying debt, which was unchanged by these transactions.

### Interest rate management

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

The Company's borrowings at 31 March 2004 are set out in note 19 on pages 20 to 23.

### Steven Beaumont

Finance Director  
United Utilities Water PLC



During the last 10 years our customers and employees have helped to raise more than £5 million for WaterAid. To mark this landmark United Utilities launched a partnership with the charity to help deliver the government's Millennium Development Goal of halving the number of people without access to safe water and adequate sanitation.



Working in partnership with English Nature and neighbouring landowners to re-establish heather cover on Worsthorne moor, a 'heathercopter' was drafted in to lift fencing materials to inaccessible areas. The fencing will protect newly seeded areas of the moor and give the heather a chance to establish itself. Heather roots help prevent soil erosion into the reservoirs and also provide excellent cover for wildlife.

# Directors' report

for the year ended 31 March 2004

## Principal activities

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

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

## Profits and dividends

The results for the year, set out in the profit and loss account on page 6, show that turnover for the year ended 31 March 2004 increased to £1,029.3 million, an increase of 5.9 per cent over the previous year. Profit for the year after tax was £238.4 million (2003 - £144.8 million).

An interim dividend of £66.7 million (2003 - £65.0 million) was paid in February 2004. The directors recommend a final dividend of £134.9 million (2003 - £131.5 million) for the year to 31 March 2004.

Preference share dividends totalled £9.1 million (2003 - £9.1 million).

## Regulation

As required by paragraph 3.1 of Condition K of the licence, the directors state that they are satisfied that as at 31 March 2004, if a special administration order had been made under section 23 of the Water Industry Act 1991 in respect of United Utilities Water PLC, the Company would have had available to it sufficient rights and assets (not including financial resources) to have enabled the special administrator to manage the affairs, business and properties of the Company so that the purpose of the order could have been achieved.

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

The contract of appointment with the auditor satisfies the requirements of paragraph 9.2 of Condition F of the licence, namely that "the auditors will provide such further explanation or clarification of their reports, and such further information in respect of the matters which are the subject of their reports, as the Director General may reasonably require".

## 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 PLC group's all employee share schemes.

## Research and development

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

## Creditor payment policy and practice

The policy is normally to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the Company seeks to adhere to the payment terms provided the relevant goods and services have been supplied in accordance with the contracts. The Group and Company had 39 days of purchases (2003 - 44 days) outstanding at the end of the financial year.

## Directors

The directors of the Company during the year ended 31 March 2004 are set out below. All were directors for the whole year except where otherwise indicated.

## Non-executive directors

**P G S Entwistle**, non-executive director

**D E Morton JP**, non-executive director

## Executive directors

**J E Roberts\*** Chairman (and Chief Executive, United Utilities PLC)

**R D Armstrong**

**J A Barnes**

**S G Batey\***

**S Beaumont**

**K Budinger** (appointed 15 May 2003)

**C Cornish\*** (appointed 15 January 2004)

**G Dixon** (appointed 1 April 2003)

**C H Elphick**

**J Lang**

**M F Bradbury** (resigned 1 April 2003)

\*Director, United Utilities PLC

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

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

## Auditors

On 1 August 2003, Deloitte & Touche, the Company's auditors, transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent was given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

## Registered address

United Utilities Water PLC  
Dawson House  
Great Sankey  
Warrington  
WA5 3LW

Registered number : 2366678

By order of the board

**Steven Beaumont**

Director

16 July 2004

## Directors' responsibilities

in respect of the preparation of financial statements

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

The directors consider that in preparing the financial statements on pages 6 to 44, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards and all Regulatory Accounting Guidelines issued by the Office of Water Services which they consider to be applicable to these financial statements have been followed, subject to any departure and explanation described in the notes to the accounts. After making enquiries, the directors are of the opinion that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they

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

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

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

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

The directors are required to confirm in the accounting statements that, in their opinion, the Company was in compliance with paragraph 3.1 of Condition K of the licence relating to the availability of the rights and assets, at the end of the financial year (see page 4).

## Independent auditor's report

to the members of United Utilities Water PLC

We have audited the financial statements of United Utilities Water PLC for the year ended 31 March 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the notes to the cash flow statement, the statement of total recognised gains and losses, the reconciliations of movements in shareholders' funds, and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

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

### Respective responsibilities of directors and auditors

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

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of audit opinion

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

### Deloitte & Touche LLP

Chartered Accountants and Registered Auditor  
Manchester  
16 July 2004

## Consolidated profit and loss account

For year ended 31 March

	Note	2004 £m	2003 £m
<b>Turnover</b>	1(c)	<b>1,029.3</b>	971.9
Net operating costs (2003 - including exceptional credit of £2.9m)	3	<b>(648.2)</b>	(621.6)
<b>Operating profit</b>		<b>381.1</b>	350.3
Net finance charges	7	<b>(183.6)</b>	(151.8)
<b>Profit on ordinary activities before taxation</b>		<b>197.5</b>	198.5
Tax on profit on ordinary activities	8	<b>40.9</b>	(53.7)
<b>Profit for the financial year</b>		<b>238.4</b>	144.8
Dividends	9	<b>(210.7)</b>	(205.6)
<b>Transfer to/(from) reserves</b>	21	<b>27.7</b>	(60.8)

The above results for the current and preceding financial year relate to continuing operations.

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

## Reconciliations of movements in shareholders' funds

For year ended 31 March

	Group and Company	Group and Company
	2004 £m	2003 £m
Profit for the financial year	<b>238.4</b>	144.8
Dividends	<b>(210.7)</b>	(205.6)
Net movement in shareholders' funds for the year	<b>27.7</b>	(60.8)
New share capital issued	<b>100.0</b>	–
Opening shareholders' funds	<b>2,128.5</b>	2,189.3
<b>Closing shareholders' funds</b>	<b>2,256.2</b>	2,128.5

# Balance sheets

At 31 March

	Note	Group and Company	Group and Company
		2004 £m	2003 £m
<b>Fixed assets</b>			
Tangible assets	10	<b>5,846.5</b>	5,253.9
Investments	11	<b>0.4</b>	0.4
		<b>5,846.9</b>	5,254.3
<b>Current assets</b>			
Stock		<b>2.4</b>	3.0
Debtors	12	<b>255.1</b>	265.3
Investments	13	<b>278.8</b>	453.0
Cash at bank and in hand		<b>7.7</b>	2.5
		<b>544.0</b>	723.8
<b>Creditors</b>			
Amounts falling due within one year	14	<b>(767.0)</b>	(709.7)
<b>Net current (liabilities)/assets</b>		<b>(223.0)</b>	14.1
<b>Total assets less current liabilities</b>		<b>5,623.9</b>	5,268.4
<b>Creditors</b>			
Amounts falling due after more than one year	15	<b>(3,148.4)</b>	(2,890.9)
<b>Provisions for liabilities and charges</b>	17,18	<b>(219.3)</b>	(249.0)
<b>Net assets</b>		<b>2,256.2</b>	2,128.5
<b>Capital and reserves</b>			
Share capital	20	<b>755.3</b>	655.3
Share premium account	20	<b>647.8</b>	647.8
Profit and loss account	21	<b>853.1</b>	825.4
<b>Shareholders' funds</b>		<b>2,256.2</b>	2,128.5
<b>Shareholders' funds may be analysed as:</b>			
Equity interests		<b>2,032.8</b>	1,905.1
Non-equity interests		<b>223.4</b>	223.4
		<b>2,256.2</b>	2,128.5

Approved by the board of directors on 16 July 2004 and signed on its behalf by:

**Steven Beaumont**

Finance Director

# Consolidated cash flow statement

For year ended 31 March

	2004 £m	2004 £m	2003 £m	2003 £m
<b>Net cash inflow from operating activities</b>		<b>667.1</b>		602.7
<b>Returns on investments and servicing of finance</b>				
Interest received	<b>11.9</b>		10.7	
Interest paid	<b>(194.6)</b>		(158.6)	
Interest element of finance lease repayments	<b>(6.0)</b>		(8.0)	
Termination of interest rate swap contracts	<b>64.0</b>		–	
Income received from current asset investments	<b>8.0</b>		7.9	
Non-equity dividends paid	<b>(9.1)</b>		(9.1)	
Net cash outflow from returns on investment and servicing of finance		<b>(125.8)</b>		(157.1)
<b>Taxation</b>		<b>9.1</b>		5.8
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets	<b>(831.9)</b>		(545.0)	
Grants and contributions received	<b>13.9</b>		13.5	
Disposal of tangible fixed assets	<b>7.2</b>		2.0	
Net cash outflow for capital expenditure		<b>(810.8)</b>		(529.5)
<b>Acquisitions and disposals</b>		<b>1.0</b>		–
<b>Equity dividends paid</b>		<b>(198.1)</b>		(194.7)
<b>Cash outflow before management of liquid resources and financing</b>		<b>(457.5)</b>		(272.8)
<b>Management of liquid resources</b>				
Decrease/(increase) in short term deposits		<b>174.2</b>		(268.0)
<b>Financing</b>		<b>250.4</b>		548.4
<b>(Decrease)/increase in cash and overdrafts</b>		<b>(32.9)</b>		7.6

## Notes to the cash flow statement

for the year ended 31 March

	2004 £m	2003 £m
<b>Reconciliation of operating profit to net cash inflow from operating activities</b>		
Operating profit	<b>381.1</b>	350.3
Depreciation	<b>259.1</b>	250.2
Amortisation of grants and contributions	<b>(3.7)</b>	(3.3)
Profit on disposal of tangible fixed assets	<b>(4.5)</b>	(1.7)
Stock decrease/(increase)	<b>0.1</b>	(0.1)
Debtors decrease	<b>3.5</b>	14.9
Creditors increase/(decrease)	<b>31.5</b>	(1.9)
Movement in other provisions	<b>–</b>	(5.7)
Net cash inflow from operating activities	<b>667.1</b>	602.7

## Notes to the cash flow statement (continued)

for the year ended 31 March

	2004 £m	2003 £m
<b>Reconciliation of net cash flow to movement in net debt</b>		
(Decrease)/increase in cash and overdrafts in the year	(32.9)	7.6
Cash inflow from increase in debt and lease financing	(150.4)	(548.4)
Cash used to (decrease)/increase liquid resources	(174.2)	268.0
<b>Changes in net debt resulting from cash flows</b>	<b>(357.5)</b>	<b>(272.8)</b>
<b>Exchange and other non-cash adjustments</b>	<b>4.6</b>	<b>-</b>
<b>Movement in net debt in the year</b>	<b>(352.9)</b>	<b>(272.8)</b>
<b>Opening net debt</b>	<b>(2,487.4)</b>	<b>(2,214.6)</b>
<b>Net debt at 31 March</b>	<b>(2,840.3)</b>	<b>(2,487.4)</b>

	2004 £m	2003 £m
<b>Analysis of cash flows for headings in the cash flow statement</b>		
<b>Financing</b>		
Issue of shares	100.0	-
New loans	322.6	584.6
Loans repaid	(51.8)	(66.6)
Finance lease repaid	(102.3)	-
New short term borrowings	12.3	30.4
Short term borrowings repaid	(30.4)	-
<b>Net cash inflow from financing</b>	<b>250.4</b>	<b>548.4</b>

	2004 £m	2003 £m
<b>Acquisitions and disposals</b>		
<b>Disposals</b>		
Current assets	(6.1)	-
Current liabilities	5.1	-
<b>Net cash inflow from disposals</b>	<b>1.0</b>	<b>-</b>

Disposals relate to the metering and connections businesses.

	At 1 April 2003 £m	Cashflow £m	Non Cash Movements £m	At 31 March 2004 £m
<b>Analysis of changes in net debt</b>				
Cash at bank and in hand	2.5	5.2	-	7.7
Overdrafts	(0.4)	(38.1)	-	(38.5)
	2.1	(32.9)	-	(30.8)
Parent undertaking loans	40.7	-	-	40.7
Debt due after one year	(2,731.7)	(258.7)	-	(2,990.4)
Debt due within one year	(61.8)	6.0	(1.8)	(57.6)
Finance leases	(189.7)	102.3	6.4	(81.0)
	(2,940.4)	(183.3)	4.6	(3,119.1)
Current asset investments	453.0	(174.2)	-	278.8
<b>Net debt</b>	<b>(2,487.4)</b>	<b>(357.5)</b>	<b>4.6</b>	<b>(2,840.3)</b>

# Notes to the accounts

## 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

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

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

### (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 income receivable in the ordinary course of business for services provided and excludes VAT. Where relevant this includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the year end.

### (d) Research and development

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

### (e) Tangible fixed assets

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

#### (i) Infrastructure assets

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

Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is classified as infrastructure renewals expenditure.

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

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

#### (ii) Other assets

Additions are included at cost. Freehold land is not depreciated. Other assets are depreciated by writing off their cost less their estimated residual value evenly over their estimated lives based on management's judgement and experience, which are principally as follows:

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

#### (iii) Carrying value of tangible fixed assets

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

### (f) Grants and contributions

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

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

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

### (g) Leased assets

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

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

### (h) Fixed asset investments

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

### (i) Stocks

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

### (j) Current asset investments

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

## Notes to the accounts (continued)

### 1 Accounting policies (continued)

#### (k) Pensions

The Group participates in a number of defined benefit schemes operated by United Utilities PLC, which are independent of the Company's finances, for the substantial majority of its employees. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. In any intervening years, the actuaries review the continuing appropriateness of the contribution rates.

The cost of providing pensions is expensed over employees' working lives. Variations from regular cost are allocated over the average remaining service lives of current employees. Any difference between the charge to the profit and loss account in respect of funded plans and the contributions payable to each plan is recorded in the consolidated balance sheet as a prepayment or provision.

The Group has followed the transitional arrangements of FRS 17 'Retirement Benefits' in these financial statements. Details of pension arrangements and funding are set out in note 22.

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and tax 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) 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

Interest rate swap agreements and financial futures are used to manage interest rate exposure. Instruments that are designed as a hedge of 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 amortised to interest expense over the period of the hedged position, to the extent that the original liability remains outstanding.

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

#### Currency swaps

The Company enters into currency swaps to manage its exposure to fluctuations in currency rates. Principle amounts are revalued at exchange rates prevailing at the date of the Company balance sheet and are included in the sterling value of the debt. In order for such swaps to qualify for hedge accounting, the forward contract/currency swap must relate to an existing asset, liability or firm commitment, be in the same currency as the hedged item and reduce the risk of foreign currency exchange movements to the Company's operations. Where they do, exchange gains and losses are taken directly to reserves and are included in the statement of total recognised gains and losses in accordance with SSAP 20 'Foreign currency transactions.'

### (n) Environmental remediation

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

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

## Notes to the accounts (continued)

### 2 Segmental information

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

### 3 Net operating costs

	2004 £m	2003 £m
<b>Employee costs:</b>		
Wages and salaries	94.7	89.3
Social security costs	7.8	6.0
Pension contributions (note 22)	7.2	6.4
	<b>109.7</b>	101.7
Capital schemes	<b>(41.6)</b>	(32.1)
Charges to provisions	–	(1.1)
	<b>68.1</b>	68.5
<b>Depreciation:</b>		
Owned fixed assets	169.1	149.3
Fixed assets held under finance leases	1.7	4.2
	<b>170.8</b>	153.5
Non-infrastructure depreciation	<b>88.3</b>	96.7
Infrastructure depreciation		
	<b>259.1</b>	250.2
<b>Raw materials and consumables</b>	<b>27.4</b>	35.0
<b>Other operating costs include:</b>		
Other operating costs	300.3	273.9
Auditor's remuneration	0.2	0.2
Amortisation of grants and contributions	(3.7)	(3.3)
Research and development	0.6	0.9
Operating leases:		
– hire of plant and machinery	1.2	1.1
– land and buildings	0.9	0.9
Exceptional credit (Release of restructuring provision)	–	(2.9)
Other income (note 4)	(5.9)	(2.9)
	<b>293.6</b>	267.9
<b>Total net operating costs</b>	<b>648.2</b>	621.6

Managed service fees and asset charges from Group undertakings are contained within other operating costs. Fees payable to Deloitte & Touche LLP and its associates for non-audit services during the year were £0.1 million, primarily relating to regulatory work (2003 - £0.1 million). The audit fee for 2003/04 in relation to the Company amounted to £0.1 million (2003 - £0.1 million).

## Notes to the accounts (continued)

### 4 Other income (see note 3)

	2004 £m	2003 £m
Profit on disposal of fixed assets	4.5	1.7
Net rents receivable	1.4	1.2
<b>Other income</b>	<b>5.9</b>	<b>2.9</b>

### 5 Directors

The aggregate emoluments of the directors in 2004 amounted to £1,152,012 (2003 - £967,031). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of the highest paid director (R D Armstrong) in 2004 amounted to £277,612 (2003 - R D Armstrong - £267,574). Details of the emoluments of the directors of the Company who are also directors of United Utilities PLC are given in that Company's accounts.

At 31 March 2004 and the prior year, the directors and their families had the following interests, all of which were beneficial interests, in the ordinary shares and options to subscribe for ordinary shares in United Utilities PLC (details of the interests of directors of United Utilities PLC are dealt with in that Company's accounts).

	At 31 March 2004 Interest in Shares				At 31 March 2003 or date of appointment Interest in shares			
	Ordinary shares	A Shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	A Shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	16,125	7,480	3,235	2,909	13,017	-	3,767	1,823
J A Barnes	8,765	1,141	25,645	3,545	8,765	-	22,175	2,060
S Beaumont	7,522	2,229	27,696	2,909	4,013	-	26,984	1,823
C H Elphick	8,308	7,683	27,306	3,556	9,638	-	23,636	2,866
P G S Entwistle	1,500	832	-	-	1,500	-	-	-
J Lang	318	70	-	2,909	21	-	-	-
G Dixon	3,450	1,802	1,752	3,169	-	-	-	-
K Budinger	-	-	-	1,213	-	-	-	1,049
D E Morton JP	-	-	-	-	-	-	-	-

One director exercised options during the period (2003 - one).

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)

### 5 Directors (continued)

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

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

The accrued pension at 31 March 2004 for R D Armstrong, the highest paid director, was £108,915 per annum (2003 R D Armstrong - £98,154 per annum).

### 6 Employees

Average number of persons employed during the year	2004	2003
Licensed utility operations	3,249	3,108

### 7 Net finance charges

	2004 £m	2003 £m
<b>Interest payable and similar charges:</b>		
On bank loans, overdrafts and other loans	170.1	117.9
On finance leases	2.9	2.2
Group undertakings	29.6	51.4
Total interest payable and similar charges	202.6	171.5
<b>Investment income:</b>		
Income received from current asset investments	(8.0)	(7.9)
Interest receivable and similar income		
- Group undertakings	(6.4)	(6.0)
- External	(4.6)	(5.8)
Net finance charges	183.6	151.8

## Notes to the accounts (continued)

### 8 Taxation on profit on ordinary activities

#### (a) Analysis of (credit)/charge in period

	2004 £m	2003 £m
<b>Current tax:</b>		
UK corporation tax at 30%	<b>(16.1)</b>	(3.4)
Prior year tax adjustments	<b>4.9</b>	(5.8)
Total current tax	<b>(11.2)</b>	(9.2)
<b>Deferred tax:</b>		
Origination and reversal of timing differences	<b>73.2</b>	61.6
Increase in discount	<b>(98.0)</b>	(4.5)
Prior year tax adjustments	<b>(4.9)</b>	5.8
Total deferred tax	<b>(29.7)</b>	62.9
Tax on profit on ordinary activities	<b>(40.9)</b>	53.7

The prior year tax adjustments relate to the agreement of prior year tax returns.

#### (b) Factors affecting tax (credit)/charge

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

	2004 £m	2003 £m
Profit on ordinary activities before tax	<b>197.5</b>	198.5
	%	%
UK corporation tax rate	<b>30.0</b>	30.0
Capital allowances in excess of depreciation	<b>(60.2)</b>	(34.2)
Utilisation of tax losses	<b>11.1</b>	–
Other timing differences	<b>12.0</b>	3.2
Prior year tax adjustments	<b>2.5</b>	(2.9)
Non-taxable income	<b>(1.1)</b>	(0.7)
Actual current tax rate	<b>(5.7)</b>	(4.6)

## Notes to the accounts (continued)

### 9 Dividends

	2004 £m	2003 £m
Interim dividend of 15.44 pence per share (2003 - 15.05 pence)	<b>66.7</b>	65.0
Final dividend of 25.36 pence per share recommended (2003 - 30.44 pence)	<b>134.9</b>	131.5
Preference share dividend 7.00 pence per share (2003 - 7.00 pence)	<b>9.1</b>	9.1
	<b>210.7</b>	205.6

United Utilities Water PLC has increased its ordinary dividend payment to United Utilities Service Delivery PLC by 2.6 per cent to £201.6 million gross for the year. The dividend policy this year is consistent with the Company's performance and the management of the economic risks of the business. During the year, United Utilities Water PLC received £100 million of new share capital. Had the 100 million shares not been issued, the total dividend would have remained the same and the pence per share on the final dividend would have been 31.23 pence (2003 - 30.44 pence). United Utilities Water PLC has also paid a preference dividend of £9.1 million for the year to United Utilities Service Delivery PLC.

### 10 Tangible fixed assets

Group and Company	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Fixtures, fittings tools and equipment £m	Assets in course of construction £m	Total £m
Cost:						
At 1 April 2003	210.4	3,433.9	2,642.0	557.4	660.8	7,504.5
Additions	3.0	114.8	105.0	22.8	618.6	864.2
Grants and contributions	–	(9.8)	–	–	–	(9.8)
Transfers	4.7	91.2	164.3	21.1	(281.3)	–
Disposals	(4.8)	–	(30.4)	(24.9)	–	(60.1)
<b>At 31 March 2004</b>	<b>213.3</b>	<b>3,630.1</b>	<b>2,880.9</b>	<b>576.4</b>	<b>998.1</b>	<b>8,298.8</b>
Depreciation:						
At 1 April 2003	58.8	1,141.2	747.5	303.1	–	2,250.6
Charge for the year	7.6	88.3	98.0	65.2	–	259.1
Disposals	(2.7)	–	(30.0)	(24.7)	–	(57.4)
<b>At 31 March 2004</b>	<b>63.7</b>	<b>1,229.5</b>	<b>815.5</b>	<b>343.6</b>	<b>–</b>	<b>2,452.3</b>
Net book value:						
<b>At 31 March 2004</b>	<b>149.6</b>	<b>2,400.6</b>	<b>2,065.4</b>	<b>232.8</b>	<b>998.1</b>	<b>5,846.5</b>
At 31 March 2003	151.6	2,292.7	1,894.5	254.3	660.8	5,253.9

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence, the cost of fixed assets, as adjusted for amortisation is £94.9 million (2003 - £85.1 million) lower than it would have been had this treatment not been adopted.

## Notes to the accounts (continued)

### 10 Tangible fixed assets (continued)

#### Infrastructure renewals

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

	£m
Excess depreciation over expenditure at 1 April 2003	(0.3)
Expenditure on maintaining the network in the year	81.0
Depreciation for the year	(88.3)
<b>Excess depreciation over expenditure at 31 March 2004</b>	<b>(7.6)</b>

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

	2004 £m	2003 £m
Cost:		
Operational structures	<b>132.2</b>	250.8
Fixtures, fittings, tools and equipment	<b>0.9</b>	0.5
<b>At 31 March</b>	<b>133.1</b>	251.3
Accumulated depreciation:		
Operational structures	<b>(60.9)</b>	(81.4)
Fixtures, fittings, tools and equipment	<b>(0.8)</b>	(0.5)
<b>At 31 March</b>	<b>(61.7)</b>	(81.9)
Net book value:		
Operational structures	<b>71.3</b>	169.4
Fixtures, fittings, tools and equipment	<b>0.1</b>	–
<b>At 31 March</b>	<b>71.4</b>	169.4

The depreciation charge for the year for assets held under finance leases is £1.7 million (2003 - £4.2 million).

	2004 £m	2003 £m
Capital commitments:		
Contracted but not provided for	<b>439.5</b>	399.2

## Notes to the accounts (continued)

### 11 Fixed asset investments

	Shares in subsidiary undertakings £m	Other investments £m	Total £m
<b>Group and Company</b>			
Cost:	–	0.4	0.4
At 1 April 2003 and 31 March 2004	–	0.4	0.4

Details of subsidiary undertakings, with regard to the Company, and other investments with regard to the Company and Group, all of which are unlisted and registered in England and Wales are:

Subsidiary undertakings	Description of holding	Proportion held	Nature of business
North West Water Finance PLC	Ordinary shares of £1 each	100%	Raising finance

  

Other Investments	Description of holding	Proportion held	Nature of business
WRc plc	'A' Ordinary shares of £1 each	9.84%	Water and wastewater research
	8% convertible unsecured loan stock 2014	26.54%	
Paypoint Network Limited	Ordinary shares of 1 pence each	0.06%	Cash collection service
	Deferred shares of 1 pence each	0.06%	

### 12 Debtors

	Group and Company 2004 £m	Group and Company 2003 £m
Trade debtors	<b>99.1</b>	127.6
Amounts owed by Group undertakings	<b>58.0</b>	53.2
Other debtors	<b>39.4</b>	28.0
Prepayments and accrued income	<b>58.6</b>	56.5
	<b>255.1</b>	265.3

Amounts owed by Group undertakings represent amounts owed by parent and fellow subsidiary undertakings, which includes £40.7 million floating rate loans (2003 - £40.7 million). Within other debtors is £19.0 million relating to pensions which falls due after more than one year (2003 - £11.7 million).

### 13 Current asset investments

	Group and Company 2004 £m	Group and Company 2003 £m
Cash on deposit	<b>278.8</b>	168.0
Other unlisted investments	<b>–</b>	285.0
	<b>278.8</b>	453.0

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

## Notes to the accounts (continued)

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

	Group and Company	Group and Company
	2004 £m	2003 £m
Loans (note 19)	45.3	31.4
Bank overdrafts and temporary borrowings (note 19)	38.5	0.4
Obligations under finance leases (note 19)	–	108.7
Trade creditors	31.1	15.6
Amounts owed to parent and fellow subsidiary undertakings	50.8	54.4
Dividends	134.9	131.5
Other creditors	1.7	7.9
Taxation and social security	15.3	17.0
Deferred grants and contributions (note 16)	3.7	–
Accruals and deferred income	445.7	342.8
	<b>767.0</b>	709.7

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

	Group and Company	Group and Company
	2004 £m	2003 £m
Loans (note 19)	2,535.9	2,277.2
Obligations under finance leases (note 19)	81.0	81.0
Amounts owed to parent and fellow subsidiary undertakings (note 19)	454.5	454.5
Other creditors	2.1	4.1
Deferred grants and contributions (note 16)	74.9	74.1
	<b>3,148.4</b>	2,890.9

### 16 Deferred grants and contributions

	£m
Group and Company	
At 1 April 2003	74.1
Received in the year	8.2
Profit and loss account	(3.7)
<b>At 31 March 2004</b>	<b>78.6</b>

## Notes to the accounts (continued)

### 17 Provision for liabilities and charges

	Deferred tax (note 18) £m
Group and Company	
At 1 April 2003	249.0
Credited to the profit and loss account	(29.7)
<b>At 31 March 2004</b>	<b>219.3</b>

### 18 Deferred tax (see note 17)

	Group and Company 2004 £m	Group and Company 2003 £m
Accelerated capital allowances	<b>1,063.4</b>	949.5
Short-term timing differences	<b>(77.6)</b>	(32.0)
Undiscounted provision for deferred tax	<b>985.8</b>	917.5
Discount	<b>(766.5)</b>	(668.5)
<b>Discounted provision for deferred tax</b>	<b>219.3</b>	249.0

### 19 Borrowings

	Group and Company 2004 £m	Group and Company 2003 £m
Bank overdrafts and temporary borrowings	<b>50.8</b>	30.8
Term loans	<b>3,035.7</b>	2,763.1
Finance leases	<b>81.0</b>	189.7
	<b>3,167.5</b>	2,983.6

### Repayments fall due as follows:

	Year ending 31 March 2004 £m	Year ending 31 March 2003 £m
After five years	<b>2010+</b> 1,255.4	2009+ 1,375.7
From four to five years	<b>2009</b> 417.6	2008 881.5
From three to four years	<b>2008</b> 886.8	2007 46.5
From two to three years	<b>2007</b> 47.9	2006 463.7
From one to two years	<b>2006</b> 463.7	2005 45.3
After more than one year	<b>3,071.4</b>	2,812.7
Within one year	<b>2005</b> 96.1	2004 170.9
	<b>3,167.5</b>	2,983.6

Loans repayable by instalments partly after five years comprise bank and other loans repayable between 2010 and 2053. Interest rates range from 0.75 per cent to 14.83 per cent (2003 - 0.75 per cent to 14.83 per cent) on £1,041.0 million (2003 - £1,106.8 million) and are at floating rates on £214.4 million (2003 - £268.9 million).

## Notes to the accounts (continued)

### 19 Borrowings (continued)

#### Bank overdrafts and temporary borrowings

The Group had available unutilised committed bank facilities of £315 million (2003 - £295 million). The amounts currently unutilised expire as follows:

	£m
One to two years	25.0
After two years	290.0
<b>Total</b>	<b>315.0</b>

#### The analysis of net debt prior to the effect of derivative instruments is as follows:

	Borrowings at 31 March 2004 £m	Borrowings at 31 March 2003 £m
Fixed rate borrowings:		
Sterling	1,047.1	980.1
United States Dollars*	454.5	454.5
Euros*	1,086.5	1,102.2
Japanese Yen*	102.2	85.2
	<b>2,690.3</b>	2,622.0
Floating rate borrowings:		
Sterling	438.6	323.0
United States Dollars*	13.8	13.8
Japanese Yen*	12.3	12.3
Hong Kong Dollars*	12.5	12.5
	<b>477.2</b>	361.6
Floating rate parent undertaking loan - sterling	<b>(40.7)</b>	(40.7)
Short term investments - sterling	<b>(278.8)</b>	(453.0)
Cash at bank	<b>(7.7)</b>	(2.5)
Net debt at 31 March	<b>2,840.3</b>	2,487.4

\* Currency items are recorded in the balance sheet at the hedged rate.

## Notes to the accounts (continued)

### 19 Borrowings (continued)

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

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed		Weighted average period for which interest is fixed	
	2004 £m	2003 £m	2004 %	2003 %	2004 years	2003 years
Fixed rate borrowings – sterling	2,777.6	2,432.1	7.1	7.0	2.3	2.9
Floating rate borrowings – sterling	389.9	551.5				
	<b>3,167.5</b>	2,983.6				
Floating rate parent undertaking loan – sterling	(40.7)	(40.7)				
Short-term investments – sterling	(278.8)	(453.0)				
Cash at bank	(7.7)	(2.5)				
<b>Net debt at 31 March</b>	<b>2,840.3</b>	2,487.4				

Floating rate borrowings are based on LIBOR.

#### Financial instruments and risk management

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

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

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

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

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

All transactions are undertaken to manage the risks arising from underlying business activities and no speculative trading is undertaken.

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

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

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

#### a) Interest rate swaps

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

## Notes to the accounts (continued)

### 19 Borrowings (continued)

#### b) Financial futures

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

#### c) Forward contracts

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

#### d) Currency swaps

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

#### Fair values of financial instruments

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

	2004 Book value £m	2004 Fair value £m	2003 Book value £m	2003 Fair value £m
Short-term debt and current portion of long-term debt	96.1	96.1	170.9	170.9
Long-term debt	3,071.4	3,249.8	2,812.7	3,142.0
	<b>3,167.5</b>	<b>3,345.9</b>	2,983.6	3,312.9
Interest rate swaps	–	13.0	–	5.5
Foreign exchange contracts and currency swaps	–	(107.4)	–	(179.7)
<b>Total borrowings</b>	<b>3,167.5</b>	<b>3,251.5</b>	2,983.6	3,138.7

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

#### Current assets and liabilities

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

#### Long term receivables and liabilities

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

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

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

#### Currency and interest rate swaps

The Group enters into currency and interest rate swaps in order to manage its foreign currency and interest rate exposures. The carrying value of debt is shown in the balance sheet at the hedged rate. The impact of the hedged currency rates as opposed to translation at year end exchange rates is £5.1 million, (2003 - £95.7 million). The fair value of these financial instruments was estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end. The fair values of currency and interest rate swaps exclude the related accrued interest receivables and payables.

#### Hedges

Unrecognised gains and losses on financial assets and liabilities for which hedge accounting has been used at the balance sheet date were £182.3 million and £88.0 million respectively (2003 - £315.2 million and £141.0 million).

The Group anticipates that £20.3 million of these gains and £53.7 million of these losses will be realised in the forthcoming financial year (2003 - £55.5 million and £80.3 million). Of the unrecognised gains and losses on hedges as at 1 April 2003, the net loss in the profit and loss account for the year ended 31 March 2004 was £28.0 million (2003 - £10.5 million).

## Notes to the accounts (continued)

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

	Group and Company	Group and Company
	2004 £m	2003 £m
<b>Authorised share capital</b>		
650,000,000 ordinary shares of £1 each	<b>650.0</b>	650.0
223,437,000 preference shares of £1 each	<b>223.4</b>	223.4
<b>Allotted and fully paid share capital</b>		
531,930,000 ordinary shares of £1 each (2003 - 431,930,000 ordinary shares of £1 each)	<b>531.9</b>	431.9
130,000,000 7% preference shares of £1 each	<b>130.0</b>	130.0
93,437,000 0% preference shares of £1 each	<b>93.4</b>	93.4
	<b>755.3</b>	655.3
Share premium account	<b>647.8</b>	647.8

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

During the year, 100 million ordinary shares of £1 nominal each were issued at par value to help fund the Company's capital programme.

### 21 Profit and loss account

	Group and Company
	2004 £m
At 1 April 2003	<b>825.4</b>
Profit for the year	<b>27.7</b>
<b>At 31 March 2004</b>	<b>853.1</b>

As allowed by section 230 (4) of the Companies Act 1985, the Company has not presented its own profit and loss account. The Company's profit for the financial year before dividends is £238.4 million (2003 - £144.8 million).

### 22 Pensions

The Company participates in a number of pension schemes. 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 includes a defined contribution section which constitutes less than 0.5 per cent of the total asset value. The assets of these schemes are held in trust funds independent of United Utilities PLC's finances.

For UUPS and ESPS, the pension cost under the accounting standard SSAP24 has been assessed in accordance with the advice of a firm of actuaries, Mercer Human Resource Consulting, using the projected unit method. For this purpose, the actuarial assumptions adopted are based upon investment growth of 6.0 per cent per annum, pay growth of 4.0 per cent per annum and increases to pensions in payment and deferred pensions of 2.5 per cent per annum. The actuarial value of the assets was taken as the market value of the assets.

The last actuarial valuations of the two schemes were carried out as at 31 March 2001. An actuarial valuation as at 31 March 2004 is currently being performed. The combined market value of United Utilities PLC's share of the assets of the two schemes at the valuation date was £1,833.0 million. Using the assumptions adopted for SSAP24 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 costs under SSAP24, 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. During the year contribution rates ranged from 14.8 per cent to 30.3 per cent dependent on the benefit category. 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. During the year the contribution rate was 19 per cent. Contribution rates are expected to remain the same for both schemes in 2004/05.

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

The total pension cost for the period was £7.2 million (2003 - £6.4 million). An amount within other debtors of £19.0 million is included in the balance sheet at 31 March 2004 (2003 - £11.7 million).

## Notes to the accounts (continued)

### 22 Pensions (continued)

#### 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 scheme were a defined contribution scheme. The latest full actuarial valuations were carried out at 31 March 2001 and were updated to 31 March 2004 for FRS 17 purposes 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. Under transitional arrangements of FRS 17 'Retirement Benefits', the Group is required to disclose the following information about its pension arrangements and the figures that would have been shown under adoption of FRS 17 in the financial statements.

During the year the UUPS employer's contribution rates ranged from 14.8 per cent to 30.3 per cent dependent on the benefit category and the ESPS employer's contribution rate was 19 per cent. These contribution rates have resulted in total pension contributions of £14.5 million. Contribution rates are expected to remain the same for both schemes in 2004/05.

The latest formal valuations of the Schemes were carried out as at 31 March 2001. The valuation of liabilities detailed below has been derived by projecting forward the position at 31 March 2001 and has been performed by an independent actuary, Mercer Human Resource Consulting. FRS 17 gives the present value of pension liabilities by discounting pension commitments (including an allowance for salary growth), at an AA corporate bond yield. The major difference arising between these two methodologies is in the valuation of the Schemes' liabilities, which under FRS 17 are higher.

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 2004	At 31 March 2003	At 31 March 2002
Discount rate	5.50%	5.50%	6.00%
Pensionable salary growth	4.30%	4.00%	4.30%
Pension increases	2.80%	2.50%	2.80%
Price inflation	2.80%	2.50%	2.80%

	At 31 March 2004		At 31 March 2003		At 31 March 2002	
	Expected rates of return	Total £m	Expected rates of return	Total £m	Expected rates of return	Total £m
Equities	7.60%	1,268.9	7.50%	1,008.0	8.25%	1,137.5
Property	7.60%	2.1	7.50%	3.5	8.25%	73.5
Bonds	5.50%	193.2	5.50%	217.4	6.00%	233.0
Gilts	4.60%	383.4	4.50%	314.3	5.25%	302.5
Other	4.60%	1.7	4.50%	24.2	5.25%	28.3
Market value of assets		1,849.3		1,567.4		1,774.8
Present value of Schemes' liabilities		(2,227.0)		(1,993.2)		(1,753.2)
Implied (deficit)/surplus in the Schemes		(377.7)		(425.8)		21.6
Related deferred tax asset/(liability)		113.3		127.7		(6.5)
Net pension (liability)/asset under FRS 17		(264.4)		(298.1)		15.1

## Notes to the accounts (continued)

### 23 Operating leases

	<b>Land and buildings 2004 £m</b>	<b>Plant and machinery 2004 £m</b>	Land and buildings 2003 £m	Plant and machinery 2003 £m
The Group and Company are committed to making the following payments during the year:				
Leases which expire:				
Within one year	–	<b>0.4</b>	–	0.1
Between two and five years	–	<b>1.0</b>	–	0.9
After five years	<b>0.9</b>	–	0.9	–
	<b>0.9</b>	<b>1.4</b>	0.9	1.0

### 24 Related party transactions

In accordance with the exemption set out in FRS 8 'Related Party Transactions', the Company has not disclosed transactions with its ultimate holding company or any members of the Group. United Utilities PLC is the ultimate controlling party as defined by FRS 8.

### 25 Ultimate parent undertaking

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

# Regulatory accounting information

The Regulatory Accounts on pages 29 to 43 have been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services.

Turnover and net operating assets for the non-appointed business,

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

## Independent auditor's report

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

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2004 which comprise the historic cost accounts, comprising the profit and loss account and balance sheet, and the current cost accounts comprising the profit and loss account, balance sheet, cash flow statement, notes to the cash flow statement, and the related notes numbered 1 to 11. These Regulatory Accounts have been prepared under the accounting policies set out therein.

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

### Basis of preparation

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

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

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

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

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

Our responsibility is to audit the Regulatory Accounts in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board, except as stated in the 'Basis of opinion' below, and having regard to the guidance contained in Audit Technical Release 05/03 'Reporting to Regulators of Regulated Entities'.

We report to you our opinion as to whether the Regulatory Accounts contain the information required to be published and submitted to the Regulator to comply with Condition F of the Company's regulatory licence, that the historic and current cost financial statements have been properly prepared in accordance with the Regulatory Accounting Guidelines, numbered 1 to 4, issued by the Regulator and that the information provided is in agreement with the underlying accounting records. We report to you whether the historic or current cost financial statements present fairly the revenues and costs, assets and liabilities of the Company, in accordance with its licence and the Regulatory Accounting Guidelines issued by the Regulator. We also report to you if, in our opinion, the Company has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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

### Basis of opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the UK Auditing Practices Board, 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 16 July 2004, which are prepared for a different purpose. We do not and will not, by virtue of this report assume any responsibility, whether in contract, negligence or otherwise, in relation to our audits of the Company's statutory financial statements required by the Companies Act 1985.

## Independent auditor's report (continued)

### Opinion

In our opinion the Regulatory Accounts contain the information for the year to 31 March 2004 required to be published and submitted to the Regulator by United Utilities Water PLC to comply with Condition F of the Instrument of Appointment ("Condition F"), granted by the Secretary of State for the Environment, of the Company as a water and sewerage undertaker under the Water Industry Act 1991.

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

- a. proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- b. the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument, and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services;
- c. the regulatory historical cost accounting statements on pages 29 to 30, present fairly the revenue and costs, assets and liabilities of the Company and its appointed business in accordance with the Company's licence and the Regulatory Accounting Guidelines issued by the Regulator; and

- d. the Regulatory current cost accounting information on pages 31 to 43, present fairly the revenues and costs, assets and liabilities of the Company and its appointed business in accordance with the Company's Licence and the Regulatory Accounting Guidelines issued by the Regulator.

### **Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
Manchester  
16 July 2004

# Summarised Company historical cost profit and loss account

For the year ended 31 March

	Note	2004 £m	2003 £m
<b>Turnover</b>		<b>1,029.3</b>	971.9
Operating costs		<b>(654.1)</b>	(624.5)
Operating income	4	<b>4.5</b>	1.7
<b>Operating profit</b>		<b>379.7</b>	349.1
Other income	5	<b>9.4</b>	9.1
Net interest payable	6	<b>(191.6)</b>	(159.7)
<b>Profit on ordinary activities before taxation</b>		<b>197.5</b>	198.5
Taxation		<b>40.9</b>	(53.7)
<b>Profit for the year</b>		<b>238.4</b>	144.8
Dividends		<b>(210.7)</b>	(205.6)
<b>Retained profit / (loss) for the year</b>		<b>27.7</b>	(60.8)

For the purpose of the Regulatory Accounts, income from rents receivable is disclosed within other income, and not operating income.

# Summarised Company historical cost balance sheet

At 31 March

	2004 £m	2003 £m
<b>Fixed assets</b>		
Tangible fixed assets	5,854.1	5,254.2
Investments	0.4	0.4
<b>Total fixed assets</b>	<b>5,854.5</b>	5,254.6
<b>Current assets</b>		
Stock	2.4	3.0
Debtors	214.4	224.6
Cash at bank	7.7	2.5
Short-term investments	319.5	493.7
<b>Total current assets</b>	<b>544.0</b>	723.8
<b>Creditors: amounts falling due within one year</b>		
Borrowings	(96.1)	(170.9)
Dividends payable	(134.9)	(131.5)
Other creditors	(536.0)	(407.6)
<b>Total creditors</b>	<b>(767.0)</b>	(710.0)
<b>Net current (liabilities)/assets</b>	<b>(223.0)</b>	13.8
<b>Total assets less current liabilities</b>	<b>5,631.5</b>	5,268.4
<b>Creditors: amounts falling due after more than one year</b>		
Borrowings	(3,071.4)	(2,812.7)
Other creditors	(2.1)	(4.1)
	<b>(3,073.5)</b>	(2,816.8)
Provisions for liabilities and charges	(226.9)	(249.0)
Deferred income	(74.9)	(74.1)
<b>Net assets employed</b>	<b>2,256.2</b>	2,128.5
<b>Capital and reserves</b>		
Called up share capital	755.3	655.3
Share premium	647.8	647.8
Profit and loss account	853.1	825.4
<b>Capital and reserves</b>	<b>2,256.2</b>	2,128.5

In the preparation of the statutory accounts, the Company has followed industry practice and adopted the infrastructure renewals accounting basis as set out in FRS 15 'Tangible fixed assets'. However, for the purposes of the Regulatory Accounts, Ofwat has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. The infrastructure renewals accrual of £7.6 million in 2004 (2003 - £0.3 million) is therefore shown within provisions for liabilities and charges, not fixed assets.

For the purposes of the Regulatory Accounts loans to Group companies of £40.7 million (2003 - £40.7 million) are disclosed within short-term investments, not debtors.

## Current cost profit and loss account

For year ended 31 March

	Note	2004 £m	2003 £m
<b>Turnover</b>	2	<b>1,029.3</b>	971.9
Current cost operating costs	3	<b>(724.6)</b>	(700.6)
Operating income	2	<b>2.8</b>	0.9
Working capital adjustment	2	<b>307.5</b> <b>4.1</b>	272.2 2.7
<b>Current cost operating profit</b>		<b>311.6</b>	274.9
Other income	5	<b>9.4</b>	9.1
Net interest payable	6	<b>(191.6)</b>	(159.7)
Financing adjustment		<b>72.6</b>	75.4
<b>Current cost profit on ordinary activities before taxation</b>		<b>202.0</b>	199.7
Taxation			
- Current tax		<b>11.2</b>	9.2
- Deferred tax		<b>29.7</b>	(62.9)
<b>Current cost profit attributable to shareholders</b>		<b>242.9</b>	146.0
Dividends		<b>(210.7)</b>	(205.6)
<b>Current cost profit/(loss) retained</b>		<b>32.2</b>	(59.6)

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

## Current cost balance sheet

At 31 March

	Note	2004 £m	2003 £m
Tangible assets	7	<b>37,799.4</b>	36,340.7
Third party contributions since 1989/90		<b>(211.1)</b>	(196.4)
Working capital	9	<b>(269.3)</b>	(157.2)
<b>Net operating assets</b>		<b>37,319.0</b>	35,987.1
Cash and investments		<b>319.8</b>	494.0
Non-trade debtors		<b>40.5</b>	28.4
Non-trade creditors due within one year		<b>(191.5)</b>	(252.3)
Creditors due after one year		<b>(3,073.8)</b>	(2,817.1)
Provisions for liabilities and charges			
- Deferred taxation		<b>(219.3)</b>	(249.0)
Dividends payable		<b>(134.9)</b>	(131.5)
<b>Net assets employed</b>		<b>34,059.8</b>	33,059.6
<b>Capital and reserves</b>			
Called up share capital		<b>755.4</b>	655.4
Share premium account		<b>647.8</b>	647.8
Profit and loss account		<b>(256.7)</b>	(288.9)
Current cost reserve	10	<b>32,913.3</b>	32,045.3
<b>Shareholders' funds</b>		<b>34,059.8</b>	33,059.6

# Current cost cash flow statement

For the year ended 31 March

	2004 £m	2004 £m	2003 £m	2003 £m
<b>Net cash flow from operating activities</b>		<b>667.1</b>		602.8
<b>Returns on investments and servicing of finance</b>				
Interest received	<b>11.9</b>		10.7	
Interest paid	<b>(194.6)</b>		(158.6)	
Interest in finance lease rental	<b>(6.0)</b>		(8.0)	
Termination of interest rate swap contracts	<b>64.0</b>		–	
Income received from current asset investments	<b>8.0</b>		7.9	
Non-equity dividends paid	<b>(9.1)</b>		(9.1)	
Net cash outflow from returns on investments and servicing of finance		<b>(125.8)</b>		(157.1)
<b>Taxation received</b>		<b>9.1</b>		5.8
<b>Capital expenditure and financial investment</b>				
Gross cost of purchase of fixed assets	<b>(750.9)</b>		(477.6)	
Receipt of grants and contributions	<b>13.9</b>		13.5	
Infrastructure renewals expenditure	<b>(81.0)</b>		(67.5)	
Disposal of fixed assets	<b>7.2</b>		2.0	
<b>Net cash outflow from investing activities</b>		<b>(810.8)</b>		(529.6)
<b>Acquisitions and disposals</b>		<b>1.0</b>		–
<b>Equity dividends paid</b>		<b>(198.1)</b>		(194.8)
<b>Management of liquid resources</b>				
Decrease/(increase) in short-term deposits		<b>174.2</b>		(259.3)
<b>Net cash outflow before financing</b>		<b>(283.3)</b>		(532.2)
<b>Financing</b>		<b>250.4</b>		539.8
<b>(Decrease)/Increase in cash and overdrafts</b>		<b>(32.9)</b>		7.6

## Notes to the current cost cash flow statement

For the year ended 31 March

	2004 £m	2003 £m
<b>Reconciliation of current cost operating profit to net cash flow from operating activities</b>		
Current cost operating profit	<b>311.6</b>	274.9
Working capital adjustment	<b>(4.1)</b>	(2.7)
Changes in stocks	<b>0.1</b>	–
Receipts from other income	<b>1.4</b>	1.2
Current cost depreciation	<b>265.5</b>	245.4
Effect of other deferrals and accruals on operating activity cashflow	<b>(4.3)</b>	(3.9)
Current cost profit on disposal of fixed assets	<b>(2.9)</b>	(0.9)
Decrease in debtors and prepaid expenses	<b>3.6</b>	14.9
Increase in creditors and accrued expenses	<b>15.2</b>	12.1
Infrastructure renewals expenditure	<b>81.0</b>	67.5
Movement in other provisions	<b>–</b>	(5.7)
<b>Net cash inflow from operating activities</b>	<b>667.1</b>	602.8

## Notes to the current cost cash flow statement (continued)

For the year ended 31 March

	2004 £m	2003 £m
<b>Analysis of cash flows for headings in the cash flow statement</b>		
<b>Financing</b>		
Issue of shares	100.0	–
New loans	322.6	597.5
Loans repaid	(51.8)	(78.2)
Finance lease repaid	(102.3)	(9.9)
New short term borrowings	12.3	30.4
Short term borrowings repaid	(30.4)	–
<b>Net cash inflow from financing</b>	<b>250.4</b>	539.8

	At 1 April 2003 £m	Cashflow £m	Non Cash Movements £m	At 31 March 2004 £m
<b>Analysis of changes in net debt</b>				
Cash at bank and in hand	2.5	5.2	–	7.7
Overdrafts	(0.4)	(38.1)	–	(38.5)
	2.1	(32.9)	–	(30.8)
Debt due after one year	(2,731.7)	(258.7)	–	(2,990.4)
Debt due within one year	(61.8)	6.0	(1.8)	(57.6)
Finance leases	(189.7)	102.3	6.4	(81.0)
	(2,940.4)	(183.3)	4.6	(3,119.1)
Current asset investments	493.7	(174.2)	–	319.5
<b>Net debt</b>	<b>(2,487.4)</b>	<b>(357.5)</b>	<b>4.6</b>	<b>(2,840.3)</b>

# Notes to the current cost accounts

## 1 Current cost accounting policies

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

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

### (a) Tangible fixed assets

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

### (i) Operational assets

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

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

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

### (ii) Infrastructure assets

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

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

### (iii) Other fixed assets

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

### (b) Grants and other third party contributions

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

### (c) Real financial capital maintenance adjustments

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

#### (i) Working capital adjustment

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

#### (ii) Financing adjustment

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

#### (iii) Depreciation adjustment

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

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

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

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

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

## Notes to the current cost accounts (continued)

**2 Analysis of turnover and operating income**

For the year ended 31 March	2004			2003		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
<b>Turnover</b>						
Tariff basket						
- Measured	142.1	196.5	338.6	122.8	174.7	297.5
- Unmeasured	277.6	295.6	573.2	265.4	291.4	556.8
- Trade effluent	-	21.4	21.4	-	22.5	22.5
	<b>419.7</b>	<b>513.5</b>	<b>933.2</b>	388.2	488.6	876.8
Non-tariff basket						
- Revenue grants	0.1	-	0.1	0.3	-	0.3
- Large user revenues	42.9	29.9	72.8	39.8	30.0	69.8
- Other sources	3.6	1.5	5.1	5.4	0.8	6.2
- Third party services	16.2	1.9	18.1	18.8	-	18.8
<b>Total turnover</b>	<b>482.5</b>	<b>546.8</b>	<b>1,029.3</b>	452.5	519.4	971.9
<b>Operating income</b>						
Current cost profit on disposal of fixed assets	1.0	1.8	2.8	0.7	0.2	0.9
<b>Total operating Income</b>	<b>1.0</b>	<b>1.8</b>	<b>2.8</b>	0.7	0.2	0.9
<b>Working capital adjustment</b>	<b>1.9</b>	<b>2.2</b>	<b>4.1</b>	1.3	1.4	2.7

## Notes to the current cost accounts (continued)

### 3 Current cost operating costs for the year ended 31 March 2004

Service analysis	Water services			Sewerage services			
	Resource and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewerage service subtotal £m
<b>Direct costs</b>							
Employment costs	9.7	9.6	19.3	3.2	13.0	6.9	23.1
Power	4.9	5.3	10.2	2.5	8.1	3.7	14.3
Agencies	–	–	–	1.6	–	–	1.6
Hired and contracted services	2.8	15.9	18.7	6.2	5.7	9.8	21.7
Materials and consumables	6.5	1.1	7.6	0.1	4.8	4.0	8.9
Service charges EA	11.8	–	11.8	1.7	3.3	–	5.0
Other direct costs	–	2.1	2.1	0.1	0.4	0.2	0.7
<b>Total direct costs</b>	35.7	34.0	69.7	15.4	35.3	24.6	75.3
General and support expenditure	13.4	17.8	31.2	11.0	19.3	13.2	43.5
Functional expenditure	49.1	51.8	100.9	26.4	54.6	37.8	118.8
<b>Operating expenditure</b>							
Customer services			27.7				27.9
Scientific services			6.8				3.3
Other business activities			4.2				4.2
Total business activities			38.7				35.4
Local authority rates			24.9				14.8
Doubtful debts			23.0				26.5
Exceptional items			0.4				0.4
Total opex less third party services			187.9				195.9
Third party services – operating expenditure			12.8				0.3
Total operating expenditure			200.7				196.2
<b>Capital maintenance</b>							
Infrastructure renewals expenditure	11.2	29.3	40.5	40.5	–	–	40.5
Infrastructure renewals accrual/(prepayment)	5.3	13.9	19.2	(35.6)	–	–	(35.6)
Current cost depreciation (allocated)	48.8	24.1	72.9	8.7	88.5	22.1	119.3
Amortisation of deferred credits			(2.6)				(1.7)
Business activities current cost depreciation (non allocated)			35.9				37.4
Capital maintenance excluding third party services			165.9				159.9
Third party services – capital maintenance			1.9				–
Total capital maintenance			167.8				159.9
<b>Total operating costs</b>			<b>368.5</b>				<b>356.1</b>
<b>CCA (MEA) values:</b>							
Service activities	3,319.9	9,770.2	13,090.1	21,830.3	1,958.7	542.3	24,331.3
Business activities			162.3				182.6
Totals			13,252.4				24,513.9
Services for third parties			32.5				0.6
<b>Total</b>			<b>13,284.9</b>				<b>24,514.5</b>

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

## Notes to the current cost accounts (continued)

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

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

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

## Notes to the current cost accounts (continued)

### 4 Historic cost operating income

	2004 £m	2003 £m
Profit on disposal of fixed assets	4.5	1.7
<b>Operating income</b>	<b>4.5</b>	<b>1.7</b>

### 5 Historic cost other income

	2004 £m	2003 £m
Income received from current asset investments	8.0	7.9
Net rents receivable	1.4	1.2
<b>Other income</b>	<b>9.4</b>	<b>9.1</b>

### 6 Historic cost net interest payable

	2004 £m	2003 £m
<b>Interest payable and similar charges:</b>		
On bank loans, overdrafts and other loans	170.1	117.9
On finance leases	2.9	2.2
Group undertakings	29.6	51.4
Total interest payable and similar charges	202.6	171.5
<b>Interest receivable and similar income:</b>		
Group undertakings	(6.4)	(6.0)
External	(4.6)	(5.8)
<b>Net finance charges</b>	<b>191.6</b>	<b>159.7</b>

### 7 Current cost analysis of fixed assets by asset type for the year ended 31 March 2004

Total Services	Specialised operational assets	Non-specialised operational assets	Infrastructure assets	Other tangible assets	Total
	£m	£m	£m	£m	
<b>Gross replacement cost:</b>					
At 1 April 2003	7,084.0	123.4	32,577.5	806.1	40,591.0
RPI adjustment	185.1	3.2	851.1	21.1	1,060.5
Disposals	(22.1)	(6.8)	–	(6.0)	(34.9)
Additions	518.1	5.8	201.2	53.9	779.0
<b>At 31 March 2004</b>	<b>7,765.1</b>	<b>125.6</b>	<b>33,629.8</b>	<b>875.1</b>	<b>42,395.6</b>
<b>Depreciation:</b>					
At 1 April 2003	3,784.5	18.0	–	447.8	4,250.3
RPI adjustment	98.9	0.4	–	11.7	111.0
Disposals	(21.5)	(6.4)	–	(2.7)	(30.6)
Charge for the year	190.5	1.7	–	73.3	265.5
<b>At 31 March 2004</b>	<b>4,052.4</b>	<b>13.7</b>	<b>–</b>	<b>530.1</b>	<b>4,596.2</b>
<b>Net book value:</b>					
<b>At 31 March 2004</b>	<b>3,712.7</b>	<b>111.9</b>	<b>33,629.8</b>	<b>345.0</b>	<b>37,799.4</b>
At 1 April 2003	3,299.5	105.4	32,577.5	358.3	36,340.7

## Notes to the current cost accounts (continued)

**7 Current cost analysis of fixed assets by asset type** for the year ended 31 March 2004 (continued)

<b>Water Services</b>	Specialised operational assets £m	Non-specialised operational assets £m	Infrastructure assets £m	Other tangible assets £m	Total £m
<b>Gross replacement cost:</b>					
At 1 April 2003	2,904.2	57.8	11,410.4	389.9	14,762.3
RPI adjustment	75.9	1.5	298.1	10.2	385.7
Disposals	(9.7)	(6.3)	–	(4.5)	(20.5)
Additions	204.8	3.1	85.8	25.9	319.6
<b>At 31 March 2004</b>	<b>3,175.2</b>	<b>56.1</b>	<b>11,794.3</b>	<b>421.5</b>	<b>15,447.1</b>
<b>Depreciation:</b>					
At 1 April 2003	1,790.1	8.7	–	218.9	2,017.7
RPI adjustment	46.8	0.2	–	5.7	52.7
Disposals	(9.5)	(6.1)	–	(2.3)	(17.9)
Charge for the year	72.1	0.8	–	36.8	109.7
<b>At 31 March 2004</b>	<b>1,899.5</b>	<b>3.6</b>	<b>–</b>	<b>259.1</b>	<b>2,162.2</b>
<b>Net book value:</b>					
<b>At 31 March 2004</b>	<b>1,275.7</b>	<b>52.5</b>	<b>11,794.3</b>	<b>162.4</b>	<b>13,284.9</b>
At 1 April 2003	1,114.1	49.1	11,410.4	171.0	12,744.6
<b>Sewerage Services</b>					
	Specialised operational assets £m	Non-specialised operational assets £m	Infrastructure assets £m	Other tangible assets £m	Total £m
<b>Gross replacement cost:</b>					
At 1 April 2003	4,179.8	65.6	21,167.1	416.2	25,828.7
RPI adjustment	109.2	1.7	553.0	10.9	674.8
Disposals	(12.4)	(0.5)	–	(1.5)	(14.4)
Additions	313.3	2.7	115.4	28.0	459.4
<b>At 31 March 2004</b>	<b>4,589.9</b>	<b>69.5</b>	<b>21,835.5</b>	<b>453.6</b>	<b>26,948.5</b>
<b>Depreciation:</b>					
At 1 April 2003	1,994.4	9.3	–	228.9	2,232.6
RPI adjustment	52.1	0.2	–	6.0	58.3
Disposals	(12.0)	(0.3)	–	(0.4)	(12.7)
Charge for the year	118.4	0.9	–	36.5	155.8
<b>At 31 March 2004</b>	<b>2,152.9</b>	<b>10.1</b>	<b>–</b>	<b>271.0</b>	<b>2,434.0</b>
<b>Net book value:</b>					
<b>At 31 March 2004</b>	<b>2,437.0</b>	<b>59.4</b>	<b>21,835.5</b>	<b>182.6</b>	<b>24,514.5</b>
At 1 April 2003	2,185.4	56.3	21,167.1	187.3	23,596.1

## Notes to the current cost accounts (continued)

### 8 Regulatory capital value

	2004 £m
Opening RCV for the year	5,292.0
Interim Determination adjustment (2000 - 03)	(123.0)
Capital expenditure	562.0
Infrastructure renewals expenditure	101.0
Infrastructure renewals charge	(108.0)
Grants and contributions	(18.0)
Depreciation	(218.0)
Outperformance of regulatory assumptions (5 years in arrears)	(121.0)
Closing RCV carried forward	5,367.0
Average RCV (2002/03 year average prices)	5,269.0

The figures quoted are as published by Ofwat in March 2004 (at March 2003 prices) and therefore do not agree with other actual values reflected in the Company's regulatory financial statement. The figures include the effect of the 2003 interim determination. All costs have been indexed to March 2004 (RPI - 184.6) prices, except for the average RCV, which is shown at year average prices (RPI - 182.5), in accordance with Ofwat's regulatory accounting guidelines. Capital efficiencies will be taken into account in the calculation for the next periodic review.

### 9 Working capital

	2004 £m	2003 £m
Stocks	2.4	3.0
Trade debtors	99.1	127.6
Working cash balances	7.7	2.2
Trade payments in advance	53.1	52.9
Prepayments and other debtors	5.5	3.6
Trade creditors	(31.1)	(15.6)
Short-term capital creditors	(186.3)	(158.0)
Infrastructure renewals accrual	(15.7)	(32.0)
Other trade accruals	(179.3)	(126.8)
Payroll related taxation and social security contributions	(2.6)	(2.2)
Group trade creditors	(22.1)	(11.9)
<b>Total working capital</b>	<b>(269.3)</b>	<b>(157.2)</b>

### 10 Movement on current cost reserve

	2004 £m	2003 £m
<b>At 1 April</b>	<b>32,045.3</b>	31,038.2
AMP adjustment	0.4	8.7
RPI adjustments:		
Fixed assets	949.5	1,082.1
Working capital	(4.1)	(2.7)
Financing	(72.6)	(75.4)
Grants and third party contributions	(5.2)	(5.6)
<b>At 31 March</b>	<b>32,913.3</b>	32,045.3

## Notes to the current cost accounts (continued)

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

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

#### Borrowings and sums lent

The following loans from associated companies existed at 31 March 2004:

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

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

The following loans to associated companies existed at 31 March 2004:

	£m	Interest rate
United Utilities PLC	40.0	3.94% to 4.64%

#### Dividends paid to associated undertakings

During the year, dividends payable to United Utilities Service Delivery PLC totalled £210.7 million. This comprised a final dividend for the year ended 31 March 2004 of £134.9 million, an interim dividend of £66.7 million and a 7% preference share dividend of £9.1 million.

The ordinary dividend increased by 2.6% in 2003/04. The Company's dividend policy is to declare dividends which are consistent with the Company's performance and the management of the economic risk of the business. This policy has resulted in dividend growth broadly in line with inflation in the first four years of this review period.

## Notes to the current cost accounts (continued)

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

#### Supply of services

Services supplied to United Utilities Water PLC from associated companies.

Nature of transactions	Company	Terms of supply	Total value of service £m
Managed services	Vertex Data Science Limited	Market tested rates based on actual activity undertaken and other market testing	65.3
Systems development	Vertex Data Science Limited	Market tested rates based on actual activity undertaken and other market testing	20.4
Water meter supply and installation	United Utilities Networks Limited	Recharge of costs	14.9
Group management charge	United Utilities PLC	Recharge of costs	14.6
Accommodation and facility services	United Utilities Facilities and Property Services Limited	Other market testing including benchmarking	10.2

Note – The Group Management charge of £14.6 million (2003 - £9.5 million) from United Utilities PLC represents 60.3 per cent (2003 - 51.4 per cent) of the total management charge to subsidiaries. Approximately 80 per cent of the charge is allocated by activity (2003 - 80 per cent).

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

Accommodation and facility services include accommodation and telephony.

Services supplied by United Utilities Water PLC to associated companies.

Nature of transactions	Company	Terms of supply	Total value of service £m
Facility services	United Utilities Electricity PLC	Recharge of costs	14.6
New connections	United Utilities Networks Limited	Recharge of costs	7.4

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

On 1 April 2003, United Utilities Water PLC entered into a contract with United Utilities Networks Limited to fulfil certain metering and connections activities.

Turnover of associated companies (based on draft statutory accounts)

	Turnover of associated Company £m
Vertex Data Science Limited	347.1
United Utilities Electricity PLC	279.5
United Utilities Networks Limited	119.2
United Utilities Facilities and Property Services Limited	51.1

# Five year summary

## Current cost profit and loss account

For the year ended 31 March	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Turnover	<b>1,029.3</b>	999.0	998.8	1,015.6	1,114.1
Current cost operating costs	<b>(724.6)</b>	(720.1)	(695.4)	(724.3)	(728.7)
Operating income	<b>2.8</b>	0.9	1.6	5.0	(0.4)
Working capital adjustment	<b>4.1</b>	2.8	0.5	(0.3)	2.9
	<b>311.6</b>	282.6	305.5	296.0	387.9
Other income	<b>9.4</b>	9.4	1.2	2.4	2.7
Net interest	<b>(191.6)</b>	(164.2)	(155.4)	(148.0)	(137.7)
Financing adjustment	<b>72.6</b>	77.5	32.4	54.0	52.8
Current cost profit on ordinary activities before taxation	<b>202.0</b>	205.3	183.7	204.4	305.7
Taxation	<b>40.9</b>	(55.2)	(22.6)	(51.9)	(4.2)
Current cost profit on ordinary activities after taxation	<b>242.9</b>	150.1	161.1	152.5	301.5
Dividends	<b>(210.7)</b>	(211.3)	(213.0)	(212.2)	(214.5)
Current cost retained profit/(loss)	<b>32.2</b>	(61.2)	(51.9)	(59.7)	87.0

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

## Current cost balance sheet

At 31 March	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Tangible fixed assets	<b>37,799.4</b>	37,290.1	36,590.3	36,479.9	36,463.9
Third party contributions since 1989/90	<b>(211.1)</b>	(201.5)	(189.5)	(186.5)	(178.1)
Working capital	<b>(269.3)</b>	(161.3)	(91.8)	(41.5)	16.2
Net operating assets	<b>37,319.0</b>	36,927.3	36,309.0	36,251.9	36,302.0
Cash and investments	<b>319.8</b>	506.9	245.7	271.2	0.4
Non-trade debtors	<b>40.5</b>	29.1	6.3	60.0	54.8
Non-trade creditors	<b>(191.5)</b>	(258.9)	(152.7)	(113.5)	(523.0)
Creditors due after one year	<b>(3,073.8)</b>	(2,890.7)	(2,478.7)	(2,494.9)	(1,822.4)
Provisions	<b>(219.3)</b>	(255.5)	(200.6)	(197.0)	(5.8)
Dividends payable	<b>(134.9)</b>	(134.9)	(135.8)	(134.9)	(135.2)
Net assets employed	<b>34,059.8</b>	33,923.3	33,593.2	33,642.8	33,870.8
Capital and reserves					
Called up share capital	<b>755.4</b>	672.5	685.7	694.8	710.8
Share premium account	<b>647.8</b>	664.7	677.7	686.7	702.5
Profit and loss account	<b>(256.7)</b>	(296.4)	(239.9)	(190.8)	22.9
Current cost reserve	<b>32,913.3</b>	32,882.5	32,469.7	32,452.1	32,434.6
Total capital and reserves	<b>34,059.8</b>	33,923.3	33,593.2	33,642.8	33,870.8

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

# Regulatory accounts commentary

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

## Movements from prior year and five year trends

### Turnover and operating costs

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

Over the five year period turnover has been impacted by the price review, which reduced income in 2001 and 2002, and then increased it over the next two years. Measured sales, including large user revenues now represent 40 per cent of total sales, compared with 33 per cent in 1999/00 as new properties are always connected with a measured supply.

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

### Other income

The increase from the prior year results from increased income from the sale of assets.

### Net interest

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

### Financing adjustment

The financing adjustment over the period is a result of the uplift in the RPI figure. Note 1 c(ii) on page 34 contains further explanation on this adjustment.

### Taxation

The factors outlined in the Operational and financial review contribute to the movements in taxation during the period.

### Dividends

The basis of the dividend is outlined on page 41 of the Notes to the current cost accounts under the heading "Dividends paid to associated undertakings".

### Tangible fixed assets

Tangible assets increased each year as a result of the continued investment as part of the asset management programme together with the RPI adjustment to restate the asset values in real terms, offset by the depreciation in the year.

### Working Capital

Movements in working capital for the period are outlined in note 9 on page 40. Trade Debtors have reduced due to an increase in the year end bad debt provision, additional write-offs of old uncollectable debt during the year and cash performance.

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

The reduction in the infrastructure renewals accrual reflects the activity on the programme and the movement to a nil balance by the end of the AMP period.

Other trade accruals have increased, mainly due to increased interest payable following the termination of swaps to reduce both swap counterparty credit risk and net debt and offset future interest payments, offset by a reduction in general accruals.

### Cash and investments

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

### Non-trade creditors

The reduction in non-trade creditors since 2000 is due to a reclassification of certain intercompany funding balances from short to long-term. The reduction in the period is largely due to movement in overdraft balances.

### Creditors due after one year

The increased level of creditors since 2000 predominantly reflects the long-term debt raised to fund the capital investment programme, and the subsequent prefunding.

### Called up share capital

The increase in 2004 is due to the issue of 100 million £1 nominal shares at par value.

### Provisions

The increase in provisions from 1999/2000 mainly reflects the implementation of FRS 19 'Deferred taxation'. The reduction in the current year reflects the impact of increased UK government bond rates on the discount of the full potential liability.

### Atypical amounts

Atypical amounts in the year totalled £9.9 million including additional debt and restructuring costs offset by a reassessment of prior year liabilities.

### Changes in the treatment of expenditure

There have been no changes in the treatment of expenditure in 2003/04.

### Basis of allocation of expenditure

The revenues, costs, assets and liabilities are directly allocated to the appointed business and any other activity or associated Company, except where they relate to common support services. Those relating to common support services are apportioned on the basis of the demands made on each of these support services by each principal service or activity. Notes to the current cost accounts item 1(d) on page 34 also outline the cost allocation policy to principal services.

### Help for vulnerable metered customers

The Company has provided help to vulnerable metered household customers who face hardship resulting from high water use for essential purposes. This support amounts to approximately £42,000 in the year.