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United Utilities

Annual Report & Accounts 2004

Annual Report 04

Financial highlights

	2004	2003	2002
Turnover [1]	**£2,115.5m**	£1,920.5m	£1,871.6m
Total operating profit [2]	**£597.1m**	*£561.7m*	*£553.3m*
Profit before tax (before goodwill and exceptional items)* [3]	**£349.0m**	£330.3m	£322.7m
Profit before tax	**£337.5m**	£327.5m	£302.8m
Adjusted basic earnings per share [4]	**54.7p**	42.2p	44.0p
Basic earnings per share [5]	**54.5p**	45.8p	43.4p
Dividend per ordinary share	**44.31p**	47.6p	47.0p
Dividend per A share	**22.155p**	N/A	N/A
Re-presented dividend per ordinary share [6] (post rights issue)	**44.31p**	43.18p	42.64p
Net debt	**£3,438.4m**	£3,373.9m	£3,060.8m
Equity shareholders' funds	**£3,083.3m**	£2,533.6m	£2,519.2m
Gearing [7]	**53%**	57%	55%
Interest cover [8]	**2.4**	2.4	2.4
Dividend cover [9]	**1.2**	1.0	1

Notes

1) Turnover includes the group's share of joint ventures' turnover.
2) Total operating profit is before goodwill amortisation and exceptional items as defined in footnote 2 on page 15.
3) As defined in footnote 2 on page 15.
4) Adjusted basic earnings per share excludes exceptional items and goodwill amortisation and
has been restated for all periods prior to the rights issue using an adjustment factor based on the consideration received from the first stage of the rights issue and assumed proceeds from the second stage, which are due to be received in June 2005.
5) Basic earnings per share has been restated for all periods prior to the rights issue using an adjustment factor based on the consideration received from the first stage of the rights issue.
6) Prior year dividends per ordinary share have been re-presented for comparative purposes to take account of the bonus element of the first stage of the rights issue.
7) Gearing is measured as net debt divided by total capital employed. Total capital employed is equity shareholders' funds plus net debt.
8) Interest cover is the number of times the interest charge is covered by profit before exceptional items, goodwill amortisation, non-operating items, interest and tax.
9) Dividend cover is calculated by dividing profit for the year before exceptional items and goodwill amortisation by the dividend charge.

Profit before tax* – increased by

6%

to £349 million

Licensed multi-utility operations – operating profit increased by**

3%

to £520 million

Business process outsourcing – operating profit increased by**

34%

to £25 million

Infrastructure management – operating profit increased by**

15%

to £68 million

Telecommunications – free cash flow positive in the second half of the year

Total dividend for the year of 44.31 pence per ordinary share, an increase of

2.6%

(post rights issue)

Contents

* Before goodwill amortisation and exceptional items, as shown on the face of the consolidated profit and loss account and defined in footnote 2 on page 15.

** Operating profit for a segment is before goodwill amortisation and exceptional items as shown in the segmental analysis by class of business in note 2 of the financial statements.

Unless otherwise stated, amounts and percentage movements on pages 1 to 17 relating to the profit and loss account are stated before goodwill amortisation

Chairman's statement

Significant move forward

Sir Richard Evans, Chairman

... by raising around £500 million through the first stage of the rights issue and by continuing to grow support services businesses strongly.

Performance
The group has moved forward significantly over the past year, both by raising around £500 million through the first stage of its rights issue to help fund future investment demands in its regulated businesses and by continuing to grow its support services businesses strongly. Turnover (including share of joint ventures) rose 10.2 per cent to £2,115.5 million, reflecting improved performance across all of our businesses. Total operating profit* rose 6.3 per cent to £597.1 million. This increase reflects improved operating profits** in infrastructure management, business process outsourcing and licensed multi-utility operations and reduced operating losses** in telecommunications.

Dividend
In line with our promise to maintain dividends in real terms, the board is proposing to increase the final dividend, after adjusting for the rights issue, by 2.6 per cent. The final dividend for the year ended 31 March 2004 of 29.88 pence per ordinary share and 14.94 pence per A share will be paid on 27 August 2004 to shareholders on the register at the close of business on 2 July 2004.

People
The board was pleased to welcome Charlie Cornish as an executive director in January 2004. Charlie has taken up the post of managing director of Service Delivery and he brings with him a wealth of experience, gained latterly as chief operating officer with Thames Water UK and Ireland. It is a testament to the strength of our Service Delivery team that business continued as usual in the gap leading up to his appointment. I must again thank the team for exceptional performance and in particular pay tribute to the Service Delivery finance director, Steven Beaumont, for deputising so ably throughout that period.

Corporate governance
A sound corporate governance regime is essential to the smooth running of any modern business and the board takes its responsibilities in this area very seriously. We welcome the new Combined Code on Corporate Governance which will apply next year and we describe later in this report both our compliance with the existing code and the steps we have taken to comply with the new code.

Looking forward
Our regulated businesses continue to work with Ofwat and Ofgem in setting the agenda for the next five-year regulatory period. We anticipate a further large capital programme in water and wastewater, driven by the need to maintain existing services and meet higher drinking water and environmental standards.

Our support services businesses again made good progress in the year and we expect further growth in non-regulated income in the year ahead.

In March, we were pleased to welcome the Eurocall team to the group. Eurocall will complement Your Communications' business, broadening its customer base and strengthening its position for the future.

Overall, the group is well positioned to meet all of its challenges and I look forward to watching it grow and prosper over the coming year.

Sir Richard Evans
Chairman

Improved performance

John Roberts, Chief executive

All of our businesses have made significant progress during the year and contributed to the group's improved performance.

Business performance
In licensed multi-utility operations, as well as growing profit, we have met our output targets and delivered over £1 billion of our capital investment programme, our highest ever in a single year.

For our water business, during the 2000-05 period, we are expecting to outperform our quality capital investment programme, which is targeted at meeting higher drinking water and environmental standards, by around ten per cent. In order to improve our service performance, we are increasing our capital maintenance expenditure during the latter part of the current review period. We believe that this new level of expenditure, which has also been proposed in our final business plan, is appropriate to sustain our service level improvements for the next review period and beyond.

Vertex continues to make good progress, growing operating margins** to 6.8 per cent and operating profits** by a third. Vertex is also successfully changing its business mix with transformational contracts, which involve the re-engineering of business processes, accounting for an increasing proportion of sales. Although, due to their more complex nature, these contracts can take longer to secure, they allow us to manage more risk and give us higher margins compared to transactional based deals. As the business mix continues to change, we are targeting Vertex's operating margins** to increase to above our previous seven to eight per cent range.

Profit before tax* up 6% to

£349m

During the year, United Utilities Contract Solutions has continued to grow its operations in its target UK and central European markets, strengthening its position as the leading utility infrastructure outsourcing company in the country. As well as mobilising the Scottish Water contract, which was the first time a UK water utility had outsourced the management of its capital investment programme to another utility, we also increased our shareholdings in our European concessions. This was achieved in partnership with the European Bank for Reconstruction and Development, which, for the first time, took a substantial equity position alongside a water utility.

In March, we announced the acquisition of Eurocall, a telecoms reseller based in north west England. As a result of this acquisition, we expect to deliver significant synergy savings and improve the utilisation of our network, thereby accelerating Your Communications' drive towards profitability. Excluding the acquisition of Eurocall, Your Communications met our target of being a net cash contributor to the group, on a post-tax basis this year and was also free cash flow positive in the second half of the year. We are now targeting the business to generate an operating profit** in the second half of 2004/05.

Regulation
In its final business plan for the 2005-10 period, which was submitted in April, United Utilities Water proposed a capital investment programme of £3.2 billion. This is based on a package of maintaining existing services to customers, meeting higher drinking water and environmental quality standards and targeting customers' expressed preferences for service improvements. In order to fund this investment, we estimate that customer bills would need to increase by an average of 7.8 per cent ahead of retail price inflation each year during the 2005-10 period.

The extension of United Utilities' capital base through the rights issue, together with a number of other contributing factors, has significantly mitigated the impact of the capital investment programme on customer bills. As a result, the proposed average annual real increase has reduced by over a third compared to the draft business plan.

Ofwat plans to publish its draft decision on the level of investment and impact on customer bills on 5 August 2004, with its final determination due on 2 December 2004.

Turnover up by
£195m
to £2,115.5 million

Outlook
United Utilities Water is set to benefit from an allowed price increase of 11.4 per cent in 2004/05, reflecting an allowed real price rise of 8.9 per cent and retail price inflation of 2.5 per cent.

With the final water and electricity distribution regulatory determinations expected towards the end of the year, the business is now entering a crucial period. We remain firmly focused on achieving the right outcome from the reviews for all of our stakeholders and continue to expect that the reviews will provide acceptable allowed returns for our shareholders.

Our non-regulated businesses continue to make good progress in their target markets. With turnover from these businesses exceeding £1 billion for the first time, they now contribute over £75 million of operating profit** to the group, compared to around break even in my first full year as chief executive, three years ago. Based on contracts already secured, and opportunities we are currently pursuing, we are confident that these businesses offer good growth prospects for the future.

John Roberts

John Roberts
Chief executive

+ Adjusted basic earnings per share excludes exceptional items and goodwill amortisation and has been restated for all periods prior to the rights issue using an adjustment factor based on the consideration received from the first stage of the rights issue and assumed proceeds from the second stage, which are due to be received in June 2005.

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United Utilities Service Delivery

***Charlie Cornish,
Managing director***

We had considerable success this year, improving quality, compliance, performance and delivering £1 billion of capital investment.

United Utilities Service Delivery owns and operates the licensed electricity distribution, water and wastewater networks in north west England.

In water and wastewater, we manage a major capital investment programme, ensuring value for money for our customers whilst meeting all our regulatory targets. Our £3 billion AMP3 capital investment programme in water and wastewater is the most extensive in the UK water sector.

In electricity distribution, our asset replacement strategy has continued to focus on minimising fault rates. As a result, we have sustained our good performance, with customer interruptions and customer minutes lost outperforming Ofgem's targets for 2003/04.

We will continue to strive to be a responsive, focused, productive and efficient market leader, to achieve excellence in customer service and to have the right commercial capability, while remaining socially responsible.

Business objectives

We aim to create value through the efficient management of our assets. The key objectives continue to be to deliver our regulatory contracts, to align our resources efficiently within the common geography of our licensed networks in north west England and to continue to improve service for customers.

Our strategies aim to maximise the benefits of our multi-utility status and endeavour to integrate our systems and procedures to generate efficiencies across our operations. We also work closely with Customer Sales to ensure a seamless service for our customers.

Business performance

On water quality, we improved our performance to 99.72 per cent on the Drinking Water Inspectorate's water quality index, up from 99.49 per cent the previous year. The long dry summer of 2003 had an impact on water supply and demand. Our team managed our water resources in such a way as to maintain reservoirs at acceptable levels. Given the higher rainfall in the winter, reservoir levels have now returned to normal.

We delivered a significant improvement on wastewater compliance. This year we reduced our score on non-compliant works (measured per head of population served) to 0.26 per cent, improved from 12.12 per cent last year. Furthermore, we are improving service levels and this is expected to improve our Overall Performance Assessment (OPA) score, as measured by Ofwat, by around 15 per cent from 2002/03 to 2003/04. The target over the next few years is to sustain this level of operational performance and reduce the cost of short-term remedial work required.

We also turned around our previous year's performance on prosecutions related to pollution incidents and consent breaches, cutting the number from 29 to eight. We achieved this by working closely with the Environment Agency, highlighting the reduction in pollution incidents as a particular target for the business. We also increased our investment in odour control systems, addressing an issue that had become of growing concern to some customers.

We have implemented a series of health and safety initiatives to reduce risks and reduced the days lost due to accidents from 1,493 to 985. This helped us achieve a four star rating and commendation in the first ever British Safety Council audit of our policies, procedures and practices.

We delivered over £1 billion worth of our five-year capital investment programme this year, the largest United Utilities has ever delivered in a single year.

Working in partnership with our contractors, we continued to be ahead of Ofwat's regulatory output schedule at 31 March 2004. Our policy to standardise designs and equipment, wherever possible, is helping to make sure we invest money wisely and at the same time reduce the whole-life costs of our new plant and equipment.

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

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

In electricity distribution, we outperformed both our regulatory targets and our own internal targets for providing continuous supplies to customers. We cut customer interruptions and minutes lost per connected customer. Through good contingency planning and rapid response, our teams were able to minimise the impact on customers of damage to the distribution network caused by winter storms.

59.31

customer minutes lost

Last year: 67.7

Ofgem measure of electricity supplies, calculated as the average duration of interruptions per connected customer per annum

Service Delivery
Supply interruptions – Ofwat key performance indicator DG3

Business impacts
The biggest potential impacts on the business continue to be the two price reviews. It is essential that we achieve balanced outcomes, which are fair to all our stakeholders. United Utilities has a major commitment to discussions with our regulators, the Environment Agency and others to translate the anticipated outputs into tangible and achievable investment programmes.

To ensure that we continue to deliver higher levels of performance during the years 2005-10, we are working on new initiatives to improve efficiency and reduce cost.

We are currently developing our procedures for the management of the next five-year capital investment programmes in water and wastewater and electricity distribution. This will ensure we have the appropriate business processes, organisation, systems and commercial contracts to provide maximum shareholder value from our asset base.

Our operational strategy is being realigned to deliver further efficiencies in operations and maintenance. Areas that will yield benefits include automation and remote monitoring of plant, streamlining of processes and development of high performance teams, reductions in overheads and accommodation costs and supply chain management to maximise value from our scale and deliver benefit from long-term partnerships with key suppliers.

Wastewater compliance

It is important for us to consider the impacts of our activities on all our stakeholders and the environment. This year, intensive efforts have resulted in a significant improvement in wastewater compliance. This was achieved by putting problem works into an 'intensive care' programme, increasing our maintenance spend, operator involvement and capital work. In 2003/04, as part of our capital investment programme, we delivered 29 continuous discharge and 219 intermittent discharge improvement projects. The Environment Agency has praised our efforts, as a model of company responsiveness.

Licensed multi-utility operations
Financial highlights
Turnover increased by 5.7 per cent to £1,300.7 million in 2003/04, largely due to a real increase of 4.0 per cent in water and wastewater prices. This compared with growth of 1.8 per cent in 2002/03 when water and wastewater prices remained constant in real terms and a real reduction of 3.0 per cent in electricity distribution prices was applied.

Operating profit** increased by 3.3 per cent to £519.6 million in 2003/04, reflecting the increase in turnover offset by a number of factors, principally higher operating costs and depreciation mainly due to the expanding asset base resulting from capital expenditure on quality related obligations. Operating profit** decreased by 5.1 per cent in 2002/03, reflecting that price increases were more than offset by higher operating costs and depreciation.

Capital investment for the year was £1,013.9 million, £864.2 million was spent on water and wastewater and £149.7 million on electricity distribution, the highest ever undertaken by United Utilities in a single year. This has enabled the business to remain ahead of its regulatory output schedule in water and wastewater as at 31 March 2004.

**Operating profit for a segment is before goodwill amortisation and exceptional items as shown in the segmental analysis by class of business in note 2 of the financial statements.

United Utilities Customer Sales

Bob Armstrong,
Managing director

We have put in place a number of key building blocks to deliver continuing improvements in service and further cost reductions.

United Utilities Customer Sales is responsible for our regulated customer base of 2.9 million domestic households and business premises in north west England. It is also a major provider of water and wastewater services in the competitive industrial market throughout the UK.

Business objectives
Our focus continues to be to maximise profitability and cash flow, maintain and improve our levels of customer service, manage our reputation and contribute to the debate regarding the regulatory agenda.

Business performance
Through the regulatory process this year, we successfully secured additional income for the business with our Interim Determination of K ('IDoK') submission.

Throughout the year, we achieved real improvements in managing cash and we are gradually solving the problems associated with long-standing customer debt. The Payment Card system we introduced last year has performed well. We now have 360,000 customers on instalment plans plus a further 176,000 cards in issue. A complete re-appraisal of our meter reading processes improved both cash flow and service performance.

We also outperformed our regulatory targets on all our customer service measures. The number of telephone calls we answered within 30 seconds was 93.3 per cent, against our regulatory target of 86 per cent and a 2002/03 industry average of 92.5 per cent.

We launched our new customer billing programme to a small number of customers in March 2004. Roll out will be achieved to all customers during 2004/05. This investment is targeted to deliver cost savings for the business from 2005/06 and improve the service for customers.

Business impacts
The Water Act 2003 is now in place, ruling out competition in the domestic market. We fully support this position since we believe the costs associated with introducing competition would outweigh the potential benefits to customers. However, we welcome competition for business customers in water services as a driver for efficiency and innovation. We play a key role in industry working groups to develop the competitive framework. There is a need for a well managed process to deliver competition to the government timetable.

The Water Act also sets out a new obligation for water companies to fluoridate supplies when requested by a Strategic Health Authority. Our position on this matter is that it is not for us to decide matters of public health, we simply act in accordance with the instructions we receive.

One result of the impending price review is that prices are likely to rise substantially for customers and we share concerns about the affordability of water bills, particularly for vulnerable customers. We have processes in place to manage debt in a way that is fair for customers and effective for the business. Furthermore, we also have a range of initiatives that provide support, such as our vulnerable customer tariff, an arrears allowance scheme and money advice services.

We have taken a leading role in the Debt Focus Group of Water UK, an industry-wide body, looking at ways to improve the Department for Work & Pensions' 'Water Direct' scheme. We are continuing to lobby for changes to the benefits system to extend the range of benefits from which deductions can be made and to improve take-up of such schemes.

During the months ahead, we need to make sure that all customers understand the reasons for increased bills and we have active programmes to ensure they are clearly communicated.

United Utilities Contract Solutions

Gordon Waters, Managing director

This was a year of steady growth with successes across the board, the major highlight being the establishment of Scottish Water Solutions.

United Utilities Contract Solutions applies the group's core infrastructure management expertise to competitive markets. It has grown quickly since it was set up three years ago and is now the leading utility infrastructure management outsourcing business in the UK.

We operate throughout the UK and in key markets overseas – Australia, Canada, the Far East and central Europe. In all, the business provides services to 11 million people.

We focus our activities on three market areas:

Operations Management develops and operates contracts in selected markets. This includes our International business, our participation in Scottish Water Solutions (discussed further on page 8), our contract to provide operations and maintenance services to Welsh Water and our Industrial business, which offers waste management and electricity services to industry.

Green Energy develops and operates renewable energy generation projects. We operate more than 40 renewable energy projects throughout the UK.

Networks provides multi-utility connections and metering to domestic, commercial and industrial developers and utility suppliers. We are the UK leader in this area and also provide an energy efficiency service to industry and local authorities.

Business objectives

Our objectives are to grow non-regulated earnings from the group's infrastructure management expertise. By applying our core skills to other markets, we seek to win and grow secure long-term income streams for the business, without materially increasing risk within the group.

The approach adopted by Scottish Water to the delivery of its capital programme shows the continuing trend for bigger outsourcing opportunities. Our current experience means we are well placed to take advantage of similar future opportunities.

The renewable energy market continues to focus on offshore and onshore wind. The government has raised its target to increase the amount of electricity generated from renewable sources from two per cent today to 15 per cent by 2015.

Networks' multi-utility expertise presents us with real growth opportunities within the UK utility sector as companies continue to seek new ways to deliver cost effective services.

Business performance

Operations Management
The major achievement this year was the establishment of Scottish Water Solutions. This joint venture has already delivered £160 million of Scottish Water's capital programme, which is expected to total around £1.1 billion over the contract life.

As well as being paid a fee for managing the programme, efficiencies, after being adjusted for a number of key performance criteria, are shared between consortium partners. One of the ways in which the consortium is looking to make savings is through asset standardisation, which reduces design, procurement and construction costs.

In Industrial, we expanded our services and acquired two major plants to deal with more difficult, higher-value liquid and chemical wastes. We also now operate and maintain high voltage electrical equipment for clients, with around 700 contracts on sites from supermarkets to airports.

By combining our services we have created new opportunities in the industrial and public sector markets. We have created a totally new multi-utility service for clients who wish to outsource non-core activities. It is hard for many of our competitors to replicate this multi-utility approach, which offers the prospect of regular but low risk income.

Operating review
Infrastructure management

United Utilities Contract Solutions continued

Our contract with Dwr Cymru Welsh Water has continued to perform well. In particular, Welsh Water has risen from near the bottom of the Ofwat Operational Performance league tables to second position during the contract period. We pre-qualified for the re-letting of the contract post 31 March 2005 and have submitted our bid to Dwr Cymru Welsh Water, which is expected to announce the contract's preferred bidders in August 2004.

During the year, we agreed to buy International Water's shareholdings in our European concessions in Bulgaria, Estonia and Poland, in partnership with the European Bank for Reconstruction and Development (EBRD). This gives us a strong strategic partner and a platform for further growth.

In Manila, the existing shareholders bought out the International Water shareholding, increasing our stake to approximately 19 per cent.

In Australia, work has started for the construction and 20-year operation of a £7 million advanced wastewater treatment plant and network at Victor Harbor for the South Australian Water Corporation and state government.

The legal dispute between NOSS Consortium, in which North West Water International Limited is a partner, and the Bangkok Metropolitan Authority is now proceeding into full arbitration. It relates to a contract that was terminated by NOSS Consortium in March 1998. No outcome is expected within the next financial year.

Green Energy
We are developing a number of schemes, with a potential capacity of 750MW, of which some 100MW take advantage of our position as owner of electricity, water and land assets in north west England.

Danish electricity utility Energi E2 A/S has taken a 50 per cent share in the special purpose company we set up to develop the Scarweather Sands offshore wind farm project. This project is currently subject to public enquiry and a decision is expected later this year.

We have applied for planning permission for a 28 turbine project at Thorne, near Doncaster, with a capacity of up to 84MW and a 26 turbine, 64MW scheme located on Scout Moor in Rossendale. Both schemes are subject to consent from the Department for Trade and Industry.

Networks
Activity levels for the metering services contract with British Gas Trading have now

Infrastructure management operating profit (£m)**

reached project expectations as the contract has moved into its second year and out of its mobilisation phase.

Networks acquired a gas connections business from Lattice Energy Services, which significantly expands our capabilities in this area. At the same time we sold our relatively small-scale private gas networks assets for £3.1 million. Due to changes in the regulatory framework in the gas industry, this no longer forms part of our long-term strategy.

Our metering and connections businesses continued to grow outside north west England. Energy Management Services signed a £9 million three-year contract with the Welsh Development Agency with Objective One support for providing energy efficiency services to small and medium-sized enterprises in Wales.

Business impacts
Our businesses serve different markets with different influences. In Green Energy, for example, planning and regulatory issues on distribution are key factors. In liquid waste treatment, we are dependent for growth on the application of new European legislation.

A key issue as we grow is to recruit, retain and develop the right people. We have introduced sponsorship of undergraduate students, which involves a job placement whilst at university, and have been recruiting for our apprenticeship programmes in Wales and Scotland.

We have an active programme of risk management within the business, including factors such as competition issues and regulation. Our strategic alliance with the EBRD is a novel way of addressing some of the risks in European markets and we aim to avoid countries where currency fluctuations could be a significant risk.

Scottish Water Solutions

Scottish Water Solutions is a company majority owned by Scottish Water, set up to deliver over 1,200 projects, 70 per cent of Scottish Water's capital programme to 2006.

The eight equity partners are Scottish Water and two consortia: UUGM (United Utilities and construction groups Galliford Try and Morgan Est); and Stirling Water (Thames Water, KBR, Alfred McAlpine and MJ Gleeson). Martin Bradbury, previously asset management director of United Utilities Service Delivery, heads the team of around 450 people as chief operating officer.

Work includes building and upgrading water and wastewater treatment works and water distribution and sewer renewal projects, serving around five million household and business customers throughout Scotland.

Financial highlights
Turnover increased by 12.5 per cent to £446.9 million in 2003/04, largely due to the impact of the new Scottish Water contract and the first full year impact of the British Gas Trading contract. This compares with an increase in turnover of 2.9 per cent in 2002/03. Excluding turnover from operations in the Americas, from which we withdrew in 2002/03, turnover increased by 18.5 per cent in 2002/03 due to the British Gas Trading contract and increased revenues from other contracts within the operations management division.

Operating profit** increased by 15.3 per cent to £67.8 million in 2003/04, reflecting the increasing maturity of our contracts and the impact of the Scottish Water contract and increased shareholdings in our European concessions. Operating profit** in 2002/03 increased by 96.0 per cent to £58.8 million as the period of start-up costs that had accompanied the previous year's growth came to an end.

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Vertex

Tom Drury,
Managing director

Our success lies in building long-term partnerships, based on collaboration and trust.

Vertex is a growth business with a highly visible income stream and excellent prospects, based on a diversified portfolio of long-term contracts across multiple sectors. We are one of the UK's largest providers of business process outsourcing. Major clients in the private sector include Marks & Spencer, Powergen and Vodafone and, in the public sector, Westminster City Council and the Department for Work & Pensions.

Business process outsourcing (BPO) means managing, and often transforming, the processes which support a client's business, such as human resources, procurement, finance and accounting.

We are far from being simply a call centre bureau and fewer than half of our employees work in call centres. We help our clients to transform their end-to-end processes, improving efficiency and reducing costs, but at the same time creating a better understanding of, and stronger relationships with, their customers.

Our markets are local and central government, the UK service sector and utilities sectors in the UK and North America. A study released in November 2003 by market analysts Ovum Holway ("BPO: Trends and opportunities in the UK market") identified Vertex as the fourth largest BPO company in the UK by turnover.

Business objectives
Key markets for our growth continue to be the public sector in the UK and the utility sector in North America.

The expertise we have developed in improving service and reducing back-office cost in the utility sector is much in demand in the public sector. We are currently bidding for over £1 billion worth of contracts in the UK local and central government sector. All are due to be awarded during 2004/05.

Market demand for BPO continues to grow and there is a trend towards multi-process outsourcing – where organisations outsource more than one element of their business processes. We are continuing to develop our transformational skills and services in line with market demands. To meet our clients' needs, we have developed an in-house team of some 600 technology and change consultants to manage these complex and large-scale transformation programmes that add value for both the client and ourselves.

Over the next few years we are looking to expand into other BPO areas, both in the UK and North America. We have already increased the range of services we offer our clients and have begun to broaden our offer in service areas such as human resources, procurement and finance and accounting. Higher margins can be achieved from these more complex processes and it means we can offer more services to existing clients and grow their business with us. We can also benefit from economies of scale as we standardise processes across our operations, reducing our cost base, sharing common infrastructure and improving margins.

As the business mix continues to change, we are targeting our operating margins** to increase above our previous seven to eight per cent range.

Business performance
This year was principally one of contract renewals, extending and building on existing client relationships, worth a combined total of over £200 million. We secured major extensions with Westminster City Council and the Department for Work & Pensions and extended other existing contracts.

Our contract with Westminster City Council, which is worth up to £422 million,

Vertex continued

is progressing well. We are helping Westminster City Council to improve their customer service levels by rationalising the numerous points of contact that exist and re-engineering their business processes.

Our contract with the Department for Work & Pensions, which is in partnership with Atos Origin and involves modernising the way in which state benefits are paid, continues to perform well. As a result of its success, we have been awarded, through a sub-contract with Atos Origin, a secondary programme of work worth an additional £21 million.

During the year we signed a nine-year contract with Powergen, replacing our previous ten-year contract with TXU Europe, whom Powergen acquired in October 2002. This contract consolidates our relationship.

We have signed a new five-year contract with existing client Marks & Spencer, worth £35 million, to provide additional services.

Our new contract with Lloyds TSB is to provide customer management and IT related billing services for its home energy and telephony operation. We also agreed renewal terms with Vodafone and expanded the range of services we provide.

Continuing growth led to our largest ever recruitment drive. We now operate in 30 UK locations and we have also grown our operations in India, which forms another part of our total delivery capability, complementing our UK operations.

In March, we acquired First Revenue Assurance (FRA), a debt collection agency based in Denver. FRA employs around 200 people, has total annual revenues of around £7 million and has a client base that is principally spread across the utility and telecoms sectors in the United States.

201m
customer transactions handled in the year

Vertex turnover (£m)

FRA's clients include Xcel, AT&T, T-Mobile and Verizon.

This acquisition strengthens our offering in one of our key target markets, the North American utilities sector, in preparation for further contract opportunities. We already operate one contract in North America, providing customer management services for the Canadian utility Hydro One, which is progressing well.

Business impacts
Balancing the interests of our stakeholders is an important part of the way we do business. Twice a year an independent organisation asks our clients about their satisfaction with our service. The results have shown a demonstrable improvement over the year. We were also the recipient of a number of key industry awards in 2003.

We have an active and robust corporate governance programme to manage the strategic and tactical risks which could impact the business. Risks are clearly identified and monitored on a regular basis.

With clear objectives and an experienced management team, we believe that we are on course to continue our growth by increasing the choice of services we offer to clients and by helping them transform the way they do business.

Marks & Spencer

This year we signed a new contract with Marks & Spencer and will be one of the first outsourcers to be considered for any further customer services related work that Marks & Spencer chooses to outsource.

We will work in partnership with Marks & Spencer, providing it with a range of customer management services. Using our specialist expertise in customer care and business process transformation, we will work with Marks & Spencer and change the way it interacts with its customers to help it gain an even greater understanding of its customers and their needs.

Financial highlights
Sales increased by 19.8 per cent to £368.5 million in 2003/04, predominantly due to the first full year impact of the contracts with the Department for Work & Pensions and Westminster City Council. Turnover in 2002/03 increased by 8.7 per cent to £307.6 million, primarily through new contracts secured in the year.

Operating profit** has improved by 33.5 per cent to £25.1 million, reflecting the effect of increased external contract activity and margins. Operating profit** in 2002/03 increased by 33.3 per cent to £18.8 million due to the flow through of increased turnover and improved margins.

Vertex's operating margin** improved to 6.8 per cent in 2003/04 from 6.1 per cent in the previous year and 5.0 per cent in 2001/02. This has been achieved due to the increased maturity of the external contract portfolio and cost reductions on intra-group contracts, together with the relatively low level of contract mobilisation costs in 2003/04.

**Operating profit for a segment is before goodwill amortisation and exceptional items as shown in the segmental analysis by class of business in note 2 of the financial statements.

Your Communications

Hugh Logan,
Managing director

Your Communications achieved good growth and fulfilled its commitment to be a net cash contributor on a post-tax basis.

Your Communications is a medium-sized alternative telecommunications provider, with a dense network in the north of England complemented by a lean national network.

We offer voice, mobile and data services to the public sector and small to medium-sized corporate customers, predominantly in the Midlands and north of England.

Business objectives
Our ongoing objective is to sustain our progress. Our sector is growing but is fiercely competitive. By participating in ongoing consolidation now, we are strengthening our position for the future.

In March 2004, we announced the acquisition of Eurocall for a cash consideration of £42 million, of which £30 million has been paid and £12 million is payable in stages over the next 18 months. Eurocall is profitable and cash flow positive, with annualised revenues of £55 million. We expect to fund this acquisition from the post-tax cash flows of the enlarged Your Communications business over the next three years.

Eurocall complements our existing operations and adds significant breadth and depth to our customer base. The acquisition will also enable us to better utilise our network and to deliver significant savings by integrating the operations of the two businesses, both of which are based in Manchester. Since the acquisition, we have already put in place initiatives that will deliver annualised synergy savings of around £2.5 million. As a result of the purchase, all of Eurocall's 15,000 customers and 137 employees have transferred to our business. It is expected that the headcount of the combined business will fall by around 50, with the majority of this reduction expected by the end of June this year.

Business performance
Excluding the Eurocall acquisition, we met our major target this year, which was to be a net cash contributor to the group on a post-tax basis and we were also free cash flow positive in the second half of the year.

Our cash flow target was achieved through sales growth, by improving efficiencies and reducing our capital expenditure substantially. The continuation of these achievements, together with the benefits of the Eurocall acquisition, has increased our drive towards profitability. We are now targeting the business to generate an operating profit** in the second half of 2004/05.

Our network carried a total of 2.94 billion minutes in 2003/04, compared with 2.67 billion in 2002/03.

Business impacts
The new unified industry regulator, Ofcom, was established during the year. We look forward to working with them to help to make sure that the voices of the smaller players in the industry are heard.

Financial highlights
Turnover increased by 14.8 per cent in 2003/04 to £185.6 million compared with an increase of 7.5 per cent in 2002/03, as a result of the continued progress of the business in increasing its proportion of higher value business sales.

Operating losses** were reduced by 14.9 per cent to £16.6 million in 2003/04 compared to a reduction of 18.1 per cent in 2002/03. This is due to increased revenue and control of operating costs.

**Operating profit for a segment is before goodwill amortisation and exceptional items as shown in the segmental analysis by class of business in note 2 of the financial statements.

United Utilities is committed to delivering business performance that balances the needs of all its stakeholders.

We believe that being responsible in the way we conduct our operations makes sound business sense. Active management of our key environmental, social and economic impacts helps us work in a way that is ethical and balances the needs of all our stakeholders. It enables us to reduce risk, identify business opportunities, stabilise our markets, protect resources, make savings, improve performance and build trust and understanding.

Our approach
Our Business Principles guide the way we manage our activities and our relationships with stakeholders. They set the context for our approach to corporate responsibility.

Two complementary strands to our approach – corporate social responsibility (CSR) and sustainable development (SD) – are now integrated within the businesses and managed together. Our corporate responsibility policies are considered as part of our business planning process and environmental performance is a personal objective for each member of our Executive Leadership Team.

The focus of our programmes is determined by identifying and prioritising our impacts and opportunities. We use a combination of methods to do this. An important part of our approach is stakeholder consultation. This enables us to understand the interests and priorities of the different groups of people who are affected by our activities. By engaging with these groups through various means we are able to gain an appreciation of the areas of our business that are material to them. This helps us to target where we should place most emphasis in our internal programmes and, in turn, drives our reporting process.

We operate formal management systems to cover many of our impact areas, including environment, health and safety and quality. Where appropriate, we seek formal certification of these systems. This year we have gained ISO 9001:2000 for Service Delivery's business management system and in 2004/05 we intend to seek ISO 14001 accreditation.

We benchmark ourselves to track our performance, drive continual improvement and seek out best practice.

Key impact areas

Environment
We continue to manage our impact on the environment and, where possible,

BiE Index 2003 score –

95.5%

Last year: 93.6%

FTSE 100 average: 83%

Health and safety – days lost

2,173

Last year: 3,044 days

enhance it through the implementation of our sustainable development plans and other objectives.

Our most significant environmental impact in recent years has been the contribution we have made to cleaning up the north west's rivers and coastal waters through sustained investment in our wastewater network. 36 of the region's 37 bathing waters now meet strict EU standards. The region's rivers are cleaner than at any time in the last century.

Key areas of environmental interest for stakeholders are drinking water quality, climate change and renewables; compliance with legislation and waste minimisation/recycling.

Our major capital investment programmes bring big environmental benefits but we have to manage projects sensitively to limit any adverse environmental impact during construction. For example, a new process was developed to maximise re-use of aggregate when laying pipes. On one project alone, this saved 10,000 cubic metres of aggregate and 2,000 lorry journeys.

Community
We have identified three focus areas for community activity: environment, social inclusion and education and training. We have developed strategic partnerships with organisations active in these areas – Groundwork, the Prince's Trust and Young Enterprise. Key topics of community interest for stakeholders are environmental education, job creation and unemployment, consideration for our neighbours, access and recreation.

We have developed a working partnership with Thorn Cross Young Offenders Institute. We have provided an employee on secondment, helping to develop work placement opportunities for graduates of their motor mechanics course and enabling inmates to find gainful employment at the end of their sentences.

Three inmates have placements at United Utilities depots. In addition, inmates are working on time-expired vehicles that need servicing and valeting prior to auction.

Marketplace
Customers and suppliers/contractors are two of our key stakeholder groups. We have 2.9 million customers in north west England and well over 30,000 suppliers. Key areas of marketplace interest for stakeholders are standards of service, charging policy, the investment programme and business ethics.

Vertex's partnership with Westminster City Council has helped it win the Council of the Year accolade in the national Local Government Chronicle awards in March. The partnership was also highly commended in the category of Public/Private Partnership of the Year.

Our regulated businesses liaise with local authorities and residents' groups to ensure disruption to local communities during capital improvement works is minimised.

Workplace
United Utilities values its employees, they are one of our key assets. Areas of interest for our employees are work/life balance, health and safety, skills and job training and pensions.

Our health and safety strategy continues to develop. We have received external recognition both for our performance and the quality of our reporting. The Royal Society for the Prevention of Accidents (RoSPA) recently awarded us its Gold Award. Whilst our businesses regularly receive awards for their performance, this is the first time we have received recognition for the group as a whole. In 2003 the Health and Safety Executive commissioned a research project to review the public reporting of 279 top companies and 42 public sector organisations. United Utilities was identified as an 'exemplar' of public reporting and, specifically, the only company in the UK that had reported a high standard against all its specified parameters.

More information on our stakeholder approach, identification of key impact areas and detailed information, performance data and discussion can be found within our stakeholder and corporate responsibility reports, or on our web site (www.unitedutilities.com).

In-house renewable energy generation

72GWh

Last year: 58 GWh

Within our regulated water business.

Group expenditure on environmental improvements (£m)

WaterAid

Our customers and employees have helped raise more than £5 million in the past ten years for WaterAid. To celebrate this landmark, United Utilities launched a partnership with the aid agency in March to help deliver the government's Millennium Development Goal of halving the number of people without access to safe water and adequate sanitation.

Performance highlights
During the year, United Utilities has made progress in both the BitC (Business in the Community) Corporate Responsibility Index and the BiE (Business in the Environment) Index of Corporate Environmental Engagement. We were ranked 21st out of 138 companies in the 2003 Corporate Responsibility Index. Our score of 91.94 per cent was a significant increase on 78.5 per cent in 2002 and compares to an average FTSE 100 score of 79.68 per cent. Our score of 95.46 per cent in the BiE index is our best yet and moves us into their Premier League.

Our approach is also recognised through our inclusion in the Dow Jones World and STOXX Sustainability Indices, the FTSE4Good index (at global, European and UK levels) and our B2 rating in Morley's Sustainability Matrix.

We received recognition for our commitment to sustainability in north west England and our work in the community in Liverpool. We were also successful in the BCE (Business Commitment to the Environment) Awards, for our sustainable farming demonstration work. We won three Green Apple awards last year for our community and environmental work.

Days lost through accidents at work fell again during the year from 3,044 to 2,173.

Simon Batey,
Group finance director

The group successfully undertook an innovative rights issue in the year to raise a total of £1 billion from our shareholders.

The group has made considerable progress in the year, with all of our businesses contributing to the group's improved performance.

To assist in funding future investment in our regulated water and electricity businesses, the group successfully undertook an innovative rights issue in the year to raise a total of £1 billion from our shareholders. The fund-raising has been structured so as to raise the proceeds in two stages in order to align the receipts more closely with our capital requirements. The first tranche, received during September 2003, raised around £500 million (net of costs) from the issuing of 309,286,997 A shares. The second tranche of proceeds is expected to be received in June 2005 reflecting the subscription for further A shares. At this point, all A shares will then be consolidated and reclassified as £1 ordinary shares on the basis of one ordinary share for two A shares.

In licensed multi-utility operations, as well as continuing to be ahead of our regulatory output schedule, we have also delivered £1 billion of capital investment, the highest ever undertaken in a year.

Turnover in infrastructure management increased by 12.5 per cent as the Scottish Water contract commenced in the year and the British Gas Trading contract contributed for a full year. Operating margins** also increased to 15.2 per cent.

Business process outsourcing turnover improved by around 20 per cent principally due to the full year impact of the Westminster City Council and Department for Work & Pensions contracts. Vertex's operating margins** have increased by 36 per cent over the past two years and have reached 6.8 per cent in 2003/04.

Your Communications has continued to achieve good growth, with turnover increasing by nearly 15 per cent during the year. This, combined with increased control of operating costs and reduced capital expenditure, has enabled the business to be a net cash contributor to the group on a post-tax basis for the year, excluding the acquisition of Eurocall. Eurocall is one of the UK's largest independent providers of telecom services to the small and medium-sized enterprise market. The acquisition will enable Your Communications to deliver significant business improvements and savings upon the integration of the two businesses and make more efficient use of its UK network.

International Financial Reporting Standards

From 1 April 2005 the group will be required to comply with International Financial Reporting Standards (IFRS) endorsed for use in the European Union. To facilitate this transition a project has been initiated, with the aim of selecting appropriate accounting policies under IFRS and identifying and implementing any systems changes necessary.

These financial statements have been prepared in accordance with applicable UK accounting standards (UK GAAP). The key differences between UK GAAP and IFRS that will impact the group are summarised below. This summary should not be taken as an exhaustive list of differences and is based on the information presently available. It is currently too early to quantify the impact accurately. The International Accounting Standards Board (IASB) is expected to continue to revise and issue further new standards, which the group will consider for early adoption on an individual basis.

The major differences between UK GAAP and IFRS that will impact the group are expected to be:

- Financial instruments: under IFRS all financial assets and liabilities are to be measured at fair value. The resulting changes in valuation are recognised immediately in the profit and loss account or statement of total recognised gains and losses depending on the class of instrument. This includes any derivatives that fail to meet the hedge accounting criteria. The criteria with which an instrument must comply in order for it to be classed as a hedge are more restrictive under IFRS than UK GAAP. This could potentially result in significant earnings volatility.

- Deferred tax: under IFRS discounting of a deferred tax asset/liability is not permitted. Therefore, there will be a significant increase in the group's balance sheet liability and consequently a reduction in shareholders' funds.
- Goodwill: under UK GAAP, goodwill is carried on the balance sheet and amortised over its expected economic life (normally assumed to be no more than 20 years). Under IFRS, goodwill will no longer be amortised but rather subject to impairment reviews (both annually and where there is an indication of potential impairment) with write-downs when appropriate.
- Fixed asset accounting: UK GAAP contains specific rules pertaining to when it is appropriate to use renewals accounting for infrastructure assets. There is no reference to renewals accounting in IFRS and therefore no departure will be permitted from the principle that the depreciation expense is determined by reference to an asset's depreciable amount.
- Pensions: under IAS 19 the group will be required to recognise the full pension scheme deficit on the balance sheet. Actuarial gains or losses may be recognised in the income statement immediately or gradually (via the ten per cent corridor approach whereby actuarial gains or losses are deferred and amortised). However, the IASB have recently proposed to include an option within IAS 19 to recognise such gains or losses through the statement of total recognised gains and losses, as required by Financial Reporting Standard (FRS) 17.

Pensions

The group applies SSAP 24 as the basis for accounting for pension costs, and continues to make the required transitional disclosures for FRS 17 as disclosed in note 25 of the financial statements.

The valuation of the group's pensions schemes under FRS 17 results in a net pension deficit at 31 March 2004 of £264.4 million compared with a net deficit of £298.1 million at 31 March 2003 and a surplus of £15.1 million at 31 March 2002. The group has increased its pension cash contribution rates in 2003/04 and will review these again when the results of the full actuarial valuations as at 31 March 2004, currently being conducted, are known.

Group results

Turnover increased by 10.2 per cent to £2,115.5 million in 2003/04 compared to

Financial highlights	**2004 £m**	2003 £m	2002 £m
Turnover [1]	**2,115.5**	1,920.5	1,871.6
Total operating profit [2]	**597.1**	561.7	553.3
Profit before tax (before goodwill and exceptional items) [2]	**349.0**	330.3	322.7
Profit before tax	**337.5**	327.5	302.8
Profit after tax	**362.6**	280.1	263.4
Basic earnings per share [3]	**54.5p**	45.8p	43.4p
Adjusted basic earnings per share [4]	**54.7p**	42.2p	44.0p
Dividend per ordinary share	**44.31p**	47.6p	47.0p
Dividend per A share	**22.155p**	N/A	N/A
Re-presented dividend per ordinary share [5]	**44.31p**	43.18p	42.64p
Interest cover [6]	**2.4**	2.4	2.4
Dividend cover [7]	**1.2**	1.0	1.1

Notes

1. Turnover includes the group's share of joint ventures' turnover.
2. Total operating profit and profit before tax are presented before goodwill amortisation and exceptional items as defined below:

	Total operating profit			Profit before tax		
	2004 £m	2003 £m	2002 £m	**2004 £m**	2003 £m	2002 £m
Post goodwill and exceptional items	**583.7**	524.9	533.4	**337.5**	327.5	302.8
Exceptional items	**4.6**	29.3	11.9	**2.7**	(4.7)	11.9
Goodwill amortisation	**8.8**	7.5	8.0	**8.8**	7.5	8.0
Pre goodwill and exceptional items	**597.1**	561.7	553.3	**349.0**	330.3	322.7

3. Basic earnings per share has been restated for all periods prior to the rights issue to reflect the bonus element of the rights issue as required by FRS 14. The adjustment factor is based on the consideration received from the first stage of the rights issue. The calculation of basic earnings per share is set out in note 10 to the financial statements.
4. Adjusted basic earnings per share excludes exceptional items and goodwill amortisation. All periods prior to the rights issue have been restated to reflect the consideration received from the first stage of the rights issue and assumed proceeds from the second stage. The calculation of adjusted basic earnings per share is set out in note 10 to the financial statements.
5. Prior year dividends per ordinary share have been re-presented for comparative purposes to take account of the bonus element of the first stage of the rights issue. The factor applied to the prior year dividends per share is 0.9072, calculated using 576.0 pence per ordinary share, this being the closing price on 25 July 2003, the last business day prior to the announcement of the rights issue.
6. Interest cover is the number of times the interest charge is covered by profit before non-operating items, goodwill amortisation, exceptional items, interest and tax.
7. Dividend cover is calculated by dividing profit for the year before exceptional items and goodwill amortisation by the dividend charge.

an increase of 2.6 per cent in 2002/03. These movements reflect the impact of the allowed regulatory revenues, for which United Utilities Water received a real price increase of four per cent in 2003/04, combined with continued growth in business process outsourcing, infrastructure management and telecommunications.

Total operating profit* increased by 6.3 per cent in 2003/04 to £597.1 million, principally reflecting improved operating profits** in business process outsourcing and infrastructure management, together with a marginal increase in licensed multi-utility operations where the increase in turnover is largely offset by higher operating costs and depreciation on the expanded asset base. Telecommunications operating losses** have continued to reduce as revenues and gross profits increase. Total operating profit* increased by 1.5 per cent in 2002/03, mainly due to improved operating profits** in infrastructure management and business process outsourcing, offset by the anticipated fall in the licensed businesses due to the real regulatory price reductions and cost growth.

The net interest expense for the year was £248.1 million compared with £231.4 million in 2002/03 and £230.6 million in 2001/02. The increase in 2003/04 primarily reflects higher average net debt in the year. The small increase in 2002/03 reflected increased net debt and the cost of prefunding a substantial proportion of the group's financing requirements in the regulated business, offset by a reduction in floating rates.

Profit before tax in 2003/04 increased by 3.1 per cent to £337.5 million. This is stated after an exceptional charge of £2.7 million, which principally reflects the restructuring costs relating to the integration of the newly acquired Eurocall business, offset by a small credit in respect of disposals. The increase in profit before tax is driven by improved operating profits** in infrastructure management, business process outsourcing and licensed multi-utility operations and reduced operating losses** in telecommunications.

Profit before tax increased by 8.2 per cent to £327.5 million in 2002/03. The increase was due to the growth of the support services businesses resulting in improved operating profits.

Profit before tax in 2002/03 included an exceptional credit of £4.7 million. This related to the withdrawal from infrastructure management in the Americas, offset by the adjustment to the carrying value of telecommunications assets in accordance with FRS 11 'Impairment of fixed assets and goodwill' and restructuring charges primarily in the telecommunications business following the completion of its network building phase.

Basic earnings per share increased by 19.0 per cent to 54.5 pence. Earnings per share has been restated for all periods prior to the rights issue to reflect the bonus element of the rights issue in accordance with FRS 14. Goodwill amortisation was £8.8 million in 2003/04, £7.5 million in 2002/03 and £8.0 million in 2001/02. Exceptional items are discussed above.

Adjusted basic earnings per share improved by 29.6 per cent to 54.7 pence, principally reflecting the deferred tax credit due to the effect of increased discount rates and the increased operating profits discussed above. This compares with a decrease of 4.1 per cent in 2002/03 reflecting the impact of reduced discount rates on deferred tax offsetting the increased operating profits. The calculation of the adjusted earnings per share is set out in note 10 to the financial statements. The adjusted measure is included to provide a better understanding of the underlying trading performance of the group.

The dividend per ordinary share for the year is 44.31 pence, an increase of 2.6 per cent (post first stage rights issue adjustment).

Taxation
The current UK mainstream corporation tax credits in 2003/04 and 2002/03 and low charge in 2001/02 reflect the high level of accelerated tax allowances arising from the capital investment undertaken by the group and the benefits of Advance Corporation Tax (ACT) planning established in earlier years. A tax credit position has arisen in the current year following the agreement of prior year tax returns.

The effective current ordinary tax credit (excluding exceptional items) is 6.1 per cent compared with a credit of 9.0 per cent in 2002/03 and a charge of 5.2 per cent in 2001/02. The effects of deferred tax result in an effective ordinary tax credit (excluding exceptional items) of 7.1 per cent compared with charges of 17.6 per cent and 12.5 per cent in 2002/03 and 2001/02 respectively. An exceptional deferred tax credit in 2003/04 of £0.8 million mainly arises from the integration costs of the Eurocall business. An exceptional credit of £9.4 million (including £3.1 million deferred tax) was recorded in 2002/03 primarily due to the adjustment to value in the telecommunications business.

Deferred tax (excluding exceptional deferred tax) is a £3.4 million credit in 2003/04 compared with charges of £85.9 million and £23.0 million in 2002/03 and 2001/02 respectively. The credit in 2003/04 is principally due to the effect of increased UK government bond rates on the discount of the full potential liability, whereas the increased charge in 2002/03 reflects the effects of reduced discount rates.

Cashflows
Net cash inflow from operating activities increased to £923.5 million, from £851.5 million in 2002/03 and £799.8 million in 2001/02. The increase in 2003/04 reflects the increased operating profits discussed above. Similarly, the increase in 2002/03

Summary cash flow	**2004 £m**	2003 £m	2002 £m
Net cash inflow from operating activities	**923.5**	851.5	799.8
Income from joint ventures	**1.2**	2.8	2.1
Returns on investment and servicing of finance	**(151.8)**	(218.9)	(223.7)
Taxation	**(2.6)**	–	(2.4)
Capital expenditure and financial investment	**(1,018.0)**	(697.9)	(583.6)
Acquisitions and disposals	**(46.0)**	3.0	(9.8)
Dividends	**(281.2)**	(262.0)	(256.1)
Cash outflow before use of liquid resources and financing	**(574.9)**	(321.5)	(273.7)
Issue of shares, exchange and other non-cash adjustments	**510.4**	8.4	19.3
Movement in net debt	**(64.5)**	(313.1)	(254.4)
Opening net debt	**(3,373.9)**	(3,060.8)	(2,806.4)
Closing net debt	**(3,438.4)**	(3,373.9)	(3,060.8)

was principally as a result of increased turnover and operating profits.

Returns on investment and servicing of finance includes £83.0 million of cash received in 2003/04 due to the early termination of certain interest rate swap contracts. This reduced particularly large exposures to swap counterparties. The resultant gain has been deferred in the balance sheet and will be released to the profit and loss account over the period of the underlying debt, which was unchanged by these transactions.

Tax payments remain low reflecting the benefits of previous tax planning and the current tax charge discussed above.

A significant level of investment continues to be made, mainly as a result of the water and wastewater capital investment programme. The 2003/04 capital investment of £1,018.0 million represents a 45.9 per cent increase over 2002/03.

Cash payments in respect of acquisitions in 2003/04 included the Eurocall acquisition by Your Communications, the acquisitions of Park Environmental Services and a waste management facility from Associated Octel by Contract Solutions and the acquisition of First Revenue Assurance in Denver by Vertex. Cash receipts in 2002/03 included the proceeds from the disposal of our investment in US Water, offset by the investment in 7C. In 2001/02, the acquisitions and disposals cash flow included cash settlements on the disposal of the energy supply business and deferred consideration on earlier telecommunications acquisitions.

Mainly as a result of the first tranche of the rights issue, £504.1 million was received from the issue of shares compared to £3.3 million in 2002/03.

Dividend payments in 2003/04 represent an increase in line with our dividend policy and reflect the increased share capital following the rights issue.

As a result of the above, net borrowings increased by £64.5 million to £3,438.4 million at the year end. Gearing, measured as net debt divided by total capital employed (being equity shareholders' funds plus net debt), fell to 53 per cent, compared with 57 per cent at 31 March 2003 and 55 per cent at 31 March 2002.

Treasury policy

The group's treasury function operates within policies approved by the board, does not act as a profit centre and does not undertake any speculative trading activity. It seeks to ensure sufficient funding is available to meet foreseeable needs and maintains reasonable headroom for contingencies. Long-term borrowings are structured or hedged to match earnings, which are largely in sterling, indexed to inflation and subject to regulatory price reviews every five years. Exposure to interest rate movements for the following 12 months is largely eliminated at the start of each financial year using short-term hedges. The credit quality of counterparties and individual aggregate exposures are reviewed annually.

Debt financing

Moody's Investor Service rates the credit of United Utilities PLC as A3 on a long-term basis with a stable outlook and P-2 on a short-term basis. Equivalent ratings published by Standard and Poor's Rating Services are BBB+ long-term with a positive outlook and A-2 short-term.

The group's u5 billion medium-term and $1.5 billion short-term note issuance programmes continue to provide efficient sources of funding. In addition, the group has a $2 billion shelf registration in the name of the holding company with the United States Securities and Exchange Commission. This provided access to the US bond market in 2003/04 and will continue to allow the holding company flexibility to access the US market in a similar way to the European medium-term note programme.

Since 31 March 2003, the group has arranged £689 million of various long dated bonds and loans. As a result of these new borrowings, and the funding raised by the rights issue, cash and short-term investments at 31 March 2004 were £1,031.3 million, up from £689.3 million last year. We have arranged £50 million of new medium-term committed bank facilities and time extensions on £100 million of existing medium-term committed bank facilities. In total, committed facilities maturing after more than one year amount to £723.1 million which, together with cash and short-term investments, provides substantial pre-funding for the group's capital investment programme.

The group's net debt of £3,438.4 million at 31 March 2004 comprised £3,486.9 million of bonds, £695.3 million of loans from EIB, our largest investor, £81.1 million of long-term leasing and £206.4 million of bank loans and other borrowings, offset by £1,031.3 million of cash and short-term investments.

Interest rate management

We manage interest rate exposure by seeking to match financing costs as closely as possible with the revenues generated by our assets. Our exposure to interest rate fluctuations is managed in the medium-term through the use of interest rate swaps and the use of financial futures contracts traded on LIFFE. The average interest rate for 2003/04 was 7.0 per cent, compared with 6.9 per cent in 2002/03 and 7.3 per cent in 2001/02.

*Before goodwill amortisation and exceptional items, as shown on the face of the consolidated profit and loss account and defined in footnote 2 on page 15.

**Operating profit for a segment is before goodwill amortisation and exceptional items as shown in the segmental analysis by class of business in note 2 of the financial statements.

Board of directors

1

3

2

4

1 Sir Richard Evans (age 61)
Chairman
Sir Richard Evans was appointed a non-executive director in September 1997 and chairman in January 2001. Born in north west England, he has worked in the aircraft and aerospace industry for more than 30 years. He was appointed chairman of British Aerospace plc (now BAE SYSTEMS plc) in May 1998. He has had a long association, through BAC and BAe, with their Warton division in Lancashire, where he was deputy managing director from 1983 to 1986. He joined the board of British Aerospace in 1987 as marketing director. He was a director of the programme management companies for the Anglo/French Jaguar aircraft, for the Anglo/German/Italian Tornado aircraft and a director of the Airbus company.

2 John Roberts (age 58)
Chief executive
John Roberts joined the board as chief executive in September 1999. He had previously been a director of Hyder plc and chief executive of Hyder Utilities, and before that, chief executive of South Wales Electricity after its acquisition by Hyder. Before joining Hyder in 1996, John had been chief executive of Manweb Plc from 1992. Having graduated from Liverpool University, he joined Manweb in 1967, where he was appointed finance director in 1984 and managing director in 1991. John is a non-executive director of Volex Plc. He has been president of the Electricity Association, chairman of the Electricity Pension Trustees Limited, a member of the CBI Wales Council and a member of the Royal Commission on Environmental Pollution.

3 Simon Batey (age 50)
Group finance director
Simon Batey joined the board as group finance director in April 2000. He had previously been group finance director of AMEC Plc from 1992 and prior to that deputy finance director. He was closely involved in the reshaping of that group through a number of major investments and disposals and the development of its policy towards private finance initiatives.
He also served on the boards of Fairclough Homes Group Limited and the major French electrical contractor SPIE SA. He is also a non-executive director of Arriva plc. After graduating from Oxford, Simon joined Armitage & Norton (now part of KPMG) where he trained and qualified as a chartered accountant, and worked in a number of management posts.

4 Charlie Cornish (age 44)
Managing director
United Utilities Service Delivery
Charlie Cornish is responsible for the group's regulated asset management business. He joined the group in January 2004 and was formally appointed to the board on 27 January 2004. He was previously chief operating officer with Thames Water UK and Ireland having served as its global business performance director, working across Europe, Asia/Pacific and the Americas. He graduated from Strathclyde University and has worked for British Aerospace, Plessey Telecommunications, Associated British Foods and has also served as an executive director of NHS trusts. As HR Director of West of Scotland Water he was involved with major change programmes and went on to become its customer services director and later chief executive.

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5 Gordon Waters (age 56)
Managing director
United Utilities Contract Solutions
Gordon Waters is responsible for the group's infrastructure management business. He joined the group in 1996 and was appointed to the board in 1997. He graduated as a civil engineer and structural engineer from the City University London in 1969. He joined a major UK consulting engineering practice before working for a number of major UK construction companies. From 1987 to 1996, he worked for Tarmac Construction Limited joining the board of Tarmac Construction Limited in 1993. He was responsible for all their major projects and regional civil engineering companies both in the UK and overseas. He is a non-executive director of The Carbon Trust.

6 Norman Broadhurst (age 62)
Chairman of the audit committee
Norman Broadhurst was appointed as a non-executive director in April 1999. He retired from his position as finance director with Railtrack Group PLC in March 2000. Before joining Railtrack in 1994, he was joint deputy chief executive, finance/commercial, with VSEL Plc and prior to that, finance director. He worked for Platt Saco Lowell Limited for 11 years from 1970, becoming finance director. He joined the China Light and Power Company Limited in Hong Kong in 1981 as financial controller and then divisional manager, finance and administration. In 1986, he was appointed finance director of United Engineering Steels Limited. He joined VSEL in 1990. He is chairman of Chloride Group plc and Freightliner Limited and is also a non-executive director of Cattles PLC, Old Mutual PLC and Tomkins PLC.

7 Sir Peter Middleton (age 70)
Deputy chairman and senior independent director
Sir Peter Middleton joined the board as a non-executive director in January 1994. After National Service, he joined HM Treasury, serving as permanent secretary from 1983 to 1991. He is chairman of Barclays plc and was deputy chairman of Barclays Bank and chairman of Barclays Capital from 1991 to May 1998. He has been a member of the Council of the Manchester Business School, the Financial Reporting Council and the London Business School. He is Chancellor of Sheffield University and is chairman of Sheffield One.

8 Jane Newell, OBE (age 60)
Non-executive director
Jane Newell joined the board as a non-executive director in September 1996. She is chairman of the United Utilities Pension Scheme and the United Utilities group of the Electricity Supply Pension Scheme. After ten years as an international civil servant, she joined the Liverpool School of Tropical Medicine, and became chairman of Council from 1995 to 1997. In 1992, she was appointed founder trustee and subsequently chairman of the Maxwell Pensioners Trust and in 1997 received the OBE for this work. She is also a trustee of the Dixon Group's Pension Scheme, an external assessor for the Home Office for promotions in the police, prison and fire services, pro-chancellor and chairman of the board of governors of London South Bank University and a J.P.

9 Andrew Pinder (age 57)
Non-executive director
Andrew Pinder was appointed a non-executive director on 1 September 2001. He has been the government's e-Envoy since October 2000. He previously worked for 18 years in the Inland Revenue before moving to the private sector, working for the Prudential Corporation as director of systems and business processes and then as head of operations and technology for western Europe at Citibank. After performing other roles in Citibank, including spells in New York, continental Europe and Dublin, Andrew left the bank in 1999. Since leaving Citibank, he has been involved in new technology related start-ups, as a partner in a venture capital firm, as well as carrying out a number of management consultancy assignments for the government including work on UK online.

10 John Seed (age 65)
Chairman of the remuneration committee
John Seed joined the board as a non-executive director in March 1996. He was formerly chief executive of South Western Electricity plc. A chartered engineer, he spent 29 years in a number of engineering and general management posts with Eastern Electricity. He was appointed deputy chairman of South Western Electricity in 1986, becoming managing director at privatisation and then chief executive in 1992. He is a non-executive director of British Smaller Companies VCT plc. He was chairman of Great Western Assured Growth plc from 1991 to 1997, of Windelectric Limited from 1996 to 1999 and of Warren Associates Limited from 1998 to 2001 and has held a number of other non-executive directorships in the public and private sectors.

Directors' report

Principal activities and business review

The company is the holding company of a group which manages and operates electricity distribution, water and wastewater assets; manages infrastructure and business processes for its own and other businesses; and provides voice, basic and advanced communication services to the business customer market. The principal subsidiary undertakings and joint ventures of the company and details of acquisitions and disposals during the year are shown in note 13 to the financial statements.

The chairman's statement, the chief executive's review and the operational, corporate responsibility and financial reviews on pages 1 to 17 report on the group's activities during the year and on likely future developments.

The business for the annual general meeting

Details of the resolutions to be proposed at the 2004 annual general meeting are set out in the notice calling the meeting. There is also a full explanation of the resolutions in the leaflet containing the notice, enclosed with this report.

The dividend for shareholders

The directors are recommending a final dividend of 29.88 pence for each ordinary share for the year ended 31 March 2004 (14.94 pence for each A share), making a total for the year of 44.31 pence for each ordinary share (22.155 pence for each A share). Subject to shareholders approving this recommendation at the annual general meeting, the dividend will be paid on 27 August 2004 to shareholders on the register at the close of business on 2 July 2004.

The directors

The names of the present directors and their biographical details are given on pages 18 and 19. Charlie Cornish was appointed on 27 January 2004 and will therefore submit himself for re-appointment at the 2004 annual general meeting. In addition, Sir Richard Evans, Sir Peter Middleton and Simon Batey are standing, and are recommended by the board for re-appointment, at the 2004 annual general meeting.

Purchase of own shares

At an extraordinary general meeting held on 26 August 2003, the company was authorised by the shareholders to purchase, in the market, up to 55,680,000 of its own ordinary shares of £1 each and up to 30,933,000 of its own A shares of 50 pence each. No shares were purchased pursuant to this authority during the year. This authority is normally renewable annually and approval will be sought from shareholders at the 2004 annual general meeting to renew the authority for one year.

Directors' interests

At 31 March 2004, the directors and their immediate families had the following interests, all of which were beneficial interests, in the company's ordinary and A shares and options to subscribe for shares:

Table 1: Interests in ordinary shares

	At 1 April 2003 or upon appointment				**At 31 March 2004**			
	Shares	Share options	Deferred shares	Total	**Shares**	**Share options**	**Deferred shares**	**Total**
John Roberts	35,214	3,579	15,264	54,057	**72,610**	**4,139**	**19,444**	**96,193**
Simon Batey	49,464	1,740	12,732	63,936	**478**	**3,763**	**16,218**	**20,459**
Charlie Cornish	–	–	–	–	–	–	–	–
Gordon Waters	26,595	2,621	8,850	38,066	**39,789**	**3,030**	**11,273**	**54,092**
Sir Richard Evans	245	–	–	245	**245**	–	–	**245**
Norman Broadhurst	341	–	–	341	**341**	–	–	**341**
Sir Peter Middleton	4,574	–	–	4,574	**4,574**	–	–	**4,574**
Jane Newell	4,356	–	–	4,356	**4,356**	–	–	**4,356**
Andrew Pinder	–	–	–	–	**4,000**	–	–	**4,000**
John Seed	5,535	–	–	5,535	**5,550**	–	–	**5,550**

Table 2: Interests in A shares

	At 1 April 2003 or upon appointment	**At 31 March 2004**
John Roberts	–	**40,372**
Simon Batey	–	**181,340**
Charlie Cornish	–	–
Gordon Waters	–	**26,330**
Sir Richard Evans	–	**136**
Norman Broadhurst	–	**189**
Sir Peter Middleton	–	**2,541**
Jane Newell	–	**2,419**
Andrew Pinder	–	**2,222**
John Seed	–	**3,082**

Notes:

- Each executive director is a member of the class of discretionary beneficiaries of the United Utilities Employee Share Trust and is therefore treated as having an interest in the 459,891 shares held by United Utilities Employee Share Trust Limited as trustee of the United Utilities Employee Share Trust at 31 March 2004. As at 19 May 2004, United Utilities Employee Share Trust Limited held 459,891 shares.
- Except as described above, none of the directors had any interest in any share capital of any other group company or in any debenture of any group company.
- From the end of the financial year until 19 May 2004, there have been the following changes in the above interests:

  On 19 April 2004, John Roberts, Simon Batey and Gordon Waters each acquired 23 ordinary shares pursuant to the ShareBuy share incentive plan.

  On 17 May 2004, John Roberts, Simon Batey and Gordon Waters each acquired 27 shares pursuant to the ShareBuy share incentive plan.

People – key contributors to corporate success
The group's employees are key to achieving the business strategy and enhancing shareholder value. The group is making special efforts to recruit new employees from ethnic minority communities and is seeking more applications from people with disabilities. A review of key employee and safety issues arising in the year is contained within the corporate responsibility review on pages 12 and 13.

United Utilities remains committed to maintaining high standards of health and safety in every area of its business. Our health and safety aims and objectives are integrated into the business planning processes. Progress is monitored regularly at all levels throughout the business.

The company's risk profile is characteristic of a large multi-utility. As in previous years, the majority of absences from work resulted from manual handling activities and 'slips, trips and falls'. There are already specific programmes in place to manage down these risks, together with improved absence management arrangements. However, as the business develops our risk profile is continually monitored and the risks arising from transition are managed appropriately. In this context, we work collaboratively with clients, contractors and partners in joint ventures, sharing experience and best practice. We met last year's short-term published health and safety targets.

Our risk management procedures remain effective in highlighting high risk areas which we can then target for improvement. For example, during the year, we made progress on a number of initiatives, including road risk, health and well being, stress management, and behavioural safety programmes. In addition, the increasing terrorist threat has prompted us to review the potential impact of major incidents on our business and we have taken steps to test and upgrade our existing emergency and business continuity plans.

The involvement of all staff in these initiatives is a prerequisite and the group has continued to work in partnership with a range of trade unions and employee representatives operating across the businesses. These processes will continue and develop during the year ahead.

A statement of principles underpins the approach to labour relations across the group. Changes to employment legislation in the UK are increasing the numbers of employees embraced by collective bargaining arrangements. Good industrial relations remains a priority for United Utilities across the whole of its business and parts of the group have been recognised in the UK for excellence in this area. In particular, our Service Delivery business has committed to work more closely with five trade unions (Unison, Amicus, Prospect, GMB and T&GWU) and collective bargaining for 4,600 employees is a major part of this commitment. It has also established a consultation process and guidelines to manage the relationship.

The group is committed to improving its employees' skills. Through training and development and nurturing a culture in which they feel valued, the group encourages them to work to their full potential. The group respects the dignity and rights of every employee, supports them in performing various roles in society, and challenges prejudice and stereotyping. The group is equally committed to involving them through open and regular communications about business developments and issues of general interest, both formally and informally.

Owning shares in the company is an important way of strengthening employees' involvement in the development of the business and of bringing together their and shareholders' interests. The group encourages and helps employees to participate in its share schemes and accepts responsibility to provide financial education to employees, in particular, to make employees aware of the risk involved in building up a large stake in a single stock.

Fulfilling social and environmental responsibilities
As described in the corporate responsibility review on pages 12 and 13, the group seeks to manage its total impact on society as a responsible corporate citizen. Full details are set out in the company's separate corporate responsibility report, which is an important part of the company's integrated approach to reporting on the group's overall performance, together with the annual report, the stakeholder report and the web site.

Political and charitable donations
Charitable donations by the group in the year amounted to £1,335,759 (2003 – £1,015,310).

The group's policy is not to make any donations for political purposes. However, the Political Parties, Elections and Referendums Act 2000 has redefined the term 'donation' very widely and, as a result, certain expenses legitimately incurred as part of the process of talking to government at all levels and making our position known, are now reportable. At the last annual general meeting an authority was taken to cover such expenditure. Pursuant to that authority, in the year the company incurred costs of £6,217 (2003 – £4,000).

Approach to technology development
The group is committed to using innovative, cost-effective and practical solutions for providing high quality services. It also continues to make full use of the wide-ranging expertise, abilities and facilities within the group. It recognises the importance of ensuring that it properly focuses its investment in the development of technology, that it has the right skills to apply technology to achieve sustainable competitive advantage and that it continues to be alert to emerging technological opportunities.

Substantial shareholdings in the company
At 19 May 2004, the directors were aware of the following notifiable interests in the company's issued ordinary share capital:

Company	Date of notification	No. of shares	%
Legal & General Group PLC	24 January 2003	18,562,270	3.33
Sprucegrove Investment Management Limited	4 July 2003	17,950,003	3.02

The directors were also aware of the following notifiable interests in the company's issued A share capital at 19 May 2004:

Company	Date of notification	No. of shares	%
UBS Investment Bank	12 May 2004	24,217,253	7.83
Sprucegrove Investment Management Limited	4 February 2004	9,539,973	3.08

Creditor payment policy and practice
The group does not follow any specific external code or standard on payment practice. Its policy is normally to pay suppliers according to terms of business agreed with them on entering into binding contracts and to keep to the payment terms providing the relevant goods or services have been supplied in accordance with the contracts. The group and the company had 60 days (2003 – 60 days) and 29 days (2003 – 35 days) respectively of purchases outstanding at the end of the financial year.

Independent auditor
The auditor is required to be re-appointed at each annual general meeting at which accounts are presented. Following the conversion of Deloitte & Touche to a Limited Liability Partnership (LLP), effective from 30 July 2003, the board consented to the appointment as auditor being extended to the succeeding partnership, namely Deloitte & Touche LLP pursuant to section 26(5) of the Companies Act 1989. The board is proposing the re-appointment of Deloitte & Touche LLP. Special notice of the intention to propose this resolution has been given to the company in accordance with section 388(3) of the Companies Act 1985.

Approved by the board on 19 May 2004 and signed on its behalf by

Tim Rayner
Secretary

Corporate governance

The Combined Code
The board remains committed to high standards of corporate governance. Throughout the year to 31 March 2004, the company has complied with the provisions set out in Section 1 of 'The Combined Code Principles of Good Governance and Code of Best Practice' issued by the Financial Services Authority. A revised Combined Code was published in July 2003 which will be applicable to all listed companies with reporting periods commencing on or after 1 November 2003. The board recognises that the revised Code is seen as best practice and this report, together with the remuneration report on pages 26 to 33, gives details of how the principles in the existing Code and the revised Code have been applied within the company.

Directors
The board is scheduled to meet ten times each year with additional meetings called if required. The board has a formal schedule of matters reserved to it, which ensures that it takes all major strategy, policy and investment decisions affecting the group. In addition, it is responsible for business planning and risk management and for the development of group policies including such areas as health and safety, directors' and senior managers' remuneration and for social, environmental and ethical issues. Attendance by individual directors at meetings of the Board and its Committees during the year ended 31 March 2004 is shown in the table below and full biographical details of the directors can be found on pages 18 and 19.

Attendance by individual directors at meetings of the board and its committees

	Board		Audit		Remuneration		Nomination	
	Possible	Actual	Possible	Actual	Possible	Actual	Possible	Actual
John Roberts	12	12	–	–	–	–	4	2
Simon Batey	12	11	–	–	–	–	–	–
Charlie Cornish	3	3	–	–	–	–	–	–
Gordon Waters	12	12	–	–	–	–	–	–
Sir Richard Evans	12	12	6	5	8	7	4	4
Norman Broadhurst	12	9	6	6	8	7	4	4
Sir Peter Middleton	12	10	6	4	8	7	4	3
Jane Newell	12	10	6	3	8	7	4	2
Andrew Pinder	12	8	6	3	8	7	4	1
John Seed	12	10	6	5	8	8	4	4

The chairman holds meetings with the non-executive directors without the executive directors present. Led by the senior independent director, the non-executive directors meet without the chairman present at least annually to appraise the chairman's performance. Directors have a right to ensure that any concerns they have, which cannot be resolved about the running of the company or a proposed action, are recorded in the board minutes. In addition, upon resignation a non-executive director shall be asked to provide a written statement addressed to the chairman, for circulation to the board, if they have any such concerns.

Delegating and working through committees
The group's governance structure ensures that all decisions are made by the most appropriate people in such a way that the decision-making process itself does not unnecessarily delay progress. The board has formally delegated specific responsibilities to board committees, including the audit (see page 24), remuneration (see page 26), nomination (see 'Appointments to the board' on page 23), approvals and treasury committees. All board committees are provided with sufficient resources to undertake their duties.

The approvals committee considers and approves expenditure and investment proposals within limits delegated by the board. Its members are the executive directors, the group strategic planning director and the company secretary.

The treasury committee considers and approves borrowing, leasing, bonding and other banking facilities within limits set by the board. Its members are the chairman, the chief executive, the group finance director and one of the other executive directors together with, for more significant or complex transactions, one other non-executive director.

The directors of subsidiary companies are responsible at law for those business entities. They are tasked with the delivery of the targets set within the budgets approved by the group board and for the implementation of group strategy and policy across their businesses. United Utilities Water PLC, for example, is a sizeable business in its own right and its board includes two independent non-executive directors (Phillida Entwistle and Deborah Morton).

Directors' and officers' insurance
The company maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors.

Chairman and chief executive
Separate individuals have been appointed to the positions of chairman and of chief executive. The board has agreed clearly defined responsibilities for the roles and has adopted a set of guiding principles to govern the relationship between them. The chairman is primarily responsible for the working of the board. The chief executive is responsible for running the group's business and for implementing board strategy and policy.

Board balance and independence
The board aims to maintain a balance of executive and non-executive directors and presently comprises the chairman, four executive directors and five non-executive directors determined by the board to be independent. The directors have a wide and diverse range of business experience and expertise.

The revised Code does not regard the chairman as being independent in view of his unique role in corporate governance although, were he not chairman, Sir Richard Evans would satisfy the independence criteria laid down by the Code. Taking into account the provisions of the Code, the board has determined that all of the remaining five non-executive directors are independent and free from any business or other relationship which could compromise their independent judgement.

In particular, the board has determined that Sir Peter Middleton remains independent, notwithstanding that he has served on the board for more than nine years, because of his breadth of experience, financial independence and other business interests. Norman Broadhurst's daughter is a partner based in Deloitte & Touche LLP's Birmingham office. It has been agreed that she will not be involved with the United Utilities account in any way. Deloitte & Touche LLP services United Utilities' account from its Manchester and London offices.

Senior independent director
Sir Peter Middleton has been appointed as senior independent director. The senior independent director would be available to shareholders if they

have concerns which contact through the normal channels has failed to resolve or for which such contact is inappropriate. The terms of reference of the senior independent director state that his primary duty is to ensure that the views of each non-executive director are given due consideration. Other duties of the post include authority to call a meeting of the non-executive directors and to conduct periodic performance appraisals of the chairman.

Appointments to the board and the nomination committee
The nomination committee leads the process for board appointments by making recommendations to the board about filling board vacancies and appointing additional persons to the board. The committee also considers and makes recommendations to the board on its composition, balance and membership and on the re-appointment by shareholders of any director under the retirement by rotation provisions in the company's articles of association. It met four times in the year to 31 March 2004.

The committee's members are the non-executive directors, including the chairman, together with the chief executive. Although the chairman is also chairman of the committee, he will not chair the committee when it deals with the appointment of a successor to the chairmanship. The nomination committee evaluates the balance of skills, knowledge and experience on the board and, in the light of this evaluation, prepares a description of the roles and capabilities required for a particular appointment.

During the year, the committee prepared a description of the roles and capabilities required for the appointment of a Managing Director, Service Delivery, engaged the services of Spencer Stuart, an independent consultancy firm, and made recommendations as part of the final selection process.

The nomination committee's terms of reference are available to shareholders on request and are also available on the company's web site at www.unitedutilities.com.

Policy on external appointments
The company recognises that its executive directors may be invited to become non-executive directors of companies outside the group and exposure to such non-executive duties can broaden experience and knowledge, which will be to the benefit of the company. Subject to board approval (which will not be given if the proposed appointment is with a competing company, would otherwise lead to a conflict of interest or could have a detrimental effect on a director's performance), the board's policy is that a full time executive director can accept no more than one non-executive directorship of a FTSE 100 company or the chairmanship of such a company and may retain the fees. John Roberts is a non-executive director of Volex Group plc, for which he earned and retained a fee of £26,000 during the year to 31 March 2004. Simon Batey was appointed a non-executive director of Arriva plc on 1 October 2003 and earned and retained a fee of £15,000 for the period from his appointment to 31 March 2004.

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

The board has established a governance framework which encourages all directors to bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments and standards of conduct. New directors receive appropriate induction training on joining the board. As part of this, the company will offer to major shareholders the opportunity to meet a new non-executive director.

All directors have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are complied with. The appointment and removal of the company secretary are matters for the board as a whole.

The board has adopted policies governing the rights of directors to obtain independent professional advice. The board has adopted a protocol under which directors have access, through the company secretary, to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors.

Performance evaluation
The board has agreed a self-evaluation process for the performance evaluation of the board which will be carried out during the current financial year and will be reported upon in next year's annual report. The board has determined that the non-executive directors, led by the senior independent director, will undertake a performance evaluation of the chairman, taking into account the views of executive directors.

Re-appointment of directors
The board initially appoints all new directors, having first considered recommendations made to it by the nomination committee. Following such appointment, the director is required to retire and seek re-appointment at the next annual general meeting. There is a process of rotation, which ensures that approximately one third of all directors are required to retire and seek re-appointment at each annual general meeting and that no director serves for more than three years without being proposed for re-appointment at an annual general meeting. Biographical details of directors being submitted for appointment or re-appointment are set out in the notes accompanying the relevant notice of meeting.

Non-executive directors are appointed for specified terms subject to re-appointment under the company's articles of association and subject to Companies Acts' provisions relating to the removal of a director. Following the 2004 annual general meeting, the board intends to explain to shareholders in the papers accompanying a resolution to elect a non-executive director why they believe an individual should be appointed. The chairman will confirm to shareholders when proposing re-appointment that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role. Any term beyond six years for a non-executive director will be subject to particularly rigorous review and will take into account the need for progressive refreshing of the board. Any non-executive director serving longer than nine years will be subject to annual re-appointment. A resolution will be proposed at the forthcoming annual general meeting to alter the articles of association of the company to give effect to this new Code provision.

Accountability and audit

Statement of directors' responsibilities for the financial statements
The directors are responsible for preparing, in accordance with the Companies Act 1985, financial statements for each financial year which give a true and fair view of the company's and the group's state of affairs as at the end of the financial year, and of the profit or loss and cash flows 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 applicable accounting standards have been followed, subject to any departure and explanation described in the notes to the accounts.

The directors have a legal responsibility for ensuring that the company keeps accounting records which disclose, with reasonable accuracy at any time, the company's and the group's financial position and which enable them to ensure the financial statements comply with the Companies Act 1985. The directors also have a general legal responsibility for taking such steps as are reasonably open to them to safeguard the company's and the group's assets and to prevent and detect fraud and other irregularities. The external auditor's statement about its reporting responsibilities is set out on page 35.

Financial reporting and going concern
In presenting the annual and interim financial statements and similar significant publications, the directors aim to present a balanced and understandable assessment of the group's position and prospects.

The directors have adopted the going concern basis in preparing these financial statements. This is based upon a review of the group's budget for 2004/05, the five-year business plan and investment programme, together with the cash and committed borrowing facilities available to the group. The board also took into account potential contingent liabilities and other risk factors as interpreted by the 'Guidance on Going Concern and Financial Reporting for Directors of Listed Companies registered in the United Kingdom', published in November 1994.

Internal control system – evaluating and managing risk

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

The key features of the internal control system are:

- a control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business;
- comprehensive business planning, risk assessment and financial reporting procedures including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- a monthly board review of financial and non-financial key performance indicators to assess progress towards objectives;
- monthly meetings prior to each board meeting of the executive leadership team, a forum in which the executive directors, the managing directors of the group's businesses, the group functional directors and the company secretary exchange information and discuss strategic and operational issues which are of group-wide importance;
- regular monitoring of risks and control systems throughout the year by the operating businesses, supported by the use of risks and issues databases;
- a self-certification process, subject to internal audit, whereby the operating businesses are required to confirm that the system of internal control is operating effectively;
- an internal audit function to provide independent scrutiny of internal control systems and risk management procedures;
- a bi-monthly risk management forum chaired by the group finance director, and comprising the company secretary, the group internal audit manager, the group health and safety manager and senior representatives from each of the operating businesses, to scrutinise key risks in depth;
- a quarterly sustainable development panel chaired by the chief executive, and comprising the managing directors of United Utilities Service Delivery and United Utilities Contract Solutions, the head of environment and the community and three external professional specialists, Walter Menzies, Clive Jeanes and Dr Mark Everard. The role of the panel is to advise on environmental policy and, in particular, to identify risks to the environment, recommend targets and monitor performance against those targets;
- an annual risk assessment exercise involving self-assessment by management of all business risks in terms of impact, likelihood and control strength and an objective challenge of that assessment by the internal audit team;
- an annual health and safety performance review carried out by our in-house safety professionals in addition to the normal health and safety risk assessment and management processes carried out within each of the operating businesses;
- centralised treasury operations operating within defined limits and subject to regular reporting requirements and internal audit reviews; and
- established procedures, set out in a group internal control manual, for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

The audit committee and the auditor

The audit committee's members are Norman Broadhurst (Chairman), Sir Richard Evans (to 30 March 2004), Sir Peter Middleton, Jane Newell, Andrew Pinder and John Seed. The board is satisfied that Norman Broadhurst has recent and relevant financial experience. The committee met six times in the year to 31 March 2004.

The committee has primary responsibility for making a recommendation to the board on the appointment, reappointment and removal of the external auditor which the board then puts to shareholders for their approval in general meeting. It keeps under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the auditor. The committee has established policies and procedures to pre-approve the provision of any audit or non-audit services and keeps the nature and extent of non-audit services under review. In the year under review, the fees paid or payable to the auditor were as follows:

Fees to Deloitte & Touche LLP:

Item	**2004 £'000**	2003 £'000
Audit fees	**563.1**	490.0
Audit related fees (1)	**882.0**	168.0
Tax fees (2)	**335.0**	189.0
Other fees (3)	**–**	149.0
Total	**1,780.1**	996.0

Notes:

(1) Audit related fees are fees billed for work on regulatory returns and assurance work reasonably related to the statutory audit, including due diligence and assurance work, work associated with raising debt and equity finance and securities filing work. In 2004, these fees included assurance work in support of the rights issue.

(2) Tax fees are fees incurred for tax compliance, tax advice and related tax work.

(3) Other fees incurred relate to project and financial modelling work.

(4) In 2003, £265,000 of tax and other fees were paid to Deloitte & Touche under engagements commenced prior to their appointment as auditor which have subsequently been completed.

(5) In addition to the above, fees relating to joint ventures of the group were paid to Deloitte & Touche LLP in 2004 totalling £66,800 (2003 – £26,000).

All non-statutory audit or non-statutory tax compliance services provided by the auditor must be reported to the audit committee and prior approval is required from the senior independent director for any such projects. In granting such approval, he is required to consider the cumulative proportion of fees paid for such work compared with the statutory audit fees.

The audit committee also reviews the half-year and annual financial statements before submission to the board, reviews periodically the scope, remit and effectiveness of the internal audit function and the effectiveness of the group's internal control systems. It also reviews arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The terms of reference of the audit committee are available to shareholders on request and are also available on the company's web site at www.unitedutilities.com.

Relations with shareholders

Dialogue with institutional shareholders

There is a programme of investor meetings and presentations which take place throughout the year, both in the UK and overseas. During the year, the board met, or offered to meet, with 110 different funds, representing 44 per cent of the company's issued share capital. This, together with regular announcements of significant events affecting the group and frequent updates on current trading, emphasises our commitment to keep our equity and debt investors informed of developments affecting the group. The board regards this programme as important to improve investors' awareness of the business and for the board to gain an understanding of investors' priorities.

Non-executive directors are offered the opportunity to attend meetings with major shareholders and would attend them if requested by major shareholders. The board has taken steps to ensure that members of the board and, in particular, the non-executive directors, develop an understanding of the views of major shareholders about their company through an annual survey of shareholder opinion produced for the company by Makinson Cowell.

Constructive use of the annual general meeting

The board encourages shareholders to exercise their right to vote at the annual general meeting. The notice calling the meeting and related papers are sent to shareholders at least 20 working days before the meeting and separate resolutions are proposed on each substantially separate issue. Voting on all resolutions takes place by means of a poll which ensures that all shareholders' votes are taken into account, whether lodged in person at the meeting, or by proxy. The poll vote is scrutinised by Lloyds TSB Registrars.

Presentations are made on the progress and performance of the business prior to the formal business of the meeting. Shareholders are encouraged to participate through a question and answer session and individual directors or, where appropriate, the chairman of the relevant committee, respond to those questions directly. Normally, the chairmen of the audit, nomination and remuneration committees will be available at the annual general meeting to answer questions relevant to the work of those committees. Shareholders have the opportunity to talk informally to the directors before and after the formal proceedings.

Publications and the web

The interim report, the annual report, the stakeholder report and summary financial statement remain the primary means the board has of communicating during the year with all of the company's shareholders. However, the board recognises the importance of the internet as a means of communicating widely, quickly and cost-effectively. A library of information about the company is available 24 hours-a-day, world-wide at www.unitedutilities.com. Financial news releases are made available on the site contemporaneously with release through other news channels and anyone with an email address can register free of charge to receive an email alert upon the posting of each new release.

Directors' remuneration report

Reward philosophy

The group needs people of the right calibre able to meet and beat the challenges it faces, in order to ensure corporate success and to enhance shareholder value. Therefore, the group must ensure its remuneration arrangements attract and keep the right people.

The group's overall philosophy is to:

- attract, develop, motivate and keep talented people at all levels;
- pay competitive salaries and benefits to all its staff;
- encourage its staff to hold shares in the company; and
- focus remuneration arrangements to help each business in the group meet its specific challenges.

When pay levels are set, account is taken of the work an employee does, what is paid in other companies for that work and how well the group's businesses are performing. The board believes that share ownership is an effective way of bringing together the interests of employees and shareholders. The company promotes greater ownership of its shares by offering employees the opportunity to build up a shareholding through its share schemes – the 'Sharesave' SAYE share option scheme and the share incentive plan, 'ShareBuy'. Senior executives also have the opportunity to acquire shares through the group's performance share plan.

NON-EXECUTIVE DIRECTORS

A committee of the board decides the remuneration of the non-executive directors (other than the chairman). Its members are the chairman (Sir Richard Evans) and the executive directors (John Roberts, Simon Batey, Charlie Cornish and Gordon Waters). The committee may take independent advice. It is also advised by the group's human resources director (Linda Booth). The committee did not meet during the year. The remuneration committee decides the remuneration of the chairman. The chairman's remuneration was not reviewed during the year.

Terms of appointment

Non-executive directors are appointed for an initial period of three years, which may be renewed for further three-year terms thereafter. However, as with all directors, they are subject to re-appointment at an annual general meeting at least every three years. After nine years in office a non-executive director will be required to seek re-appointment each year at the annual general meeting. They do not have contracts of service and, in the event of early termination of their appointment for whatever reason, they are not entitled to compensation. The letters of appointment of non-executive directors are made available for inspection at the company's registered office. They set out the expected time commitment and non-executives agree to devote sufficient time to meet what is expected of them.

Table 1: Non-executive directors' terms of appointment

	Date first appointed to board	Date of last appointment AGM in	Re-appoint no later than AGM in	Notice period	Compensation upon early termination
Sir Richard Evans	01.09.1997	2001	2004	none	none
Sir Peter Middleton	01.01.1994	2001	2004	none	none
Norman Broadhurst	01.04.1999	2002	2005	none	none
Jane Newell	01.09.1996	2003	2006	none	none
Andrew Pinder	01.09.2001	2002	2005	none	none
John Seed	01.03.1996	2002	2005	none	none

Policy statement on non-executive directors' remuneration

The company's policy is to pay annual fees that reflect the responsibilities placed upon the non-executive directors. Fees are reviewed periodically. When reviewing fees, account is taken of the level of fees paid in companies of similar size and complexity. There are separate annual fees for the chairman, deputy chairman and the other non-executive directors. Additional fees are paid to the chairmen of the audit and remuneration committees (Norman Broadhurst and John Seed respectively). The fee paid to Jane Newell includes an amount to reflect additional responsibilities as chairman of the trustees of the company's major pension schemes.

Non-executive directors do not participate in any annual bonus or incentive plan, the pension scheme, the healthcare arrangements, the company's long term incentive plans, Sharesave scheme or ShareBuy. The company repays the reasonable expenses they incur in carrying out their duties as directors.

Non-executive directors' remuneration

With the exception of the chairman, non-executive directors' fees were increased with effect from 1 May 2004. The base fee to be paid is now £45,000 a year. The annual fee to be paid to Sir Peter Middleton, deputy chairman, is £60,000 and the additional fee to be paid to Jane Newell is £30,000 a year. The additional fee to be paid to the chairmen of the audit and remuneration committees is £10,000 and £7,500 a year respectively. From 1 July 2004, the chairman's fee will increase to £198,000 a year. The next review is due in September 2005 and annually thereafter. Non-executive directors' remuneration for the year to 31 March 2004 is set out in table 2.

Table 2: Non-executive directors' fees (audited information)

	Total fees	
	2004 £'000	2003 £'000
Sir Richard Evans	**180.0**	180.0
Norman Broadhurst	**40.0**	39.6
Sir Peter Middleton	**60.0**	59.2
Jane Newell	**55.0**	54.2
Andrew Pinder	**35.0**	34.6
John Seed	**40.0**	39.6
Total	**410.0**	407.2

EXECUTIVE DIRECTORS

The remuneration committee

The remuneration committee makes recommendations to the board on the group's framework of executive remuneration and its cost. The committee approves, on the board's behalf, the general recruitment terms, remuneration benefits, employment conditions and severance terms for executive management. It decides the specific recruitment terms, remuneration benefits, employment conditions, pension rights, compensation payments and severance terms for the executive directors and for other senior executives.

The committee's members are John Seed (Chairman), Norman Broadhurst, Sir Richard Evans (to 30 March 2004), Sir Peter Middleton, Jane Newell and Andrew Pinder, all independent 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 are not involved in the day-to-day running of the group's businesses. The committee's terms of reference are available to shareholders on request and are on the company's web site at www.unitedutilities.com.

During the year, the committee appointed New Bridge Street Consultants LLP to advise it on executive remuneration. They have no other connection with the company. Mercer Human Resource Consulting also advised the committee. They are also the actuaries to one of the company's pension schemes (United Utilities Pension Scheme) and advise the company on matters relating to its operation. Addleshaw Goddard provide legal advice on the operation of the group's share incentive and share option plans, including drafting the rules and advising on their interpretation. They also provide general legal advice to the company and other companies in the group.

The committee is assisted by the chief executive (John Roberts), who is consulted on proposals relating to the remuneration of the other executive directors and senior executives and by the group human resources director.

The chief executive and group human resources director attend meetings except when the committee discusses matters relating to their own remuneration.

In its work, the committee considers fully the principles of good governance and the code of best practice. The committee met eight times in the year to 31 March 2004. Details of individual attendance at the meetings is stated in the corporate governance report on page 22.

The board accepted the committee's recommendations without amendment. The chairman of the board ensures the company talks to its major shareholders, when appropriate, about matters relating to remuneration.

Policy statement on executive directors' remuneration
The board's policy for executive directors' and senior executives' remuneration is to:

- pay a basic salary which competes with other companies of about the same size and complexity;
- use short and long-term incentives to encourage executives to outperform key targets, thereby giving them the opportunity to increase their earnings;
- encourage executives to hold shares in the company; and
- overall, reward executives fairly and responsibly for their contribution to the group's short and long-term performance and avoid paying more than is necessary for achieving this objective.

In deciding the executive directors' total remuneration package and individual elements of it, the remuneration committee assesses where the company should be positioned relative to other companies. It makes appropriate comparisons but treats them with caution. The company aims to pay about the market median but may pay more for an outstanding performer or to attract executives of the right calibre. Earnings may be increased through the operation of annual and long-term incentive plans.

The incentive plans are designed to encourage and reward out-performance. They link executives' rewards directly to the group's performance and shareholders' interests. The company expects executive directors and other senior executives to acquire and hold shares at least to the value of their basic salary. To assist them in satisfying this minimum share ownership target, it may pay incentive awards partly or wholly in shares.

The committee aims to achieve an appropriate balance between fixed and variable rewards. Fixed rewards include:

- basic salary;
- a car allowance or company car and fuel for private mileage;
- medical insurance; and
- pension benefits.

The taxable value of the car, fuel, medical insurance and life insurance element of pension benefits are included in 'other benefits' in table 3. Variable rewards take the form of the annual bonus and the performance share plan. These rewards are performance based and provide each executive director with the opportunity to earn up to a further 60 per cent and 80 per cent of basic salary respectively each year. Together, this is almost 60 per cent of their total annual reward opportunity (excluding pension benefits). Detailed policy in relation to each element of executive directors' remuneration is set out below. The board continually reviews its policy in the light of emerging best practice.

Table 3: Executive directors' remuneration (audited information)

	A		B		C				D	
	Gross salary		Annual bonus		Other benefits		Total emoluments		Long-term incentive *vesting during the year* ended 31 March	
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000	**2004 £'000**	2003 £'000
John Roberts	**467.5**	429.2	**280.5**	228.2	**35.6**	30.6	**783.6**	688.0	**227.7**	–
Simon Batey	**317.5**	291.7	**190.5**	155.1	**18.0**	17.9	**526.0**	464.7	**186.1**	–
Charlie Cornish	**42.3**	–	**25.4**	–	**80.8**	–	**148.5**	–	**–**	–
Les Dawson	**–**	222.9	**–**	118.6	**–**	19.7	**–**	361.2	**118.0**	–
Gordon Waters	**259.2**	221.7	**155.5**	117.9	**26.7**	24.2	**441.4**	363.8	**130.2**	–
Total	**1,086.5**	1,165.5	**651.9**	619.8	**161.1**	92.4	**1,899.5**	1,877.7	**662.0**	–

Notes:

- John Roberts was the highest paid director in the year ended 31 March 2004.
- Les Dawson resigned from the board on 25 March 2003 and ceased employment with the company on 31 August 2003. His emoluments for 2003 relate to the period up to and including the date of his resignation as a director. The value of the long-term incentive vesting during the year ended 31 March 2004 relates to the full performance period to 31 March 2003.
- The value of the long-term incentive vesting during the year ended 31 March 2004 is based on the share price when the options were exercised.
- Charlie Cornish was appointed to the board on 27 January 2004. His other benefits during the year ended 31 March 2003 include a non-pensionable salary supplement of £3,332 to compensate him for lost pension benefits from his previous employment and relocation costs of £74,043.

A Salary

The committee reviews salaries each year taking account of group and personal performance. Any changes are made with effect from 1 September. The committee commissions independent assessments of market rates based on the practice of other utility companies and companies of a similar size and complexity. The committee also takes account of the levels of pay awards elsewhere in the group. Following its annual review in 2003, the committee agreed the following changes to the annual salaries of executive directors:

Table 4: Executive directors' salary review

	1 September 2003 £'000	1 September 2002 £'000
John Roberts	**480.0**	450.0
Simon Batey	**330.0**	300.0
Gordon Waters	**280.0**	230.0

Note:

- Charlie Cornish was appointed to the board on 27 January 2004. His annual salary is £235,000.

B Annual bonus

The annual bonus is designed to motivate executive directors and other senior executives to achieve the group's key operational and strategic objectives. The maximum award is 60 per cent of annual salary. Directors are rewarded according to the company's financial and non-financial performance for the year and the achievement of individual targets. Targets are set each year. The non-financial and individual targets may include personal objectives, measures related to customer service and environmental performance and performance against other key stakeholder measures. Annual bonus awards may be made partly or wholly in shares where a participant has still to satisfy the company's minimum share ownership target.

(a) 2004/05

The financial performance measures to be used for determining annual bonuses for 2004/05 are profit before exceptional items, interest and tax (PBEIT) and profit before exceptional items and tax (PBET). A maximum award of 24 per cent of salary is allocated to each measure. One quarter of the maximum awards becomes payable when threshold targets are met. Awards increase in value on a straight line basis until half of the maximum award is payable for achieving an intermediate target midway between the threshold and stretch targets. Awards continue to increase in value on a straight line basis between the intermediate and stretch targets at which point the maximum award is payable. Thus, there is greater incentivisation to achieve stretch targets. The stretch targets are demanding and achievement represents results which are in excess of expectations. One fifth of the annual bonus, accounting for 12 per cent of salary, will depend on achieving improvements in the group's score in the Business in the Environment's BiE Index, the group's employee opinion survey and the achievement of individual objectives.

(b) 2003/04

The financial measures for the determination of annual bonuses for 2003/04 were also PBEIT and PBET. The maximum bonus opportunity allocated to each of these targets was 24 per cent, the same as for 2004/05. The stretch PBET and PBEIT targets were achieved. The total payable for performance against financial targets was, therefore, 48 per cent. Non-financial targets accounted for up to 12 per cent of salary. Six per cent was based on the achievement of individual objectives, three per cent on the group score in the BiE index and three per cent on scores in the 2003/04 employee opinion survey. Each director achieved their individual objectives and the environmental and employee-related targets were achieved. Therefore 12 per cent bonus was payable bringing the overall bonus payable to a total of 60 per cent of salary.

(c) Prior year annual bonuses paid in deferred shares

Half of the value of the 2001 annual bonus awards for executive directors were satisfied by the grant of contingent rights to receive shares in the company to be purchased in the market by the company's employee share trust. The right to these shares may be forfeited in certain circumstances if an executive is not in the company's employment when the shares are due to be transferred to him from the trust in June 2004.

The company does not match the number of deferred shares and there are no additional performance measures associated with the release of these shares (see table 5).

Table 5: Executive directors' contingent interests in deferred shares relating to past bonus awards (audited information)

	Award in respect of	Contingent interest in shares at date of award		Contingent interest in shares at 1 April 2003		Contingent interest in shares at 27 August 2003		Contingent interest in shares added during the year		Shares transferred to executive during the year		**Contingent Interest in shares at 31 March 2004**	
		No.	Value £'000	No.	Value £'000	No.	Value £'000	No.	Value £'000	No.	Value £'000	**No.**	**Value £'000**
John Roberts	2001	12,906	84.15	15,264	91.8	17,655	81.1	1,789	8.5	–	–	**19,444**	**100.9**
Simon Batey	2001	10,766	70.2	12,732	76.6	14,726	67.7	1,492	7.1	–	–	**16,218**	**84.2**
Gordon Waters	2001	7,484	48.8	8,850	53.2	10,236	47.0	1,037	4.9	–	–	**11,273**	**58.5**

Notes:

- The awards were made on 1 June 2001 under the terms of the deferred share plan whereby 50 per cent of the value of the annual bonus was paid as contingent shares based on a share price of 652.0 pence. This was the average of the mid-market price of a share for the three business days immediately prior to 1 June 2001.
- The value of the contingent interest in shares on 1 April 2003 is based on the mid-market price of a share on that day of 601.5 pence.
- The number of shares comprising the contingent interest in shares at 27 August 2003 incorporates an adjustment to take account of the rights issue. The values of the shares comprising awards based on the last quoted cum rights share price of 531.5 pence was divided by the theoretical ex-rights price of 459.54 pence to determine the revised numbers of shares comprising awards shown above.
- The contingent interest in shares added during the year is calculated by taking the values of notional dividends payable on 29 August 2003 and 9 February 2004 on the shares in trust and dividing by the mid-market price of a share on those dates. These were 466.5 pence and 484.5 pence respectively.
- The value of the contingent interest in shares on 31 March 2004 is based on the mid-market price of a share on that day of 519.0 pence.

C Other benefits
Directors are paid a car allowance (or have the use of a company car where business use warrants it), are reimbursed fuel for business and private use and are provided with medical and life insurance. Charlie Cornish is paid a non-pensionable salary supplement of £18,500 a year to compensate him for the reduction in employer contribution rate to his pension scheme relative to his previous employment.

D Long-term incentives
It is the board's policy that shareholders will be invited specifically to approve all new long-term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules.

The performance share plan, adopted at the annual general meeting held on 21 July 2000, is the long-term incentive scheme for executive directors and a restricted number of other senior executives. Participation is at the discretion of the plan's trustee (United Utilities Employee Share Trust Limited) on the recommendation of the remuneration committee. Each year, participants may be awarded a right to acquire shares (or, at the discretion of the trustee, the cash equivalent) normally worth up to 80 per cent of their annual salary at the date of the award, at no cost to them. The number of shares awarded is based on the market price of a share at that time. A resolution will be proposed at the annual general meeting to be held in July 2004 seeking shareholder approval to increase the maximum value of an award to 100 per cent of annual salary.

The proportion of the award that will vest depends on the group's performance against specified targets over a performance period. This period is usually not less than three years' duration, beginning at the start of the financial year during which the award is made.

The extent to which awards granted to date vest depends on (a) the company's total shareholder return (TSR) performance when compared with the TSR performance of a group of other companies over three year performance periods and (b) underlying business performance. TSR is widely accepted as an easily understood and externally verifiable measure of a shareholder's return. Relating awards to the company's relative TSR performance supports the policy objectives of linking executives' rewards directly to the group's performance and shareholders' interests and giving executives the opportunity to increase their earnings by meeting and out-performing key long-term measures.

The inclusion of appropriate companies in the comparator group is critical for relative performance to be meaningful. However, it is also important that the comparator group should be of a reasonable size to avoid the performance of a few companies having a disproportionate impact on the outcome of the plan, to be able to accommodate changes in the comparator group and to avoid too high a leverage between the company's relative position in the group and the proportion of the award that vests. The remuneration committee determines the composition of the comparator group when awards are granted each year. It has the discretion to make subsequent adjustments to the group or the period over which relative TSR is measured during the performance period, for example, following a takeover bid or merger/demerger announcement to maintain the integrity of the plan. During the year, the remuneration committee considered the treatment of changes affecting companies in the comparator groups for awards made in 2001/02 and after where the respective performance periods had not finished. These are reported below.

No award will vest if the company's TSR performance is below the median for the comparator group. If the company's TSR performance is between median and upper quartile, the proportion of the maximum award which the participant may receive will be calculated on a straight-line basis between 33 per cent and 100 per cent.

However, awards will not vest unless the remuneration committee is satisfied that the company's recorded TSR performance is consistent with the achievement of appropriate measures of underlying business performance.

(a) 2004/05 grant
It is proposed to apply the above performance conditions to awards to be granted during 2004/05 and that each director is awarded an option to acquire shares worth up to 80 per cent of their annual salary. It is expected that for the 2004/05 award, the TSR comparator group will comprise the following 16 companies in addition to United Utilities: AMEC, AWG, BAA, Balfour Beatty, BG Group, BT Group, Centrica, International Power, Kelda Group, National Grid Transco, Northumbrian Water, Pennon Group, Scottish & Southern Energy, Scottish Power, Severn Trent, and Viridian. In addition, three smaller companies, Bristol Water, East Surrey Holdings and International Energy Group, will be included as a notional combined 17th company made up in proportion to their market capitalisations at the start of the performance period. The performance period will be 1 April 2004 to 31 March 2007. Awards will vest after the end of the performance period provided that the remuneration committee is satisfied that the company's recorded TSR performance is consistent with the achievement of appropriate measures of underlying business performance.

(b) 2003/04 grant
During the year awards to a maximum value of 80 per cent of annual salary were made to directors in respect of the 2003/04 performance share plan. The extent to which awards vest will be based on the company's TSR performance relative to the comparator group of companies over the period 1 April 2003 to 31 March 2006. At the beginning of the performance period the comparator group comprised the following 15 companies in addition to United Utilities: BAA, BG Group, Boots Company, British Energy, Centrica, International Power, J Sainsbury, Kelda Group, Morrison Supermarkets, National Grid Transco, Scottish & Southern Energy, Scottish Power, Severn Trent, Tesco and Viridian. There have been no changes during the year. The test against measures of underlying business performance will take account of performance against the earnings per share, dividend cover and interest cover targets for 2005/06 set out in the group's five-year business plan to 2007/08. The awards are scheduled to vest after 31 March 2006.

(c) 2002/03 grant
The extent to which awards vest will be based on the company's TSR performance relative to the comparator group of companies over the period 1 April 2002 to 31 March 2005. At the beginning of the performance period the comparator group comprised the following 18 companies in addition to United Utilities: AWG, BAA, BG Group, Boots Company, British Energy, Centrica, International Power, J Sainsbury, Kelda Group, Lattice Group, Morrison Supermarkets, National Grid Group, Safeway, Scottish & Southern Energy, Scottish Power, Severn Trent, Tesco and Viridian. The merger of National Grid Group and Lattice Group occurred within the first three months of the performance period. Lattice Group has, therefore, subsequently been excluded from the group. Takeover activity affecting Safeway and AWG occurred after the first three months of the performance period. They have, therefore, been retained in the group and United Utilities' TSR performance relative to them will be compared from the beginning of the performance period until the day before takeover activity announcements. The test against measures of underlying business performance will be determined by performance against the earnings per share, dividend cover and interest cover targets for 2004/05 set out in the group's five-year business plan to 2006/07. The awards are scheduled to vest after 31 March 2005.

(d) 2001/02 grant
The extent to which awards vest will be based on the company's TSR performance relative to the comparator group of companies over the period 1 April 2001 to 31 March 2004. At the beginning of the performance period the comparator group comprised the following 24 companies in addition to United Utilities: AWG, BAA, BG Group, Boots Company, British Energy, Capita Group, Centrica, Daily Mail & General Trust, Dixons Group, Imperial Tobacco Group, International Power, J Sainsbury, Kelda Group, Lattice Group, National Grid Group, Powergen, Railtrack, Safeway, Scottish & Newcastle, Scottish & Southern Energy, Scottish Power, Severn Trent, Viridian and Whitbread. Powergen was subsequently excluded from the comparator group as a result of the takeover bid announcement occurring within the first three months of the performance period. The announcements

of the merger of National Grid Group and Lattice Group, the takeover bid for Safeway, takeover activity for AWG and the suspension of dealings in Railtrack shares occurred after the first three months of the performance period. All were retained in the comparator group. National Grid Group continued as National Grid Transco. United Utilities' TSR performance relative to the other companies will be compared from the beginning of the performance period until the day before merger or takeover activity announcements and the date of Railtrack's share suspension. The test against measures of underlying business performance will be determined by performance against the earnings per share, dividend cover and interest cover targets for 2003/04 set out in the group's five-year business plan to 2005/06. The awards are scheduled to vest after 31 March 2004.

Details of directors' continuing scheme interests in the performance share plan, including those awarded during the year, are set out in table 6.

Table 6: Executive directors' continuing scheme interests in the performance share plan (audited information)

	Award details						Contingent scheme interest at 1 April 2003 (note a)		Contingent scheme interest awarded during the year		**Contingent scheme interest at 31 March 2004 (note a)**	
	Award date	Performance period	Maximum value at award date % of salary	Maximum value at award date £'000	Market price of a share at award pence	Max. no. of shares	Max. no. of shares	Max. value £'000	Max. no. of shares	Max. value £'000	**Max. no. of shares**	**Max. value £'000**
John Roberts												
2001/02	9.7.01	1.4.01 to 31.3.04	80	256.0	652.0	39,263	39,263	236.2	–	–	**45,412**	**235.7**
2002/03	1.10.02	1.4.02 to 31.3.05	80	360.0	587.5	61,276	61,276	368.6	–	–	**70,872**	**367.8**
2003/04 Ordinary	29.9.03	1.4.03 to 31.3.06	80	360.0	469.0	57,843	–	–	57,843	271.3	**57,843**	**300.2**
A shares			–	–	276.0	32,135	–	–	32,135	88.7	**32,135**	**102.8**
Total								604.8		360.0		**1,006.5**
Simon Batey												
2001/02	9.7.01	1.4.01 to 31.3.04	80	208.0	652.0	31,901	31,901	191.9	–	–	**36,897**	**191.5**
2002/03	1.10.02	1.4.02 to 31.3.05	80	240.0	587.5	40,851	40,851	245.7	–	–	**47,248**	**245.2**
2003/04 Ordinary	29.9.03	1.4.03 to 31.3.06	80	240.0	469.0	38,556	–	–	38,556	180.8	**38,556**	**200.1**
A shares					276.0	21,420	–	–	21,420	59.1	**21,420**	**68.5**
Total								437.6		239.9		**705.3**
Charlie Cornish												
2003/04 Ordinary	7.1.04	1.4.03 to 31.3.06	80	188.0	490.0	28,710	–	–	28,710	140.7	**28,710**	**149.0**
A shares					297.0	15,950	–	–	15,950	47.4	**15,950**	**51.0**
Total								–		188.1		**200.0**
Gordon Waters												
2001/02	9.7.01	1.4.01 to 31.3.04	80	146.4	652.0	22,453	22,453	135.1	–	–	**25,970**	**134.8**
2002/03	1.10.02	1.4.02 to 31.3.05	80	184.0	587.5	31,319	31,319	188.4	–	–	**36,224**	**188.0**
2003/04 Ordinary	29.9.03	1.4.03 to 31.3.06	80	184.0	469.0	29,565	–	–	29,565	138.7	**29,565**	**153.4**
A shares					276.0	16,425	–	–	16,425	45.3	**16,425**	**52.5**
Total								323.5		184.0		**528.7**

Notes:

(a) The maximum values shown for 1 April 2003 and 31 March 2004 have been calculated using the mid-market price of a United Utilities PLC share on close of business on the relevant date (1 April 2003 = 601.5p; 31 March 2004 = 519.0p [ordinary share] and 319.75p [A share]).

(b) The maximum number of shares comprising the contingent scheme interest at 31 March 2004 for the 2001/02 and 2002/03 awards incorporate an adjustment to take account of the rights issue. The values of the shares comprising awards based on the last quoted cum rights share price of 531.5 pence was divided by the theoretical ex-rights price of 459.54 pence to determine the revised numbers of shares shown above.

(c) The market price of a share at award is the mid-market price of a United Utilities PLC share on close of business on the last trading day immediately prior to the award date. This is used to calculate the maximum number of shares comprised in the award.

(d) The 2003/04 awards comprise ordinary and A shares in the ratio of 9:5 to reflect the rights offer to shareholders. The maximum value of the awards for John Roberts, Simon Batey and Gordon Waters were based on their annual salaries on the original intended date of award, 30 June 2003. Awards were not granted until 29 September 2003 because of dealing restrictions associated with the rights issue.

(e) The above awards were granted as 'option awards', whereby the participant is granted an option to acquire the number of shares which vests under the plan. The options are exercisable over a period of three months from the vesting date. No consideration is payable by the executives either upon grant of the option award or its subsequent exercise.

(e) 2000/01 grant

During the year, awards granted under the 2000/01 plan vested.

The extent to which awards vested was based on the company's TSR performance relative to the comparator group of companies over the period 1 April 2000 to 31 March 2003. At the beginning of the performance period the comparator group comprised the following 27 companies in addition to United Utilities: AWG, BAA, BG Group, Boots Company, British Energy, Capita Group, Centrica, Daily Mail & General Trust, Dixons Group, Flextech, Hyder, Imperial Tobacco Group, International Power, J Sainsbury, Kelda Group, National Grid Group, National Power, Powergen, Railtrack, Safeway, Scottish & Newcastle, Scottish & Southern Energy, Scottish Power, Severn Trent, Thames Water, Viridian and Whitbread. Flextech and National Power were subsequently excluded from the comparator group as a result of the takeover bid announcements prior to the beginning of the performance period. TSR calculations for Hyder, Powergen, Thames Water, Safeway and AWG were calculated up to the official date of takeover activity announcement and for Railtrack for the period to the share suspension date.

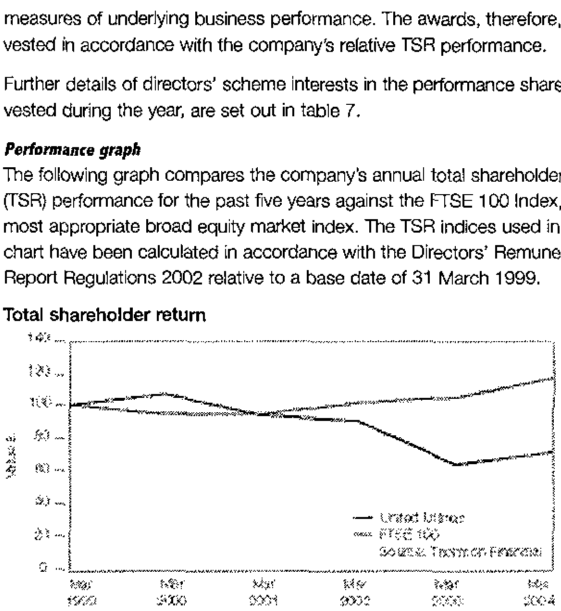
United Utilities' TSR for the performance period was 12.04 per cent which placed it eighth out of 26, resulting in 88 per cent of the maximum award vesting and 12 per cent lapsing, subject to the additional measures of underlying business performance being satisfied. The test against measures of underlying business performance was determined by performance against the earnings per share, dividend cover and interest cover targets for 2002/03 set out in the group's five-year business plan to 2004/05. The remuneration committee was satisfied that the TSR performance was consistent with measures of underlying business performance. The awards, therefore, vested in accordance with the company's relative TSR performance.

Further details of directors' scheme interests in the performance share plan, vested during the year, are set out in table 7.

Performance graph

The following graph compares the company's annual total shareholder return (TSR) performance for the past five years against the FTSE 100 Index, the most appropriate broad equity market index. The TSR indices used in the chart have been calculated in accordance with the Directors' Remuneration Report Regulations 2002 relative to a base date of 31 March 1999.

Total shareholder return



The graph shows the value, by 31 March 2004, of £100 invested in United Utilities on 31 March 1999 compared with the value of £100 invested in the FTSE 100 Index. The other points plotted are the values at intervening financial year-ends.

Table 7: Executive directors' scheme interests in the performance share plan vested during the year (audited information)

	Award details						Contingent scheme interest at 1 April 2003		Contingent scheme interest lapsed during the year	Contingent scheme interest vested during the year		Value of award at exercise	
	Award date	Performance period	% of salary	Maximum value at award date £'000	Market price of a share at award pence	Max. no. of shares	Max. no. of shares	Max. value £'000	No. of shares	No. of shares	Value £'000	Market price of a share at exercise pence	Value £'000
John Roberts													
2000/01	29.3.01	1.4.00 to 31.3.03	80	256.0	607.5	42,139	42,139	253.5	5,057	37,082	228.1	614.0	227.7
Simon Batey													
2000/01	29.3.01	1.4.00 to 31.3.03	80	208.0	607.5	34,238	34,238	205.9	4,109	30,129	185.3	617.5	186.1
Gordon Waters													
2000/01	29.3.01	1.4.00 to 31.3.03	80	146.4	607.5	24,098	24,098	145.0	2,892	21,206	130.4	614.0	130.2

Notes:

- The market price of a share at award is the mid-market price of a United Utilities PLC share on close of business on the last trading day immediately prior to the award date. This is used to calculate the maximum number of shares comprised in the award.
- The maximum values shown for 1 April 2003 have been calculated using the mid-market price of a United Utilities PLC share of 601.5 pence on close of business on that date.
- Awards vested on 4 June 2003 in respect of 88 per cent of the maximum number of shares under option and lapsed in respect of 12 per cent. The values for scheme interests vesting during the year have been calculated using the mid-market price of a United Utilities PLC share of 615 pence on close of business on that date.
- The above awards were granted as 'option awards', whereby the participant was granted an option to acquire the number of shares which vests under the plan. The options are exercisable over a period of three months from the vesting date. No consideration is payable by the executives either upon grant of the option award or upon the subsequent exercise of the option. Simon Batey exercised his option on 10 June 2003 and John Roberts and

Directors' remuneration report continued

Share options
The executive directors do not participate in the company share option plan 1999. They can participate in the all-employee Sharesave scheme. Neither the award nor the exercise of Sharesave options is dependent upon the satisfaction of performance conditions. Further details of Sharesave options are shown in table 8.

Pension arrangements
The United Utilities Pension Scheme is open to all eligible employees. It provides pensions and other benefits to members within Inland Revenue limits. John Roberts, Simon Batey and Gordon Waters are members of, and contribute to, the defined benefit section of the scheme. It provides a pension for them on normal retirement at age 60 equal to 1/30th of pensionable earnings for each completed year of service. The maximum pension is two thirds of pensionable earnings. Early retirement is possible from age 50 if the company agrees.

The Finance Act 1989 restricts the pension benefits that can be paid by the scheme to the executive directors as the earnings cap limits pensionable earnings for calculating benefits. The company has put in place separate arrangements, the effect of which is to provide pension benefits calculated on the same basis as for executives whose pensionable earnings are not limited by the cap. These arrangements are unfunded.

Although pension benefits are calculated on basic salary only, to protect his contractual entitlement, the calculations are adjusted for Gordon Waters, whose annual bonus had been pensionable before the incentive plan was introduced.

The pension benefits earned by directors during the year are shown in table 9 on page 33.

Since 1 July 2003, the defined benefits section of the pension scheme has been closed to newly recruited executive directors. They may join the defined contribution section of the scheme. Charlie Cornish is a member of, and contributes to, the defined contribution section of the pension scheme. The accrual of his pension benefits is limited by the earnings cap.

Table 8: Directors' Sharesave options (audited information)

	At 1 April 2003	Granted/(lapsed) during the year	Exercised during the year	Rights issue adjustment	**At 31 March 2004**	Exercise price per share pence	First date exercisable	Last date exercisable
John Roberts								
Sharesave 2000	3,579	–	–	560	**4,139**	407.66p	01.03.2005	31.08.2005
Total	3,579	–	–	560	**4,139**			
Simon Batey								
Sharesave 2001	1,740	–	–	272	**2,012**	481.16p	01.03.2004	31.08.2004
Sharesave 2004		1,751	–		**1,751**	396.0p	01.03.2007	31.08.2007
Total	1,740	1,751	–	272	**3,763**			
Gordon Waters								
Sharesave 2002	2,290	–	–	358	**2,648**	432.3p	01.03.2007	31.08.2007
Sharesave 2003	331	–	–	51	**382**	423.66p	01.03.2006	31.08.2006
Total	2,621	–	–	409	**3,030**			

Notes:

- The mid-market price of an ordinary share on 31 March 2004 was 519.0 pence and the range in the year was 453.75 pence to 629.5 pence. The mid-market price of an A share on 31 March 2004 was 319.75 pence and the range in the year was 262.0 pence to 332.0 pence. After adjusting for the rights issue, the ordinary share price range in the year was 453.75 pence to 544.27 pence.
- No amount is payable by a participant for the grant of a Sharesave option.
- The number of shares under option and the exercise prices (except for Sharesave 2004) were adjusted on 27 August 2003 to take account of the rights issue.
- The aggregate notional gain made by directors on the exercise of options during the year (based on the difference between the mid-market price of a share on the day on which options were exercised and the exercise price) was £nil (2003 – £nil).

Table 9: Executive directors' pension benefits (defined benefit scheme) (audited information)

	Accumulated total accrued *pension at 1 April 2003*				Increase in accrued pension during the year		**Accumulated total accrued *pension at 31 March 2004***	
	£'000 p.a.	Transfer value £'000	Increase net of inflation £'000 p.a. (1)	Member contributions £'000	Transfer value of increase (net of member contributions) £'000 (2)	Total change in transfer value (net of member contributions) £'000 (3)	**£'000 p.a.**	**Transfer value £'000**
John Roberts	51.2	818.5	18.7	14.9	305.2	386.6	**71.4**	**1,219.9**
Simon Batey	29.2	323.5	12.4	14.9	138.7	188.3	**42.3**	**526.6**
Gordon Waters	66.9	1,023.6	19.9	14.9	313.4	425.5	**88.6**	**1,464.0**

Notes:

- Pension accruals shown are the amounts that would be paid annually on retirement based on service to the end of the year, or date of leaving employment or retirement if earlier.
- Transfer values have been calculated in accordance with version 8.1 of guidance note GN11 issued by the actuarial profession.
- The transfer value of the net increase in pension (2) represents the incremental value to the director of his service during the year, calculated on the assumption that service terminated at the year-end, or at date of leaving employment or retirement if earlier. It is based on the accrued pension increase (1) and is calculated after deducting the director's contribution.
- The change in the transfer value (3) includes the effect of fluctuations in the transfer value due to factors beyond the control of the company and directors, such as stock market movements. It is calculated after deducting the director's contribution.
- Voluntary contributions paid by directors and resulting benefits are not shown.
- The transfer value represents a liability of the company to make pension payments in the future but not a sum paid to the individual.
- During the year ended 31 March 2004, the company paid contributions for Charlie Cornish totalling £7,187 (2003 – £nil) to the defined contribution section of the pension scheme.

Contracts of service and compensation for termination

The company's policy is that the executive directors normally have one-year notice periods. The company may offer a longer notice period if it considers that necessary to recruit a new director. If it offers an initial notice period of more than one year, it will usually reduce that to a rolling one-year notice period after the initial period has expired. All the current executive directors have one-year notice periods.

Contracts terminate automatically upon the director reaching age 60 (Charlie Cornish: 65) unless the company agrees that a director may continue to work after attaining age 60 (Charlie Cornish: 65). No special arrangements apply if there is a change of control.

Service contracts do not provide explicitly for termination payments (other than for holidays due but not taken), liquidated damages or payments in lieu of notice. If a contract is to be terminated, the remuneration committee will, in each circumstance, determine the compensation that may be paid after applying such mitigation it considers is fair and reasonable. It will take into account the best practice provisions of the Combined Code and will take legal advice on the company's liability to pay compensation and the amount of the compensation in each case. Its policy is to take a robust line on reducing compensation to reflect departing directors' obligations to mitigate loss. The committee reviews this policy each year. No changes were made during the year. Details of directors' contracts are set out in table 10.

Table 10: Executive directors' service contracts

	Date of contract	Unexpired term (to 60th birthday)	Notice period	Contractual compensation upon early termination
John Roberts	01.09.99	2 March 2006	12 months (rolling)	No explicit provision (other than payment for outstanding holidays)
Simon Batey	01.04.00	4 September 2013	12 months (rolling)	No explicit provision (other than payment for outstanding holidays)
Gordon Waters	01.03.96	6 June 2007	12 months (rolling)	No explicit provision (other than payment for outstanding holidays)
Charlie Cornish	05.01.04	30 November 2024	12 months (rolling)	No explicit provision (other than payment for outstanding holidays)

Note:

- The unexpired term for Charlie Cornish is to his 65th birthday.

Approved by the board of directors on 19 May 2004 and signed on its behalf by

John Seed
Remuneration committee chairman

Useful information for shareholders

Key events for shareholders
The company is holding its 2004 annual general meeting on Friday, 30 July 2004 at the Bridgewater Hall, Manchester. It will start at 11.00 am. The notice calling the meeting and a full explanation of the resolutions to be proposed at the meeting are set out in the leaflet sent to shareholders with this report.

During the next year, the company will:

- pay the 2004 final dividend on 27 August 2004;
- announce the half-year results in December 2004;
- pay the 2005 interim dividend in February 2005;
- announce the preliminary full-year results in May/June 2005;
- publish the annual report and accounts, the stakeholder report and summary financial statement, and form 20-F in June 2005;
- collect subscription monies for the second stage of the rights issue in June 2005;
- reclassify all A shares as ordinary shares on completion of the rights issue in July 2005; and
- hold the annual general meeting in July 2005.

Keeping you in the picture
You can find more information about United Utilities quickly and easily on the United Utilities web site. In addition to the annual report and accounts, the corporate responsibility report and other reports, company announcements are also published on the web site, including the interim and preliminary results announcements and associated presentations.
www.unitedutilities.com

In addition to these reports, the group also publishes in printed form a wide range of reports, leaflets and factsheets about aspects of its businesses. You can get more information about them from Ian Priestner, group director of communications, at Dawson House, Great Sankey, Warrington WA5 3LW (telephone: 01925 237000; email: ian.priestner@uuplc.co.uk).

Copies of the separate regulatory accounts for the year ended 31 March 2004 for the licensed water and electricity businesses, which are required to be given to the water and energy regulators, are available free of charge. If you would like copies please contact Julie McGowan in the group secretariat on 01925 237000.

Enquiring about your shareholding
If you want to ask about your shareholding, or need any information, please contact the company's registrar, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA (telephone: 0870 600 3971 or textphone for shareholders with hearing difficulties: 0870 600 3950).

The registrar's web site allows shareholders with internet access to view details of their shareholdings and dividends, to vote at general meetings and to register to receive communications electronically. You can use the tools on the web site to value your portfolio by reference to a recent market price and even sell your shares online. Registering with Shareview is easy, secure, and free. Just go to **www.shareview.co.uk**, click on 'Create a portfolio' and follow the onscreen registration process using the 8-digit account number on the enclosed proxy form.

If you have received more than one copy of this document, you may have more than one account in your name on the register of members. To merge your holdings, please write to Lloyds TSB Registrars at the above address giving details of the accounts concerned and how you want them to be merged.

Paying your dividends direct to your account
The registrars pay dividends direct to a shareholder's bank or building society account through the BACS (Bankers' Automated Clearing Service) system. If you have not already arranged for your dividends to be paid direct to your bank or building society account and you want to do so, please contact the company's registrar, at the address above.

Dealing in United Utilities shares cost effectively
You can now buy or sell our ordinary and A shares using Lloyds TSB Registrars' low cost share dealing service (telephone: 0870 850 0852 or deal online at **www.shareview.co.uk/dealing**

Holding your shares tax efficiently
The United Utilities single company ISA (a Maxi or Mini shares-only individual savings account), managed by Lloyds TSB Registrars, offers a tax efficient way of holding United Utilities shares. To get more information, please ring 0870 24 24 244 quoting United Utilities shareholder.

Donating shares to the ShareGift scheme
Many shareholders can find themselves owning parcels of shares so small that it would cost more to sell them than they are worth. The ShareGift scheme, a registered charity administered by The Orr Mackintosh Foundation, allows you to donate shares to the Foundation which aggregates them, sells them when possible and donates the proceeds to a growing list of charities. If you would like further information, write to The Orr Mackintosh Foundation, 46 Grosvenor Street, London, W1K 3HN (telephone: 020 7337 0501), or visit the scheme's web site.
www.sharegift.org

Enquiring about the American listing
United Utilities shares are listed on the New York Stock Exchange in the form of American depositary shares (ADS), evidenced by American depositary receipts (ADR) and trade under the symbol UU. Each ADS represents two shares. The Bank of New York is the depositary and its address for enquiries is The Bank of New York, Shareholder Relations, PO Box 11258, Church Street Station, New York NY 10286 -1258 (telephone: 1 (888) BNY-ADRS (US toll free) or outside the US, 1 610 382 7836).
www.adrbny.com

American Depositary Receipt holders can get a copy of the annual report on form 20-F, which is filed with the Securities and Exchange Commission in the USA from the Bank of New York. Other shareholders can obtain a copy of the annual report on form 20-F from Julie McGowan in the group secretariat on 01925 237000.

Avoiding unsolicited mail
The company is legally obliged to make its register of members available to other organisations. Because of this, you may receive mail you have not asked for. If you want to limit the amount of personally addressed unsolicited mail you receive, please write to the Mailing Preference Service, MPS Freepost LON20771, London W1E 0ZT or ring Alison McKenzie (Complaints 020 7291 3321).
www.mpsonline.org.uk

If you have any further questions about your dividend or shareholding, please call the helpline on 0870 600 3971 or have a look at our web site.
www.unitedutilities.com

Independent auditor's report

Independent auditor's report to the members of United Utilities PLC

We have audited the financial statements of United Utilities PLC for the year ended 31 March 2004, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliations of movements in equity shareholders' funds and the related notes 1 to 35, together with the reconciliation of net cash flow to movement in net debt. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the part of the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report, including the directors' remuneration report. Our responsibility is to audit the financial statements, and the part of the directors' remuneration report described as having been audited, in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We review whether the corporate governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements, and the part of the directors' remuneration report described as having been audited, 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 and the part of the directors' remuneration report described as having been audited.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2004 and of the profit of the group for the year then ended; and
- the financial statements and the part of the directors' remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
19 May 2004

Consolidated profit and loss account

For the year ended 31 March	Note	Before goodwill and exceptional items £m	Goodwill and exceptional items £m	2004 Total £m	Before goodwill and exceptional items £m	Goodwill and exceptional items £m	2003 Total £m	Before goodwill and exceptional items £m	Goodwill and exceptional items £m	2002 Total £m
Turnover: group and share of joint ventures	2	**2,115.5**	**–**	**2,115.5**	1,920.5	–	1,920.5	1,871.6	–	1,871.6
Less: share of joint venture turnover	2	**(55.5)**	**–**	**(55.5)**	(41.7)	–	(41.7)	(85.4)	–	(85.4)
Group turnover		**2,060.0**	**–**	**2,060.0**	1,878.8	–	1,878.8	1,786.2	–	1,786.2
Net operating costs	3	**(1,477.2)**	**(12.7)**	**(1,489.9)**	(1,332.7)	(36.1)	(1,368.8)	(1,245.4)	(19.2)	(1,264.6)
Group operating profit		**582.8**	**(12.7)**	**570.1**	546.1	(36.1)	510.0	540.8	(19.2)	521.6
Share of operating profit of joint ventures	2, 13	**14.3**	**(0.7)**	**13.6**	15.6	(0.7)	14.9	12.5	(0.7)	11.8
Total operating profit	2	**597.1**	**(13.4)**	**583.7**	561.7	(36.8)	524.9	553.3	(19.9)	533.4
Profit on sale or termination of operations	4	**–**	**4.3**	**4.3**	–	34.0	34.0	–	–	–
Loss on disposal of fixed assets	4	**–**	**(2.4)**	**(2.4)**	–	–	–	–	–	–
Profit on ordinary activities before interest		**597.1**	**(11.5)**	**585.6**	561.7	(2.8)	558.9	553.3	(19.9)	533.4
Net interest payable and similar charges:										
Group		**(237.6)**	**–**	**(237.6)**	(220.1)	–	(220.1)	(216.7)	–	(216.7)
Joint ventures	7, 13	**(10.5)**	**–**	**(10.5)**	(11.3)	–	(11.3)	(13.9)	–	(13.9)
	7	**(248.1)**	**–**	**(248.1)**	(231.4)	–	(231.4)	(230.6)	–	(230.6)
Profit on ordinary activities before taxation		**349.0**	**(11.5)**	**337.5**	330.3	(2.8)	327.5	322.7	(19.9)	302.8
Current taxation credit/(charge) on profit on ordinary activities	8			**20.9**			29.1			(16.4)
Deferred taxation credit/(charge) on ordinary activities	8			**3.4**			(85.9)			(23.0)
Taxation credit on exceptional items	8			**0.8**			9.4			–
Taxation on profit on ordinary activities	8			**25.1**			(47.4)			(39.4)
Profit on ordinary activities after taxation				**362.6**			280.1			263.4
Equity minority interest				**(1.6)**			(2.3)			(1.6)
Profit for the financial year	24			**361.0**			277.8			261.8
Dividends	9, 24			**(315.3)**			(264.8)			(260.9)
Retained profit for the financial year				**45.7**			13.0			0.9
Basic earnings per share	10			**54.5p**			45.8p			43.4p
Adjusted basic earnings per share	10			**54.7p**			42.2p			44.0p
Diluted earnings per share	10			**52.1p**			45.7p			43.3p

See accompanying notes to the accounts.

There were no differences between reported profits and historical cost profits on ordinary activities before taxation in any of the above financial years.

The results of subsidiary acquisitions have not been disclosed separately as they do not form a significant part of the group's results.

All activities relate to continuing operations.

Balance sheets

At 31 March	Note	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Fixed assets					
Intangible assets	11	**116.1**	69.2	**–**	–
Tangible assets	12	**7,769.4**	7,087.3	**0.9**	1.0
Investments in subsidiary undertakings	13	**–**	–	**5,738.4**	5,554.8
Investments in joint ventures:					
– share of gross assets		**300.5**	220.8	**–**	–
– share of gross liabilities		**(230.5)**	(180.6)	**–**	–
	13	**70.0**	40.2	**–**	–
Other investments	13	**3.0**	19.4	**–**	3.9
		7,958.5	7,216.1	**5,739.3**	5,559.7
Current assets					
Stocks	14	**17.1**	20.6	**–**	–
Debtors	15	**493.9**	446.9	**1,363.6**	1,842.7
Investments	16	**1,007.8**	668.9	**637.5**	37.1
Cash at bank and in hand		**42.1**	38.5	**–**	12.2
		1,560.9	1,174.9	**2,001.1**	1,892.0
Creditors: amounts falling due within one year	17	**(1,374.8)**	(1,424.1)	**(1,140.2)**	(1,659.7)
Net current assets/(liabilities)		**186.1**	(249.2)	**860.9**	232.3
Total assets less current liabilities		**8,144.6**	6,966.9	**6,600.2**	5,792.0
Creditors: amounts falling due after more than one year	18	**(4,702.0)**	(4,070.6)	**(1,120.6)**	(768.5)
Provisions for liabilities and charges	20	**(339.7)**	(345.0)	**–**	–
Net assets		**3,102.9**	2,551.3	**5,479.6**	5,023.5
Capital and reserves					
Called up share capital	24	**711.8**	556.5	**711.8**	556.5
Share premium account	24	**1,023.1**	674.3	**1,023.1**	674.3
Profit and loss account	24	**1,348.4**	1,302.8	**1,199.9**	1,247.9
Other reserves	24	**–**	–	**2,544.8**	2,544.8
Equity shareholders' funds		**3,083.3**	2,533.6	**5,479.6**	5,023.5
Equity minority interest		**19.6**	17.7	**–**	–
Capital employed		**3,102.9**	2,551.3	**5,479.6**	5,023.5

See accompanying notes to the accounts.

Approved by the board of directors on 19 May 2004 and signed on its behalf by

Sir Richard Evans
Chairman

Simon Batey
Group finance director

Consolidated cash flow statement

For the year ended 31 March	Note	2004 £m	2003 £m	2002 £m
Net cash inflow from operating activities	28	**923.5**	851.5	799.8
Income from joint ventures		**1.2**	2.8	2.1
Returns on investments and servicing of finance	29	**(151.8)**	(218.9)	(223.7)
Taxation		**(2.6)**	–	(2.4)
Capital expenditure and financial investment	30	**(1,018.0)**	(697.9)	(583.6)
Acquisitions and disposals				
Acquisitions	31	**(46.0)**	(4.9)	(2.8)
Disposals	31	**–**	7.9	(7.0)
		(46.0)	3.0	(9.8)
Equity dividends paid		**(281.2)**	(262.0)	(256.1)
Cash outflow before use of liquid resources and financing		**(574.9)**	(321.5)	(273.7)
Management of liquid resources	32	**(338.4)**	(282.0)	13.4
Financing				
Issues of shares	33	**504.1**	3.3	18.0
Increase in debt	33, 34	**418.8**	610.5	202.1
		922.9	613.8	220.1
Increase/(decrease) in cash		**9.6**	10.3	(40.2)

Reconciliation of net cash flow to movement in net debt

For the year ended 31 March	Note	2004 £m	2003 £m	2002 £m
Increase/(decrease) in cash		**9.6**	10.3	(40.2)
Cash inflow from increase in debt and lease financing	33, 34	**(418.8)**	(610.5)	(202.1)
Cash outflow/(inflow) from management of liquid resources	32	**338.4**	282.0	(13.4)
Change in net debt resulting from cash flows	34	**(70.8)**	(318.2)	(255.7)
Exchange and other non-cash adjustments	34	**6.3**	5.1	1.3
Movement in net debt		**(64.5)**	(313.1)	(254.4)
Opening net debt		**(3,373.9)**	(3,060.8)	(2,806.4)
Net debt at 31 March	34	**(3,438.4)**	(3,373.9)	(3,060.8)

Statement of total recognised gains and losses

For the year ended 31 March	Note	2004 £m	2003 £m	Group 2002 £m
Profit/(loss) for the period				
Group		**360.3**	275.9	266.3
Joint ventures	13	**0.7**	1.9	(4.5)
	24	**361.0**	277.8	261.8
Currency translation adjustment on equity investment in Argentina	4, 24	**–**	(6.8)	(78.6)
Other exchange adjustments	24	**2.2**	4.0	0.9
Total recognised gains and losses since last annual report		**363.2**	275.0	184.1

Reconciliations of movements in equity shareholders' funds

For the year ended 31 March	2004 £m	2003 £m	Group 2002 £m	2004 £m	Company 2003 £m
Profit for the period	**361.0**	277.8	261.8	**269.6**	601.8
Dividends	**(315.3)**	(264.8)	(260.9)	**(315.3)**	(264.8)
Retained profit/(loss) for the financial year	**45.7**	13.0	0.9	**(45.7)**	337.0
New share capital issued	**504.1**	3.3	18.0	**504.1**	3.3
Capitalisation of reserves in respect of shares issued via QUEST	**–**	–	(5.0)	**–**	–
Goodwill on business disposals	**–**	0.9	–	**–**	–
Currency translation adjustment on equity investment in Argentina	**–**	(6.8)	(78.6)	**–**	–
Own shares held in employee share trust	**(2.3)**	–	–	**(2.3)**	–
Other exchange adjustments	**2.2**	4.0	0.9	**–**	–
Net increase/(decrease) in equity shareholders' funds for the year	**549.7**	14.4	(63.8)	**456.1**	340.3
Opening equity shareholders' funds	**2,533.6**	2,519.2	2,583.0	**5,023.5**	4,683.2
Equity shareholders' funds at end of the year	**3,083.3**	2,533.6	2,519.2	**5,479.6**	5,023.5

Notes to the accounts

1 ACCOUNTING POLICIES

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

(a) Basis of preparation of financial statements

The consolidated financial statements of United Utilities PLC and its subsidiaries (the group) set out on pages 36 to 64 have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 1985, except as noted below under item (h).

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

The preparation of financial statements in conformity with generally accepted accounting principles in the United Kingdom requires management to make estimates and assumptions that affect the:

- reported amounts of assets and liabilities;
- disclosure of contingent assets and liabilities at the date of the financial statements; and
- reported amounts of revenues and expenses during the reporting period.

Actual results could differ from those estimates.

(b) Cash

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.

(c) Turnover

Turnover represents the income receivable in the ordinary course of business for goods or services provided. Where relevant, this includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the year end, exclusive of value added tax and foreign sales tax.

(d) Research and development

Expenditure on research and development is expensed as incurred.

(e) Pre-contract costs

Costs incurred in the development of activities are treated in accordance with UITF 34 'Pre-contract costs', which requires that pre-contract costs should only be recognised as an asset after the point where it is virtually certain that a contract will be entered into with net cash inflows that will recover the costs capitalised. Such capitalised costs are amortised over the expected contract period.

(f) Goodwill

Purchased goodwill (both positive and negative) arising on consolidation in respect of acquisitions before 1 April 1998, when Financial Reporting Standard (FRS) 10 'Goodwill and intangible assets' was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs, any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions post 1 April 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, generally not exceeding 20 years.

On the subsequent disposal or termination of a business acquired post 1 April 1998, the profit or loss on disposal or termination is calculated after charging/(crediting) the unamortised amount of any related goodwill/(negative goodwill).

In the company's financial statements, investments in subsidiary undertakings and joint ventures are stated at cost less provision for any impairment.

(g) 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).

Infrastructure assets

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

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

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

Other assets

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

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

Carrying value of tangible fixed assets

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

(h) Grants and contributions

Capital contributions towards infrastructure assets are deducted from the cost of those assets. This is not in accordance with Schedule 4 to the Companies Act 1985 under which the infrastructure assets should be stated at their purchase price or production cost and the capital contributions treated as deferred income and released to the profit and loss account over the useful life of the corresponding assets. The directors are of the opinion that, although provision is made for depreciation of infrastructure assets (see item (g) above), these assets have no finite economic lives and the capital contributions would therefore remain in the balance sheet in perpetuity. The treatment otherwise required by the Companies Act 1985 would not present a true and fair view of the group's effective investment in infrastructure assets. The financial effect of this accounting policy is set out in note 12.

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.

(i) 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 consolidated balance sheet and the corresponding capital cost is shown as an obligation to the lessor. Leasing repayments comprise both a capital and a finance element. Where the lease is of a fixed interest rate nature, the finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Where the lease is of a floating interest rate nature, the finance element written off to the profit and loss account reflects the floating interest rate charge incurred during the period on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease.

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

(j) Fixed asset investments
Fixed asset investments, except for investments in joint ventures, are stated at the lower of cost and recoverable amount. The consolidated profit and loss account includes the group's share of the profits less losses, interest and taxation of joint ventures. The group balance sheet includes the investment in joint ventures at the group's share of their net assets in accordance with FRS 9 'Associates and Joint Ventures'.

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

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

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

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

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

In addition, the group also operates a defined contribution scheme, for which the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The group has included the disclosure requirements of FRS 17 'Retirement Benefits' in note 25, together with details of pension and funding arrangements.

(n) Foreign currency
Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions, adjusted for the effects of any hedging arrangements. Assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the consolidated balance sheet date.

On consolidation, the balance sheets of overseas subsidiaries and joint ventures 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. Exchange differences resulting from the translation of such balance sheets at rates ruling at the beginning and end of the year, together with the differences between profit and loss accounts translated at average rates and rates ruling at 31 March, are dealt with as movements on group reserves.

Where net investments in overseas subsidiaries are matched in whole or in part by foreign currency borrowings, the exchange differences arising on the re-translation of such borrowings are also recorded as movements on group reserves to the extent allowed by Statement of Standard Accounting Practice (SSAP) 20 'Foreign Currency Translation'. Any excess is taken to the profit and loss account.

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

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

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

(p) Joint ventures
Joint ventures are entities in which United Utilities PLC holds an interest on a long-term basis and which are jointly controlled with one or more other parties under a contractual arrangement. The group's share of profits less losses of joint ventures is included in the profit and loss account on the gross equity accounting basis.

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

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

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

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

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

(r) Share-based compensation arrangements
Shares issued as a result of the exercise of options granted in accordance with the rules of the schemes (see note 24) are recorded in share capital and share premium at their exercise price at the date the option is exercised. A compensation expense is recorded in respect of the executive share option schemes for the difference, if any, between the exercise price and the share price at the date of grant.

The costs of short-term and long-term incentive awards to executive directors in accordance with the incentive plan (see the report on remuneration) are expensed on a straight line basis over the period in which performance is measured. The amount to be expensed is based upon management's estimate of the probability that the performance criteria will be met.

In respect of the group's Sharesave schemes, no compensation expense is recorded for the difference between the exercise price and the share price at the date of grant or exercise, as the group is taking advantage of the exemption permitted by UITF 17 'Employee share schemes' in respect of Inland Revenue approved SAYE schemes.

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

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

(t) Recent UK accounting pronouncements
UITF 37 'Purchases and sales of own shares' issued in October 2003 requires the group's holdings of its own shares to be accounted for as a deduction in arriving at shareholders' funds, rather than to be recorded as assets. Purchases and sales of own shares, together with any profits or losses, are required to be shown as changes in shareholders' funds. Profits and losses are not recognised in the profit and loss account.

UITF 38 'Accounting for ESOP Trusts' issued in December 2003 brings the accounting for shares held within ESOP trusts and share schemes into line with the provisions of UITF 37 as above. It requires that an entity's own shares held by an ESOP trust should be presented as a deduction from shareholders' funds. The group has adopted UITF 38 during the year ended 31 March 2004, which did not require any prior period adjustments.

FRS 20 (IFRS 2) 'Share based payments' issued in February 2004 recognises that there is an expense when another party is given the right to shares of a company. The principle is that the accounting for a share-based payment transaction should reflect the 'value' of goods or services received for employee share transactions. The fair value should be measured as at the date of grant, being the date on which both parties have an understanding of the terms. When the grant is for past performance, the charge is recognised immediately. In all other cases it should be spread over the period from the grant date to the date when the other party has the right to the shares (the 'vesting' period). This accounting standard, along with the other *International Financial Reporting Standards*, is applicable for accounting periods beginning on or after 1 January 2005 and will be adopted by the group from 1 April 2005.

2 SEGMENTAL INFORMATION

Turnover, total operating profit and net operating assets for each class of business and by geographical origin are set out below:

	Note	Turnover 2(a) 2004 £m	Turnover 2(a) 2003 £m	Turnover 2(a) 2002 £m	Total operating profit 2(b) 2004 £m	Total operating profit 2(b) 2003 £m	Total operating profit 2(b) 2002 £m	Net operating assets 2(c) 2004 £m	Net operating assets 2(c) 2003 £m	Net operating assets 2(c) 2002 £m
Continuing businesses:										
Licensed multi-utility operations		**1,300.7**	1,230.1	1,208.9	**519.6**	502.8	529.6	**7,107.7**	6,553.7	6,200.3
Infrastructure management		**446.9**	397.1	385.9	**67.8**	58.8	30.0	**132.6**	82.8	113.0
Business process outsourcing		**368.5**	307.6	282.9	**25.1**	18.8	14.1	**111.7**	121.6	64.5
Telecommunications		**185.6**	161.7	150.4	**(16.6)**	(19.5)	(23.8)	**227.2**	197.1	217.4
Other activities		**–**	–	4.6	**5.9**	5.1	7.4	**(46.8)**	(46.9)	(58.1)
Corporate costs		**–**	–	–	**(4.7)**	(4.3)	(4.0)	**–**	–	–
		2,301.7	2,096.5	2,032.7	**597.1**	561.7	553.3	**7,532.4**	6,908.3	6,537.1
Goodwill amortisation	2(d)	**–**	–	–	**(8.8)**	(7.5)	(8.0)	**–**	–	–
Inter-business eliminations	2(e)	**(186.2)**	(176.0)	(161.1)	**–**	–	–	**–**	–	–
Continuing operations, before exceptional charge		**2,115.5**	1,920.5	1,871.6	**588.3**	554.2	545.3	**7,532.4**	6,908.3	6,537.1
Exceptional items	2(f)	**–**	–	–	**(4.6)**	(29.3)	(11.9)	**–**	–	–
		2,115.5	1,920.5	1,871.6	**583.7**	524.9	533.4	**7,532.4**	6,908.3	6,537.1
By geographical origin:	2(g)									
United Kingdom		**2,051.5**	1,868.3	1,784.6	**569.2**	515.3	521.7	**7,465.0**	6,862.1	6,487.6
Europe		**18.9**	12.5	10.1	**3.4**	2.1	3.8	**40.7**	32.0	35.4
Rest of the world		**45.1**	39.7	76.9	**11.1**	7.5	7.9	**26.7**	14.2	14.1
		2,115.5	1,920.5	1,871.6	**583.7**	524.9	533.4	**7,532.4**	6,908.3	6,537.1

The accounting policies for each segment are the same as those appearing on pages 40 to 42.

(a) Turnover includes the group's share of joint venture turnover of £55.5 million (2003 – £41.7 million; 2002 – £85.4 million) primarily relating to infrastructure management.

(b) Total operating profit comprises group operating profit amounting to £570.1 million (2003 – £510.0 million; 2002 – £521.6 million) and share of operating profits of joint ventures of £13.6 million (2003 – £14.9 million; 2002 – £11.8 million).

For 2004, the above segmental analysis is combined with the non-operating exceptional credit of £1.9 million (2003 – £34.0 million; 2002 – £nil) as discussed in note 4 of the accounts, and net interest payable of £248.1 million (2003 – £231.4 million; 2002 – £230.6 million) as shown in note 7 of the accounts, to give profit on ordinary activities before taxation of £337.5 million (2003 – £327.5 million; 2002 – £302.8 million).

(c) Net operating assets comprise fixed assets and net current assets excluding net debt, corporation taxation and dividends.

(d) Goodwill amortisation for 2004 consists of £4.0 million relating to telecommunications (2003 – £3.4 million; 2002 – £4.4 million), £3.8 million relating to business process outsourcing (2003 – £2.8 million; 2002 – £2.3 million) and £1.0 million relating to infrastructure management (2003 – £1.3 million; 2002 – £1.3 million).

(e) The inter-business eliminations are principally from business process outsourcing and infrastructure management primarily to the licensed multi-utility operations, substantially within the United Kingdom.

(f) Business restructuring costs in 2004 of £4.6 million relate to costs arising from the Eurocall acquisition. In 2003, severance costs of £3.8 million related to telecommunications and in 2002, severance costs of £11.9 million related to licensed multi-utility operations.

In 2003, in accordance with FRS 11 'Impairment of fixed assets and goodwill' the group carried out a review to determine whether there had been an impairment of its tangible and intangible fixed assets within its telecommunications business, Your Communications. The carrying values of tangible and intangible fixed assets of each of Your Communications' income generating units were compared to their recoverable amounts, being their values in use to the group. The values in use of the income generating units were calculated using discounted cash flow projections and a discount rate of 16 per cent on a pre-tax basis. The review resulted in an exceptional charge to operating profit in 2003 of £25.5 million (of which £10.9 million related to intangible fixed assets and £14.6 million related to tangible fixed assets) and an exceptional tax credit of £5.6 million.

(g) The geographical destination of turnover does not differ materially from the geographical origin analysis above.

3 NET OPERATING COSTS

	Note	2004 £m	2003 £m	2002 £m
Employee costs:	3(a)			
Wages and salaries		**383.0**	329.8	326.0
Social security costs		**30.9**	24.6	24.8
Pension contributions	25	**11.2**	8.2	5.0
		425.1	362.6	355.8
Capital schemes and charges against provisions		**(72.0)**	(69.8)	(67.6)
		353.1	292.8	288.2
Depreciation:	3(b)			
Owned fixed assets		**366.2**	345.6	312.2
Fixed assets held under finance leases		**1.8**	4.2	4.4
Amortisation of intangible assets		**8.1**	7.1	7.4
		376.1	356.9	324.0
Other operating costs				
Auditor's remuneration		**0.6**	0.5	0.4
Research and development		**0.8**	0.8	1.5
Operating leases:				
– hire of plant and machinery		**5.9**	4.5	4.1
– land and buildings		**10.0**	8.2	7.5
Cost of sales		**495.6**	451.2	423.2
Rents and rates		**65.4**	75.7	68.0
General, administration and other costs		**193.4**	163.8	147.7
		771.7	704.7	652.4
Other income	5	**(15.6)**	(14.9)	(11.9)
		756.1	689.8	640.5
Net operating costs before exceptional items		**1,485.3**	1,339.5	1,252.7
Exceptional items:				
– business restructuring	3(a)	**4.6**	3.8	11.9
– adjustment to the carrying value of telecommunications assets	3(b)	**–**	25.5	–
Total net operating costs		**1,489.9**	1,368.8	1,264.6

Fees paid or payable to Deloitte & Touche LLP and its associates for non-audit services during the year were £1.2 million (2003 – £0.5 million) primarily relating to regulatory returns, work associated with raising debt and equity finance, due diligence and tax work. Further analysis of non-audit fees is included within the Corporate Governance section of this report. The audit fee for 2004 in relation to the company amounted to £81,000 (2003 – £74,000).

Information relating to the emoluments, long-term incentives, share options and pension entitlements of the directors is contained in the report on remuneration.

(a) Employee costs are included above on a gross basis before removing those components capitalised in connection with the group's capital schemes. The adjustments made in the above table for 'Capital schemes' are capitalised during the relevant period and included within tangible fixed asset additions.

Employee costs including business restructuring exceptional items amount to £357.7 million (2003 – £296.6 million; 2002 – £300.1 million).

(b) Total depreciation and amortisation (including for 2003, the exceptional adjustment to the carrying value of telecommunications assets) amounts to £376.1 million (2003 – £382.4 million; 2002 – £324.0 million).

4 NON-OPERATING EXCEPTIONAL ITEMS

	2004 £m	2003 £m	2002 £m
Profit on sale or termination of operations	**4.3**	34.0	–
Loss on disposal of fixed assets	**(2.4)**	–	–
	1.9	34.0	–

IEBA, the Argentine electricity utility for which United Utilities has been technical operator, and in which the group has a minority interest, defaulted on its repayments to bondholders in September 2002. There is no recourse to United Utilities in respect of these debts and the group has no further balance sheet exposure to IEBA. Following the Argentine government's dissolution of the Peso/US Dollar link, the subsequent devaluation of the Argentine Peso and the restrictions placed on the utility's pricing policies, there was no expectation of a financial restructuring of the utility in which United Utilities would choose to participate. United Utilities has notified IEBA and its majority shareholder, Gruppo Camuzzi, that it would neither inject any additional equity into the company nor, with the exception of meeting the group's obligations under the technical support contract, participate in the future management of IEBA and its operating subsidiary, EDEA. United Utilities therefore concluded that it no longer had a participating interest in IEBA. The accounting provision that existed at 31 March 2002 in respect of the investment in Argentina was taken to the profit and loss account in 2003 which, along with the disposal of US Water and costs associated with withdrawing from infrastructure management in the Americas, gave rise to an exceptional credit of £34.0 million. In 2004, a further credit of £4.3 million has been recognised relating to the withdrawal from infrastructure management in the Americas.

5 OTHER INCOME

	2004 £m	2003 £m	2002 £m
Profit on disposal of fixed assets	**7.1**	4.5	3.6
Net rents receivable	**7.1**	7.3	6.9
Dividend income	**0.8**	2.6	0.8
Other	**0.6**	0.5	0.6
	15.6	14.9	11.9

6 EMPLOYEES

	2004	2003	2002
Licensed multi-utility operations	**4,684**	4,269	4,368
Infrastructure management	**2,381**	2,163	2,076
Business process outsourcing	**7,746**	6,540	6,576
Telecommunications	**709**	681	743
Other activities	**154**	149	130
Average number of persons employed by the group during the year	**15,674**	13,802	13,893

7 NET INTEREST PAYABLE AND OTHER SIMILAR CHARGES

	2004 £m	2003 £m	2002 £m
Interest payable:			
Group:			
– on bank loans, overdrafts and other loans	**273.8**	243.8	220.8
– on finance leases	**2.9**	2.2	8.0
Joint ventures	**10.5**	11.3	13.9
Total interest payable	**287.2**	257.3	242.7
Interest receivable and similar income	**(39.1)**	(25.9)	(12.1)
Net interest payable and other similar charges	**248.1**	231.4	230.6

Notes to the accounts continued

8 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2004 £m	2003 £m	2002 £m
Ordinary tax:			
Current tax:			
UK corporation tax at 30 per cent	–	11.0	13.6
Overseas tax	**3.2**	0.1	0.4
Share of joint ventures' tax	**2.4**	1.7	2.4
Prior years' tax adjustments	**(26.5)**	(41.9)	–
Total ordinary current tax	**(20.9)**	(29.1)	16.4
Deferred tax:			
Origination and reversal of timing differences	**104.6**	88.2	82.8
(Increase)/decrease in discount	**(119.3)**	0.3	(59.8)
Prior years' tax adjustments	**11.3**	(2.6)	–
Total ordinary deferred tax	**(3.4)**	85.9	23.0
Total ordinary tax	**(24.3)**	56.8	39.4
Tax on exceptional items:			
Current tax:			
Exceptional tax on restructuring of businesses	–	(6.3)	–
Deferred tax:			
Origination and reversal of timing differences	**(0.8)**	(4.5)	–
Decrease in discount	–	1.4	–
Total tax on exceptional items	**(0.8)**	(9.4)	–
Tax on profit on ordinary activities	**(25.1)**	47.4	39.4

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

	2004 £m	2003 £m	2002 £m
Profit on ordinary activities before tax	**337.5**	327.5	302.8
	%	%	%
UK corporation tax rate	**30.0**	30.0	30.0
Capital allowances in excess of depreciation	**(41.3)**	(24.2)	(28.6)
Other timing differences	**10.5**	(1.4)	1.7
Withdrawal from infrastructure management in the Americas	–	(4.0)	–
Prior years' tax adjustments	**(7.8)**	(12.8)	–
Net costs not deductible for tax purposes	**2.4**	1.6	2.3
Actual current tax rate	**(6.2)**	(10.8)	5.4

9 DIVIDENDS

	2004 £m	2003 £m	2002 £m
Ordinary shares:			
Interim dividend of 14.43 pence per ordinary share (2003 – 15.5 pence; 2002 – 15.3 pence)	**80.3**	86.2	84.7
Final dividend of 29.88 pence per ordinary share proposed (2003 – 32.1 pence; 2002 – 31.7 pence)	**166.5**	178.6	176.2
A shares:			
Interim dividend of 7.215 pence per A share	**22.3**		
Final dividend of 14.94 pence per A share	**46.2**		
	315.3	264.8	260.9

The first dividend for which the initial A shares ranked was for the 2003/04 interim dividend. The amount of this dividend is 50 per cent of that paid on an ordinary share.

10 EARNINGS PER SHARE

	2004	2003	2002
Profit for the financial year attributable to ordinary shareholders	**£361.0m**	£277.8m	£261.8m

	2004	Restated 2003	Restated 2002
Basic earnings per share	**54.5p**	45.8p	43.4p
Diluted earnings per share	**52.1p**	45.7p	43.3p

Adjusted basic earnings per share:	£m	£m	£m
Profit for the financial year attributable to ordinary shareholders	**361.0**	277.8	261.8
Adjustments:			
Exceptional items:			
– business restructuring	**4.6**	3.8	11.9
– non-operating exceptional items	**(1.9)**	(34.0)	–
– adjustment to the carrying value of telecommunications assets	**–**	25.5	–
Tax on exceptional items	**(0.8)**	(9.4)	–
Amortisation of goodwill	**8.8**	7.5	8.0
Adjusted profit for financial year attributable to ordinary shareholders	**371.7**	271.2	281.7
Adjusted basic earnings per share	**54.7p**	42.2p	44.0p

Basic earnings per share has been calculated by dividing profit for the financial year attributable to shareholders by 662.8 million, being the weighted average number of shares in issue during the year (2003 – 606.0 million; 2002 – 603.2 million).

For the purposes of calculating the weighted average number of shares used in the earnings per share calculations, the A shares have been treated as part-paid ordinary shares, two A shares being equivalent to one ordinary share.

Diluted earnings per share has been calculated by dividing profit for the financial year attributable to shareholders by 693.5 million, being the weighted average number of shares in issue during the year including dilutive shares (2003 – 607.7 million; 2002 – 605.1 million).

The weighted average number of shares can be reconciled to the weighted average number of shares including dilutive shares as follows:

	2004 million	Restated 2003 million	Restated 2002 million
Average number of ordinary shares in issue – basic	**662.8**	606.0	603.2
Average number of potentially dilutive ordinary shares under option	**10.3**	10.5	10.9
Number of ordinary shares that would have been issued at fair value	**(8.8)**	(8.8)	(9.0)
Number of A shares to be issued in 2005 (ordinary share equivalent)	**82.8**		
Number of A shares that would have been issued at fair value (ordinary share equivalent)	**(53.6)**		
Average number of ordinary shares in issue – diluted	**693.5**	607.7	605.1

The basic and diluted weighted average number of shares have been restated for all periods prior to the rights issue to reflect the bonus element of the rights issue as required by FRS 14. The adjustment factor is based on the consideration received from the first stage of the rights issue. The adjustment factor is 0.9176, calculated using 531.5 pence per ordinary share, being the closing price on 26 August 2003, the date of approval of the rights issue at the EGM.

Adjusted earnings per share has been calculated by dividing adjusted profit for the financial year attributable to shareholders by 680.1 million, being the adjusted weighted average number of shares in issue during the year (2003 – 643.2 million; 2002 – 640.2 million).

The adjusted weighted average number of shares has been restated for all periods prior to the rights issue using an adjustment factor based on the consideration received from the first stage of the rights issue and assumed proceeds from the second stage, which are due to be received in June 2005. The adjustment factor is 0.8646, calculated using 531.5 pence per ordinary share, being the closing price on 26 August 2003, the date of approval of the rights issue at the EGM. This reflects the full bonus element of the rights issue which arose at the first stage, as demonstrated by the movement in the share price following the approval of the rights issue at the EGM.

Adjusted earnings per share is being presented to provide a better understanding of the trading position of the group.

11 INTANGIBLE FIXED ASSETS

Group	Goodwill £m	Other intangibles £m	Total £m
Cost:			
At 1 April 2003	90.0	9.0	99.0
Additions (see notes 13 and 31)	55.0	–	55.0
At 31 March 2004	**145.0**	**9.0**	**154.0**
Amortisation:			
At 1 April 2003	20.8	9.0	29.8
Charge for the period	8.1	–	8.1
At 31 March 2004	**28.9**	**9.0**	**37.9**
Net book value:			
At 31 March 2004	**116.1**	**–**	**116.1**
At 31 March 2003	69.2	–	69.2

12 TANGIBLE FIXED ASSETS

Group	Land and buildings £m	Infrastructure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost:						
At 1 April 2003	344.8	3,436.5	4,734.8	837.0	794.7	10,147.8
Arising on acquisitions/disposals of businesses	–	–	8.7	0.1	–	8.8
Additions	4.3	114.8	174.7	48.6	714.6	1,057.0
Grants and contributions	–	(9.8)	–	–	–	(9.8)
Transfers	8.3	91.2	216.9	33.5	(349.9)	–
Disposals	(6.1)	–	(37.3)	(45.9)	–	(89.3)
At 31 March 2004	**351.3**	**3,632.7**	**5,097.8**	**873.3**	**1,159.4**	**11,114.5**
Depreciation:						
At 1 April 2003	94.4	1,141.3	1,389.1	435.7	–	3,060.5
Charge for the year	11.3	88.3	150.3	118.1	–	368.0
Disposals	(3.5)	–	(35.5)	(44.4)	–	(83.4)
At 31 March 2004	**102.2**	**1,229.6**	**1,503.9**	**509.4**	**–**	**3,345.1**
Net book value:						
At 31 March 2004	**249.1**	**2,403.1**	**3,593.9**	**363.9**	**1,159.4**	**7,769.4**
At 31 March 2003	250.4	2,295.2	3,345.7	401.3	794.7	7,087.3

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(h)). As a consequence, the cost of fixed assets, as adjusted for any amortisation in the year, is £109.2 million (March 2003 – £99.4 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:

	2004 £m	2003 £m
Cost:		
Operational assets	**132.2**	250.8
Fixtures, fittings, tools and equipment	**0.9**	0.7
At 31 March	**133.1**	251.5
Accumulated depreciation:		
Operational assets	**60.9**	81.4
Fixtures, fittings, tools and equipment	**0.8**	0.5
At 31 March	**61.7**	81.9
Net book value:		
Operational assets	**71.3**	169.4
Fixtures, fittings, tools and equipment	**0.1**	0.2
At 31 March	**71.4**	169.6

	2004 £m	2003 £m
Capital commitments:		
Contracted but not provided for	**526.4**	402.7

Company	Fixtures, fittings, tools and equipment £m
Cost:	
At 1 April 2002 and 31 March 2003	**4.8**
Depreciation:	
At 1 April 2003	3.8
Charge for the year	0.1
Disposals	–
At 31 March 2004	**3.9**
Net book value:	
At 31 March 2004	**0.9**
At 31 March 2003	1.0

The company had no capital commitments at 31 March 2004 and 31 March 2003.

13 FIXED ASSET INVESTMENTS

	Joint ventures			Other unlisted investments	
Group	*Unlisted* £m	*Loans* £m	*Total* £m	£m	*Total* £m
At 1 April 2003	28.5	11.7	40.2	19.4	59.6
Additions	22.8	1.8	24.6	–	24.6
Share of profits	0.7	–	0.7	–	0.7
Disposals	–	–	–	(2.4)	(2.4)
Distributions and loan repayments	(1.2)	(3.2)	(4.4)	(0.9)	(5.3)
Transfers	9.0	–	9.0	(9.0)	–
Revaluation	–	–	–	(3.9)	(3.9)
Exchange adjustments	(0.4)	0.3	(0.1)	(0.2)	(0.3)
At 31 March 2004	**59.4**	**10.6**	**70.0**	**3.0**	**73.0**

Included within unlisted joint ventures is total goodwill of £8.2 million (net of amortisation of £2.1 million) principally in respect of the group's investment in AS Tallinna Vesi.

Share of profits comprises share of operating profits of £13.6 million, interest charge £10.5 million and taxation charge £2.4 million.

Company	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Cost:			
At 1 April 2003	*5,554.8*	*3.9*	*5,558.7*
Additions	183.6	–	183.6
Revaluation	–	(3.9)	(3.9)
At 31 March 2004	**5,738.4**	**–**	**5,738.4**

Details of principal operating subsidiary undertakings and joint ventures, all of which are unlisted, are set out below. These undertakings are included within the consolidated group financial statements.

Notes to the accounts continued

	Class of share capital held	Proportion of share capital owned/voting rights	Nature of business
Subsidiary undertakings:			
Great Britain:			
United Utilities Water PLC	Ordinary	100%*	Water and wastewater services and network management
United Utilities Electricity PLC	Ordinary	100%*	Electricity distribution and related services
Your Communications Limited	*Ordinary*	*100%**	*Telecommunications*
Eurocall Limited	Ordinary	100%	Telecommunications
Vertex Data Science Limited	Ordinary	85.4%	Business process outsourcing
Vertex Customer Management Limited	Ordinary	85.4%*	Business process outsourcing
United Utilities International Limited	Ordinary	100%*	Consulting services and project management
United Utilities Green Energy Limited	Ordinary	100%*	Renewable energy services
United Utilities Industrial Limited	Ordinary	100%*	Water treatment operations
United Utilities Facilities and Property Services Limited	Ordinary	100%	Property and facilities management
United Utilities Operational Services Limited	Ordinary	100%*	Operation and maintenance of water and wastewater assets of Dwr Cymru
United Utilities Operational Services (Highland) Limited	*Ordinary*	*100%**	*Operation and maintenance of wastewater assets*
United Utilities Operational Services (Tay) Limited	Ordinary	100%*	Operation and maintenance of wastewater assets
United Utilities Operational Services (Moray) Limited	Ordinary	100%*	Operation and maintenance of wastewater assets
United Utilities Networks Limited	Ordinary	100%*	Multi-utility metering and network operations
Australia:			
United Utilities Australia Pty Limited	Ordinary	100%*	Water treatment operations, technical and management services
United Utilities Macarthur Operations Pty Limited	Ordinary	100%*	Technical and management services
Yabulu Water Pty Limited	Ordinary	100%*	Technical and management services
Canada:			
Vertex Customer Management (Canada) Limited	*Ordinary*	*85.4%**	*Business process outsourcing*
United States:			
First Revenue Assurance LLC	Ordinary	100%*	Debt collection agency
India:			
Seven C Customer Services India Private Limited	Ordinary	64.0%*	Business process outsourcing
Joint ventures:			
Great Britain:			
Catchment Limited	Ordinary	50%*	Contract operations and maintenance services
Catchment (Tay) Limited	Ordinary	33%*	Contract operations and maintenance services
Catchment (Moray) Limited	Ordinary	33%*	Contract operations and maintenance services
Meter Serve (North West) Limited	Ordinary	50%*	Metering services
Meter Serve (North East) Limited	Ordinary	50%*	Metering services
UUGM Limited	Ordinary	60%*	Consulting services and project management
Australia:			
Yan Yean Water Pty Limited	Ordinary	50%*	Water treatment operations
Macarthur Water Pty Limited	Ordinary	50%*	Water treatment operations
Riverland Water Pty Limited	Ordinary	50%*	Water treatment operations
Campaspe Asset Management Services Pty Limited	Ordinary	50%*	Asset management and water treatment
Estonia:			
AS Tallinna Vesi	Ordinary	37.8%*	Contract operations and maintenance services
Bulgaria:			
Sofijska Voda A.D.	Ordinary	59.6%*	Contract operations and maintenance services
Philippines:			
Manila Water Company Inc.	Ordinary	18.8%*	Contract operations and maintenance services
Poland:			
Aqua SA	Ordinary	25.0%*	Contract operations and maintenance services

* Shares are held directly by United Utilities PLC except where marked with an asterisk where they are held by subsidiary undertakings.
A full list of the company's subsidiary undertakings is included within the company's annual return.

Acquisitions

	Book value £m	Revaluation adjustments £m	Fair value to group £m
Tangible fixed assets	10.3	(1.5)	8.8
Intangible fixed assets	4.9	(4.9)	–
Stock	0.3	–	0.3
Debtors	8.4	(0.2)	8.2
Cash	0.3	–	0.3
Creditors falling due within one year	(8.1)	(1.6)	(9.7)
Provisions for liabilities and charges	–	(0.4)	(0.4)
Tax liabilities	(0.6)	–	(0.6)
Net assets/(liabilities)	15.5	(8.6)	6.9
Consideration:			
Cash			46.3
Deferred consideration			15.6
Goodwill arising			55.0

The group acquired First Revenue Assurance LLC on 31 March 2004, Eurocall Limited on 29 February 2004, Park Environmental Limited on 22 December 2003, Octel Waste Management Limited on 26 June 2003 and Connections Plus on 15 April 2003. The net assets acquired and their fair value to the group are included in the above table.

The revaluation adjustments are to reflect the elimination of goodwill in the acquired entities and to align accounting policies.

14 STOCKS

	Group	
	2004 £m	2003 £m
Raw materials and finished goods	**9.1**	8.5
Work in progress	**8.0**	12.1
	17.1	20.6

15 DEBTORS

	Group		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Amounts falling due within one year:				
Trade debtors	**317.4**	313.6	**–**	–
Provisions for doubtful debts	**(107.8)**	(93.9)	**–**	–
	209.6	219.7	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**1,363.1**	1,841.0
Other debtors	**14.7**	8.6	**0.2**	–
Prepayments and accrued income	**269.6**	218.6	**0.3**	1.7
	493.9	446.9	**1,363.6**	1,842.7

Within prepayments and accrued income is £98.2 million which falls due after more than one year (2003 – £59.6 million).

16 CURRENT ASSET INVESTMENTS

	Group		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Managed funds and short-term investments	**989.2**	650.8	**637.5**	37.1
Other current asset investments	**18.6**	18.1	**–**	–
	1,007.8	668.9	**637.5**	37.1

17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Loans	**49.7**	35.9	**–**	–
Bank overdrafts and temporary borrowings	**32.6**	157.5	**7.4**	124.8
Obligations under finance leases	**–**	108.7	**–**	–
Trade creditors	**72.6**	61.2	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**859.6**	1,295.2
Dividends	***213.8***	*179.7*	***213.8***	*179.7*
Corporation taxation	**123.0**	148.9	**–**	–
Other taxation and social security	**10.3**	3.3	**10.5**	4.5
Accruals and deferred income	**872.8**	728.9	**48.9**	55.5
	1,374.8	1,424.1	**1,140.2**	1,659.7

18 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2004 £m	2003 £m	**2004 £m**	2003 £m
Loans	**4,306.3**	3,680.0	**1,120.6**	768.5
Obligations under finance leases	**81.1**	81.1	**–**	–
Other creditors	**16.5**	24.0	**–**	–
Deferred grants and contributions (note 19)	**298.1**	285.5	**–**	–
	4,702.0	4,070.6	**1,120.6**	768.5

19 DEFERRED GRANTS AND CONTRIBUTIONS

	£m
At 1 April 2003	285.5
Received in the year	22.7
Credit to profit and loss account for the year	(10.1)
At 31 March 2004	**298.1**

20 PROVISIONS FOR LIABILITIES AND CHARGES

				Group
	Deferred tax (note 21) £m	Restructuring £m	Other £m	Total £m
At 1 April 2003	335.6	6.6	2.8	345.0
Arising on acquisitions	–	–	0.4	0.4
Utilised	–	(5.3)	(0.8)	(6.1)
Profit and loss account	*(4.2)*	*4.6*	*–*	*0.4*
At 31 March 2004	**331.4**	**5.9**	**2.4**	**339.7**

The majority of restructuring provisions are for costs of restructuring in relation to the Eurocall acquisition which are expected to be utilised within the following 12 months.

21 DEFERRED TAX

	2004 £m	2003 £m
Accelerated capital allowances	**1,333.9**	1,183.4
Short-term timing differences	**(116.1)**	(80.7)
Undiscounted provision for deferred tax	**1,217.8**	1,102.7
Discount	**(886.4)**	(767.1)
Discounted provision for deferred tax	***331.4***	*335.6*

22 BORROWINGS

Below is an analysis of gross debt which, after taking into account cash and short-term investments of £1,031.3 million, reduces to net debt of £3,438.4 million.

	2004 £m	2003 £m
Bank overdrafts and temporary borrowings	**32.6**	157.5
Term loans	**4,356.0**	3,715.9
Finance leases	**81.1**	189.8
	4,469.7	4,063.2

Repayments fall due as follows:	Year	2004 £m	Year	2003 £m
After five years	2010+	**2,214.4**	2009+	2,291.0
From four to five years	2009	**733.4**	2008	901.2
From three to four years	2008	**907.1**	2007	50.9
From two to three years	2007	**63.8**	2006	468.1
From one to two years	2006	**468.7**	2005	49.9
After more than one year		**4,387.4**		3,761.1
Within one year	2005	**82.3**	2004	302.1
		4,469.7		4,063.2

Bank overdrafts and temporary borrowings

The bank overdrafts and temporary borrowings are repayable in less than one year. The weighted average rate of interest on bank overdrafts and temporary borrowings was 3.87 per cent (2003 – 4.25 per cent). The group had available committed bank facilities of £775.0 million (2003 – £935.0 million) of which £773.1 million was unutilised at 31 March 2004 (2003 – £934.2 million). Of the amounts unutilised, £50.0 million expire within one year, £100.0 million expire after one year but in less than two years, and the remaining £623.1 million expire in more than two years.

Term loans

Amounts repayable after more than five years comprise loans repayable between 2010 and 2053. Interest rates range from 1.135 per cent to 14.83 per cent on £1,852.9 million (2003 – £1,932.0 million) and are at floating rates on £361.5 million (2003 – £359.0 million).

Finance Leases

An analysis of finance lease repayments is given in note 26.

On total borrowings, interest rates range from 0.705 per cent to 14.83 per cent on £3,892.9 million and are at floating rates on £576.8 million.

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

	Borrowings at 31 March	
	2004 £m	2003 £m
Fixed rate borrowings:		
Sterling	**1,589.7**	1,308.7
United States dollars *	**1,091.9**	753.0
Euros *	**1,093.2**	1,102.3
Japanese yen *	**118.1**	100.6
	3,892.9	3,264.6
Floating rate borrowings:		
Sterling	**532.1**	641.0
Japanese yen *	**12.3**	12.3
United States dollars *	**19.9**	13.8
Euros *	**–**	119.0
Hong Kong dollars *	**12.5**	12.5
	576.8	798.6
Floating rate investments:		
Sterling (including cash)	**(1,031.3)**	(689.3)
Net debt at 31 March	**3,438.4**	3,373.9

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

Included in the above table is a loan with Japanese yen principal paying a United States dollar coupon. Included in fixed rate borrowings is a loan of £50.0 million for which the principal and interest are linked to the Retail Price Index.

The fair values of the group's financial instruments are shown on page 55.

Taking into account derivative instruments, net debt can be analysed as follows:

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed		Weighted average period for which interest is fixed	
	2004 **£m**	2003 £m	**2004** **%**	2003 %	**2004** **Years**	2003 Years
Fixed rate borrowings:						
Sterling	**3,190.0**	2,938.8	**7.3**	7.3	**3.5**	4.1
Floating rate borrowings:						
Sterling	**1,279.7**	1,124.4				
Floating rate investments:						
Sterling (including cash)	**(1,031.3)**	(689.3)				
Net debt at 31 March	**3,438.4**	3,373.9				

Floating interest rates are based on LIBOR.

Company
Excluding amounts owed to subsidiary undertakings, the company has borrowings totalling £1,128.0 million (2003 – £893.3 million), of which £7.4m falls due within one year. The remaining loans totalling £1120.6m have maturities and interest rates as follows:

£212.1million repayable in August 2005 has interest charged at 6.25%; £15.9 million maturing in February 2008 has interest charged at 0.705%; £311.3 million maturing in the year ending 2009 has interest charged at 6.45% on 298.5 million, at 4.21% on £6.7 million and at floating rates on the remaining £6.1million; £338.9 million maturing in the year ending 2019 has interest rates of 5.375% on £190.0 million and 4.55% on £148.9 million; £242.4 million is repayable in the year ending 2029 with interest charged at 6.875%.

23 *FINANCIAL INSTRUMENTS AND RISK MANAGEMENT*

The primary financial risks faced by the group are interest rate risk and exchange rate risk.

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

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

The group borrows in the major global debt markets in a range of currencies at both fixed and floating rates of interest, using derivatives, where appropriate, to generate the desired effective currency profile and interest basis. The effect of the use of derivatives is illustrated in note 22.

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

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

All transactions are undertaken to manage the risks arising from underlying business activities and no speculative trading is undertaken. The counterparties to these instruments generally consist of financial institutions and other bodies with good credit ratings. Although the group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is controlled through credit rating reviews of the counterparties and by limiting the total amount of exposure to any one party. The group does not believe it is exposed to any material concentrations of credit risk.

As noted above, the group uses derivatives to manage its exposure to currency risk on its borrowings. Subsidiary undertakings make no significant sales or purchases in currencies other than that of the country in which they operate. Accordingly, the group has no material unhedged foreign currency exposures.

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

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

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

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

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

Fair values of financial instruments

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

At 31 March	2004 Book value £m	2004 Fair value £m	2003 Book value £m	2003 Fair value £m
Short-term debt and current portion of long-term debt	**82.3**	**82.3**	302.1	302.1
Long-term debt	**4,387.4**	**4,599.8**	3,761.1	4,230.2
	4,469.7	**4,682.1**	4,063.2	4,532.3
Interest rate swaps	**–**	**43.7**	–	27.7
Foreign exchange contracts and currency swaps	**–**	**(99.8)**	–	(240.3)
Total borrowings	**4,469.7**	**4,626.0**	4,063.2	4,319.7

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

Long-term investments

The fair value of investments for which there are no quoted market prices, approximate to their carrying value of £73.0 million.

Current assets and liabilities

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

Long-term receivables and liabilities

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

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

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

Currency and interest rate swaps

The group enters into currency and interest rate swaps in order to manage its foreign currency and interest rate exposures.

The carrying value of debt is shown in the balance sheet at the hedged rate. The impact of the hedged currency rates as opposed to translation at year-end exchange rates is £(25.4) million (2003: £114.3 million).

The fair value of these financial instruments is estimated by discounting the future cash flows to net present values using appropriate market interest rates prevailing at the year end. The fair values of currency and interest rate swaps excludes the related accrued interest receivables and payables.

Hedges

Unrecognised gains and losses on financial assets and liabilities for which hedge accounting has been used at the balance sheet date were £192.0 million and £135.9 million respectively (2003 – £379.3 million and £166.7 million).

The group anticipates that £20.7 million of these gains and £62.6 million of these losses will be realised in the forthcoming financial year. Of the unrecognised gains and losses on hedges as at 1 April 2003 the net loss recognised in the profit and loss account for the year ended 31 March 2004 was £29.7 million.

24 CAPITAL AND RESERVES

The movements in shareholders' equity are as follows:

	Group and company		Group		Company		
	Called up share capital £m	Share premium account £m	Profit and loss account £m	Total £m	Profit and loss account £m	Other reserves £m	Total £m
At 31 March 2001	552.9	656.6	1,373.5	2,583.0	1,195.8	2,544.8	4,950.1
Profit/(loss) for financial year	–	–	261.8	261.8	(24.0)	–	(24.0)
Dividends on ordinary shares	–	–	(260.9)	(260.9)	(260.9)	–	(260.9)
Shares issued net of costs	3.0	15.0	–	18.0	–	–	18.0
Capitalisation of reserves in respect of shares issued via QUEST	–	–	(5.0)	(5.0)	–	–	–
Currency translation adjustment on equity investment in Argentina	–	–	(78.6)	(78.6)	–	–	–
Exchange adjustments	–	–	0.9	0.9	–	–	–
At 31 March 2002	555.9	671.6	1,291.7	2,519.2	910.9	2,544.8	4,683.2
Profit for financial year	–	–	277.8	277.8	601.8	–	601.8
Dividends on ordinary shares	–	–	(264.8)	(264.8)	(264.8)	–	(264.8)
Shares issued net of costs	0.6	2.7	–	3.3	–	–	3.3
Goodwill written back on the sale of US Water	–	–	0.9	0.9	–	–	–
Currency translation adjustment on equity investment in Argentina	–	–	(6.8)	(6.8)	–	–	–
Exchange adjustments	–	–	4.0	4.0	–	–	–
At 31 March 2003	556.5	674.3	1,302.8	2,533.6	1,247.9	2,544.8	5,023.5
Profit for financial year	–	–	361.0	361.0	269.6	–	269.6
Dividends on ordinary shares	–	–	(315.3)	(315.3)	(315.3)	–	(315.3)
Shares issued net of costs	155.3	348.8	–	504.1	–	–	504.1
Own shares held in ESOP	–	–	(2.3)	(2.3)	(2.3)	–	(2.3)
Exchange adjustments	–	–	2.2	2.2	–	–	–
At 31 March 2004	**711.8**	**1,023.1**	**1,348.4**	**3,083.3**	**1,199.9**	**2,544.8**	**5,479.6**

As allowed by section 230(4) 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 is £269.6 million (2003 – £601.8 million; 2002 – £24.0 million loss) after accounting for dividends receivable from subsidiary undertakings of £282.0 million (2003 – £958.6 million; 2002 – £6.9 million).

The cumulative amount of goodwill included in reserves resulting from acquisitions, before FRS 10 became effective, net of goodwill attributable to subsidiaries or businesses demerged or disposed of prior to 31 March 2004, amounts to £1,023.0 million (2003 – £1,023.0 million; 2002 – £1,023.9 million). Consolidated retained earnings at 31 March 2004 include retained losses of joint ventures and associated undertakings of £11.8 million (2003 – £12.5 million; 2002 – £14.4 million). The cumulative amount of exchange adjustments included within consolidated retained earnings is £(5.1) million (2003 – £(7.3) million; 2002 – £(11.3) million).

Apart from dividends from United Utilities Water PLC and United Utilities Electricity PLC, which are subject to certain regulatory restrictions, there are no significant statutory or contractual restrictions on the distribution of current profits of subsidiary or joint venture undertakings; undistributed profits of prior years are, in the main, permanently employed in the businesses of these undertakings. The undistributed profits of group undertakings overseas may be liable to overseas taxes and/or UK taxation (after allowing for double taxation relief) if they were to be distributed as dividends. No provision has been made in respect of potential taxation liabilities on realisation of assets at restated or revalued amounts or on realisation of joint venture undertakings at equity accounted value.

The authorised ordinary share capital of the company was 800,000,000 ordinary shares of £1 each at 31 March 2004 (2003 – 800,000,000; 2002 – 800,000,000). The allotted and fully paid ordinary share capital of the company at 31 March 2004 was 557,125,006 ordinary shares (556,526,651 ordinary shares at 31 March 2003; 555,942,338 ordinary shares at 31 March 2002). 598,355 ordinary shares were allotted during the year ended 31 March 2004 (2003 – 584,313 ordinary shares; 2002 – 3,041,313 ordinary shares) for the exercise of options in accordance with the rules of the employee Sharesave schemes and the executive share option scheme for a total consideration of £2.9 million (2003 – £3.3 million; 2002 – £18.0 million).

The five for nine rights issue, structured so that the proceeds are received in two stages, was approved at the extraordinary general meeting (EGM) of shareholders on 26 August 2003. The authorised A share capital of the company was 638,000,000 A shares of 50 pence each. The allotted and fully paid A share capital of the company at 31 March 2004 was 309,286,997 A shares (nil A shares at 31 March 2003 and 31 March 2002).The first tranche of the proceeds, received during September 2003, raised £501.2 million (net of costs) from the issuing of those shares. The second tranche of proceeds are due to be received in June 2005, reflecting the subscription for further A shares. All A shares will then be consolidated and reclassified as ordinary shares on the basis of one ordinary share for two A shares.

Since 31 March 2004, 88,688 ordinary shares have been allotted on the exercise of options and at 19 May 2004, the company's issued ordinary share capital, credited as fully paid, was 557,213,694 and A share capital, credited as fully paid was 309,286,997.

The employee Sharesave scheme is available to all eligible employees and the company share option scheme 1999 is for senior executives (excluding, with effect from the introduction of the group's long-term incentive plan, executive directors and other executives participating in that plan and its successor, the performance share plan). The Sharesave scheme is based on SAYE savings contracts with options exercisable within a six-month period from the conclusion of a three or five-year period as appropriate from the date of grant. Under the terms and conditions of this scheme, for every month (up to no more than six months) an employee fails to contribute the agreed monthly amount determined under the rules of the scheme, the last date exercisable will be delayed by one month. Options under the company share option scheme 1999 are exercisable in a period beginning no earlier than three years (five years for discounted options under the former executive share option scheme, which are no longer granted) and ending no later than ten years from the date of grant. Options outstanding under the share option schemes at 31 March, together with their exercise prices and dates, were:

	2004	2003 (4)	Exercise price (4)	Normal dates of exercise
Employee Sharesave scheme	–	669,335	533.0p (1)	2001 or 2003
	292,102	301,129	611.7p (1)	2002 or 2004
	2,505,354	2,961,675	407.7p (1)	2003 or 2005
	1,259,381	1,653,425	481.2p (1)	2004 or 2006
	1,865,490	2,079,112	432.3p (1)	2005 or 2007
	2,091,625	2,285,918	423.7p (1)	2006 or 2008
	2,268,159	–	396.0p(1)	2007
Executive share option scheme	–	2,465	400.7p (3)	1996 to 2003
	–	4,854	340.8p (2)	1998 to 2003
	–	5,378	386.4p (3)	1996 to 2003
	–	3,062	328.7p (2)	1998 to 2003
	–	67,683	490.1p (3)	1997 to 2004
	–	47,442	417.0p (2)	1999 to 2004
	44,002	45,006	458.4p (3)	1997 to 2004
	22,821	27,192	389.8p (2)	1999 to 2004
	16,781	27,112	414.9p (3)	1997 to 2004
	19,985	36,046	353.0p (2)	1999 to 2004
	61,040	64,949	487.6p (3)	1998 to 2005
	16,878	24,580	414.9p (2)	2000 to 2005
	148,977	157,817	505.4p (3)	1998 to 2005
	160,549	194,455	470.8p (3)	1999 to 2006
	266,891	352,659	543.0p (3)	2000 to 2007
	132,126	196,044	546.4p (3)	2000 to 2007
	399,785	610,975	664.5p (3)	2000 to 2007
	131,549	180,141	766.0p (3)	2001 to 2008
	201,501	344,379	750.5p (3)	2001 to 2008
	809,331	1,098,351	664.0p (3)	2002 to 2009
Company share option scheme 1999	**308,935**	461,588	532.2p (3)	2002 to 2009
	1,114,733	1,146,085	587.9p (3)	2003 to 2010
	521,770	609,869	575.8p (3)	2003 to 2010
	1,073,907	1,131,622	563.7p (3)	2004 to 2011
	617,802	627,821	509.3p (3)	2005 to 2012
	1,462,552	838,609	528.3p (3)	2005 to 2012
	821,016	1,499,057	544.7p (3)	2005 to 2012
	18,635,042	19,755,835		

(1) The exercise price represents 80 per cent of the market price as at the date the option was granted.

(2) The exercise price represents 85 per cent of the market price as at the date the option was granted.

(3) The exercise price equalled the market price at the date the option was granted.

(4) The number of options outstanding at 31 March 2003 and the exercise price for those options have been restated to reflect the bonus element of the rights issue using an adjustment factor of 0.8646, based on the consideration received from the first stage of the rights issue and assumed proceeds from the second stage, which are due to be received in June 2005.

An opportunity to join the employee Sharesave scheme was offered during the years ended 31 March 2004, 31 March 2003 and 31 March 2002, and options were also granted under the company share option scheme 1999. In the year ended 31 March 2004, options were granted under the option schemes in respect of a total of 2,311,435 ordinary shares (2003 – 4,016,642 ordinary shares; 2002 – 3,538,123 ordinary shares), options for 521,504 ordinary shares (2003 – 1,447,851 ordinary shares; 2002 – 3,079,711 ordinary shares) were exercised and options for 2,466,866 ordinary shares (2003 – 349,451 ordinary shares; 2002 – 1,386,409 ordinary shares) lapsed or were cancelled.

United Utilities established a Qualifying Employee Share Ownership Trust (QUEST) in 1998, an employee benefit trust complying with requirements of the Finance Act 1989. The QUEST trustee assumed the obligation to satisfy options granted under the existing United Utilities Sharesave scheme. As a result of changes in the tax regime, shares have been allotted directly to Sharesave participants since 1 April 2003 and arrangements are now being made to wind up the QUEST. There were no shares held in the QUEST at 31 March 2004.

The United Utilities Employee Share Trust was established by a trust deed executed on 21 August 1996. The Trustees hold the trust fund for the benefit of the beneficiaries (being employees or former employees of the group's companies and their relatives) to the extent determined by the rules of the share schemes. As at 31 March 2004, the Trust held 459,891 shares on trust and these shares will be used to satisfy awards payable under the group's performance share plan and deferred share plan. All dividends payable on the shares during the year were waived.

25 PENSIONS

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

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

The last actuarial valuations of the two Schemes were carried out as at 31 March 2001. An actuarial valuation as at 31 March 2004 is currently being performed. The combined market value of the group's share of the assets of the two Schemes at the valuation date was £1,833.0 million. Using the assumptions adopted for SSAP 24, the combined actuarial value of the assets represented 113 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP 24, the surplus in the Schemes is being spread over the future working lifetime of the existing members.

For UUPS, the employer's contributions have been assessed in accordance with the advice of Mercer Human Resource Consulting using different assumptions to those described above. For ESPS, the employer's contributions have been assessed in accordance with the advice of a firm of actuaries, Hewitt Bacon and Woodrow, using different assumptions and methods to those described above.

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 SSAP 24 and the assumptions set out above. In accordance with these unfunded arrangements, the group has made payments to former directors, including lump sum payments, of £298,556 in total in the year ended 31 March 2004 (2003 – £207,387; 2002 – £205,946).

The total pension cost for the period was £11.2 million (2003 – £8.2 million; 2002 – £5.0 million). A prepayment of £97.0 million is included in the balance sheet at 31 March 2004 (2003 – £58.5 million). Information about the pension arrangements for executive directors is contained in the report on remuneration.

FRS 17 Transitional disclosures

Group

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. Under transitional arrangements of FRS 17 'Retirement Benefits', the group is required to disclose the following information about its pension arrangements and the figures that would have been shown under adoption of FRS 17 in the financial statements.

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

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

The assets and liabilities of the Schemes, along with the expected rates of return on the Schemes' assets as at 31 March 2004, 31 March 2003 and 31 March 2002 were as follows:

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

If the above amounts had been recognised in the financial statements, the group's net assets and profit and loss reserve as at 31 March 2004, 31 March 2003 and 31 March 2002 would be as follows:

	2004 £m	2003 £m	2002 £m
Net assets excluding pension liability	***3,102.9***	*2,551.3*	*2,534.4*
SSAP 24 prepayment, net of deferred tax	**(67.9)**	(41.0)	(25.8)
Accruals for unfunded scheme	**7.2**	6.2	5.4
Pension liability	**(264.4)**	(298.1)	15.1
Net assets including pension liability	**2,777.8**	2,218.4	2,529.1
Profit and loss reserve excluding pension liability	**1,348.4**	1,302.8	1,291.7
SSAP 24 prepayment, net of deferred tax	**(67.9)**	(41.0)	(25.8)
Accruals for unfunded scheme	**7.2**	6.2	5.4
Pension liability	**(264.4)**	(298.1)	15.1
Profit and loss reserve including pension liability	**1,023.3**	969.9	1,286.4

The amounts which, on full implementation of FRS 17, will be required in the financial statements are as follows:

Analysis of the amount charged to operating profit	**2004 £m**	2003 £m
Current service cost	**45.1**	41.4
Past service cost	**1.8**	2.6
Total operating charge	**46.9**	44.0

Analysis of other finance costs	**2004 £m**	2003 £m
Expected return on pension scheme assets	**108.4**	129.5
Interest on pension scheme liabilities	***(115.0)***	*(104.4)*
Net return	**(6.6)**	25.1

Analysis of amount recognised in statement of total recognised gains and losses	**2004 £m**	2003 £m
Actual return less expected return on pension scheme assets	**176.4**	(395.4)
Experience gains and losses arising on the scheme liabilities	**–**	(3.3)
Changes in assumptions underlying the present value of the scheme liabilities	**(122.9)**	(59.0)
Actuarial gain/(loss)	**53.5**	(457.7)

Movement on pension scheme deficit during the year	2004 £m	2003 £m
(Deficit)/Surplus at 1 April	**(298.1)**	15.1
Movement in year:		
Current service cost	**(45.1)**	(41.4)
Contributions	**48.1**	29.1
Past service cost	**(1.8)**	(2.6)
Net interest (cost)/return on assets	**(6.6)**	25.1
Actuarial gain/(loss)	**53.5**	(457.7)
Movement in deferred tax asset	**(14.4)**	134.3
Deficit in scheme at 31 March	**(264.4)**	(298.1)

History of experience of gains and losses	2004	2003
Difference between the expected and actual return on scheme assets:		
Amount (£m)	**176.4**	(395.4)
Percentage of scheme assets	**9.5%**	(25.2%)
Experience gains and losses on scheme liabilities:		
Amount (£m)	**–**	(3.3)
Percentage of the present value of the scheme liabilities	**–**	(0.2%)
Total amount recognised in statement of total recognised gains and losses:		
Amount (£m)	**53.5**	(457.7)
Percentage of the present value of the scheme liabilities	**2.4%**	(23.0%)

In addition, £nil (2003 – £1.5 million) is included for pension severance benefits, within the business restructuring exceptional item.

During the year, the group made £0.3 million (2003 – £0.1 million) of contributions to the defined contribution section of UUPS.

Company
The company's assets and liabilities are included in the Schemes but its share of underlying assets and liabilities cannot be separately identified.

26 LEASE COMMITMENTS

Subsidiary undertakings are committed to making the following payments under operating leases during the next 12 months:

	31 March 2004		31 March 2003	
	Land and buildings £m	**Plant and machinery £m**	Land and buildings £m	Plant and machinery £m
Leases which expire:				
Within one year	**1.2**	**1.4**	0.3	0.6
Between two and five years	**1.5**	**2.1**	2.4	3.4
After five years	**4.6**	**–**	4.6	–
	7.3	**3.5**	7.3	4.0

Minimum future lease payments under finance leases and minimum rental commitments under non-cancellable operating leases of property, plant and equipment at 31 March 2004 were as follows:

	Finance leases £m	**Operating leases £m**
2005	**–**	**10.8**
2006	**0.8**	**7.6**
2007	**5.1**	**6.5**
2008	**6.3**	**5.3**
2009	**7.4**	**4.9**
Thereafter	**61.5**	**184.1**
Total	**81.1**	**219.2**

27 CONTINGENT LIABILITIES

The company guaranteed certain loans and overdrafts of group undertakings up to a maximum amount of £695.3 million (2003 – £715.8 million), including £595.3 million (2003 – £625.8 million) relating to United Utilities Water PLC's loans from European Investment Bank, £90.0 million (2003 – £90.0 million) relating to United Utilities Electricity PLC's loans from European Investment Bank and £10.0 million (2003 – £nil) relating to United Utilities Green Energy Limited's loan from European Investment Bank.

The company has entered into performance bonds in the ordinary course of business.

28 RECONCILIATION OF OPERATING PROFIT TO OPERATING CASHFLOWS

	Note	2004 £m	2003 £m	2002 £m
Group operating profit		**570.1**	510.0	521.6
Exceptional charges within operating profit		**4.6**	29.3	11.9
Operating profit before exceptional charges		**574.7**	539.3	533.5
Depreciation	3	**368.0**	349.8	316.6
Amortisation of goodwill and intangible assets	3	**8.1**	7.1	7.4
Profit on disposal of tangible fixed assets	5	**(7.1)**	(4.5)	(3.6)
Stocks decrease/(increase)		**3.5**	(11.8)	0.5
Debtors (increase)/decrease		**(53.9)**	(21.9)	3.4
Creditors increase/(decrease)		**34.6**	0.6	(41.0)
Outflow related to exceptional items		**(4.4)**	(7.1)	(17.0)
		923.5	851.5	799.8

29 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2004 £m	2003 £m	2002 £m
Interest received	**36.0**	26.8	12.1
Interest paid on bank loans, overdrafts and other loans	**(264.3)**	(233.2)	(227.8)
Interest paid on finance leases	**(6.1)**	(12.1)	(8.0)
Termination of interest rate swap contracts	**83.0**	–	–
Dividends paid to minority equity interest	**(0.4)**	(0.4)	–
	(151.8)	(218.9)	(223.7)

30 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2004 £m	2003 £m	2002 £m
Purchase of tangible fixed assets, net of grants and contributions	**(1,010.5)**	(718.2)	(588.2)
Sale of tangible fixed assets	**13.0**	7.2	12.2
Purchase of fixed asset investments	**–**	(0.4)	(20.4)
Financial restructuring of joint ventures	**(20.5)**	5.7	–
Sale of fixed asset investments other than joint ventures	**–**	7.8	12.8
	(1,018.0)	(697.9)	(583.6)

31 ACQUISITIONS AND DISPOSALS

	Acquisitions			Disposals		
	2004 £m	2003 £m	2002 £m	**2004 £m**	2003 £m	2002 £m
Fixed assets	**(8.8)**	(3.1)	–	**–**	–	–
Net current liabilities/(assets)	**1.5**	2.1	(2.8)	**–**	10.0	(7.0)
Provisions for liabilities and charges	**0.4**	3.0	–	**–**	–	–
Fair value of net assets acquired/book value of net assets disposed	**(6.9)**	2.0	(2.8)	**–**	10.0	(7.0)
Cost of disposal				**–**	(3.4)	–
Goodwill acquired/written back on disposal	**(55.0)**	(7.2)	–	**–**	0.9	–
Consideration for undertakings acquired	**(61.9)**	(5.2)	(2.8)			
Profit on disposals				**–**	0.4	–
	(61.9)	(5.2)	(2.8)	**–**	7.9	(7.0)
Less:						
– Cash included in undertakings acquired/disposed	**0.3**	0.3	–	**–**	–	–
– *Deferred consideration*	**15.6**	–	–	**–**	–	–
Cash consideration	**(46.0)**	(4.9)	(2.8)	**–**	7.9	(7.0)
Comprising:						
– *(Outflow)/inflow arising on:*						
– current year acquisitions/disposals	**(46.0)**	(4.7)	–	**–**	7.9	–
– previous year acquisitions/disposals	**–**	(0.2)	(2.8)	**–**	–	(7.0)
	(46.0)	(4.9)	(2.8)	**–**	7.9	(7.0)

The group acquired First Revenue Assurance LLC on 31 March 2004, Eurocall Limited on 29 February 2004, Park Environmental Limited on 22 December 2003, Octel Waste Management Limited on 26 June 2003 and Connections Plus on 15 April 2003. All of the above are detailed in note 13 and the cashflows in respect of those acquisitions are shown above.

On 2 December 2002, Vertex Data Science Limited acquired the business and assets of the UK contact centre operator, 7C, and its 75 per cent shareholding in 7C India Limited. The cashflows in respect of that acquisition are shown above. On 31 July 2002, the group sold its joint venture shareholding in US Water, effectively completing the group's withdrawal from infrastructure management in the Americas. The cashflows in respect of that sale are included above.

32 MANAGEMENT OF LIQUID RESOURCES

	2004 £m	2003 £m	2002 £m
(Increase)/decrease in managed funds and short-term investments	***(338.4)***	*(282.0)*	*13.4*

33 FINANCING

	Financing – shares: Shares issued by company: Share capital £m	Financing – shares: Shares issued by company: Share premium £m	Financing – shares: Total £m	Financing – debt: Loans £m	Financing – debt: Short-term borrowings other than overdrafts £m	Financing – debt: Finance leases £m	Financing – debt: Total £m	Total £m
At 31 March 2001	(552.9)	(656.6)	(1,209.5)	(2,776.4)	(241.1)	(200.6)	(3,218.1)	(4,427.6)
Exchange and other non-cash adjustments	–	–	–	1.2	–	–	1.2	1.2
Financing:								
– New finance	(3.0)	(15.0)	(18.0)	(443.4)	–	–	(443.4)	(461.4)
– Finance repaid	–	–	–	135.6	105.7	–	241.3	241.3
Cash flow	(3.0)	(15.0)	(18.0)	(307.8)	105.7	–	(202.1)	(220.1)
At 31 March 2002	(555.9)	(671.6)	(1,227.5)	(3,083.0)	(135.4)	(200.6)	(3,419.0)	(4,646.5)
Exchange and other non-cash adjustments	–	–	–	–	–	4.9	4.9	4.9
Financing:								
– New finance	(0.6)	(2.7)	(3.3)	(704.2)	–	–	(704.2)	(707.5)
– Finance repaid	–	–	–	71.3	16.5	5.9	93.7	93.7
Cash flow	(0.6)	(2.7)	(3.3)	(632.9)	16.5	5.9	(610.5)	(613.8)
At 31 March 2003	(556.5)	(674.3)	(1,230.8)	(3,715.9)	(118.9)	(189.8)	(4,024.6)	(5,255.4)
Exchange and other non-cash adjustments	–	–	–	–	–	6.3	6.3	6.3
Financing:								
– New finance	(155.3)	(348.8)	(504.1)	(675.8)	–	–	(675.8)	(1,179.9)
– Finance repaid	–	–	–	35.7	118.9	102.4	257.0	257.0
Cash flow	(155.3)	(348.8)	(504.1)	(640.1)	118.9	102.4	(418.8)	(922.9)
At 31 March 2004	**(711.8)**	**(1,023.1)**	**(1,734.9)**	**(4,356.0)**	**–**	**(81.1)**	**(4,437.1)**	**(6,172.0)**

		Repayment dates	Currency	Rate %	Amount £m
Loans repaid	European Investment Bank	various	sterling	various	30.4
	Debt securities	25 March, 25 September	sterling	8.875	4.2
	Sterling loan	2009	sterling	floating	0.1
	Local authority	various	sterling	various	1.0
					35.7

34 ANALYSIS OF NET DEBT

	Cash	Financing – debt					Current asset investments	Net debt
		Loans						
		Due after one year	Due within one year	Short-term borrowings other than overdrafts	Finance leases	Total		
	£m	£m	£m	£m	£m	£m	£m	£m
At 31 March 2001	29.5	(2,640.7)	(135.7)	(241.1)	(200.6)	(3,218.1)	382.2	(2,806.4)
Exchange and other non-cash adjustments	0.1	1.2	–	–	–	1.2	–	1.3
Cash flow	(40.2)	(372.5)	64.7	105.7	–	(202.1)	(13.4)	(255.7)
At 31 March 2002	(10.6)	(3,012.0)	(71.0)	(135.4)	(200.6)	(3,419.0)	368.8	(3,060.8)
Exchange and other non-cash adjustments	0.2	–	–	–	4.9	4.9	–	5.1
Cash flow	10.3	(668.0)	35.1	16.5	5.9	(610.5)	282.0	(318.2)
At 31 March 2003	(0.1)	(3,680.0)	(35.9)	(118.9)	(189.8)	(4,024.6)	650.8	(3,373.9)
Exchange and other non-cash adjustments	–	–	–	–	6.3	6.3	–	6.3
Cash flow	9.6	(626.3)	(13.8)	118.9	102.4	(418.8)	338.4	(70.8)
At 31 March 2004	**9.5**	**(4,306.3)**	**(49.7)**	**–**	**(81.1)**	**(4,437.1)**	**989.2**	**(3,438.4)**

Cash and short-term borrowings	Cash at bank	Short-term borrowings			Net total	Cash (at bank and overdrafts)
		Overdrafts	Other	Total		
	£m	£m	£m	£m	£m	£m
At 31 March 2001	50.7	(21.2)	(241.1)	(262.3)	(211.6)	29.5
Exchange adjustments	0.1	–	–	–	0.1	0.1
Cash flow	(31.9)	(8.3)	105.7	97.4	65.5	(40.2)
At 31 March 2002	18.9	(29.5)	(135.4)	(164.9)	(146.0)	(10.6)
Exchange adjustments	0.2	–	–	–	0.2	0.2
Cash flow	19.4	(9.1)	16.5	7.4	26.8	10.3
At 31 March 2003	38.5	(38.6)	(118.9)	(157.5)	(119.0)	(0.1)
Cash flow	3.6	6.0	118.9	124.9	128.5	9.6
At 31 March 2004	**42.1**	**(32.6)**	**–**	**(32.6)**	**9.5**	**9.5**

35 RELATED PARTY TRANSACTIONS

Sales and recharges to joint ventures on normal trading terms during the year ended 31 March 2004 were £40.3 million (31 March 2003 – £22.8 million), of these amounts £11.1 million was outstanding at the year end (2003 – £8.6 million).

Movements on loans and investments with joint ventures are included in note 13 of the accounts.

There were no other material related party transactions during the year.

Five-year summary

Profit and loss accounts	2004 £m	2003 £m	2002 £m	2001 £m	2000 £m
Turnover	**2,060**	1,879	1,786	1,692	2,356
Net operating costs	**(1,490)**	(1,369)	(1,265)	(1,194)	(1,697)
Group operating profit	**570**	510	521	498	659
Share of operating profits of joint ventures	**14**	15	13	9	4
Exceptional items	**2**	34	–	191	–
Net interest payable and other similar charges	**(248)**	(231)	(231)	(220)	(206)
Profit on ordinary activities before taxation	**338**	328	303	478	457
Tax credit/(charge) on profit on ordinary activities	**24**	(57)	(39)	(68)	(92)
Exceptional taxation credit/(charge)	**1**	9	–	(69)	–
Profit on ordinary activities after taxation	**363**	280	264	341	365
Minority interest	**(2)**	(2)	(2)	–	–
Profit for financial year	**361**	278	262	341	365
Dividends	**(315)**	(265)	(261)	(255)	(249)
Retained profit for the financial year	**46**	13	1	86	116
Balance sheets					
Fixed assets	**7,959**	7,216	6,833	6,586	6,300
Net current assets/(liabilities)	**186**	(249)	(510)	(634)	(1,139)
Amounts falling due after more than one year	**(4,702)**	(4,071)	(3,478)	(3,093)	(2,434)
Provisions for liabilities and charges	**(340)**	(345)	(311)	(262)	(370)
Net assets	**3,103**	2,551	2,534	2,597	2,357
Equity share capital and share premium	**1,735**	1,231	1,227	1,209	1,195
Reserves and retained profits	**1,348**	1,303	1,292	1,374	1,162
Minority interest	**20**	17	15	14	–
Capital employed	**3,103**	2,551	2,534	2,597	2,357

Cautionary statement regarding forward-looking statements

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

Statements that are not historical facts, including statements about the company's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential', 'reasonably possible' and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, assumptions, estimates and projections which may be significantly varied and therefore investors should not rely on them. Forward-looking statements involve known and unknown risks and speak only as of the date they are made, and except as required by the rules of the UK Listing Authority and the London Stock Exchange plc, the company undertakes no obligation to update publicly any of them in the light of new information or future events.

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

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