



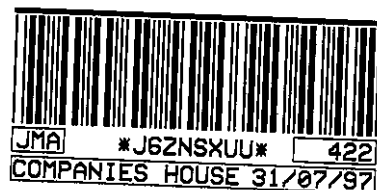
United Utilities

United Utilities is one of the world's leading suppliers of high quality utility and business support services.

We serve communities and business customers in the United Kingdom and overseas, contributing to their comfort and well-being, and to the success of business and industry.

We make a major contribution, through our operations and investments, to the sustainable improvement of the natural environment.

We will continue to grow and develop, to become a global business which operates to measurable world-class standards.

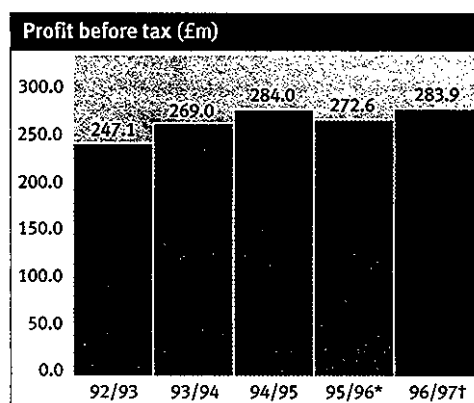


Corporate and financial highlights

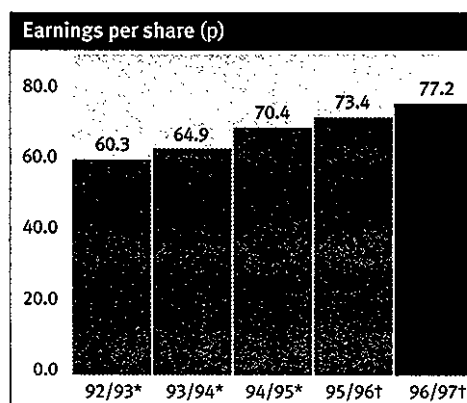
- Group positioned as focused utility services provider.
- Delivery of acquisition benefits as promised.
- Disposal programme well ahead of expected value.
- Vertex established as substantial outsourcing business.
- Major successes in international markets.
- Good progress towards value growth beyond 2000.
- Balancing our social and corporate responsibilities.

	1997	1996
Turnover	£2,377.2m	£1,838.6m
Profit before tax and exceptional charges	£444.0m	£389.2m
Profit before tax	£283.9m	£272.6m
Adjusted earnings per share	77.2p	73.4p
Dividend per share	37.20p	32.66p
Operating cash flow	£519.3m	£356.3m
Operating cash flow per share	99.0p	82.0p
Net borrowings	£1,627.0m	£1,770.3m
Shareholders' funds	£2,142.5m	£1,992.1m
Gearing	76%	89%
Adjusted interest cover	4.4 times	5.9 times
Adjusted dividend cover	2.1 times	1.9 times

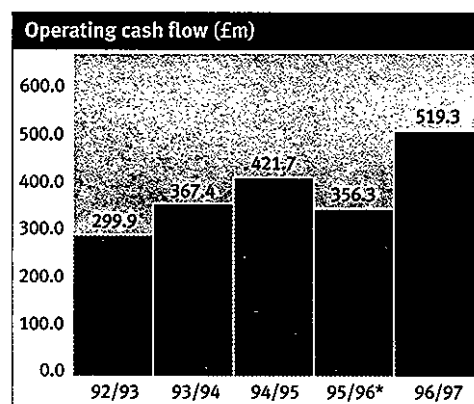
- Profit before tax and exceptional charges up by 14%.
- Adjusted earnings per share increased by 5.2%.
- Operating cash flow per share up 21% to 99 pence.
- Gearing better than expectations at 76%.
- Adjusted interest cover of 4.4 times.
- Full year dividend increased by 13.9%.
- Adjusted dividend cover strengthened to 2.1 times.



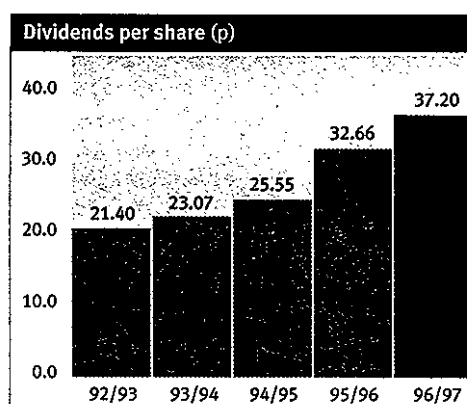
*After exceptional business restructuring costs of £123.8 million
 †After exceptional charges of £160.1 million in respect of Bangkok provision and loss on disposal of businesses



*Adjusted and restated for bonus element of 1996 rights issue
 †Excludes exceptional charges and divested businesses



*After impact of £77.3 million for Norweb customer rebates



Chairman's statement

The Group produced a solid business performance during the year, in particular delivering its promises in respect of the Norweb acquisition. But the most significant achievement has been laying sound foundations for future growth.

Delivering our promises

I am pleased to be able to report to you that the Group has produced a good financial performance in the year under review, whilst at the same time laying the foundations for future growth in value.

Following the substantial completion of our disposal programme, on time and ahead of our target, we have achieved our aim to be a focused multi-utility service provider.

The Norweb acquisition has proved to be excellent value and we have delivered the financial benefits we promised last year. More importantly, the acquisition has enabled us to create the strategic platform we need for our efforts to grow value beyond the year 2000.

Financial results

The year's results reflect for the first time the full year benefit of the acquisition of Norweb. Turnover increased to £2,377.2 million from £1,838.6 million the previous year. Profit before tax and exceptional charges increased by 14.1 per cent to £444 million. After the exceptional charges, profit before tax was £283.9 million, an increase of 4.1 per cent.

Adjusted earnings per share grew by 5.2 per cent to 77.2 pence, which continues our year on year growth in underlying earnings since privatisation.

We are recommending a final dividend of 25.2 pence for the year, which reflects our commitment to sustained dividend growth of 11 per cent in real terms. This will give a total dividend for the year of 37.2 pence.

Balancing our social and corporate responsibilities

We have continued our development towards Tomorrow's Company principles, under our Progress with Responsibility banner, which we believe will be increasingly important and valuable for the Group in the coming years. Through these guiding principles and actions, we are actively balancing our corporate and

social responsibilities and giving practical force to our commitment to pay equal attention to the interests of all our stakeholders.

The Chief Executive describes our progress in more detail in his review. I would like to highlight here just two examples of how these principles have been translated into action on the ground. First, looking to the wider economy, the launch of the United Utilities Venture Fund, which is designed to help the growth of small businesses in the region. And secondly, our major programme of work, at no extra cost to our customers, to increase our ability to maintain water supplies for customers following sustained abnormal weather conditions. We have now completed most of our voluntary £85 million programme and we believe we will have adequate supplies for customers this summer even if dry weather conditions similar to 1995 were to return.

People

This has been a year of change for many employees as the new organisation has taken shape. We appreciate the hard work that has been involved in making these changes, and at the same time in running and improving our day to day operations and developing the business. The commitment, expertise and enthusiasm of our employees are key strengths of the Group. We thank them all for their hard work and dedication.

An important development for the Group, I believe, has been the establishment of the United Utilities Forum, which brings together managers, employees and full-time trade union officials to look proactively at our employment policies. The establishment of Vertex Training will help ensure our businesses are provided with high quality training and development in key areas.

During the year, we welcomed Jane Newell to the Board and, more recently, Gordon Waters, the Managing Director of our International Division. At the annual general



Sir Desmond Pitcher



Above: Customers – Just one benefit is through the Home Energy Efficiency Scheme, which offers customers free energy-saving light bulbs. Here Jim Crompton, of Stockport, receives the 100,000th.

Left: Shareholders – We are pledged to give continuing value to all our investors.



Above: Community – As part of our extensive community involvement programme, our Mobile Visitor Centre, launched in 1994, has welcomed over 135,000 people to learn about the Amazing World of Water.

Right: Employees – Our progress reflects the skill and dedication of our people. Tony Vickers is Operations Controller at Huntington water treatment works, supplying over 1.5 million customers.



Below: Partners – We draw mutual benefit from working as an extended family with our suppliers and partners – as here in the Philippines where we have won a 25 year contract to run water and wastewater services.



meeting, we will be saying farewell to Frank Sanderson after fourteen years' service. Frank has been tireless in his efforts for the Group and has contributed his advice and expertise unstintingly for the benefit of the Group and its successful development. We extend our grateful thanks and very best wishes to him and his family.

The challenges and opportunities ahead

This has been an important year for building the foundations for future growth. We face significant challenges in the years ahead, but there are also substantial opportunities.

The regulated earnings of both North West Water and Norweb Distribution will be subject to price reviews which take effect in the year 2000. Those reviews will, I expect, be tough.

We have a new Government. Whilst we know its aims as described in its manifesto, we do not yet know the detail of how it will progress towards achieving them.

We are continuing to prepare and position ourselves for the forthcoming competitive energy markets, which we see as significant opportunities for the Group, and also to develop our other vehicles to drive the growth in our non-regulated earnings – the facilities management and international businesses.

Those latter two businesses have both registered recent major successes. Vertex, our business operations outsourcing company, has recently announced a joint venture with Northern Ireland Electricity to provide services to them and to other organisations throughout Ireland. On the international front, we are particularly pleased to have won our first overseas electricity project, in the Province of Buenos Aires, Argentina, hard on the heels of securing the water and wastewater concession for the eastern half of Manila, in the Philippines. Our international activities have already created a significant value premium for the Group. We expect that value to grow in the coming years.

We believe that the strategies we have developed, of which you will read more in the pages that follow, will enable us to meet these challenges, firmly grasp the opportunities and continue to grow shareholder value beyond the year 2000: They are designed also to enable us to meet our responsibilities to the other important stakeholders in our business – our customers, our employees, the communities we serve and our partners.

Sir Desmond Pitcher *Chairman*

Chief Executive's review

During the year, we have created the focused grouping of businesses which provides the platform from which we will deliver our strategic objectives.

Laying the foundations for the future

Last year, I wrote about what we intended to achieve in 1996/97. I forecast a year of major effort both to integrate the Norweb business and deliver the associated financial benefits, and also to form, through the divestment of non-core businesses, a Group which is a focused provider of high quality multi-utility services.

I described the development of the culture of the new Group and told you of our intention to widen our Progress with Responsibility initiatives to encompass the Tomorrow's Company principles, recommended following a study commissioned by the Royal Society for the encouragement of Arts, Manufactures and Commerce. A Tomorrow's Company is one which takes an inclusive approach to business leadership, people, investment needs and society.

I am pleased to describe for you now the progress we have made in the year. Before I do, I would like to outline again the strategic direction which has guided our actions during the year, and which will continue to do so.

Strategic direction

All our actions are guided by a single prime objective – to grow shareholder value on an ongoing and consistent basis.

That is, on the face of it, in line with the objectives of most companies. But utilities are different to most companies and because of that, the objective is truly demanding and will be difficult to achieve. Indeed, not all utilities aspire to it. The reason it will be difficult to achieve lies in a combination of factors. First, our primary earnings streams, from North West Water and Norweb Distribution, are subject to regulatory price reviews which will take effect in the year 2000. Secondly, those businesses do not have a never-ending capacity to reduce their costs through efficiency gains. The prudent conclusion is that our earnings from our regulated businesses will decline and, if no action is taken to counter that decline, so

too will shareholder value. Your Board has pledged itself to resist strongly such an outcome.

We believe it is possible for United Utilities to continue to grow shareholder value beyond 2000, and we are working to achieve that.

First, we are making careful and detailed preparation to engage in the price review process.

Secondly, we continue to challenge vigorously our cost base across all our business activities, in particular looking carefully at initiatives which will contribute beyond 2000. This is an area in which we have considerable experience.

Thirdly, we have created three vehicles for growth, in the form of our Energy and Telecommunications, Facilities Management and International divisions, which can go some way to offset the potential earnings decline and which will also create shareholder value. Our target for these activities is for them to contribute 20 per cent of Group profit before tax in 2000/01. That is a highly demanding target, but not an impossible one by any means.

Underpinning this work are our clearly stated objectives to:

- remain a highly focused provider of multi-utility and associated business operations outsourcing services in the UK and overseas;
- deliver high quality standards of service to our customers to satisfy their requirements of us. Being a provider of four utility services in our home market enables levels of efficiency to be achieved which will produce lower prices for customers and better returns for shareholders;
- deliver our services to the highest levels of technical excellence. Quite properly our customers expect nothing less; and
- continue to conduct our affairs as a socially responsible company, contributing to all our stakeholders as we do so. This is given practical effect through our Progress with Responsibility initiatives.



Brian Staples

Customers

We will provide high quality value-for-money services to our customers in a manner which meets their expectations of us.

Employees

Our employees are our key asset and we are committed to providing an environment in which they participate to the fullest extent in the company's success.

Community

We recognise the importance of our activities in the communities we serve and we will support the development of those communities through our actions.

Shareholders

We are committed to achieve growth of shareholder value, coupled with the payment of dividends at an affordable level consistent with our long-term goals.

Partners

We recognise the importance of our key suppliers and business partners to our own success and will work closely with them to deliver greatest mutual value.



United Utilities

Utility Division

North West Water Operations

Provides water and wastewater services to 2.9 million customers in the North West. Manages the biggest environmental improvement programme in the UK.

Norweb Distribution

Maintains a network of substations, overhead lines and underground cables to deliver electricity from the National Grid and power stations to domestic customers, commerce and industry in the North West.

Norweb Electricity Supply

High volume, low margin business, supplying over 2 million customers throughout the North West and large amounts of energy to competitive customers throughout the UK.

Norweb Gas

Building on its achievements so far in securing 12 per cent of the North West's competitive gas market, in preparation for complete deregulation in 1998, and supplying over 5,000 sites throughout the country.

Norweb Contracting

Undertakes industrial, commercial and domestic electrical installation work including rewiring and security systems.

Norweb Communications

Providing telephone and related services for the North West's business community, its mission is to become the main alternative supplier of choice to that market.

Energy and Telecommunications Division

International Division

North West Water Overseas Services

Manages operating contracts to serve 25 million people outside the UK and USA and provides consultancy services in many countries.

Norweb International

Seeks global electricity distribution and transmission opportunities, drawing on our reputation for efficiency and competitiveness in the UK.

US Water

Jointly owned with global partners Bechtel and Kiewit; operates 30 municipal and industrial water and wastewater systems in North America.

International Water

A joint venture with Bechtel, responsible for all business development, project finance and bidding activity for new joint venture contracts internationally outside the USA.

Facilities Management Division

Vertex Data Science

Markets a wide range of business operations outsourcing services both to United Utilities' companies and to external customers.

Customers

Right: Drinking water quality – 99.5% of drinking water samples in the North West of England met all the demanding quality standards in 1996. Our team of inspectors take these samples at customers' taps for testing.



Taking 3,000 water quality tests a day.

Above: Value for money – A major communication campaign in the North West successfully raised customer awareness of the value of water and wastewater services, provided for an average household charge of 60p a day.

Group progress during the year

1996/97 was a year of substantial progress for the Group. In particular, we created the focused grouping of businesses which provides the solid platform from which we will deliver our objectives.

We are now firmly established in our new operating structure, with four powerful divisions under the leadership of a slim, but strong, Group centre. We have remained true to our belief that businesses perform best given the maximum amount of devolved responsibility, under a Group centre which provides firm controls and oversees the maintenance of critical standards.

One of the year's main tasks was the divestment programme, aimed at enabling us to concentrate all our energies on the businesses which are part of our future. Excellent progress has been made.

In parallel, we were also working to turn business planning into reality and to establish the ongoing business units firmly in their new shape. In some cases, this was through the integration of Norweb and North West Water and, in others, by the formation of entirely new businesses, for example, Vertex in the Facilities Management Division. In all cases, excellent progress has again been made.

A key task was delivering the financial benefits of the Norweb acquisition and, more particularly, our promises to shareholders. I examine this in detail later, but for the moment let me say this is an area where all expectations have been met.

Producing these financial benefits enabled the Group to deliver a solid financial performance, firmly in line with our longer term intention to continue to provide consistent rather than spectacular results. Indeed, the performance was all the more notable when the effect of our Progress with Responsibility initiatives and our successful efforts to make increased water resources available in our region are taken into account.

The Group's cash flow performance was particularly pleasing, with the welcome reduction in gearing to 76 per cent emphasising the importance we place on strong cash management.

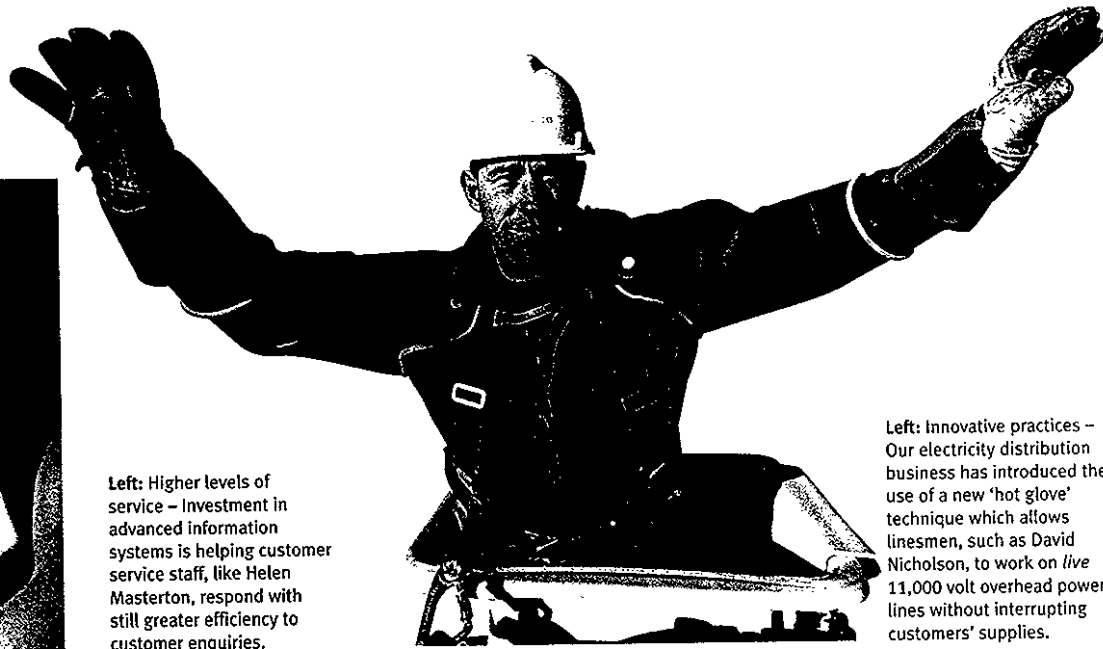
The financial results reflect our short term performance. Good progress was also made in developing towards the Tomorrow's Company principles. This is firmly aimed at our future success, by focusing on all our stakeholders who have an interest in, or are able to contribute to, that success and, in the process, raising our awareness of our position in the wider communities we serve.

Although we started on this road as a catalyst to becoming a measurably world class company, the initiative is all the more appropriate, perhaps, in the light of the recent election of a Labour Government. Our progress will be illustrated throughout this review, but some examples of what has been achieved at Group level are:

- we have, for the first time, articulated the aims, objectives and standards by which United Utilities will operate. These are set out in our vision for the future, principles defining the standards to guide our actions, and statements of policy covering all aspects of our operations and regulating our day to day activities;
- the formation of the United Utilities Forum, which takes the partnership between the company, its employees and the trade unions which represent them a long way beyond the concept of a Works Council;
- our customer stakeholders have also benefited during the year, as we continued our Progress with Responsibility policy of sharing the benefits of our efficiency out-performance through rebates from bills;
- in the wider community, we initiated a host of actions to contribute to the success of the region we serve. Our corporate community involvement programme spans a range of long term and mutually beneficial



Left: Higher levels of service – Investment in advanced information systems is helping customer service staff, like Helen Masterton, respond with still greater efficiency to customer enquiries.



Left: Innovative practices – Our electricity distribution business has introduced the use of a new 'hot glove' technique which allows linesmen, such as David Nicholson, to work on live 11,000 volt overhead power lines without interrupting customers' supplies.

partnerships, from support for educational and environmental organisations and encouragement for young enterprise, to economic regeneration initiatives and cultivation of the arts; and

- to help the region's economy, the launch of the United Utilities Venture Fund, designed to help viable small high tech businesses raise capital to grow which they would find difficult from conventional banking sources. We have committed £4 million to this fund, creating, together with other investors, a £10 million fund in total.

As these examples demonstrate, Progress with Responsibility is now a reality throughout the Group, and is supported on a daily basis by our employees, both in their business and private lives.

Discontinued businesses

When we announced, in Spring 1996, our programme to divest our non-core activities, we indicated our hope that we would complete it in the year and achieve sale proceeds of £350 million. I am pleased to report the task was substantially completed in the year and the disposals have achieved a value of more than £460 million, after taking account of the value to be realised from Carefree Insurance which has been retained by the Group. Following our decision in the Autumn to withdraw the Norweb Contracting business from the sale programme in the absence of an acceptable purchaser, the only asset remaining to be sold is our minority interest in the Roosecote power project.

The electrical retail business and associated loan book realised a gross value of £164 million. Norweb's investments in generation also achieved excellent values. Our 50 per cent of the Keadby power station was sold for £123 million. We have announced an agreement to sell our two US investments, in the Auburndale and Gordonsville power plants, for £25 million. Our portfolio of small renewable generation projects was also sold, after the year end.

We were very pleased to achieve the sale of our process equipment companies as an integrated unit for £125 million, some £50 million more than the net asset value. This sale, in particular, represents a significant success and recognises the considerable effort made over the previous few years to improve the performance of the businesses.

Norweb Contracting is now being managed within the Utility Division, where it will concentrate on utilising our high voltage skills.

The Bangkok wastewater project, our one remaining international construction contract, produced our only disappointment in what was otherwise an excellent year. In late February, we were obliged to announce an increase in the provision we had previously made for an out-turn loss on the project. The increase of £83 million was clearly very material. It followed the decision of the Bangkok Metropolitan Administration to cease negotiations on the increased costs the project has incurred, choosing instead to ask us to register a formal dispute and seek recovery through arbitration.

We are now engaged in that formal route, having received high level legal advice that we have a sound case. Indeed, we shall spare no effort in our endeavours to be paid the moneys properly due to us.

Bangkok is the only remaining example of the Group acting as a construction contractor, following our decision in 1994 to exit all construction activity of this nature. On all our other international activities, we have either avoided construction risk or are protected from it by our global partnership with the Bechtel Corporation.

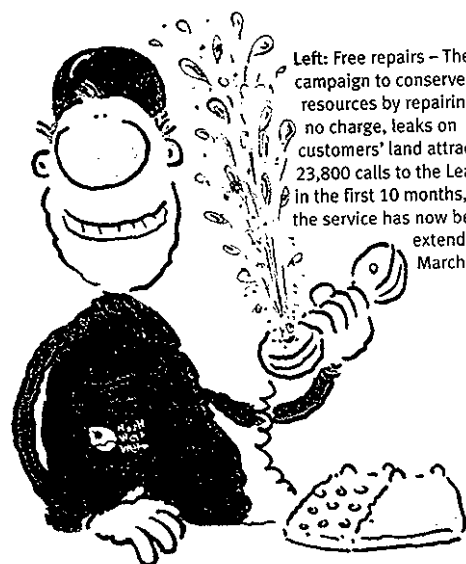
Utility Division

The Utility Division made excellent progress in the year with its twin objectives of increasing customer satisfaction and profitability. It brings together our two major regulated businesses,

Left: New ExtraCare services – Those customers in the North West who are elderly, sick or disabled, can draw on additional support, including information in Braille and large print, and visits from trained advisors and sign language interpreters amongst them Doris Moreton of the RNID.



Right: Stimulating business – Over 55,000 visitors to our electricity test and experience centre have seen at first hand demonstrations to help them in the more efficient and productive use of electricity.



Left: Free repairs – The campaign to conserve water resources by repairing, at no charge, leaks on customers' land attracted 23,800 calls to the Leakline in the first 10 months, and the service has now been extended to March 1998.

North West Water and Norweb Distribution, and as such is one of the main deliverers of the benefits of integration. That process continued through the year, merging the previously separate activities of the two companies, such as support services, information systems and depots. It is pleasing to report that all the cost targets we announced a year ago were met.

A good result was also achieved in managing North West Water's capital expenditure programme, as a result of the combined efforts of our management team and our partners, Bechtel Water Technology. This, coupled with our other rigorous cash management actions, enabled cash outflow to be constrained to £150.2 million, despite our largest ever capital expenditure in the year of £504.6 million. All regulatory outputs were met.

The benefits achieved for our water services customers and the community through that capital expenditure programme included:

- reduced leakage and improved water quality, by the refurbishment of over 780 kilometres of water mains;
- new communication pipes for 48,000 properties, replacing mainly old lead piping;
- work towards removing the risk of cryptosporidium contamination, by improvements at key treatment works;
- helping to improve the quality of bathing waters, with the completion of our £500 million Sea Change programme;
- continuing improvement of the Mersey estuary, through substantial further progress with the pollution alleviation scheme, including the final stage of the 28 kilometre Liverpool interceptor sewer;
- further progress towards ending sludge disposal to sea, as work commenced on the £115 million sewage sludge processing centre at Widnes;
- reducing the risk of river pollution through the closure, improvement or replacement of 74 unsatisfactory sewage overflows; and
- improved sewage disposal arrangements, as

65 kilometres of old sewers were replaced and a further 154 kilometres of new sewers were added to the network.

Service standards were again improved and drinking water supplied to our customers was of a consistently high standard, with 99.5 per cent of samples taken at the tap complying with the demanding standards.

The quality of drinking water leaving our water treatment plants also improved, with 99.9 per cent of samples meeting the prescribed standards.

The capital expenditure on wastewater treatment works produced similar improving results, with over 98 per cent of wastewater tests meeting all quality standards.

Norweb Distribution's capital expenditure programme of £96.3 million included £49 million to improve existing assets and £20.8 million spent on expanding the network to meet new supply requests.

We rebuilt 140 kilometres of overhead lines and installed 73 kilometres of underground cable. Five primary sub-stations and some 300 distribution sub-stations were re-equipped with more modern plant.

During the year, we introduced a range of new initiatives designed to deliver our commitment to a level of customer service that matches the expectations of our customers, both on cost and service excellence. We aim to achieve that by listening to our customers, measuring their opinions through regular surveys and acting on their concerns. In addition, we have taken a number of specific actions, which reflect our intent to be aware of our social obligations.

For our electricity customers, we have:

- enhanced the level of our capital investment to deal with 'rogue' circuits which cause supply failures. In the year, 29 circuits, mostly overhead lines, were improved, reducing supply interruptions to customers in the areas served;



Left: BusinessCare – A new service has been established to provide dedicated support to our commercial and business water services customers.

Left: Customers overseas – US Water, our joint venture company with UIC, serves customers in North Brunswick, New Jersey, through the first long-term private concession contract awarded in the USA.

- continued to provide some of the best service standards of any regional electricity company and reduced the number of times we had to compensate customers under our guaranteed service standards scheme to 21 from 64 in the previous year. All overall standard targets agreed with the Director General of Electricity Supply were achieved;
- invested in new advanced systems which will enable us progressively to centralise our customer support systems and our distribution and network control, with consequent improvements in standards of service; and
- introduced new, highly innovative, working practices, such as 'hot glove' working which enables us to work on live high voltage overhead lines without interrupting customers' supplies.

The benefits of this investment have been reflected in improved customer satisfaction levels among Norweb customers. We were also very pleased that Norweb retained its Charter Mark award for service excellence.

For our water services customers, we have:

- increased the rebate to customers from £6.50 to £10, the equivalent of two weeks' free services, or 5 per cent off the average bill;
- launched a range of ExtraCare services for customers who are elderly, sick or disabled;
- created a special fund for people who are struggling to pay their bills. Working with Ofwat and the Citizens Advice Bureau, we jointly review the circumstances of eligible customers and offer appropriate help;
- continued with our discretionary capital investment programme to target particular customer concerns, for example, reducing the number of properties suffering from poor water pressure or incidents of sewage flooding. Our total voluntary capital expenditure has now reached £111 million, including investment to reduce the risk of future water supply restrictions;
- announced an enhanced guaranteed

standards scheme, which provides increased compensation if we do not meet those standards. This includes compensation for customers if we have to cut essential supplies in severe drought conditions;

- established a new BusinessCare service to provide dedicated services and support for our commercial and business customers; and
- started a major communication campaign to keep customers informed about our actions to improve their water and wastewater services and about where their money goes.

These actions have helped achieve a marked improvement in our customers' perception of the company. We aim to build on that improvement in the current year.

An issue which causes our customers and the wider community considerable concern is the drought, or rather the availability of water supplies. We have taken a combination of actions to reduce the risk that North West Water will have to restrict supplies in the future, which has produced considerable improvements.

Since the drought struck, in the early Summer of 1995, we have been working on a major programme to make new resources available, to enable water to be moved around the region more readily, to accelerate the reduction of leakage both from our system and from our customers' systems and to inform our customers how they may best conserve water. We have now completed most of our voluntary £85 million investment programme.

We have opened up new water sources and constructed additional treatment capacity. We have continued the free leak repair service we launched for customers in April 1996, dealing with leaks from customers' systems. We have significantly enhanced our efforts to reduce leakage from our own system. Altogether, we have fixed over 56,000 leaks. We have already achieved our leakage reduction targets agreed with the Director General of Water Services for

Employees

Right: Apprentice success – As part of our employee development programme, Helen Hollman has undergone four years' training and has qualified as an engineer. 'I hope eventually to do a degree in engineering,' says Helen, who now works as a field services engineer within plant maintenance, based at Franklaw water treatment works.



Above: Environmental action – Contributing to our environmental performance is our central oil reprocessing depot in Blackburn which has just reached its 400 million gallon milestone in recycling oil used in electricity transformers and switchgear.

the current year and are well on target to reduce our daily leakage by 250 megalitres by the year 2000.

Taken together, these efforts have increased the daily availability of water by 360 megalitres, over 15 per cent of our normal requirements and enough to meet the daily requirements of a city the size of Liverpool. At the same time, our customers have responded very positively to our information and conservation programme.

As a result of these actions, we were able, in agreement with the Environment Agency, to remove the hosepipe ban in October 1996, despite the continuing low rainfall.

North West Water is almost fully compliant, through our own voluntary actions, with the points for action sought by the Government at its Water Summit in May 1997.

The Division is at the forefront of many of the best practices to improve employee satisfaction which have now been embodied in Group standards and policies and I comment more on this later.

The Division's activities have a significant impact on the wider community and on our environment. Its services touch the lives of everyone in the region. We are very mindful of that and it guides the actions we take under Progress with Responsibility. Our community involvement programme is extensive, embracing the environment, enterprise, people with extra needs and education and, during the year, the Division invested more than £2 million in that programme:

- we extended our award-winning education programme by opening a third environmental education centre, at Leigh, Greater Manchester. The centre provides facilities for primary, secondary, and post-16 studies linked to the water environment;
- we initiated a partnership with the Royal National Institute for the Blind to produce national curriculum materials on the water cycle for visually impaired children. In addition, employee volunteers have taken

- an active role in refurbishing the RNIB's Sunshine House at Southport; and
- as one of the region's largest landowners, we launched a major programme to plant a million trees on our land by the year 2000. And as part of our responsible approach to conservation, we have committed to increase the number of designated nature reserves on our land to 15 over the next four years.

Much of what we do to act in a responsible and socially aware manner is funded by the efficiency gains achieved by North West Water and Norweb. Many challenges lie ahead, with the introduction of a windfall levy and price reviews in both water and electricity distribution. It is to be hoped that those changes will be restrained to a level which will enable the good progress we have made so far to be continued in the future.

Energy and Telecommunications Division

This Division is one of the Group's growth vehicles for the future. We see the forthcoming competitive markets in electricity and gas as areas where the Group can exercise its expertise and low cost base arising from our multi-utility volumes to grow earnings and value. We have worked hard to plan our approach to, and to position ourselves to be successful in, these new markets.

The Division plays its full part in our Progress with Responsibility initiative. In addition to the cold weather rebate of £10 for senior citizens, we distributed 10,000 room thermometers to Age Concern. We also introduced local call rates for our three telephone numbers most used by customers. We continued to support Young Enterprise, helping 15 to 19 year olds gain experience in running their own businesses, and to offer a mentoring service to school pupils in Salford.



Left: Employee care – A new occupational health centre at Lingley Mere, Warrington, is the base for our extensive programme to improve the health and wellbeing of the workforce. Here, occupational health adviser Joanne Hancox (right) explains to administrative assistant Sarah Youell, the use of a vitalograph for a lung function test.

Below: Employee volunteering – Our community action programme includes support for Crucial Crew, a national initiative for promoting safety amongst young people.



Above: United approach – The United Utilities Forum is a positive move to a new world in which management unions and employees work together. Forum member Mark Tami, head of research for the AEEU, says: 'There are encouraging signs that the Forum does have a role to play.'

Electricity supply

We currently supply electricity to some 2.2 million customers in the North West of England, as well as to competitive customers (over 100 kW) throughout the UK.

Customers benefited from a 5.75 per cent tariff reduction in October, and a further reduction of 3.6 per cent, effective in April. The average Norweb domestic bill is now £19 less per annum than it was pre-October 1996 and our domestic electricity prices are the third lowest in the country.

We continued to focus on winning profitable business in the over 100 kW market. In the round of contract negotiations, we gained significant new business and now have some 1,000 sites outside our region, a threefold increase. New major customers include ICI, British Telecom and Iceland Frozen Foods.

Our energy efficiency effort increased – around 20,000 telephone enquiries were dealt with, compared to 2,000 the previous year, and our energy advisors visited over 2,500 customers in their homes. We are spending £9 million over the four years to 31 March 1998 on insulation projects and low energy schemes. In February, the 100,000th low energy light bulb was presented in association with the government funded Home Energy Efficiency Scheme.

Industrial and commercial customers entering the 1996 Norweb business energy awards scheme collectively identified annual savings of £0.5 million through the wiser use of energy. We were very pleased that one of our customers went on to win the Supply Industry national energy saving award. This reflects well on our EMTEC (electricity test and experience centre) team who provide free advice to customers on the efficient and productive use of electricity.

Performance by Norweb as a whole on the guaranteed standards set by the Director General of Electricity Supply continued to be one of the best of all the RECs. Advanced customer systems are being built to improve

service further and also to allow us to compete successfully in the forthcoming competitive domestic market. Discussions are continuing with the Director General to ensure that competition is introduced in an orderly way and that appropriate costs are recovered.

Gas supply

Norweb Gas supplies natural gas to areas of the gas market so far opened up to competition – to business customers throughout the UK and to domestic customers in the South West domestic gas trial area. These market segments are small and not, in our view, wholly indicative of the trading conditions that will prevail when the gas market becomes fully competitive. Nevertheless, we have gained valuable experience.

Despite the work involved in developing the business in readiness for the fully competitive market, turnover in the year increased and a profit was produced.

Norweb Communications

The telecommunications business, launched in 1994 as the leading alternative supplier of choice to British Telecom in the business market in the North West, has made excellent progress in developing its infrastructure and winning new customers. A major achievement was the completion of the North West fibre optic trunk network, which now links major business centres, stretching from Manchester to the Scottish Border and from Leeds to Liverpool – collectively, one of the highest concentrations of commerce and industry in the UK.

The business is now starting to capitalise on its investment in the most advanced network in the region, providing high quality services to the business community. Major customers secured included Manchester Airport, British Nuclear Fuels and Fujitsu.

We have continued our research and development programme into Power Line

Community

Right: Cleaner coastal waters – Fleetwood resident Mavis Barlow welcomes the local improvements our Sea Change programme is bringing. 'You feel something is being done, not only for the children of today but for their children too.'



Right: Environmental education – Studying the aquatic environment is easier – and fun – for these youngsters, thanks to the raised ponds we have sponsored at the Martin Mere reserve run by the Wildfowl and Wetlands Trust, one of a number of environmental organisations with which we have formed a productive partnership.



technology and have been awarded a number of patents. This technology, which is capable of passing voice and data telephony over the electricity supply infrastructure, is potentially an exciting development which will have applications both in the UK and overseas.

Norweb Connections

The connections business designs, prepares and project manages schemes for new connections to newly built homes, businesses and non-metered connections, such as street lighting.

The business is now operating in a fully competitive market, where it has successfully secured electrical contracts in line with previous levels. Towards the year end, business activity increased reflecting the upturn in new housing starts. Major electrical connection contracts won included the Oasis Forest Holiday Village, Carlisle, and Bolton Sports Village.

During the year, we launched a multi-utility connections service which has been very well received. The first major multi-utility contract was won at the Trafford Centre, Manchester. Subsequently, multi-utility contracts have been secured throughout the North West. We are uniquely placed to provide this type of service, which we anticipate will generate welcome future growth and profit opportunities.

International Division

The sound progress made by the Division in the development of our international business was rewarded by major successes in water and in electricity.

The Division is another of the Group's primary vehicles which we anticipate will produce growing shareholder value in the years beyond 2000. That is not to say that the existing projects will not deliver value before that date. On a conservative valuation basis, the current value of those activities is £78 million, which compares very favourably with the total

investment to date of both equity and development costs of £58 million.

The very large and long term contracts which characterise the international market have long gestation periods before they deliver their true profitability. The reasons for that are straightforward. First, the period of take-over is long because of the complexity of the operations and, secondly, the period needed to introduce and collect new tariffs, or to downsize an existing organisation, is inevitably measured in years rather than months.

Our strategic approach to the international marketplace is strongly founded on risk avoidance, and careful management of those risks which cannot be avoided. We minimise the use of equity, but seek good returns where equity is applied. In particular, we tailor our return requirements to match the risk of each country. Where we arrange debt for a project, that debt is secured on a non-recourse basis with no direct reliance on the Group's balance sheet.

We are highly selective, both about the countries in which we are willing to invest and, thereafter, in the projects we pursue. Once established in a territory, we seek to develop that foothold by building more businesses around it, and in the process benefit from the cost synergies. We recognise that, as always in business but even more so away from home, good people are the key to success.

Against these criteria, we are building an international portfolio which is already yielding reasonable returns on the investment the Group has made both in terms of equity and business development expense, but which, more importantly, will continue to grow in the future.

A key part of our risk management strategy is to work in partnership with other substantial companies. That also helps to minimise our equity requirements. The strategy is well exemplified by our global partnership with the Bechtel Corporation, represented in this Division through our jointly owned operating companies, International Water and US Water.



Above: Economic regeneration – The new United Utilities Venture Fund helps smaller businesses in the region raise capital to grow.

Right: Goodwill sponsorship – We have pledged a total of £1 million to appeals to fight cancer by two North West hospitals: the Christie and Alder Hey Children's.



PHOTO: DAVID HARRISON/SUNDAY TIMES MAGAZINE

Below: Open access to our land – 'If every landowner was as open, ramblers would be delighted' says Jean Gilligan (front) Secretary of the Lancaster Group of the Ramblers' Association.



We recognise too that powerful local partners are crucial to success. We carefully select strong companies who add value as well as bringing local understanding and influence.

International Water made good progress in the year. The highlight was the award of one of the two contracts which together comprised the world's largest water privatisation to date. The Manila Water Company, a consortium of United Utilities, Bechtel Enterprises and Ayala Corporation, has been awarded a 25 year concession to run the water and wastewater services for 4.6 million people in the eastern half of Manila. Formal handover is expected to take place later this Summer, but we already have a senior team in place with a very strong representation of our UK water utility professionals. Whilst still at a very early stage, the initial indications on both cost and future revenue aspects are very pleasing.

The Manila contract is a good example of our low risk strategy, with a guaranteed rate of return which we fully expect to exceed, relatively low equity engaged, fully non-recourse finance and strong local and international partners.

In Australia, the Adelaide project which was secured in the year has made excellent progress, with construction work underway on two plants and design work well advanced on the other eight plants.

The expansion of US Water under its joint ownership between United Utilities and UIC, a Bechtel/Kiewit joint venture, has progressed well. It is now well placed to take advantage of the major opportunities available as the US market becomes liberalised.

At the time of the Norweb acquisition, we said we would carry Norweb's skills in electricity distribution and supply into the international arena, using the presence and experience acquired through our water activities to leverage the business forward at low cost.

We have turned that concept into reality with the formation of Norweb International, and

have made significant progress in identifying supply and distribution opportunities in selected international markets.

Currently, the South American market provides some attractive prospects and our efforts have been concentrated on opportunities in Argentina.

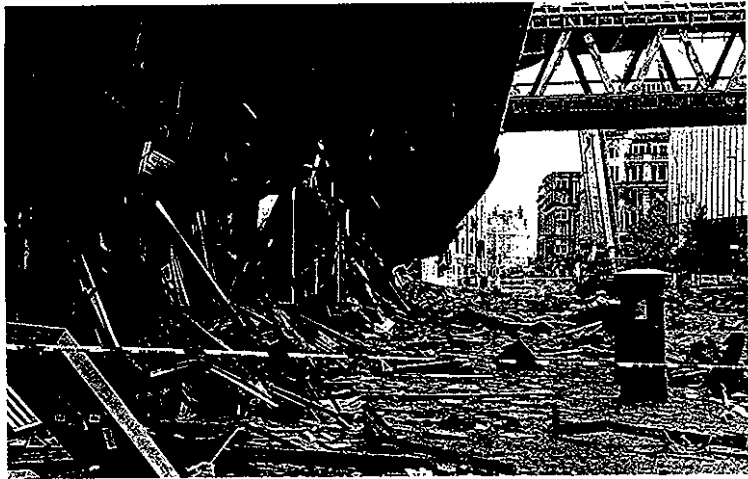
We are pleased to report that, since the year end, we have secured a substantial share of a supply and distribution company in the Province of Buenos Aires, Argentina. We bid for this opportunity through a consortium company in which we are the major shareholder. One of our partners, Camuzzi, holds the gas supply and distribution concession for the same area.

This is a very exciting acquisition which gives us the opportunity to develop the multi-utility concept internationally.

Facilities Management Division

At the end of the Division's first year, we can reflect on achievements which met and exceeded all our targets. The formation of Vertex Data Science, by merging the similar activities of North West Water and Norweb, was the most radical of our integration plans. The challenges to be met were very significant. First, bringing together people, systems and activities in a comprehensive merger process. Secondly, restructuring to deliver the financial benefits we predicted from doing so and, thirdly, establishing a new business which could succeed in the wider world.

Vertex supplies a wide range of services to Group companies, under rigorous service level agreements which provide for improving efficiency and reducing costs on an incentive driven basis. Much has been achieved on both service standards and cost during the year. The integration cost targets we announced last Spring were met in full. Significant improvements in service standards have been



Far left: Special care – One of our community partnerships is with the Royal National Institute for the Blind. Here, Customer Strategy Manager Noela Kelly (left) meets Jody Bell, head of the Sunshine House School.

Left: Community support – The IRA bombing of central Manchester affected many residents and businesses. To help those most in need, we made a donation of £200,000 to the Lord Mayor of Manchester's appeal fund.

Left: Arts support – Our funding of the arts includes support for the Hallé and Royal Liverpool Philharmonic orchestras who together take our innovative Classics in Parallel concert series to communities around the North West.

delivered, despite some early difficulties because of the enormity of the change involved in forming Vertex and external influences which affected customer service standards for a short while.

However, the true measure of the success of Vertex will be its ability to win business outside the Group and to deliver those services profitably. Business operations outsourcing is one of the fastest growing sectors in the commercial marketplace. Growth rates of 20 per cent per annum prevail virtually everywhere in the world, with the UK in excess of that rate.

Vertex is already one of the UK's leading companies in this rapidly growing market. An important benefit to the Group is that its earnings are non-regulated. Indeed, the City attaches a very high earnings multiple to similar companies in the sector. To address the fast growing external marketplace without taking our eye off the internal activities, we have recruited a strong and experienced sales and marketing team, and the first external contracts were secured with Bromley Health Trust and the Comet retail business.

Since the year end, we have announced the formation of a joint venture company with Northern Ireland Electricity to provide services to them and other organisations throughout Ireland. The total contract value is over £175 million and the services to Northern Ireland Electricity will commence in July for an initial seven year term.

This is likely to be one of the largest outsourcing deals signed in the UK this year, and is a very welcome win for Vertex which goes a long way toward establishing the credibility of the business in the external world.

In addition to that new company, Vertex has also formed two other new business units from within its original activities to maximise their development in the market. Vertex Training will operate from its purpose-built management training and development centre in Chorley. With its range of skill-based, management and

IT training, it is from its inception one of the leading training businesses in the UK. Its objective is to grow rapidly in this fragmented sector to provide a substantial business in its own right.

Metering Services will establish a national metering operation, based on its existing extensive North West coverage. It will aim to take advantage of the emerging technologies in automatic meter reading as part of its planned progression.

People

The way in which the Group faces up to its responsibilities as an employer is a key area of importance within Progress with Responsibility and our development to Tomorrow's Company principles.

The Group's progress so far reflects the skill, dedication and loyalty of our people and, in the last year, their achievements have been more significant than ever before. It is their commitment that has brought about the improvements which have been achieved in business performance and customer service.

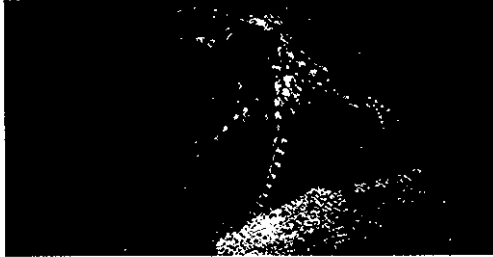
Our continued success depends on our employees adapting to new challenges, new roles, new systems and new responsibilities. Employees are the key to achieving our business strategy. We are fully committed to improving the skills of employees and to extending Investors in People accreditation throughout the Group. Through widescale training and development, and nurturing a culture in which people feel valued, we encourage employees to work to their full potential.

The creation of Vertex Training will allow us to build on our position as one of the leading training employers in the North West, and to benchmark ourselves with leading training practice in the UK.

We are placing emphasis across the Group on identifying our most talented people and proactively managing careers to ensure that we have the right skills in the right place at the

Partners

Right: Strategic partnership – Bechtel Water Technology is helping us deliver our massive Mersey clean up programme, which is seeing the appearance in the river of such species as octopus, squid and mackerel.



Left: In control – Our operational centre at Warrington enables us to oversee our utility network in the North West, and to maintain procedures, developed in co-operation with external agencies and the local community, for responding to emergencies.

right time. Within each of the divisions, there are numerous initiatives and programmes to enhance further the skills of employees. We respect the dignity and rights of every employee and our company culture is to understand and support people in performing various roles in society and to challenge prejudice and stereotyping.

We are committed to open and regular communications with our employees. The new, award-winning Group wide newspaper, *The News*, is another important channel through which we can keep employees informed about business issues and developments and issues of general interest to them.

Proper attention to health and safety is an indispensable part of our commitment to high standards in every aspect of our business.

The recently established United Utilities Forum, a tri-partite arrangement between management, employee representatives and full-time officials from the five recognised trade unions (UNISON, AEEU, GMB, EMA and TGWU), meets quarterly and looks proactively at issues such as equal opportunities, learning, safety and occupational health, pensions, pay for out-performance and regulation.

The aim is to work together, using the business knowledge of the employee representatives and the wider knowledge of the full-time officials to develop best practice policies for the benefit of all employees. Three particular achievements have been the endorsement of company-wide learning, equal opportunities and occupational health policies, which will have measurable benefits for employees.

This partnership approach is mirrored at a divisional level, with management and employee representatives talking in open forum to resolve divisional issues and bring about improvements for employees.

Every employee plays a key part in building a quality company and we have pledged to deliver real business improvement by focusing on our

customers and meeting their needs. In the drive to achieve excellence, we use the European Business Excellence model as our measurement tool.

Across the Group, a number of programmes are in place to recognise the hard work of employees. A new suggestion and recognition scheme, *Water and Wires*, has successfully been introduced this year through which employees help to bring about significant service improvements and savings.

Our employees are encouraged to take an active role in their community. Amongst the wide range of activities, volunteers on a speakers panel have been trained to give talks to community groups, a group of volunteers acts as education co-ordinators, trained to give presentations at schools and education groups. Other volunteers are actively involved in Young Enterprise schemes across the region, and the Duke of Edinburgh award scheme and Prince's Trust activities are fully supported by the company.

Our approach to the environment

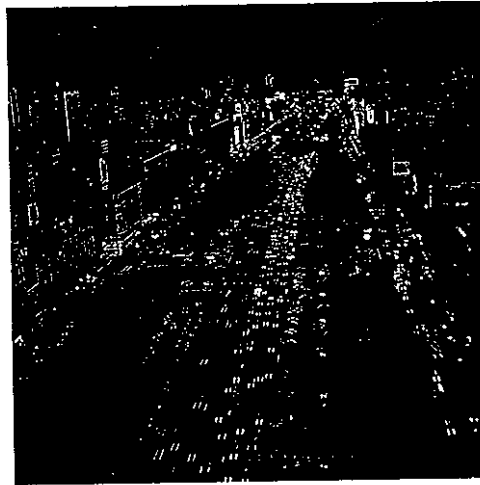
We recognise our central role in protecting and improving an environment which previous generations have too often neglected. Indeed, this is an integral and fundamental element of our business strategy.

Our strong commitment is demonstrated in many of the plans, programmes and actions I have described in this review, dealing with water conservation, energy conservation, minimising pollution risk and conserving the landscape and its wildlife.

Through our initiatives, we aim to raise our performance, reducing environmental impacts, improving efficiency and raising the quality of our services.

To oversee our work, we have set up an Environmental Management Panel of senior executives and eminent external experts, who will bring an independent view and help us with best external practice.

Right: Argentina – With our partners, Camuzzi and Loma Negra, we have acquired the Atlantic electricity distribution company in the Province of Buenos Aires, serving 390,000 customers, our first international electricity project.



Right: Australia – Riverland Water, our consortium with Bechtel Enterprises and AMP Investments, has won the contract for a project to improve water supply and quality for more than 100,000 people in Adelaide.



Above: The Philippines – Manila Water Company, in which our partners are Ayala Corporation and Bechtel Enterprises, has been

awarded a 25 year concession to operate water and wastewater services for 4.6 million people in the eastern half of the city.

We are committed to much greater visibility of and to stimulate a dialogue on the environmental aspects of our business, and to that end we have published our first annual environmental report, describing our work and plans in greater detail. Details of how to obtain a copy of this, and other publications, is given in the shareholder information section in this annual report.

Progress with Responsibility forms a basis for improvement in all aspects of our business, which will enhance our business performance, improve perception of the company and set us in position to be the supplier of choice for our customers. We look forward to delivering that further progress.

Suppliers and partners

We operate in an increasing number of markets around the world and recognise the benefits of working on a long term basis with our suppliers and partners. This applies whether we are buying goods, services or new infrastructure or working with our partners on new business development opportunities. Our policies which set out our business direction are consistent with the Tomorrow's Company principles.

Brian Staples Chief Executive

Looking to the future

We have achieved another year of significant progress, in particular in our efforts to position the Group to be able to continue to grow shareholder value beyond the year 2000. We recognise that there are challenges ahead.

We will shortly be faced with a windfall levy, to which we will respond appropriately when we know the details and the amount. It seems certain though that the levy will inhibit, to an extent, the rate at which we can expand the business. We must successfully manage the two principal price reviews.

As we have done in the past, we will meet these challenges with a comprehensive plan designed to achieve the best possible outcome.

Our electricity supply and gas supply businesses are looking forward to the new challenge of the forthcoming competitive markets. With careful preparation and comprehensive business planning, we believe we can turn this opportunity into a major success.

Financial review

These results reflect a solid business performance during the year and the delivery of the financial benefits from the Norweb acquisition.

Group results

These results reflect the first full year benefit of the acquisition of Norweb. Group turnover increased to £2,377.2 million, from £1,838.6 million the previous year. Profit before tax and exceptional charges increased by £54.8 million to £444 million.

Excellent progress on the integration of the businesses following the acquisition has enabled us to fully meet our target of £94 million of financial benefits in the year. We are confident that our goal of £474 million of cumulative benefits by March 2000 will be met.

Profit before tax of £283.9 million was stated after the further provision of £83 million against our Bangkok contract, as discussed in Brian Staples' review, and a loss on disposal of businesses after the writeback of goodwill of £77.1 million, which is more fully described in note 13 to the accounts.

Operating cash flow per share has increased by 21 per cent to 99 pence reflecting the full year impact of the Norweb acquisition and stringent cash management throughout our businesses.

Adjusted earnings per share grew by 5.2 per cent to 77.2 pence, which continues our year on year growth in underlying earnings since privatisation. The calculation of the adjusted earnings per share, which excludes the exceptional charges and the results of the divested businesses, is set out in note 9 to the accounts.

Dividends

The proposed full year dividend of 37.2 pence per share represents an 11 per cent real and 13.9 per cent nominal increase on last year's dividend of 32.66 pence. The final dividend of 25.2 pence per share being recommended reflects our commitment to sustained dividend growth of 11 per cent in real terms to the year 2000, subject only to unexpected political and regulatory changes. Dividends are covered 2.1 times by profit for the financial year, excluding

the exceptional charges and results of the divested businesses.

Group balance sheet

Net borrowings have been reduced by £143.3 million to £1,627 million at the year end, reflecting the £519.3 million cash inflow from operating activities and £357.5 million from disposal proceeds in the year, which have more than offset the £671 million capital investment and higher financing costs incurred. This has resulted in a very welcome 13 percentage point reduction in gearing during the year to 76 per cent.

The fair value adjustments made at the time of the acquisition of Norweb have been reviewed during the year in accordance with Financial Reporting Standard 7. Overall, goodwill arising on the acquisition of Norweb and written off to reserves has increased by £46.6 million to £1,123.5 million, mainly due to the adjustments arising on the disposals of the Norweb Retail business and the Norweb generation assets. Further details are shown in note 12 to the accounts.

Utility Division

Water and wastewater turnover grew by 4.6 per cent, whilst operating profit increased by 5.2 per cent in the year. Operating profit of £383.3 million was struck after charging £40.1 million for customer rebates, free leak repairs and other discretionary customer costs, the impact of which was partially offset by a solid performance on delivering efficiency savings of £16 million. Gross capital investment including infrastructure spend in the year was £504.6 million, up 15 per cent on the previous year's figure of £440.3 million. It includes £81.5 million (1995/96 – £29.7 million) of discretionary capital expenditure to enable us to make new water resources available and to speed up the reduction in leakage from our systems. North West Water has increased its dividend payment to United Utilities by 11 per



Bob Ferguson Group Finance Director

cent in real terms in the year, in line with the principles agreed with Ofwat.

Electricity distribution turnover of £329 million and operating profit of £132.1 million represent the first full year's contribution from Norweb Distribution. Units distributed increased by 1.9 per cent to 23,329 GWh, as a result of continued strong growth in demand from commercial premises, whilst there was modest growth in both domestic and industrial demand.

On a full year comparative basis, operating profit decreased by 5.4 per cent, impacted by the 11 per cent real reduction in regulated revenue which took effect from 1 April 1996, offset by efficiency savings of £13 million and previously under-recovered regulated income. Capital investment in the year was increased to £96.3 million on asset replacement and new system infrastructure.

Energy and Telecommunications Division

Turnover of £1,105.3 million and operating profit of £45.8 million in electricity supply represent a full 12 month contribution for the first time. Operating profit increased by £24.7 million on a full year basis, reflecting the recovery of previously under-recovered income, in accordance with the regulatory formula, and close control of costs throughout the business.

The gas supply business is still being developed in readiness for the opening of the domestic market to competition but, despite that, the business was able to increase turnover to £18 million and produce a £2.5 million profit in the year. Norweb Communications grew revenues strongly from £2.2 million in the previous 12 months to £8.2 million but start up losses are still being incurred in addition to the costs of the commercial trial of our innovative Power Line technology. The business is beginning to capitalise on its investment, which accelerated to £15 million compared to £8.1 million the previous year.

International Division

Operating profit reduced from £5.9 million to £4.6 million, reflecting the sale of half of US Water to our partners last year. During the year, development costs increased from £8.9 million to £12.4 million as the breadth of activity expanded to include electricity.

International Water Limited is actively engaged in development opportunities in Asia and South America. During the year, we have been awarded the concession for the water and wastewater business in the eastern half of Manila, in the Philippines. We are confident that we will secure our expected return on our approximately £10 million equity investment, which gives us a 20 per cent share of the concession.

Norweb International has achieved a major success in its first year by taking 45 per cent of the winning consortium for the Atlantic region of Buenos Aires Province, in Argentina. We took control on 1 June 1997 and we are confident there will be opportunities to create additional value through our skills and the strong synergies that exist.

Facilities Management Division

Vertex has made excellent progress in its first year of operation and is already established as one of the UK's leading business operations outsourcing companies, with an operating profit of £27.1 million and turnover of £185.2 million, largely from its service contracts with Group businesses. Vertex is delivering the synergy benefits expected from the acquisition of Norweb.

Other activities

Within this category we have included the trading results from the Bangkok contract excluding the exceptional provision, Norweb Contracting and our insurance and property activities.

Utility Division turnover/profit (£m)

	Turnover	Profit before non-operating items, interest & tax
Water and wastewater operations	866.7	383.3
Electricity distribution operations	329.0	132.1

Energy and Telecoms Division turnover/profit (£m)

	Turnover	Profit before non-operating items, interest & tax
Electricity supply operations	1,105.3	45.8
Gas supply and telecommunications	26.2	(2.7)

International Division turnover/profit (£m)

	Turnover	Profit before non-operating items, interest & tax
International operations	6.9	4.6
International development	-	(12.4)

Facilities Management Division turnover/profit (£m)

	Turnover	Profit before non-operating items, interest & tax
Vertex	185.2	27.1

Divestments

As Brian Staples has already noted, the programme of divestments is largely complete. The disposals have achieved a value of more than £460 million, which substantially beats our target of £350 million. The results from these businesses have been included in our financial statements up to the date of disposal in each case. Due to the timing of the disposals of Norweb Retail and the process equipment companies, our results have not benefited from their traditionally strong trading periods. This, together with the downward impact on earnings because of the disposal process period itself, has resulted in a reduction of approximately £30 million in operating profits from these businesses compared to their results for the previous full year.

The disposal of the process equipment companies for £125 million, some £50 million more than net asset value, has led to a lower than expected £78 million loss after the write back of goodwill previously written off to reserves. There was no impact on the profit and loss account from the disposals of Norweb's retail and generation interests as the impact has been reflected in the fair value of Norweb on the Group's balance sheet.

Financing and treasury operations

The net interest charge increased by £56.9 million to £131.9 million, reflecting the first full year's charge in relation to the Norweb acquisition debt. The interest charge was covered 4.4 times by profit before exceptional charges and excluding the results of the divested businesses.

The weighted average interest rate was 7.8 per cent on average net debt of £1,700 million in the year. At 31 March 1997, approximately 66 per cent of net debt was at rates fixed for more than one year, compared to 56 per cent the previous year.

Our policy is to use a combination of interest rate swaps, futures and funding instruments to

hedge exposure to interest rate volatility. The Group's treasury department does not act as a profit centre and no transactions of a speculative nature are undertaken. Interest rate management and funding policies are set by the Board.

Almost 50 per cent of the Group's funding is on short term facilities maturing within one year. These are supported by approximately £1,300 million of committed bank facilities.

Taxation

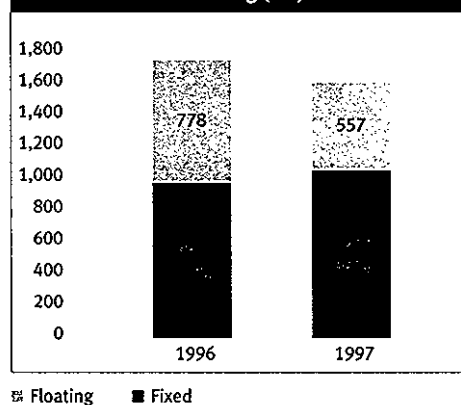
The combination of North West Water and Norweb has resulted in a more efficient tax structure for the Group. The benefits have had a positive impact on cash flow during the year and should continue to do so. As expected, the underlying tax rate, excluding the impact of the exceptional items, has fallen and is anticipated to do so again in 1997/98, before rising as the reduced rate of capital allowances on long life assets, announced in the 1996 Budget, starts to take effect. The full year's taxable profit from Norweb has reduced the write off of unrelieved advance corporation tax to £10.7 million and meant that the Group is liable to mainstream tax of £28.8 million for the first time.

It is likely that the Government will announce the details of a windfall levy in July 1997, to be imposed on utility companies in the United Kingdom. In the absence of details of the windfall levy and its impact on the Group, no provision has been made in these accounts for the payment of such a levy.

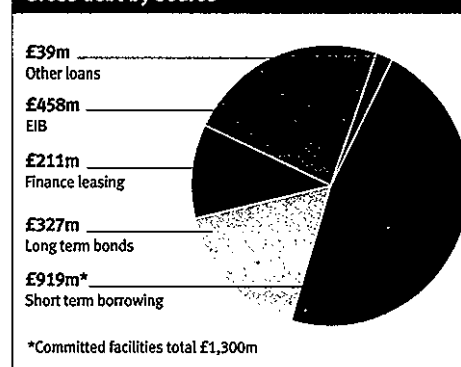
Year 2000 date change

The Group is well advanced in its preparations to ensure that its computer systems will be ready for the year 2000 date change. Whilst the overall cost of the required changes is still to be determined, the necessary scoping and enabling projects are underway under the direction of a senior level Programme Board.

Net debt – fixed v floating (£m)



Gross debt by source



The Board: Executive directors

Sir Desmond Pitcher
(age 62) *Chairman*
Joined the Board in 1990 and was appointed Chairman in 1993. Sir Desmond is also chairman of the Merseyside Development Corporation and a non-executive director of National Westminster Bank. He was formerly group chief executive of The Littlewoods Organisation, and previously managing director of Plessey Telecommunications and Office Systems and of British Leyland (truck and bus division).

Brian Staples
(age 52) *Chief Executive*
Joined the Board in 1994. Brian was formerly chief executive and previously managing director of Tarmac Construction. He is a non-executive director of Manchester Commonwealth Games.

Bob Ferguson
(age 54) *Group Finance Director*
Joined the Board in 1992. Bob was formerly deputy managing director and previously finance director of North West Water Limited.

John Beckett
(age 49) *Managing Director, Energy and Telecommunications Division*
Joined the Board in 1995. John was formerly managing director of the Process Equipment Division. He was previously international business manager of ICI KLEA.

Malcolm Faulkner
(age 52) *Responsible for regulatory issues surrounding the opening of the electricity and gas markets to competition in 1998*
Joined the Board in 1996. Malcolm was formerly managing director of the Energy and Telecommunications Division. He is a non-executive director of the Energy Saving Trust. He was previously marketing director of Norweb and served on the board of Norweb from 1990 and of its predecessor, the North Western Electricity Board, from 1987.

Derek Green
(age 57) *Managing Director, Utility Division*
Joined the Board in 1992. Derek is a non-executive director of Graham Group. He was formerly Aggregates Group chief executive of BTR and was previously with AMEC and Fairclough Building.

Gordon Waters
(age 50) *Managing Director, International Division*
Joined the Board in 1997. Gordon was formerly managing director of the civil engineering division of Tarmac Construction.



John Beckett



Malcolm Faulkner



Derek Green



Gordon Waters

The Board: Non-executive directors

Eric Clark

(age 62) *Chairman of the Remuneration Committee*
 Joined the Board in 1993. Eric is also a non-executive director of the Merseyside Development Corporation and of the Dana Corporation. He was formerly chairman and managing director of BICC Cables and a director of BICC Group, and previously managing director of Plessey Telecommunications and Office Systems.

Rodney Leach

(age 65) *Chairman of the Audit Committee*
 Joined the Board in 1989, having been appointed to the board of the North West Water Authority earlier that year. Rodney is also a non-executive director of Jasmín. He was formerly a partner in McKinsey & Company, an executive director of P&O and chief executive and managing director of VSEL.

Sir Peter Middleton

(age 63)
 Joined the Board in 1994. Sir Peter is chairman of Barclays BZW, deputy chairman of Barclays Bank and also a non-executive director of Bass and of General Accident and a member of the UK Advisory Board of the National Economic Research Associates. He was formerly Permanent Secretary to H M Treasury.

Jane Newell

(age 53)
 Joined the Board in 1996. Jane is chairman of the Liverpool School of Tropical Medicine. She is also a trustee of the Glaxo Wellcome Pension Plan and of the Dixons Group's Retirement Scheme. She is an independent assessor for the Home Office for promotions in the police, prison and fire services.

Frank Sanderson

(age 70)
 Joined the Board in 1989, having previously served on the board of the North West Water Authority from 1983. Frank is also chairman of Acumen Technologies. He was formerly divisional managing director (water engineering division) of Babcock International.

John Seed

(age 58)
 Joined the Board in 1996. John is a non-executive director of Prism Rail and British Smaller Companies VCT. He is chairman of Windelectric. He was formerly chief executive of South Western Electricity.



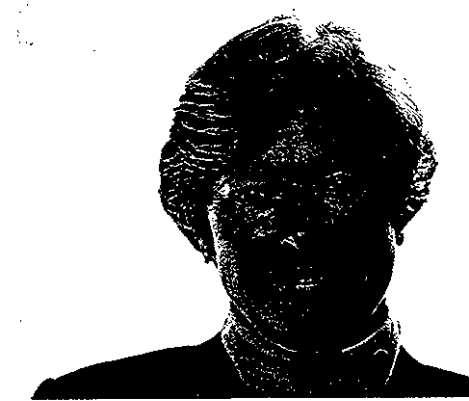
Eric Clark



Rodney Leach



Sir Peter Middleton



Jane Newell



Frank Sanderson



John Seed

Directors' report

Principal activities and business review

The Group provides a range of utility services in the UK and overseas. These include the planning, design and operation of water and wastewater, electricity distribution and telecommunications systems, and the supply of electricity and gas. In addition, the Group provides a range of business operations outsourcing services supporting both Group companies and external customers.

The Group's principal subsidiary and associated undertakings are listed in note 11 to the accounts. During the year, the electricity retailing, electricity generation, and water and wastewater process equipment activities were divested.

The Chairman's statement, the Chief Executive's review, and the financial review on pages 4 to 21 report on the Group's activities during the year and likely future developments.

Dividend

We recommend a final dividend of 25.2 pence per ordinary share for the year ended 31 March 1997, making a total for the year of 37.2 pence. Subject to approval of that recommendation by shareholders at the annual general meeting, the dividend will be paid on 1 October 1997 to shareholders on the register at close of business on 13 June 1997. Subject to the directors' authority to operate the share dividend plan being renewed at the annual general meeting, shareholders are again being offered the opportunity to receive the final dividend payment either in cash or shares.

Business at the annual general meeting

Full details of the resolutions to be proposed at the 1997 annual general meeting are set out in the notice of meeting, and there are explanatory notes about the resolutions in the leaflet containing the formal notice which is enclosed with this report.

Substantial shareholding

At 2 June 1997, the company had been notified by Capital Group Companies, Inc. that it held an interest in 5.09 per cent of the company's issued ordinary share capital.

Directors

The present directors are listed on pages 22 and 23. Further information about the directors seeking re-election is set out in the Remuneration Committee's report, together with information about remuneration and interests in the company's ordinary shares.

Payments to suppliers

The Group's policy is normally to pay suppliers according to agreed terms of business. These terms are agreed with suppliers upon entering into binding contracts and the Group's policy is to adhere to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts. In accordance with SI 1997 No. 571 The Companies Act 1985 (Directors' Report) (Statement of Payment Practice) Regulations 1997, the company had 48 days of purchases outstanding at the end of the financial year.

Research and development

The Group is committed to develop innovative, cost-effective and practical solutions for providing high quality services to our customers. In this work, it seeks to take maximum advantage of the wide-ranging expertise, abilities and facilities within the Group. We have established a Technology Management Board, chaired by the Chief Executive, charged with ensuring that we properly focus our investment in the development and application of technology, that we have the right skills to employ technology to competitive advantage and that we continue to be alert to technological opportunities.

Charitable donations

During the year, we have continued to support a range of charitable projects and to support in other ways the communities of which our businesses are an integral part. Donations in the year amounted to £814,986 (1996 - £257,537). No political contributions were made.

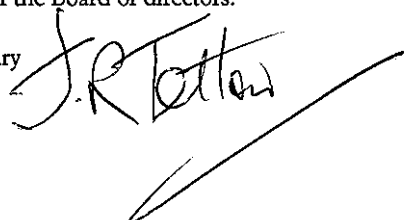
Auditors

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

Signed on behalf of the Board of directors.

John Tetlow Secretary

12 June 1997



Remuneration Committee's report

The Committee

The Remuneration Committee approves the Group's policy and general recruitment terms, remuneration benefits, employment conditions and severance terms for the executive directors and other senior executives.

Its composition, operation and responsibilities comply with the recommendations of the Greenbury Study Group relating to remuneration committees now incorporated in section A of the best practice provisions annexed to the Listing Rules of the London Stock Exchange. In formulating and implementing its policy objectives, the Committee gives full consideration to section B of the best practice provisions annexed to the Listing Rules of the London Stock Exchange, and takes professional advice from within and outside the company.

The members of the Committee are Eric Clark, Rodney Leach, Jane Newell and Frank Sanderson, all of whom are non-executive directors. They have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors. They have no conflicts of interest arising from cross directorships and no day to day involvement in running the Group's businesses. Eric Clark succeeded Frank Sanderson as chairman of the Committee in October.

Although not members of the Committee, on occasion and for matters not related to themselves, the Chairman and the Chief Executive may be invited to attend meetings and are consulted by the Committee on proposals relating to the remuneration of the other executive directors and other senior executives.

Remuneration policy

The Committee's policy objectives are to ensure that the remuneration packages:

- attract, retain and motivate appropriately talented individuals;
- are comparable with the relevant packages in other companies;
- are directly aligned with the performance of the Group and the interests of the shareholders; and
- fairly and responsibly reward executives for their contribution to the Group's performance.

Incentive plan

At the 1996 annual general meeting, shareholders approved a new incentive plan for executives to replace the annual bonus and the granting of options under the executive share option scheme. The provisions of the new plan had been the subject of prior consultation with major institutional shareholders. However, following publication of the details of the plan for the 1996 annual general meeting, some further critical comments were received and the company undertook to consider any further representations with the aim of achieving a broad consensus.

Since the 1996 annual general meeting, therefore, extensive further consultations have resulted in the following changes to the plan:

- the comparator group arrangement for the long term incentive award will give a greater weighting to utility companies. Previously it was proposed to use the FT-SE 100 group of companies as a comparator group. Two comparator groups will now be used - the FT-SE 100 utility companies, and the remaining FT-SE 100 companies, excluding the utility companies. Up to half of a potential long term award will be based on the company's performance compared to the utility companies and up to half on performance compared to the non-utility companies; and
- short term incentive awards, based on annual financial performance, will be made on the basis of performance for the relevant year rather than, as previously proposed, on the basis of a three year moving average.

Executive remuneration

This comprises the following elements:

Basic salary

Basic salaries are reviewed annually, supported by independent assessment of market rates based on the practice of a group of major companies in the FT-SE 100, including utilities and other companies of a similar size and complexity to United Utilities.

Remuneration Committee's report continued

Long term incentive award

Long term incentive awards are related to the returns enjoyed by the company's shareholders. Company performance is assessed on the basis of total shareholder return (TSR), which includes share price appreciation and gross dividends, measured over three year periods. TSR is compared with the performance achieved by the two comparator groups of companies. No award is earned in respect of a comparator group if the company's TSR ranks in the bottom half of that group.

If and when the company's relative ranking in a comparator group moves into and through the top half of the group, the proportion of salary awarded for each per cent of absolute TSR increases up to a maximum of 1.75 per cent for each comparator group. Awards are capped in respect of a comparator group if company TSR reaches an average of 25 per cent per annum over the three year period. At that rate of return, the value of a shareholder's investment would have doubled over those three years.

There is also a further performance hurdle which provides that no awards are made if growth in earnings per share over the relevant period does not exceed the increase in the retail prices index over that period by at least 2 per cent per annum. One third of an award is payable in cash and two thirds are awarded in shares which must remain in trust for a further two years.

Short term incentive award

The Committee believes that the achievement of annual financial targets is equally important. Short term incentive awards, up to a maximum of 40 per cent of annual salary, are based on annual financial performance. All awards are subject to stretching performance criteria. Awards to executive directors are made in shares in the company which are held in trust for a further two years.

Taxable benefits

Taxable benefits comprise, as appropriate, a car, travel (taxable mileage), telephone allowance, mobile telephone, medical and life insurance.

Pension

Sir Desmond Pitcher, Brian Staples, John Beckitt, Bob Ferguson, Derek Green and Gordon Waters (who was appointed a director with effect from 1 June 1997) are members of and contribute to the Water Pension Scheme (WPS), which is a defined benefit pension scheme and which provides an entitlement on retirement at age 60 equal to 1/30th of pensionable remuneration for each completed year of service but subject to an overall maximum of 20 years. The normal retirement age is 60 (Sir Desmond, 65) but early retirement is possible from age 50 with the agreement of the company. As a consequence of changes made by the Finance Act 1989, the company is unable to provide pensions from the WPS for its executive directors who have joined the company since 1989 on the same basis as pensions for directors who joined the company before that date. In line with many other companies, the company has therefore established separate arrangements for these executive directors. Accordingly, on the retirement of Sir Desmond, Brian Staples, John Beckitt, Derek Green and Gordon Waters, the company has undertaken to pay the difference between their pensionable entitlements based upon the relevant proportion of their final pensionable remuneration and the maximum amount payable under the rules of the WPS. At the present time these arrangements remain unfunded. This undertaking will not result in any greater or additional benefits for these directors than would have been payable had it been possible for their pensions to be provided fully in the WPS on the same basis as directors who had joined the company prior to 1989.

Malcolm Faulkner is a member of and contributes to the Electricity Supply Pension Scheme, which is a defined benefit pension scheme. This arrangement provides an entitlement on retirement at age 60 equal to 2/3rds of basic pay.

Awards under the incentive plan will not be pensionable. As indicated in the Committee's report for 1996, following the introduction of the incentive plan, pension calculations have been adjusted to protect the contractual entitlements of those executive directors (excluding the Chairman) whose previous annual bonus payments had, under the rules of the WPS, been pensionable. New executive directors will be recruited on the basis of a traditional pension scheme providing for 1/30th of their basic salary for each year of service subject to a maximum of 2/3rds of salary on retirement.

Contracts of service

All executive directors serve under contracts which are terminable by the company giving not less than two years' notice. The Committee, after consultation and thorough review, considers that such notice period is reasonable and proper in the interests of both the company and its executive directors, having regard to prevailing market conditions and current practice. The notice period provides executive directors with a reasonable degree of security, enabling them to concentrate on securing and enhancing the future of the company. The Committee's policy on termination of contracts is to apply mitigation as far as is fair and reasonable in each circumstance.

Remuneration Committee's report continued

Share option schemes

With the introduction of the incentive plan, the granting of options under the executive share option scheme to executive directors has been discontinued. In common with all other eligible employees, executive directors and other executives continue to be able to participate in the employee sharesave scheme.

Share ownership

Share ownership is generally regarded as an effective means of aligning the interests of executives and shareholders. The Group promotes greater ownership of shares in the company through the making of incentive awards in shares and through encouraging executive directors to accumulate and hold shares with a value of the order of their annual salary.

Remuneration of non-executives

The remuneration of non-executive directors is determined by the Board as a whole. The remuneration currently payable per annum is a director's fee of £20,000, £5,000 for chairmanship of a Board committee, £1,000 for membership of a Board committee, and appropriate amounts for additional and special responsibilities. The non-executive directors do not have contracts of service, and do not participate in the incentive plan, pension or healthcare arrangements. They are not eligible to be granted options under either the executive share option scheme or the employee sharesave scheme. Taxable benefits comprise, as appropriate, telephone allowance and travel (taxable mileage).

Directors standing for re-election

Four directors are standing, and are recommended by the Board, for re-election at the 1997 annual general meeting. As non-executive directors, Eric Clark and Jane Newell do not have contracts of service. Bob Ferguson and Gordon Waters have contracts of service with the company terminable by the company on two years' notice which may be given at any time.

Details of directors' remuneration

Emoluments comprise salaries, fees and taxable benefits. The aggregate emoluments of directors in 1997 together with the value of short term incentive awards in respect of that year and pension contributions amounted to £1.777 million (1996 – £1.758 million, together with bonuses paid in respect of that year and pension contributions).

The remuneration of individual directors was:

Executive directors	Salary		Bonuses		Taxable benefits		Total		Pension contributions	
	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000	1997 £'000	1996 £'000
Sir Desmond Pitcher	310.0	255.6	–	76.7	16.3	13.9	326.3	346.2	24.6	24.2
Brian Staples	300.0	235.0	–	142.0	5.9	3.7	305.9	380.7	24.6	24.2
John Beckitt	162.5	141.2	–	56.5	14.4	12.9	176.9	210.6	19.5	24.2
Malcolm Faulkner	116.9	–	–	–	9.4	–	126.3	–	14.0	–
Bob Ferguson	179.3	156.2	–	94.5	14.2	9.7	193.5	260.4	21.5	26.9
Derek Green	209.0	185.1	–	92.7	15.9	13.3	224.9	291.1	24.6	24.2

Notes:

As reported last year, the salaries of some executive directors were adjusted from 1 April 1996 to take account of increased responsibilities in the enlarged United Utilities Group.

With the introduction of the incentive plan, performance related annual bonuses are no longer payable to executive directors. Details of short term incentive awards under the plan for 1997 are set out below.

Malcolm Faulkner was appointed a director with effect from 1 May 1996.

The highest paid director in 1997 was Sir Desmond Pitcher.

The accrued pension at 31 March 1997 for Sir Desmond was £41,000 per annum (1996 – £26,000 per annum).

Remuneration Committee's report continued

Non-executive directors	Fee		Board committee chairmanship/ membership		Additional responsibility payments		Taxable benefits		Total	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Eric Clark	20.0	20.0	4.0	–	–	–	0.5	0.1	24.5	20.1
Rodney Leach	20.0	20.0	6.0	5.0	–	–	1.4	1.2	27.4	26.2
Sir Peter Middleton	20.0	20.0	–	–	20.0	20.0	–	–	40.0	40.0
Jane Newell	11.6	–	0.5	–	–	–	–	–	12.1	–
Frank Sanderson	20.0	20.0	4.0	5.0	5.0	5.0	1.2	0.9	30.2	30.9
John Seed	20.0	1.7	0.5	–	–	–	0.9	–	21.4	1.7

Notes:

Jane Newell was appointed a director with effect from 1 September 1996.

Alan Pendleton retired as a director on 26 July 1996 and in the period from 1 April 1996 to his retirement received remuneration amounting to £7,600 (1996 – £20,100).

The value of the short term incentive awards under the incentive plan in respect of the year ended 31 March 1997 and the number of shares as a consequence to be allocated by the trustee to executive directors (based on a share price of 648.2 pence being, in accordance with the rules of the plan, the average of the mid market prices of a share over the 30 business days commencing 15 business days before the year end) are as follows:

	Value of award (£'000)	Number of shares to be allocated
John Beckitt	66.0	10,182
Malcolm Faulkner	23.5	3,623
Derek Green	42.1	6,488

Note: the other executive directors will not receive awards as the relevant criteria were not met.

Details of directors' interests in shares

At 31 March, the directors and their immediate families had the following interests, all of which were beneficial interests, in the company's ordinary shares and options to subscribe for ordinary shares:

	1997			1996 or on appointment		
	Ordinary shares	Share options		Ordinary shares	Share options	
		Executive option scheme	Employee sharesave scheme		Executive option scheme	Employee sharesave scheme
Sir Desmond Pitcher	47,350	55,936	3,914	7,800	223,747	3,914
Brian Staples	1,418	179,662	3,586	1,341	179,662	3,586
John Beckitt	2,453	126,199	3,586	2,320	126,199	3,586
Malcolm Faulkner	5,815	–	4,607	5,758	–	2,796
Bob Ferguson	44,913	65,374	4,005	24,929	116,218	5,334
Derek Green	12,148	50,854	4,903	11,491	64,421	4,903
Eric Clark	6,669	–	–	6,308	–	–
Rodney Leach	14,079	–	–	14,079	–	–
Sir Peter Middleton	4,574	–	–	4,574	–	–
Jane Newell	2,020	–	–	–	–	–
Frank Sanderson	10,752	–	–	9,205	–	–
John Seed	3,875	–	–	3,855	–	–

Remuneration Committee's report continued

Further details of directors' options to subscribe for ordinary shares, including details of options exercised by directors during the year, are as follows:

	Share options as at 31 March 1996 or on appointment	Options granted during the year	Exercise price per share	First date exercisable	Last date exercisable	Options exercised during the year
<i>Employee sharesave scheme</i>						
Sir Desmond Pitcher	3,914	–	440.6p	1/3/1999	31/8/1999	–
Brian Staples	3,586	–	481.0p	2/2/2001	1/8/2001	–
John Beckitt	3,586	–	481.0p	2/2/2001	1/8/2001	–
Malcolm Faulkner	2,796	–	308.3p	1/3/2000	31/8/2000	–
	–	1,811	476.0p	2/2/2002	1/8/2002	–
Bob Ferguson	2,778	–	269.9p	1/2/1997	31/7/1997	2,778
	2,556	–	404.8p	2/3/2000	1/9/2000	–
	–	1,449	476.0p	2/2/2002	1/8/2002	–
Derek Green	4,903	–	369.5p	1/2/1998	31/7/1998	–
<i>Executive option scheme</i>						
Sir Desmond Pitcher	167,811	–	446.9p	5/7/1996	5/7/2003	167,811
	55,936	–	380.2p	5/7/1998	5/7/2003	–
Brian Staples	124,435	–	530.1p	19/8/1997	19/8/2004	–
	41,477	–	450.8p	19/8/1999	19/8/2004	–
	13,750	–	584.5p	20/12/1998	20/12/2005	–
John Beckitt	85,087	–	479.8p	15/12/1997	15/12/2004	–
	28,362	–	408.2p	15/12/1999	15/12/2004	–
	12,750	–	584.5p	20/12/1998	20/12/2005	–
Malcolm Faulkner	–	–	–	–	–	–
Bob Ferguson	2,842	–	305.2p	3/12/1993	3/12/2000	2,842
	22,483	–	324.1p	8/1/1995	8/1/2002	22,483
	7,494	–	275.7p	8/1/1997	8/1/2002	7,494
	18,025	–	463.4p	6/1/1996	6/1/2003	18,025
	6,008	–	394.2p	6/1/1998	6/1/2003	–
	19,382	–	566.9p	20/1/1997	20/1/2004	–
	6,460	–	482.2p	20/1/1999	20/1/2004	–
	17,831	–	479.8p	15/12/1997	15/12/2004	–
	5,943	–	408.2p	15/12/1999	15/12/2004	–
	9,750	–	584.5p	20/12/1998	20/12/2005	–
Derek Green	38,182	–	334.2p	18/6/1997	18/6/2002	–
	13,567	–	566.9p	20/1/1997	20/1/2004	13,567
	4,522	–	482.2p	20/1/1999	20/1/2004	–
	3,488	–	479.8p	15/12/1997	15/12/2004	–
	1,162	–	408.2p	15/12/1999	15/12/2004	–
	3,500	–	584.5p	20/12/1998	20/12/2005	–

Notes:

The mid market price of a share on the last business day before 31 March 1997 was 628.0 pence and the range in the year was 693.0 pence to 530.0 pence. At the dates of exercise by Sir Desmond, Bob Ferguson and Derek Green, the mid market prices of a share were respectively 590.0 pence, 640.0 pence (on the date of exercising executive options) and 668.5 pence (on the date of exercising sharesave options), and 687.5 pence. The notional amount of gain made by Sir Desmond on the exercise of share options during the year (based on the difference between the mid market price of a share on the day on which the options were exercised and the exercise price) was £240,087.20 (1996 – nil). Sir Desmond sold only sufficient shares to meet the costs involved in exercising the options and will meet the tax liability from his own resources; the balance of shares has been retained. The aggregate notional gains made by directors on the exercise of share options during the year (on the same basis) was £407,208.38 (1996 – £232,765.60).

With the introduction of the incentive plan, options under the executive share option scheme are no longer granted to executive directors.

Under the terms and conditions of the employee sharesave scheme, for every month (up to no more than six months) savings are behind, the last date exercisable will be delayed by one month.

Remuneration Committee's report continued

No option held by the directors above lapsed during the year.

On his appointment as a director, Gordon Waters had a beneficial interest in 1,057 shares and in options on 3,623 shares at an exercise price of 476.0 pence granted on 27 December 1996 under the terms of the employee sharesave scheme and exercisable from 2 February to 1 August 2002.

Except for the purchase of shares by re-investment of dividend in a United Utilities personal equity plan held by John Seed's wife, from the end of the financial year to 2 June 1997, there have been no changes in the above interests.

Save as mentioned above, no director had any interest in any share capital of any other Group company or in any debenture of any Group company.

Corporate governance

Corporate governance, in general terms, is the way in which a company is controlled and directed, and in particular is concerned with the role of the board of directors, how the board operates and accountability within a company. Your Board supports the highest standards of corporate governance within this company and this section of the annual report describes the company's structure and system of corporate governance.

The Board

The Board currently comprises seven executive and six non-executive directors. It meets regularly during the year and focuses on strategy formulation and the strategic direction of the Group, the development of policy for the Group, and the review of the management and financial performance of the company and the Group's business units. In this context, the Board has reserved to itself decision making on specific key issues such as approving business acquisitions and disposals, major capital expenditure and significant financing matters, and has approved a formal structure of authorities for decision making below Board level.

All directors have access to the advice and services of the Secretary, and there is a formal procedure for directors to obtain independent professional advice in the furtherance of their duties should that be necessary, the cost of which would be met by the company.

Board committees

The Board has an Audit Committee and a Nomination Committee, which are described below, and a Remuneration Committee, details of which are included in its report on page 25.

The Audit Committee reviews the internal and external audit activities, monitors compliance with statutory requirements for financial reporting, and reviews the half year and annual financial statements before they are submitted to the Board for approval. Its members are Rodney Leach (chairman), Eric Clark, Frank Sanderson and John Seed, all of whom are non-executive directors.

The Nomination Committee considers and makes recommendations to the Board on the composition, balance and membership of the Board. Its members are Sir Desmond Pitcher (chairman), Eric Clark, Rodney Leach, Sir Peter Middleton and Brian Staples, a majority being non-executive directors.

Internal control

The Board is responsible for the Group's system of internal financial control, and has reviewed its effectiveness. The Board considers that it is designed to provide reasonable, but not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets. The key internal financial control procedures which the Board has established and which operated throughout the period covered by the financial statements are as follows:

- control environment: the culture and values of the Group are communicated through specific policies covering the quality, integrity and ethics of personnel. The Group's business units operate within a framework of policies and procedures laid down in organisation and authority manuals and the Group's personnel are required to comply with these policies and procedures as relevant to their functions and responsibilities, and are accountable as such. Policies and procedures cover key issues such as authorisation levels, segregation of duties (wherever practicable), recording of data and physical security;
- identification and evaluation of risk: the key risk areas are reviewed on a regular basis by executive management and specific committees of the Board. Significant risk areas, including those arising from the development of new activities, are subject to consideration by the Board;
- information and financial reporting systems: there are comprehensive planning and financial reporting procedures which include detailed operational budgets for the year ahead and projections for subsequent years. These are approved and reviewed by the Board. Key performance indicators are also reviewed by the Board monthly to assess progress towards objectives. The Board reports to shareholders half yearly;
- investment appraisal: there are clear policies and procedures for capital expenditure, which include short and long term budgets, detailed appraisal and review procedures and defined levels of authority; and
- monitoring systems and corrective action: all operating units prepare self-certification questionnaires which confirm compliance with required standards of internal control. The questionnaires are reviewed and substantively verified by both internal and external auditors as part of their annual statutory audit. Any corrective action which may be necessary is agreed and implemented. The responsibilities of the internal auditors include, specifically, reviewing on behalf of the Board (and reporting directly to the Audit Committee on) the Group's internal financial controls.

Going concern

After making enquiries, the directors are of the opinion that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing these financial statements.

Corporate governance continued

Directors' responsibilities

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group as at the end of the financial year and of the profit or loss for the financial year. The directors consider that in preparing the financial statements, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. All accounting standards which they consider to be applicable have been followed, subject to any explanation and departure set out in the notes to the accounts. The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985. The directors also have a general responsibility at law for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Compliance with the Listing Rules of the London Stock Exchange

As required by the Listing Rules, the Board confirms that the company has complied throughout the year, and continues to comply, both with the code of best practice of the Cadbury Committee on the financial aspects of corporate governance and also with the best practice provisions regarding the composition and operation of remuneration committees annexed to the Listing Rules.

Auditors' reports

to the members of United Utilities PLC

We have audited the financial statements on pages 34 to 57. We have also examined the amount disclosed relating to the emoluments and share options of directors which form part of the Remuneration Committee's report on pages 25 to 30.

Respective responsibilities of directors and auditors

As described on page 32, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion to you.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations 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 the affairs of the company and the Group as at 31 March 1997 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
Manchester



12 June 1997

to United Utilities PLC on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on pages 31 and 32 on the company's compliance with the paragraphs of the Cadbury code of best practice specified for our review by the Listing Rules and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with the disclosure requirements of the Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the Group's system of internal financial control or the company's corporate governance procedures, or on the ability of the Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control and going concern on page 31, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on pages 31 and 32 appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review by the Listing Rules.

KPMG Audit Plc
Chartered Accountants
Manchester



12 June 1997

Consolidated profit and loss account

For the year ended 31 March 1997	Note	Continuing operations		Discontinued operations £m	1997 Total £m	Continuing operations		Discontinued operations		1996 Total £m
		Before exceptional items £m	Exceptional items £m			Before exceptional items £m	Exceptional items £m	Before exceptional items £m	Exceptional items £m	
Turnover	2	2,102.3	–	274.9	2,377.2	1,528.1	–	310.5	–	1,838.6
Net operating costs	3	(1,517.2)	(83.0)	(284.5)	(1,884.7)	(1,087.5)	(103.8)	(299.7)	(20.0)	(1,511.0)
Operating profit		585.1	(83.0)	(9.6)	492.5	440.6	(103.8)	10.8	(20.0)	327.6
Income from investments in associated undertakings	2, 11	0.4	–	–	0.4	12.8	–	–	–	12.8
Profit before non-operating items, interest and tax	2	585.5	(83.0)	(9.6)	492.9	453.4	(103.8)	10.8	(20.0)	340.4
(Loss)/Profit on disposal of businesses	13	–	0.9	(78.0)	(77.1)	–	7.2	–	–	7.2
Profit on ordinary activities before interest		585.5	(82.1)	(87.6)	415.8	453.4	(96.6)	10.8	(20.0)	347.6
Net interest payable	6				(131.9)					(75.0)
Profit on ordinary activities before taxation					283.9					272.6
Taxation on profit on ordinary activities	7				(47.9)					(48.2)
Minority interest					(0.6)					–
Profit for financial year					235.4					224.4
Dividends	8				(195.3)					(163.8)
Transfer to reserves	23				40.1					60.6
Earnings per share – net basis	9				44.9p					51.7p
– nil basis	9				46.9p					62.1p
Adjusted earnings per share										
– net basis	9				77.2p					73.4p
– nil basis	9				79.2p					83.9p

Balance sheets

At 31 March 1997	Note	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
Fixed assets					
Tangible assets	10	4,790.3	4,417.5	9.1	3.4
Investments	11	93.9	111.0	2,811.9	2,629.8
		4,884.2	4,528.5	2,821.0	2,633.2
Current assets					
Stocks	14	8.5	91.3	-	-
Debtors	15	427.8	532.7	372.4	301.6
Investments	16	308.3	273.8	9.9	35.7
Cash at bank and in hand		29.4	40.1	-	-
		774.0	937.9	382.3	337.3
Creditors:					
Amounts falling due within one year	17	(1,851.3)	(1,796.3)	(675.4)	(625.2)
Net current liabilities		(1,077.3)	(858.4)	(293.1)	(287.9)
Total assets less current liabilities		3,806.9	3,670.1	2,527.9	2,345.3
Creditors:					
Amounts falling due after more than one year	18	(1,235.1)	(1,267.7)	(75.3)	(79.1)
Provisions for liabilities and charges	20	(429.3)	(410.3)	(12.3)	(7.3)
		2,142.5	1,992.1	2,440.3	2,258.9
Capital and reserves					
Equity share capital	22	529.6	523.1	529.6	523.1
Share premium account	22	622.0	615.0	622.0	615.0
Profit and loss account	23	990.3	854.0	1,288.7	1,120.8
Minority interest		0.6	-	-	-
Equity shareholders' funds		2,142.5	1,992.1	2,440.3	2,258.9

Approved by the Board of directors on 12 June 1997 and signed on its behalf by

Sir Desmond Pitcher
Chairman

DH Pitcher

Bob Ferguson
Group Finance Director

Bob Ferguson

Statement of total recognised gains and losses

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
For the year ended 31 March 1997				
Profit for the financial year	235.4	224.4	343.5	130.0
Exchange adjustments	0.6	(6.5)	–	0.1
Total recognised gains and losses for the financial year	236.0	217.9	343.5	130.1

Reconciliation of movements in shareholders' funds

	Note	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
For the year ended 31 March 1997					
Profit for the financial year		235.4	224.4	343.5	130.0
Dividends	8	(195.3)	(163.8)	(195.3)	(163.8)
Goodwill on disposals	13	126.2	2.1	3.7	–
Shares issued in lieu of cash dividends		16.0	8.4	16.0	8.4
New share capital issued	22	13.5	758.0	13.5	758.0
Goodwill on acquisitions	12	(46.6)	(1,076.9)	–	–
Minority interest movement		0.6	–	–	–
Exchange adjustments		0.6	(6.5)	–	0.1
Net addition to shareholders' funds for the year		150.4	(254.3)	181.4	732.7
Opening shareholders' funds		1,992.1	2,246.4	2,258.9	1,526.2
Equity shareholders' funds at 31 March		2,142.5	1,992.1	2,440.3	2,258.9

Notes to the accounts

1 Accounting policies

(a) Basis of preparation of financial statements

The consolidated financial statements set out on pages 34 to 57 incorporate the financial statements of United Utilities PLC and its subsidiary undertakings. The results of businesses acquired during the year are included from the date of acquisition, being the date that effective control passes. The results of businesses sold in the year are included to the date of divestment. The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards and, except for the treatment of certain grants and contributions, with the Companies Act 1985 ('the Act'). An explanation of this departure from the requirements of the Act is given in the 'Grants and contributions' section below.

In October 1996, the Accounting Standards Board published Financial Reporting Standard 8 – Related Party Disclosures and a revision to Financial Reporting Standard 1 – Cash Flow Statements; both standards are adopted in these accounts.

In the consolidated 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.

(b) Turnover

Turnover represents the income receivable in the ordinary course of business for goods or services provided and excludes VAT and foreign sales tax.

In relation to the Norweb supply and distribution businesses, where there is an over-recovery of business revenues against the regulated maximum allowable amount, revenues are deferred equivalent to the over-recovered amount. The deferred amount is deducted from turnover and included in creditors within accruals and deferred income. Where there is an under-recovery, no account is taken of any potential future recovery.

Credit sales charges in the Norweb retail and contracting businesses are apportioned over the period of the sales agreements so as to produce an approximate constant periodic rate of return on the outstanding debt.

(c) Research and development

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

(d) International development costs

Costs incurred in the development of international activities are either written off or, where appropriate, capitalised and fully provided against until their recovery is considered to be secured by profitable contracts.

(e) Goodwill

In accordance with Financial Reporting Standard 7, the net assets of companies and businesses acquired are incorporated into the consolidated financial statements at their fair value to the Group and after adjustments to bring the accounting policies of the companies and businesses acquired into alignment with those of the Group.

(f) 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 electricity 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 is treated as additions, which are 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 charged as an operating cost. No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

Charges for infrastructure renewals expenditure take account of planned expenditure on maintaining the operating capability of infrastructure assets in accordance with the operational policies and standards underlying the Group's investment programme. The timing of the investment programme and other operational considerations may result in uneven patterns of infrastructure renewals expenditure. Charges to the profit and loss account are adjusted by way of accruals or deferrals, as appropriate, to take account of any significant fluctuations between actual and planned expenditure.

Notes to the accounts continued

(ii) Other assets

Additions are included at cost.

Freehold land is not depreciated. Other assets are depreciated evenly over their estimated economic lives which are principally as follows:

Buildings	30–60 years
Operational assets	5–80 years
Fixtures, fittings, tools and equipment	3–40 years
Pre-1974 assets of North West Water Limited	22–27 years

Capitalised computer software costs are depreciated over 3–10 years.

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

(g) 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 profit and loss account over the useful life of the corresponding assets. The directors are of the opinion that, as infrastructure assets have no finite economic lives (see note (f) above) 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.

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

(h) Leased assets

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

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

(i) Fixed asset investments

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

(j) Current asset investments

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

(k) Stocks

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

Long term contract work in progress is stated at cost, net of amounts transferred to cost of sales, after deducting payments received in advance and making provision for foreseeable losses.

Finished goods and goods for resale are stated at the lower of cost, including appropriate production overheads, and net realisable value.

(l) Pensions

Most of the Group's employees belong to pension schemes which provide for defined benefits based on final pensionable pay. Pension costs are charged against profits over the estimated remaining service lives of employees.

Details of pension arrangements and funding are set out in note 24.

(m) Foreign currency

On consolidation, the balance sheets of overseas subsidiary undertakings are translated into sterling at exchange rates applicable at the year end. The profit and loss accounts are translated into sterling using the average rate. Differences arising from the application of the closing rate to opening net assets, offset by translation differences on foreign currency loans which finance investments in overseas subsidiary undertakings, together with differences between profits and losses translated at average rates and at closing rates, are recorded as a movement in reserves.

(n) Deferred taxation

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

(o) Associated undertakings

The appropriate share of the results of associated undertakings is recognised in the consolidated profit and loss account where the directors consider that the Group is in a position to exert significant influence over the associated undertaking.

Notes to the accounts continued

(p) Financial derivatives

Principal amounts under currency swaps to manage currency exposures on Group net borrowings are revalued to balance sheet exchange rates and included in the sterling value of loans. The notional interest on currency, interest rate swaps and forward rate agreements to manage currency and interest rate exposures on Group net borrowings are included with the interest flows of the underlying net borrowings. These financial derivatives in the above circumstances are not revalued to their open market value, but, on realisation, gains and losses are spread over the period of the hedged position.

2 Segmental information

Turnover, profit before non-operating items, interest and tax and net operating assets for each class of business and by geographical origin are:

	Turnover		Profit before non-operating items, interest and tax		Net operating assets	
	1997 £m	1996 £m	1997 £m	1996 £m	1997 £m	1996 £m
By business area:						
Water and wastewater operations	866.7	828.2	383.3	364.2	3,387.6	3,236.5
Electricity distribution operations	329.0	154.1	132.1	70.4	1,050.3	1,004.7
Electricity supply operations	1,105.3	596.9	45.8	10.8	24.6	(45.5)
Gas supply and telecommunications	26.2	11.8	(2.7)	(1.7)	38.4	0.6
International operations	6.9	9.9	4.6	5.9	8.6	8.1
Facilities management	185.2	–	27.1	–	212.2	–
Other activities	60.9	74.3	7.7	1.4	(14.8)	62.5
	2,580.2	1,675.2	597.9	451.0	4,706.9	4,266.9
International development	–	–	(12.4)	(8.9)	(2.4)	0.3
	2,580.2	1,675.2	585.5	442.1	4,704.5	4,267.2
Inter-business eliminations	(477.9)	(147.1)	–	–	–	–
	2,102.3	1,528.1	585.5	442.1	4,704.5	4,267.2
Divested businesses:						
Process Equipment	106.8	172.0	(1.2)	7.9	–	82.9
Norweb Retail	164.3	127.5	(6.3)	3.7	(19.2)	165.9
Norweb Generation	3.8	2.5	(2.1)	11.1	7.3	(3.1)
Disposed contracting businesses	–	8.5	–	(0.6)	–	–
	2,377.2	1,838.6	575.9	464.2	4,692.6	4,512.9
Exceptional provision	–	–	(83.0)	–	–	–
Business restructuring	–	–	–	(123.8)	–	–
	2,377.2	1,838.6	492.9	340.4	4,692.6	4,512.9
By geographical origin:						
United Kingdom	2,273.5	1,629.6	580.8	355.0	4,700.3	4,447.4
Europe	12.0	24.7	(0.9)	4.9	–	10.4
The Americas	75.4	124.9	(3.7)	(19.6)	1.4	50.9
Rest of the world	16.3	59.4	(83.3)	0.1	(9.1)	4.2
Group total	2,377.2	1,838.6	492.9	340.4	4,692.6	4,512.9

- Profit before non-operating items, interest and tax comprises operating profit amounting to £492.5 million (1996 – £327.6 million) and income from investments in associated undertakings £0.4 million (1996 – £12.8 million).
- The inter-business eliminations totalling £477.9 million include £273.5 million between the electricity distribution and the electricity supply operations and £180.9 million from facilities management primarily to the water and wastewater, electricity distribution and electricity supply operations. The balance of £23.5 million relates largely to sales between water and wastewater operations and electricity supply operations.
- The geographical destination of turnover does not differ materially from the geographical origin analysis above.
- Net operating assets comprise fixed assets and net current liabilities excluding net borrowings, investments, taxation and dividends.
- The Norweb Contracting and Carefree Insurance businesses have been re-classed to other activities. In 1996, Carefree Insurance was included within Norweb Retail.
- Business restructuring costs in 1996 of £123.8 million comprise £103.8 million on continuing operations, relating to the integration of NORWEB plc, and £20.0 million on discontinued operations, relating to restructuring in the Process Equipment Division.

Notes to the accounts continued

3 Net operating costs

	1997			1996		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Employee costs:						
Wages and salaries	213.5	54.7	268.2	146.8	62.7	209.5
Social security costs	22.0	6.8	28.8	15.8	8.2	24.0
Pension contributions (note 24)	23.6	2.6	26.2	17.8	2.5	20.3
	259.1	64.1	323.2	180.4	73.4	253.8
Capital schemes	(56.9)	–	(56.9)	(35.3)	–	(35.3)
Infrastructure renewals	(6.1)	–	(6.1)	(4.9)	–	(4.9)
	196.1	64.1	260.2	140.2	73.4	213.6
Depreciation:						
Owned fixed assets	114.0	7.4	121.4	88.4	5.6	94.0
Fixed assets held under finance leases	8.9	–	8.9	9.1	–	9.1
	122.9	7.4	130.3	97.5	5.6	103.1
Infrastructure renewals	67.6	–	67.6	66.4	–	66.4
Other operating costs:						
Auditors' remuneration	0.2	–	0.2	0.2	0.1	0.3
Research and development	2.4	2.3	4.7	5.8	2.4	8.2
Operating leases – hire of plant and machinery	2.8	1.1	3.9	3.3	1.3	4.6
– land and buildings	2.0	0.2	2.2	4.4	3.7	8.1
Customer rebates	28.3	–	28.3	18.3	–	18.3
Electricity purchases	760.5	–	760.5	455.2	–	455.2
Other costs	339.7	209.4	549.1	305.2	213.2	518.4
Other income (note 4)	(5.3)	–	(5.3)	(9.0)	–	(9.0)
	1,130.6	213.0	1,343.6	783.4	220.7	1,004.1
Net operating costs before exceptional items	1,517.2	284.5	1,801.7	1,087.5	299.7	1,387.2
Other operating costs – exceptional items:						
– Bangkok	83.0	–	83.0	–	–	–
– business restructuring	–	–	–	103.8	20.0	123.8
Total net operating costs	1,600.2	284.5	1,884.7	1,191.3	319.7	1,511.0

The increase in total net operating costs in 1997 is due essentially to the full year impact of the Norweb acquisition.

Fees payable to KPMG and overseas associates of the UK firm for non-audit services in 1997 were £0.9 million (1996 – £0.8 million). The 1997 fees included £0.8 million related to their work on the business divestments. During the year, KPMG received no fees for management consultancy within the United Kingdom. The audit fee for 1997 in relation to the company amounted to £65,000.

Information on the remuneration of executive directors is contained in the Remuneration Committee's report.

4 Other income (continuing operations)

	1997 £m	1996 £m
Profit on disposal of fixed assets	1.2	1.8
Net rents receivable	2.1	3.2
Management fees	0.9	2.1
Other	1.1	1.9
	5.3	9.0

Notes to the accounts continued

5 Employees

	1997	1996
Average number of persons employed by the Group during the year	12,242	10,237
Water and wastewater operations	4,140	4,770
Electricity distribution and supply operations	2,204	1,781
Gas supply and telecommunications	249	94
International operations	83	174
Facilities management	2,366	-
Other activities	541	399
Divestments:		
Process Equipment	1,339	1,976
Norweb Retail	1,302	987
Norweb Generation	18	11
Disposed contracting businesses	-	45

The average number of persons employed in the electricity distribution and supply operations of 2,204 comprises 1,922 in electricity distribution operations and 282 in electricity supply operations. Because of the restructuring of the Group which took effect from 1 April 1996, no comparative analysis is available.

The increase in the average number of employees over 1996 reflects the full year impact of the Norweb acquisition.

6 Net interest payable

	1997 £m	1996 £m
Interest payable:		
On bank loans, overdrafts and other loans:		
Repayable within 5 years	80.0	26.8
Repayable wholly or partly in more than 5 years	52.5	49.8
	132.5	76.6
On finance leases	18.0	17.9
Total interest payable	150.5	94.5
Interest receivable	(18.6)	(19.5)
Net interest payable	131.9	75.0

7 Taxation on profit on ordinary activities

	1997 £m	1996 £m
UK corporation tax at 33%	28.8	-
Overseas tax	7.7	2.2
Unrelieved advance corporation tax	10.7	45.4
Share of associates tax	0.7	0.6
	47.9	48.2

The full potential deferred tax liability is:

Accelerated tax allowances on buildings, plant and equipment		
Infrastructure assets	442.4	395.0
Other assets	385.0	363.7
Losses and other timing differences	(90.3)	(161.6)
	737.1	597.1
Advance corporation tax recoverable	(201.7)	(191.0)
	535.4	406.1

No deferred tax asset or liability arises in the company's accounts.

No provision is made for taxation in respect of liabilities which might arise on the distribution of earnings retained overseas.

Notes to the accounts continued

8 Dividends

	1997 £m	1996 £m
Special dividend (1996 – 3.8 pence)	–	13.0
Interim dividend of 12.0 pence (1996 – 9.27 pence)	61.8	48.4
Final dividend of 25.2 pence recommended (1996 – 19.59 pence)	133.5	102.4
	195.3	163.8

Provision is made for the proposed final dividend and the related advance corporation tax payable on the basis that the dividend will be fully settled in cash. The adjustments required to reflect the take-up of the dividend in the form of new shares are accounted for in the subsequent financial year.

9 Earnings per share

	1997	1996
Net basis:		
Profit for financial year attributable to ordinary shareholders	£235.4m	£224.4m
Earnings per ordinary share	44.9p	51.7p
	£m	£m
Adjusted earnings per share:		
Profit for financial year attributable to ordinary shareholders	235.4	224.4
Adjustments:		
Exceptional provisions: Bangkok, 1997; business restructuring, 1996	83.0	123.8
Loss/(Profit) on disposal of businesses	77.1	(7.2)
Results of divested businesses	9.6	(22.1)
Adjusted profit for financial year attributable to ordinary shareholders	405.1	318.9
Adjusted earnings per ordinary share	77.2p	73.4p
Nil basis:		
Profit on ordinary activities after the elimination of the charge for unrelieved advance corporation tax	£246.1m	£269.8m
Earnings per ordinary share	46.9p	62.1p
	£m	£m
Adjusted earnings per share:		
Profit on ordinary activities after the elimination of the charge for unrelieved advance corporation tax	246.1	269.8
Adjustment:		
Exceptional provisions: Bangkok, 1997; business restructuring, 1996	83.0	123.8
Loss/(Profit) on disposal of businesses	77.1	(7.2)
Results of divested businesses	9.6	(22.1)
Adjusted profit on ordinary activities after the elimination of the charge for unrelieved advance corporation tax	415.8	364.3
Adjusted earnings per ordinary share	79.2p	83.9p

The adjustment to profit and earnings per share has been made to eliminate the impact of non-recurring items and, by the adjustment for the results of divested businesses, to disclose the underlying earnings of continuing operations. The 1996 comparative has been restated accordingly.

Earnings per ordinary share and the adjusted earnings per ordinary share on the net basis have been calculated by dividing profit and the adjusted profit for the financial year attributable to ordinary shareholders by 524.8 million, being the weighted average number of shares in issue during the year (1996 – 434.3 million).

Earnings per ordinary share and the adjusted earnings per ordinary share on the nil basis are calculated by eliminating the taxation charge of £10.7 million (1996 – £45.4 million) in respect of unrelieved advance corporation tax.

There would be no significant dilution of earnings per ordinary share if the outstanding share options were exercised.

Notes to the accounts continued

10 Tangible fixed assets

Group:	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Pre-1974 assets £m	Assets in course of construction £m	Total £m
Cost:							
At 1 April 1996	267.1	1,392.1	2,484.0	562.7	177.4	605.2	5,488.5
Additions	8.7	46.2	122.3	50.5	–	343.0	570.7
Arising on acquisition of Norweb	–	–	–	(5.9)	–	–	(5.9)
Grants and contributions	–	(4.0)	–	–	–	–	(4.0)
Transfers	5.2	158.6	205.7	16.6	–	(386.1)	–
Disposals	(21.7)	–	(1.4)	(80.4)	–	(0.3)	(103.8)
Exchange adjustments	(0.9)	–	–	(1.8)	–	–	(2.7)
At 31 March 1997	258.4	1,592.9	2,810.6	541.7	177.4	561.8	5,942.8
Depreciation:							
At 1 April 1996	47.7	–	604.6	296.7	122.0	–	1,071.0
Charge for the year	5.7	–	63.9	55.3	5.4	–	130.3
Disposals	(4.7)	–	(1.3)	(43.5)	–	–	(49.5)
Exchange adjustments	–	–	–	0.7	–	–	0.7
At 31 March 1997	48.7	–	667.2	309.2	127.4	–	1,152.5
Net book value:							
At 31 March 1997	209.7	1,592.9	2,143.4	232.5	50.0	561.8	4,790.3
At 31 March 1996	219.4	1,392.1	1,879.4	266.0	55.4	605.2	4,417.5

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view (accounting policy note 1(g)). As a consequence, the net book value of fixed assets is £73.3 million (1996 – £69.3 million) lower than it would have been had this treatment not been adopted.

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

	1997 £m	1996 £m
Cost:		
Operational assets	250.8	250.8
Fixtures, fittings, tools and equipment	20.2	26.1
At 31 March	271.0	276.9
Accumulated depreciation:		
Operational assets	53.6	47.1
Fixtures, fittings, tools and equipment	16.4	18.0
At 31 March	70.0	65.1
Net book value:		
Operational assets	197.2	203.7
Fixtures, fittings, tools and equipment	3.8	8.1
At 31 March	201.0	211.8

An analysis of land and buildings between freehold and long and short leasehold is not readily available at 31 March 1997. Pre-1974 assets comprise a pool of assets which was transferred to the Group from North West Water Authority, which the Group acquired in 1974 from its predecessors. No analysis by asset category is available. The directors consider that the provision of the above information would incur expense out of proportion to the benefit it would provide to shareholders.

Notes to the accounts continued

	1997 £m	1996 £m
Capital commitments:		
Contracted but not provided for	380.1	426.0
Authorised but not yet contracted for	354.3	174.4
Company		Fixtures, fittings, tools and equipment £m
Cost:		
At 1 April 1996		4.6
Additions		8.5
Disposals		(2.5)
At 31 March 1997		10.6
Depreciation:		
At 1 April 1996		1.2
Charge for the year		0.8
Disposals		(0.5)
At 31 March 1997		1.5
Net book value:		
At 31 March 1997		9.1
At 31 March 1996		3.4

11 Fixed asset investments

Group	Associated undertakings		Other investments				Total £m
	Unlisted £m	Loans £m	Unlisted £m	Loans £m	Listed £m	Other £m	
Cost:							
At 1 April 1996	48.6	18.5	1.5	3.2	17.8	21.4	111.0
Additions	23.2	—	3.3	—	—	—	26.5
Arising on acquisition of Norweb	86.5	—	0.9	—	—	—	87.4
Share of profits	0.1	—	—	—	—	—	0.1
Disposals	(99.7)	—	(3.2)	—	(2.3)	—	(105.2)
Loan repayment	(3.1)	(18.1)	—	(1.1)	—	—	(22.3)
Exchange adjustments	(3.8)	—	0.3	—	—	(0.1)	(3.6)
At 31 March 1997	51.8	0.4	2.8	2.1	15.5	21.3	93.9

A list of the Group's principal operating subsidiaries and associated undertakings is shown on pages 46 and 47.

Share of profits is stated after a taxation charge of £0.3 million.

Included within other investments are:

- (i) a 20 per cent interest in Lakeland Power Limited. In the opinion of the directors they are unable to exercise significant influence over this company and accordingly it is accounted for as a trade investment;
- (ii) the listed investments held by Carefree Insurance Limited which had a market value of £15.5 million at 31 March 1997; and
- (iii) other investments, including own shares held in the ESOP trusts (see note 22).

Company	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Cost:			
At 1 April 1996	2,629.4	0.4	2,629.8
Additions	242.2	1.0	243.2
Disposals	(61.1)	—	(61.1)
At 31 March 1997	2,810.5	1.4	2,811.9

Notes to the accounts continued

Details of principal operating subsidiary and associated undertakings, all of which are unlisted, are detailed below. These subsidiary undertakings are included within the consolidated Group financial statements. A full list of subsidiaries is attached to the annual return of the company.

	Class of share capital held	Proportion of share capital owned/voting rights	Nature of business
<i>Subsidiary undertakings:</i>			
Great Britain:			
North West Water Limited	Ordinary	100%	Water supply and sewerage services
Vertex Data Science Limited	Ordinary	100%	Business operations outsourcing
United Utilities International Limited	Ordinary	100%	Consulting services and project management
North West Water (Scotland) Limited	Ordinary	100%	Technical, consulting and project management services
NORWEB plc	Ordinary	100%	Provision of energy and related services
Northern Hydro Limited	Ordinary	100%*	Electricity generation
Norweb Generation Limited	Ordinary	100%*	Investment in electricity generation
Norweb CPS Limited	Ordinary	100%*	Installation and sale of combined heat and power equipment
CPS (Central) Limited	Ordinary	100%*	Installation and sale of combined heat and power equipment
Norweb Gas Limited	Ordinary	75%*	Sale of gas
Isle of Man:			
Carefree Insurance Limited	Ordinary	100%*	Provision of re-insurance services
Talbot Insurance Limited	Ordinary	100%*	Provision of insurance services
Republic of Ireland:			
Norweb North America Corporation	Ordinary	100%*	Investment
Australia:			
North West Water Australia Pty Limited	Ordinary	100%*	Technical and management services
Malaysia:			
North West Water (Malaysia) SDN BHD	Ordinary	100%	Technical and management services
<i>Associated undertakings:</i>			
Great Britain:			
International Water Limited	Ordinary	50%*	Investment in water and wastewater services
Norweb Land Fill Gas Limited	Ordinary	50%*	Electricity generation
Combined Power Systems Ltd	Ordinary	29.9%*	Installation and sale of combined heat and power equipment
USA:			
Gordonsville Energy Limited Partnership	Ordinary	50%*	Electricity generation
Auburndale Power Partners Limited Partnership	Ordinary	50%*	Electricity generation
US Water LLC	Ordinary	50%*	Contract operations and maintenance services

The country under which each undertaking appears is both the country of its incorporation and of its principal operations. All of the Great Britain undertakings are registered in England and Wales. Shares are held directly by United Utilities PLC except where marked with an asterisk where they are held by subsidiary undertakings.

Notes to the accounts continued

	Class of share capital held	Proportion of share capital owned/voting rights	Nature of business
<i>Associated undertakings:</i>			
Australia:			
Yan Yean Water Pty Limited	Ordinary	50%*	Water treatment operations
NWT Water Pty Limited	Ordinary	50%*	
Malaysia:			
Indah Water Operations SDN BHD	Ordinary	50%*	Wastewater network and treatment operations
Mexico:			
Agua de Mexico SA de CV	Ordinary	49%*	Technical and management services

The country under which each undertaking appears is both the country of its incorporation and of its principal operations. All of the Great Britain undertakings are registered in England and Wales. Shares are held directly by United Utilities PLC except where marked with an asterisk where they are held by subsidiary undertakings.

During the year, as a result of the disposal of the process equipment and Norweb generation businesses, the Group sold its interests in the following principal subsidiary and associated undertakings. The results of these undertakings are included in the financial statements for 1997 to the date of their disposal.

	Class of share capital held	Proportion of share capital owned/voting rights	Nature of business
<i>Subsidiary undertakings:</i>			
Great Britain:			
Wallace & Tiernan Limited	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Edwards and Jones Limited	Ordinary	100%*	
USA:			
Envirex Inc	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
General Filter Company Inc	Ordinary	100%*	
Wallace & Tiernan Inc	Ordinary	100%*	
Consolidated Electric Company	Ordinary	100%*	
Australia:			
Wallace & Tiernan Pacific Pty Limited	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
Canada:			
Asdor Limited	Ordinary	100%*	Suppliers of equipment for water and wastewater treatment processes
Wallace & Tiernan Canada Inc	Ordinary	100%*	
Germany:			
Wallace & Tiernan GmbH	Ordinary	100%*	Manufacture of equipment for water and wastewater treatment processes
<i>Associated undertakings:</i>			
Great Britain:			
Keadby Power Limited	Ordinary	50%*	Electricity generation
Spain:			
CIDA Hidroquímica SA	Ordinary	39.7%*	Design and installation of equipment and systems for water and wastewater treatment

Notes to the accounts continued

12 Purchase of subsidiary

The Group acquired NORWEB plc on 8 November 1995 and the acquisition method of accounting has been adopted. The analysis of net assets acquired and the provisional fair value to the Group was disclosed in the 1996 financial statements. In accordance with Financial Reporting Standard 7, the provisional fair value adjustments have been re-assessed as at 31 March 1997. The adjustments required and the impact on the goodwill calculation are as follows:

	Provisional fair value to Group £m	Revaluation adjustments £m	Other adjustment £m	Revised fair value to Group £m
Tangible fixed assets	1,014.2	(5.9)	–	1,008.3
Investments	395.0	87.4	–	482.4
Stocks	64.7	(24.5)	–	40.2
Debtors	212.4	(12.6)	1.5	201.3
Cash and cash equivalents	254.9	–	–	254.9
Creditors falling due within one year	(325.0)	(25.5)	–	(350.5)
Creditors falling due after more than one year	(550.2)	–	–	(550.2)
Provisions for liabilities and charges	(264.4)	(67.0)	–	(331.4)
Net assets before special dividend	801.6	(48.1)	1.5	755.0
Special dividend, including advance corporation tax	(195.6)	–	–	(195.6)
Net assets	606.0	(48.1)	1.5	559.4
Consideration:				
Cash	1,463.2	–	–	1,463.2
Shares allotted	197.0	–	–	197.0
Share option obligations	22.7	–	–	22.7
Total consideration	1,682.9	–	–	1,682.9
Goodwill arising	1,076.9	48.1	(1.5)	1,123.5

The revaluation adjustments are principally a £100.2 million downwards revaluation relating to the disposal of the Norweb retail business, for which gross proceeds of £148.2 million (excluding the value to be realised from Carefree Insurance) were received, and a £50.0 million upwards revaluation relating to the disposal of the Norweb generation businesses, for which gross proceeds of £122.7 million have been received in the year. After fees and closure costs, total net cash received in relation to these disposals was £236.0 million.

13 (Loss)/Profit on disposal of businesses

The profit and loss on disposal of businesses during the financial year was as follows:

	1997 £m	1996 £m
Process equipment:		
Profit on disposal of business, before goodwill write back	48.2	–
Goodwill write back	(126.2)	–
Net loss on disposal of process equipment business	(78.0)	–
North Brunswick Water LLC:		
Profit on disposal of business	0.9	–
Net profit on disposal of business	0.9	–

Notes to the accounts continued

	1997 £m	1996 £m
North West Water Engineering operations:		
Profit on disposal of business	-	7.1
Net profit on disposal of business	-	7.1
US Water:		
Profit on disposal of business before goodwill write back	-	2.2
Goodwill write back	-	(2.1)
Net profit on disposal of business	-	0.1

The tax arising on the disposals in the financial year was £19.9 million of which £13.4 million has been taken account of in the acquisition balance sheet of Norweb.

A list of the principal subsidiaries in which the Group's interests were sold during the year is included on page 47.

14 Stocks

	Group	
	1997 £m	1996 £m
Stores	1.4	20.7
Work in progress	2.6	16.7
Finished goods and goods for resale	4.5	53.9
	8.5	91.3

15 Debtors

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Amounts falling due within one year:				
Trade debtors	153.2	244.7	-	-
Amounts owed by subsidiary undertakings	-	-	364.0	295.8
Amounts owed by associated undertakings	-	2.1	-	-
Other debtors	39.5	51.6	-	-
Infrastructure renewals prepayment	21.7	-	-	-
Prepayments and accrued income	205.6	188.5	8.4	5.8
Amounts recoverable under contracts	1.0	7.5	-	-
	421.0	494.4	372.4	301.6
Amounts falling due after more than one year:				
Other debtors	6.8	38.3	-	-
	6.8	38.3	-	-
Total debtors	427.8	532.7	372.4	301.6

16 Current asset investments

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Managed funds and short term deposits	297.7	240.4	-	-
Other current asset investments	10.6	33.4	9.9	35.7
	308.3	273.8	9.9	35.7

Notes to the accounts continued

17 Creditors: amounts falling due within one year

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Loans	21.4	16.7	–	–
Bank overdrafts and temporary borrowings	918.3	981.0	187.7	264.3
Obligations under finance leases	5.8	9.2	–	–
Trade creditors	113.6	196.8	–	–
Amounts owed to subsidiary undertakings	–	–	224.1	178.7
Dividends	133.5	103.0	133.5	103.0
Other creditors	–	1.6	–	–
Taxation and social security	165.5	56.9	39.4	40.0
Infrastructure renewals accrual	–	10.1	–	–
Accruals and deferred income	423.7	337.9	21.2	13.5
Advance corporation tax	69.5	83.1	69.5	25.7
	1,851.3	1,796.3	675.4	625.2

18 Creditors: amounts falling due after more than one year

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Loans	803.8	833.2	75.3	79.1
Obligations under finance leases	204.8	210.7	–	–
Other creditors	43.1	48.7	–	–
Deferred grants and contributions (note 19)	183.4	175.1	–	–
	1,235.1	1,267.7	75.3	79.1

19 Deferred grants and contributions

	£m
At 1 April 1996	175.1
Received in the year	14.3
Credit to profit and loss account for the year	(6.0)
At 31 March 1997	183.4

20 Provisions for liabilities and charges

	Group		Company	
	Restructuring £m	Other £m	Total £m	Other £m
At 1 April 1996	181.4	228.9	410.3	7.3
Utilised	(53.7)	(78.5)	(132.2)	–
Arising on acquisition of Norweb	–	67.0	67.0	–
Profit and loss account	–	84.2	84.2	5.0
At 31 March 1997	127.7	301.6	429.3	12.3

Other provisions at 31 March 1997 amounting to £301.6 million include £234.1 million arising from fair value adjustments on the acquisition of NORWEB plc, of which £166.6 million relates to onerous gas and electricity contracts and £41.8 million relates to Norweb Retail closure costs, and £42.0 million relating to Bangkok.

Notes to the accounts continued

21 Borrowings

Group	Loans and overdrafts £m	Finance leases £m	1997 Total £m	1996 Total £m
Within one year	939.7	5.8	945.5	1,006.9
Between one and two years	37.4	3.3	40.7	27.2
Between two and five years	282.0	5.4	287.4	199.6
After more than five years	484.4	196.1	680.5	817.1
	1,743.5	210.6	1,954.1	2,050.8

Loans wholly repayable after more than five years comprise bank and other loans repayable between 2002 and 2053. Interest rates range from 6.65 per cent to 14.83 per cent on £226.1 million and are at floating rates on £258.3 million.

On total borrowings, interest rates range from 6.65 per cent to 14.83 per cent on £1,069.5 million and are at floating rates on £884.6 million.

Company

Excluding amounts owed to subsidiary undertakings, the company has borrowings totalling £263.0 million (1996 – £343.4 million) of which £187.7 million falls due within one year. The remaining loans totalling £75.3 million comprise £12.7 million repayable in 1998 and £62.6 million repayable in 2001. The loans repayable in 1998 are at floating rates of interest, as is £42.6 million of the £62.6 million repayable in 2001. The balance of £20.0 million is at 11.625 per cent.

22 Share capital and share premium accounts

The authorised share capital at 31 March 1996 was £660,000,001 divided into 660,000,000 ordinary shares of £1 each and one special rights redeemable preference share of £1. By resolutions passed at the annual general meeting on 26 July 1996, the special rights redeemable preference share was cancelled and the authorised ordinary share capital was increased to £720,000,000 by the creation of 60,000,000 new ordinary shares of £1 each.

The allotted and fully paid share capital of the company at 31 March 1997 was 529,596,168 ordinary shares (523,068,903 ordinary shares at 31 March 1996).

The movements on the allotted and fully paid share capital and the share premium accounts were:

	Shares million	Share capital £m	Share premium £m
At 1 April 1996	523.1	523.1	615.0
Issued under share option and sharesave schemes	3.0	3.0	7.2
Issued in lieu of cash dividends	3.5	3.5	–
Share issue costs	–	–	(0.2)
At 31 March 1997	529.6	529.6	622.0

3,042,273 ordinary shares were allotted during the year ended 31 March 1997 following the exercise of options in accordance with the rules of the employee sharesave schemes and the executive option scheme for a total consideration of £10.2 million.

On 1 October 1996 1,764,965 ordinary shares and on 13 February 1997 1,720,027 ordinary shares were issued to ordinary shareholders who elected under the company's share dividend plan to receive shares instead of cash for the final dividend for the year ended 31 March 1996 and for the interim dividend for the year ended 31 March 1997.

Since 31 March 1997, 261,975 shares have been allotted on the exercise of options and at 2 June 1997, the company's issued share capital, credited as fully paid, was 529,858,143.

Notes to the accounts continued

The company has two continuing share option schemes – an employee sharesave scheme available to all eligible employees and an executive share option scheme for senior executives (excluding, with effect from the introduction of the Group's incentive plan, executive directors and other executives participating in the plan). The former is based on SAYE savings contracts with options exercisable within a six month period from the conclusion of a five or seven year period as appropriate from the date of grant. Options under the latter scheme are exercisable in a period beginning no earlier than three years (five years for discounted options, which are no longer granted) and ending no later than ten years from the date of grant. Options outstanding under the two share option schemes at 31 March, together with their exercise prices and dates, were:

	1997	1996	Exercise price	Normal dates of exercise
Employee sharesave scheme	53,452	816,629	170.2p	1997
	378,242	436,352	244.3p	1996 or 1998
	415,910	1,233,084	269.9p	1997 or 1999
	676,252	718,350	369.5p	1998 or 2000
	616,906	655,532	440.6p	1999 or 2001
	956,485	1,022,604	404.8p	2000 or 2002
	1,276,900	1,368,801	481.0p	2001
	3,937,099	–	476.0p	2002
Executive option scheme	37,730	37,730	268.9p	1993 to 2000
	22,480	42,634	305.2p	1993 to 2000
	180,051	320,558	324.1p	1995 to 2002
	208,938	289,733	275.7p	1997 to 2002
	50,587	75,187	392.7p	1995 to 2002
	73,384	95,023	334.2p	1997 to 2002
	167,195	415,620	463.4p	1996 to 2003
	100,088	165,112	394.2p	1998 to 2003
	43,478	355,592	446.9p	1996 to 2003
	97,068	118,507	380.2p	1998 to 2003
	467,618	836,776	566.9p	1997 to 2004
	194,535	273,564	482.2p	1999 to 2004
	306,025	315,521	530.1p	1997 to 2004
	103,607	105,157	450.8p	1999 to 2004
	455,614	576,887	479.8p	1997 to 2004
	151,854	192,191	408.2p	1999 to 2004
	197,498	207,576	564.0p	1998 to 2005
	65,828	69,187	479.8p	2000 to 2005
	345,500	408,500	584.5p	1998 to 2005
	775,488	–	544.5p	1999 to 2006
	536,750	–	628.0p	2000 to 2007
	12,892,562	11,152,407		

A further opportunity to join the employee sharesave scheme was offered during the year ended 31 March 1997 and options were granted under the executive share option scheme (and overseas executive share option scheme). In the year, options were granted under the two option schemes in respect of a total of 5,316,494 ordinary shares, options for 3,042,273 ordinary shares were exercised and options for 534,066 ordinary shares lapsed.

Notes to the accounts continued

No options have been granted under the Norweb employee sharesave scheme since the acquisition of Norweb. Participating employees were given the opportunity of replacing their options for Norweb shares with options of an equivalent value for United Utilities shares. Options for United Utilities shares outstanding under the Norweb scheme at 31 March, together with their exercise prices and dates, were:

	1997	1996	Exercise price	Normal date of exercise
	–	268,522	85.91p	1996
	4,799,524	5,653,307	308.29p	2000

Two independently managed ESOP trusts were formed in 1993 to purchase Norweb shares to be used to meet some of the future obligations under the Norweb employee share option schemes. As part of the process of the acquisition of Norweb, the trustee sold the Norweb shares then held and part of the proceeds were, and continue to be, used to purchase United Utilities shares to be held similarly to meet obligations under the Norweb scheme. All finance costs and administration expenses connected with the operation of the trusts are written off to the profit and loss account as they accrue. The number of shares held in the ESOP at 31 March 1997 was 266,702 (1996 – 314,046) with a market value of £1,674,888.56 (1996 – £1,940,804.28) based on the mid market price of a share at that date of 628.0 pence. All dividends have been waived in accordance with a deed of waiver between NORWEB plc and Norweb ESOP Limited as trustee. All shares held in the ESOP, subject to the trustee's discretion, are used to satisfy options granted to employees of NORWEB plc.

23 Profit and loss account

	Group £m	Company £m
At 1 April 1996	854.0	1,120.8
Retained profit for the year	40.1	148.2
Goodwill loss on disposal	126.2	3.7
Adjustments to goodwill arising on the acquisition of NORWEB plc	(46.6)	–
Shares issued in lieu of cash dividends	16.0	16.0
Exchange adjustments	0.6	–
At 31 March 1997	990.3	1,288.7

Cumulative goodwill arising on the acquisition of subsidiary undertakings written off to the profit and loss account amounts to £1,124.5 million (1996 – £1,204.1 million, restated for prior year disposals).

As allowed by section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The amount of Group profit for the financial year dealt with in the company's profit and loss account was £343.5 million, after accounting for dividends receivable from subsidiary undertakings of £412.6 million.

24 Pensions

The Group participates in a number of pension schemes principally in the UK. The major schemes are funded defined benefit schemes – the Water Mirror Image Pension Scheme (WMIS), the Water Pension Scheme (WPS) and the Electricity Supply Pension Scheme (ESPS), of which the WMIS and ESPS are closed to new employees. The assets of these schemes are held in trust funds independent of Group finances.

For WMIS and WPS, the Employer's contributions and the pension cost under the accounting standard SSAP24 have been assessed in accordance with the advice of a firm of actuaries, William M Mercer Limited, using the projected unit method for the WPS and the attained age method for the WMIS. For this purpose, the actuarial assumptions adopted are based upon investment growth of 9 per cent per annum, pay growth of 7 per cent per annum and increases to pensions in payment and deferred pensions of 5 per cent per annum.

The last actuarial valuation of the two schemes was carried out as at 31 March 1996. The combined market value of the Group's share of the assets of these two schemes at the valuation date was £521.2 million. The combined actuarial value of the assets represented 107 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP24, the surplus in the schemes is being spread over the future working lifetime of the existing members.

Notes to the accounts continued

For ESPS, the employer's contributions and the pensions cost under the accounting standard SSAP24 have been assessed in accordance with the advice of a firm of actuaries, Bacon and Woodrow, using the attained age method. For this purpose, the main actuarial assumptions adopted are based upon investment growth of 9 per cent per annum, salary increases (exclusive of merit awards) of 6.5 per cent per annum and increases to pensions in payment of 5 per cent per annum.

The last actuarial valuation of ESPS was carried out as at 31 March 1995. The market value of the Group's share of the assets of ESPS at 31 March 1995 was £662.3 million. The actuarial value of the assets represented 112.8 per cent of the actuarial value of the accrued benefits. In deriving the pension cost under SSAP24, the surplus in the scheme is being spread over the future working lifetime of existing members.

The Group also operates other small funded defined benefit and defined contribution schemes. The pension cost for the defined benefit arrangements is calculated on principles consistent with those described above and for the defined contribution schemes is calculated as the company contributions paid.

The Group also operates a series of unfunded unapproved retirement benefit schemes. The cost of the unfunded unapproved retirement benefit schemes is included in the total pension cost, on a basis consistent with SSAP24 and the assumptions used for WPS.

The total pension cost for the period was £26.2 million (1996 – £20.3 million).

Information about the pension arrangements for executive directors is contained in the Remuneration Committee's report.

25 Operating leases

Subsidiary undertakings are committed to making the following payments during the year ending:

	31 March 1998		31 March 1997	
	Land and buildings £m	Plant and machinery £m	Land and buildings £m	Plant and machinery £m
Leases which expire:				
Within one year	0.8	1.5	1.1	1.0
Between two and five years	1.0	4.0	2.7	5.2
After five years	3.0	–	8.6	0.2
	4.8	5.5	12.4	6.4

26 Contingent liabilities

The company and certain of its subsidiary undertakings have, in the ordinary course of business, entered into performance bonds relating to the Group's own contracts.

The company also guaranteed certain loans and overdrafts of Group undertakings up to a maximum amount of £582.3 million, including £458.0 million relating to North West Water Limited's loans from the European Investment Bank.

27 Net cash inflow from operating activities

	1997 £m	1996 £m
Operating profit	492.5	327.6
Exceptional charges within operating profit	83.0	123.8
Operating profit before exceptional items	575.5	451.4
Depreciation	130.3	103.1
Profit on disposal of tangible fixed assets	(1.2)	(1.8)
Stocks (increase)/decrease	(8.6)	13.3
Debtors increase	(90.7)	(85.1)
Creditors decrease	(5.3)	(117.5)
Outflow related to exceptional items	(80.7)	(7.1)
	519.3	356.3

Notes to the accounts continued

28 Returns on investments and servicing of finance

	1997 £m	1996 £m
Dividends received from equity accounted associates	–	102.3
Norweb special dividend	–	(156.3)
Interest received	15.5	21.6
Interest paid	(127.0)	(77.1)
Interest paid on finance leases	(9.8)	(28.4)
	(121.3)	(137.9)

29 Capital expenditure and financial investment

	1997 £m	1996 £m
Purchase of tangible fixed assets net of grants and contributions	(540.0)	(398.0)
Sale of tangible fixed assets	7.1	7.8
Purchase of fixed asset investments	(24.7)	(45.6)
Sale of fixed asset investments other than associated undertakings or joint ventures	40.6	302.1
	(517.0)	(133.7)

30 Acquisitions and disposals

	Acquisitions		Disposals	
	1997 £m	1996 £m	1997 £m	1996 £m
Tangible fixed assets	5.9	(1,014.2)	48.4	7.6
Investments	(87.4)	(395.0)	36.1	0.2
Net current assets/liabilities	61.1	(207.0)	234.1	4.9
Creditors due after more than one year	–	550.2	(6.8)	(0.1)
Provisions for liabilities and charges	67.0	264.4	(6.2)	–
Special dividend, including advance corporation tax	–	195.6	–	–
Fair value of net assets acquired	46.6	(606.0)		
Book value of net assets disposed	–	–	305.6	12.6
Goodwill acquired/written back on disposal	(46.6)	(1,076.9)	86.7	2.1
Consideration for undertakings acquired	–	(1,682.9)		
Shares allotted	–	197.0		
Share option obligations	–	22.7		
(Loss)/Profit on disposals			(77.1)	7.2
	–	(1,463.2)	315.2	21.9
Less				
Cash included in undertakings acquired/disposed	–	254.9	(3.5)	(5.0)
Deferred consideration	–	–	(2.9)	(17.9)
Deferred costs	–	–	48.7	–
Cash consideration	–	(1,208.3)	357.5	(1.0)
Comprising				
(Outflow)/inflow arising on				
current year's acquisitions/disposals	–	(1,208.3)	358.4	(1.0)
previous year's acquisitions/disposals	–	–	(0.9)	–
	–	(1,208.3)	357.5	(1.0)

Notes to the accounts continued

31 Management of liquid resources

	1997 £m	1996 £m
Increase in bank deposits and certificates of deposit	57.3	29.3

32 Financing

	Financing – shares			Financing – debt			Total £m	
	Shares issued by company		Total £m	Loans £m	Short-term borrowings other than overdrafts £m	Finance leases £m		Total £m
	Share capital £m	Share premium £m						
At 1 April 1995	(377.1)	(3.0)	(380.1)	(556.9)	(56.7)	(228.0)	(841.6)	(1,221.7)
Exchange adjustments	–	–	–	(6.4)	(4.0)	–	(10.4)	(10.4)
Financing								
New finance	(110.0)	(449.0)	(559.0)	(32.3)	(870.4)	–	(902.7)	(1,461.7)
Finance repaid	–	–	–	120.6	–	8.1	128.7	128.7
Cash flow	(110.0)	(449.0)	(559.0)	88.3	(870.4)	8.1	(774.0)	(1,333.0)
Acquisitions and disposals	(34.0)	(163.0)	(197.0)	(374.9)	(39.4)	–	(414.3)	(611.3)
Shares issued in lieu of cash dividends	(2.0)	–	(2.0)	–	–	–	–	(2.0)
At 1 April 1996	(523.1)	(615.0)	(1,138.1)	(849.9)	(970.5)	(219.9)	(2,040.3)	(3,178.4)
Exchange adjustments	–	–	–	4.2	6.9	–	11.1	11.1
Financing								
New finance	(3.0)	(7.0)	(10.0)	–	–	–	–	(10.0)
Finance repaid	–	–	–	20.5	79.8	9.3	109.6	109.6
Cash flow	(3.0)	(7.0)	(10.0)	20.5	79.8	9.3	109.6	99.6
Shares issued in lieu of cash dividends	(3.5)	–	(3.5)	–	–	–	–	(3.5)
At 31 March 1997	(529.6)	(622.0)	(1,151.6)	(825.2)	(883.8)	(210.6)	(1,919.6)	(3,071.2)
				Repayment dates	Currency	Rate %		Amount £m
Loans repaid								
EIB				various	£	various		15.5
Loan notes				18 September, 18 March	£	floating		4.1
Local authority				30 September, 27 March	£	various		0.9
								20.5

Notes to the accounts continued

33 Analysis of net debt

	Cash	Financing – debt				Total	Current asset investments	Net debt
	£m	Loans		Short-term borrowings other than overdrafts £m	Finance leases £m		£m	£m
		Due after one year £m	Due within one year £m					
At 1 April 1995	15.3	(525.1)	(31.8)	(56.7)	(228.0)	(841.6)	211.1	(615.2)
Exchange adjustments	–	(6.4)	–	(4.0)	–	(10.4)	–	(10.4)
Cash flow	14.3	73.2	15.1	(870.4)	8.1	(774.0)	29.3	(730.4)
Acquisitions and disposals	–	(374.9)	–	(39.4)	–	(414.3)	–	(414.3)
At 1 April 1996	29.6	(833.2)	(16.7)	(970.5)	(219.9)	(2,040.3)	240.4	(1,770.3)
Exchange adjustments	–	4.2	–	6.9	–	11.1	–	11.1
Cash flow	(34.7)	–	20.5	79.8	9.3	109.6	57.3	132.2
Other non-cash changes	–	25.2	(25.2)	–	–	–	–	–
At 31 March 1997	(5.1)	(803.8)	(21.4)	(883.8)	(210.6)	(1,919.6)	297.7	(1,627.0)

Cash and short-term borrowings

	Cash at bank		Short-term borrowings		Net total £m	Cash (at bank and overdrafts)
	£m	Overdrafts £m	Other £m	Total £m		£m
At 1 April 1995	16.8	(1.5)	(56.7)	(58.2)	(41.4)	15.3
Exchange adjustments	–	–	(4.0)	(4.0)	(4.0)	–
Acquisitions and disposals	–	–	(39.4)	(39.4)	(39.4)	–
Cash flow	23.3	(9.0)	(870.4)	(879.4)	(856.1)	14.3
At 1 April 1996	40.1	(10.5)	(970.5)	(981.0)	(940.9)	29.6
Exchange adjustments	–	–	6.9	6.9	6.9	–
Cash flow	(10.7)	(24.0)	79.8	55.8	45.1	(34.7)
At 31 March 1997	29.4	(34.5)	(883.8)	(918.3)	(888.9)	(5.1)

Five year summary

	1993 £m	1994 £m	1995 £m	1996 £m	1997 £m
Profit and loss accounts					
Turnover	878	924	1,012	1,839	2,377
Net operating costs	(590)	(600)	(671)	(1,511)	(1,884)
Operating profit	288	324	341	328	493
(Loss)/Income from investments in associated undertakings	–	(2)	4	13	–
(Loss)/Profit on disposal of businesses	–	–	(14)	7	(77)
Net interest payable	(41)	(53)	(47)	(75)	(132)
Profit on ordinary activities before taxation	247	269	284	273	284
Tax on profit on ordinary activities	(25)	(9)	(25)	(48)	(48)
Minority interest	–	–	–	–	(1)
Profit for financial year	222	260	259	225	235
Dividends	(76)	(86)	(94)	(164)	(195)
Transfer to reserves	146	174	165	61	40
Balance sheets					
Fixed assets	2,564	2,860	3,103	4,528	4,884
Net current assets/(liabilities)	18	40	(13)	(858)	(1,077)
Creditors falling due after more than one year	(674)	(788)	(790)	(1,268)	(1,235)
Provisions for liabilities and charges	(74)	(61)	(54)	(410)	(429)
	1,834	2,051	2,246	1,992	2,143
Equity share capital and share premium	358	373	380	1,138	1,152
Reserves and retained profits	1,476	1,678	1,866	854	990
Minority interest	–	–	–	–	1
	1,834	2,051	2,246	1,992	2,143

Shareholder information

Financial calendar

The 1997 annual general meeting will be held on Friday, 25 July 1997 at 10.30 am at the G-Mex Centre, Manchester. The notice of meeting and explanatory notes about the resolutions to be proposed are set out in the leaflet enclosed with this report.

Other forthcoming events are:

- payment of the 1997 final dividend, on 1 October 1997;
- payment of interest on the unsecured floating rate loan notes, on 18 September 1997;
- announcement of the half year results, in November 1997;
- payment of the 1998 interim dividend, in February 1998;
- payment of interest on the unsecured floating rate loan notes, on 18 March 1998;
- preliminary announcement of the full year results, in May 1998;
- publication of the annual report and accounts and the annual review and summary financial statement, in June 1998; and
- the annual general meeting, in July 1998.

About your shareholding

If you wish to enquire about or need any information about your shareholding in the company, please contact the company's registrar, Lloyds Bank Registrars, 54 Pershore Road South, Kings Norton, Birmingham B30 3EP (telephone: 0121 433 8000), quoting reference number 813.

If you have received more than one copy of this annual report, there may be more than one account in your name on the company's register of members. To amalgamate your holdings, please contact the registrar giving details of the accounts concerned and how you wish them to be amalgamated.

Payment of dividends by BACS

Payment of the company's dividends direct to a shareholder's bank or building society account is made through the BACS (Bankers' Automated Clearing Service) system. The benefit to shareholders is that tax vouchers are sent direct to them rather than to their bank or building society. If you have not already arranged to have your dividends paid direct to your bank or building society account and would like to do so, please contact the company's registrar, at the address given above.

Personal equity plans

The United Utilities single company and corporate personal equity plans are managed by Halifax Investment Services Limited. They enable shareholders to hold their shares in the company in a tax efficient way. Details are available from the Plan Manager, Halifax Investment Services Limited, Trinity Road, Halifax HX1 2RG (telephone: 01422 335991). Halifax Investment Services Limited, which is regulated by the Investment Management Regulatory Organisation, is a member of the Halifax Group.

Publications

In addition to this annual report which deals with the Group's activities overall, we produce other reports, leaflets and factsheets dealing in greater detail with particular activities or aspects of our business. For further information, please contact David Hight, Corporate Communications Director, at the Group Corporate Centre, Birchwood Point Business Park, Birchwood Boulevard, Birchwood, Warrington WA3 7WB (telephone: 01925 285000).

Copies of the separate regulatory accounts for the year ended 31 March 1997 for North West Water and for Norweb, which are filed respectively with the Director General of Water Services and the Director General of Electricity Supply, are available free of charge. If you would like copies, please contact Jane Lawton, Compliance Manager, also at the Group Corporate Centre.

Unsolicited mail

The law obliges the company to make its register of members available to other organisations. Because of this, you may receive mail you have not asked for. If you wish to limit the amount of personally addressed unsolicited mail you receive, please write for information and an application form to the Mailing Preference Service, Freepost 22, London W1E 4EZ.

The paper used in the making of this annual report is recycled and contains a minimum of 10 per cent consumer de-inked waste. No chlorine or chlorine compound is used in the bleaching process. It is ECF (elemental chlorine free).

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