



**United
Utilities**

United Utilities Water PLC

Annual Report & Accounts 2005



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COMPANIES HOUSE 04/08/05

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For more information on United Utilities
visit our website.

Chairman's statement

Delivering efficiency and quality

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

Our business

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

The business had significant success this year, improving water quality, wastewater compliance and delivering over £700 million of capital investment. We have upgraded over 90 water treatment works to improve drinking water quality for our customers, and the impact of storm overflows from sewers into watercourses has been reduced at over 730 sites across the region while treatment has been improved at 159 wastewater treatment works.

Furthermore, service levels continued to improve the Overall Performance Assessment (OPA) score, as measured by Ofwat, to 399 points in 2004/05 from 394 in 2003/04. The continued objective is to sustain the level of operational performance and reduce the cost of short-term remedial work required.

On water quality, we improved our performance to 99.74 per cent on the Drinking Water Inspectorate's water quality index, up from 99.72 per cent the previous year. We maintained water supplies to all customers during 2004/05 without the need for any water restriction. In respect of wastewater, the 2004/05 score in respect of non-compliant works (measured per head of population served) was 0.002 per cent, an improvement on the level achieved in 2003/04 of 0.26 per cent. This was achieved by putting problem works into an 'intensive care' programme, increasing maintenance spend, operator involvement and capital work. In 2004/05, as part of the capital investment programme, 76 continuous discharge and 145 intermittent discharge improvement projects were delivered.

Throughout the year, real improvements in managing cash and the problems associated with long-standing customer debt have continued to be delivered.

Our customers

Regulatory targets on all customer service measures have been met or exceeded. The number of telephone calls answered within 30 seconds was 93.9 per cent, against a regulatory target of 86 per cent and a 2003/04 industry average of 93.5 per cent.

We have migrated the vast majority of our customers onto a new billing system, and this has been used to calculate and send customers' bills for 2005/06. The new system is targeted to deliver cost savings for the business in 2005/06 as well as providing significant service improvements for customers.

The price rises allowed in the recent water price review cause concern for the Company and its customers about the affordability of water bills, particularly for vulnerable customers. Processes are in place to manage debt in a way that is fair to customers and effective for the business. Furthermore, a range of initiatives is available 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 and Pensions' 'Water Direct' scheme and it continues 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.

In 2005, an independent charitable trust was created, to

which we intend to donate £15 million over the next five years. The trust will help water customers facing financial difficulty by clearing outstanding water arrears and other, non-water, bills.

Our people

On behalf of the board, I want to acknowledge and thank all our staff for their commitment and hard work in achieving these results.

We have implemented a series of health and safety initiatives to reduce risk to employees and visitors to our sites. This has helped reduce the days lost due to accidents from 985 to 851.

Looking forward

To ensure that higher levels of performance continue to be achieved following the acceptance of the final determinations in December 2004, new initiatives are being designed to improve efficiency and reduce cost. Key to this aim, the business restructuring programme is designed to streamline operations, achieve cost savings and enable customer service to be led from one part of the business. Procedures are now largely in place for the management of the next five-year capital investment programmes in water and wastewater. This will ensure that the appropriate business processes, organisation, systems and commercial contracts are in place to provide maximum shareholder value from the asset base.

During May 2005, we appointed partners to help deliver our £2.9 billion water and wastewater programme during the AMP4 (2005-10) regulatory period. This covers the majority of the water quality and environmental improvements that will be carried out on our treatment works and major sewer overflows over the next five years.

The delivery of our previous investment programme has confirmed the success of our framework contractor approach, which was put in place during the previous regulatory period. The delivery strategy for AMP4 builds on this success with the Company taking a leading role in programme management, increasing our internal resources in engineering and design and placing a greater emphasis on performance management through the alignment of financial targets with partners and benchmarking out-turn results. A key enabler is the creation of integrated work teams with responsibility for delivering projects from conception through to commissioning. These changes will help us deliver the capital efficiencies required by Ofwat.

John Roberts

Chairman, United Utilities Water PLC



Operating and financial review

Working in partnership with contractors, the business is successfully delivering Ofwat's regulatory output schedule. The policy to standardise designs and equipment, wherever possible, is helping to make sure money is invested wisely and reduce the whole-life costs of new plant and equipment.

Water supply operations

All water supplied is treated in order to meet the appropriate standards enforced by the Drinking Water Inspectorate, the government regulator of drinking water in England and Wales. United Utilities Water monitors water quality by analysing samples regularly for both microbiological and chemical parameters. In the calendar year 2004, the business continued to improve quality, with 99.92 per cent of all compliance tests of water in distribution meeting the drinking water standard.

A number of major projects to improve drinking water quality were completed in 2004/5. This included a £41 million project for the Rivington and Lostock Strategy constructing a new water treatment works to address cryptosporidium for a 180 megalitres per day supply to the Manchester area. It also included a £38 million project to upgrade Franklaw water treatment works, with a supply capacity of 220 megalitres per day to the Fylde area, to address cryptosporidium.

Wastewater operations

United Utilities Water is responsible for the collection, treatment and disposal of domestic wastewater, trade effluent, and surface water in north west England. United Utilities Water's wastewater treatment works provide a range of treatments, including physical, chemical and biological processes. Treated liquid final effluent is discharged into rivers, estuaries or via sea outfalls.

Quality tests by the Environment Agency show a pass rate of almost 100 per cent for the coastal and inland waterways designated as bathing waters. In total, 36 out of the north west's 37 bathing water areas met strict EU standards. When the tests began in 1988 only six bathing waters passed.

In the year ending 31 March 2005, we were prosecuted on nine occasions relating to pollution incidents and consent breaches (eight in 2004). We are continuing to work closely with the Environment Agency, highlighting the reduction in pollution incidents as a particular target for the business. Investment in

odour control systems also increased, addressing an issue that has become of growing concern to some of our customers.

A number of schemes in the sewer overflow programme (also known as UIDs), which had been identified as being poor value for money, were eliminated from 2004/05 prices. In the review of price limits completed in 2004, United Utilities Water agreed a revised UID work programme with Ofwat. In its final determination in December 2004, Ofwat included completed or proposed work it considered to be cost-effective within 2005-10 prices. United Utilities Water will seek recovery of any additional work and related costs according to the procedures set out in Ofwat's protocol for dealing with changed requirements between price limits or through the next price review.

Financial results

We continue to invest heavily in our water and wastewater networks. Gross capital investment for the year was in excess of £700 million, bringing the total investment in improving water and wastewater services in the north west to approximately £7.4 billion since privatisation.

Turnover increased by £105.8 million to £1,135.1 million resulting from the real increase of 8.9 per cent in water and wastewater prices. Operating costs increased by £28.0 million to £676.2 million, including £14.1 million exceptional charge for restructuring costs in preparation for meeting the 2005-10 efficiency challenges, and also reflecting a number of other factors, principally higher costs associated with the expanding asset base as part of the capital investment programme.

As a result of the above, operating profit increased to £458.9 million from £381.1 million in the previous year. Net interest payable has also increased due to our continued significant investment programme. The overall result of the above is an increase in profit before tax of £46.5 million to £244.0 million.

Taxation

The current UK mainstream corporation tax credit in 2004/05 reflects the high level of accelerated tax allowances arising from the capital investment. The effective current ordinary tax credit (excluding exceptional items) of 0.4 per cent compares with a credit of 5.7 per cent in 2003/04. The effect of deferred tax is to increase the effective ordinary tax charge (excluding exceptional

Operating and financial review (continued)

items) to 16.3 per cent compared to a credit of 20.7 per cent in 2003/04. The deferred tax charge is £38.9 million (including exceptional credit of £4.2 million, 2004 - nil) compared to a credit of £29.7 million in 2003/04. The difference between 2004/05 and the prior year is mainly because there has been no significant movement in UK government bond rates during this year, while the credit in 2003/04 reflects the impact of a higher discount rate than the prior year. An exceptional deferred tax credit in 2004/05 of £4.2 million is primarily due to restructuring costs incurred by the Company.

Capital structure and treasury policy

The level of capital expenditure which the Company is obliged to incur is such that it cannot be wholly financed by internally generated resources. As a result, the Company raises finance regularly to fund the long term assets required to meet regulatory obligations.

In the year, total borrowings increased by £713.5 million to £3,861.0 million, while net debt rose by £509.0 million to £3,349.3 million. Net interest payable rose by £31.3 million to £214.9 million reflecting the increase in borrowings and movements in interest rates.

Operating within policies approved by the board, the United Utilities PLC Group treasury function does not act as a profit centre and does not undertake any speculative trading activity. We ensure sufficient funding is available to meet foreseeable needs and maintain reasonable headroom for contingencies. Long-term borrowings are structured or hedged to match earnings, which are largely in sterling, indexed to inflation and subject to regulatory price reviews every five years. Exposure to interest rate movements for the following 12 months is largely eliminated each financial year using short-term hedges.

The credit quality of counterparties and individual aggregate exposures are reviewed bi-annually. Moody's Investors Service rates the credit of United Utilities Water PLC as A2 on a long-term basis with a stable outlook and P-1 on a short-term basis. Equivalent ratings published by Standard and Poor's Rating Services are A-long-term with a stable outlook and A-2 short-term.

United Utilities PLC's €5 billion medium-term and \$1.5 billion short-term note issuance programmes continue to provide effective funding options for the Company. During the period, the

Company arranged £770 million of term funding. This mainly comprises bonds from the medium term note programme and an intercompany loan. We have also increased bank facilities by £50 million. Liquidity as at 31 March 2005 provided by short-term current investments totalled £491.0 million. This, together with undrawn committed bank facilities of £365.0 million provides substantial pre-funding for the Company. Returns on investment and servicing of finance in the cash flow statement include £19.7 million of cash received in 2004/05 due to the early termination of certain interest rate swap contracts. £64.0 million was received in 2003/04 through a similar exercise. This reduced credit exposures to swap counterparties. The resultant accounting gains are being deferred in the balance sheet and will be released to the profit and loss account over the period of the initial hedge.

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 Company's borrowings at 31 March 2005 are set out in note 19 on pages 20 to 23.

Pensions

The valuation of the United Utilities PLC group's pension schemes under FRS 17 results in a net pension deficit at 31 March 2005 of £55.7 million compared with a net deficit of £264.4 million at 31 March 2004. The Company made a lump sum pensions contribution of £113.8 million, split between the United Utilities PLC group's pension schemes, on 31 March 2005. The Company does not expect to make any further cash contributions during the 2005/10 period in to the defined benefit schemes, although the results of the next actuarial valuation will be incorporated into the 2007/08 financial statements.

Martin Beesley

Finance Director
United Utilities Water PLC

Directors' report

for the year ended 31 March 2005

Principal activities

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

This report is to be read in conjunction with the Chairman's statement and Operating and Financial Review, which appear on the preceding pages.

Results and dividends

The results for the year, set out in the profit and loss account on page 6, show that turnover for the year ended 31 March 2005 increased to £1,135.1 million, an increase of 10.3 per cent over the previous year. Profit for the year after tax was £206.1 million (2004 - £238.4 million).

An interim dividend of £68.3 million (2004 - £66.7 million) was paid in February 2005. The directors recommend a final dividend of £137.5 million (2004 - £134.9 million) for the year to 31 March 2005.

Preference share dividends totalled £9.1 million (2004 - £9.1 million).

Regulation

As required by paragraph 3.1 of Condition K of the Instrument of Appointment granted by the Secretary of State for the Environment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 ("the Licence"), the directors state that they are satisfied that as at 31 March 2005, if a special administration order had been made under section 23 of the Water Industry Act 1991 in respect of United Utilities Water PLC, the Company would have had available to it sufficient rights and assets (not including financial resources) to have enabled the special administrator to manage the affairs, business and properties of the Company so that the purpose of the order could have been achieved.

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

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

Employment policies

Employees are key to achieving our business goals and the Company is committed to improving the skills of its people. The Company respects the dignity and rights of every employee, supports them in performing various roles in society and challenges prejudice and stereotyping. The Company is committed to involving employees through open and regular communications about business changes to allow a free flow of information and ideas.

We participate extensively in Business in the Community programmes, encourage wider opportunities for women and for people from ethnic minorities and we actively support employees with disabilities.

Proper attention to health and safety is an indispensable part of the Company's commitment to high standards in every aspect of the business.

The Company encourages participation in the United Utilities PLC Group's all employee share schemes.

Research and development

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

Supplier payment policy and practice

The policy is normally to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the Company seeks to adhere to the payment terms provided the relevant goods and services have been supplied in accordance with the contracts. The Company had 33 days of purchases (2004 - 39 days) outstanding at the end of the financial year.

Directors

The directors of the Company during the year ended 31 March 2005 are set out below. All were directors for the whole year except where otherwise indicated. There are no other directors' interests that require disclosure under Companies Act 1985.

Non-executive directors

P G S Entwistle
D E Morton JP

Executive directors

J E Roberts* Chairman (and Chief Executive, United Utilities PLC)
R D Armstrong
J A Barnes
S G Batey*
S Beaumont
M Beesley (appointed 14 October 2004)
K Budinger
C Cornish*
G Dixon
C H Elphick
J Lang

*Director, United Utilities PLC

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

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

Independent Auditor

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the forthcoming Annual General Meeting.

Registered address

United Utilities Water PLC
Dawson House
Great Sankey
Warrington
WA5 3LW
Registered number : 2366678

By order of the board



Martin Beesley
Director
15 July 2005

Directors' responsibilities

in respect of the preparation of financial statements

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

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

they continue to adopt a going concern basis in preparing these financial statements. The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

In addition, the directors have responsibility for ensuring that the Company keeps proper accounting records sufficient to enable the historical cost and current cost information required by Condition F of the licence to be prepared, having regard to all relevant Regulatory Accounting Guidelines. The directors have a general legal responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities. The directors are required to confirm in the financial statements that, in their opinion, the Company was in compliance with paragraph 3.1 of Condition K of the licence relating to the availability of the rights and assets, at the end of the financial year (see page 4).

Independent auditors' report

to the members of United Utilities Water PLC

We have audited the financial statements of United Utilities Water PLC for the year ended 31 March 2005 which comprise the profit and loss account, the balance sheet, the cash flow statement, the notes to the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

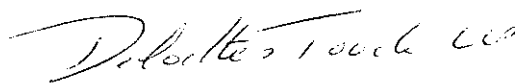
Basis of audit opinion

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 March 2005 and of the profit of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Manchester
15 July 2005

Profit and loss account

for the year ended 31 March

	Note	2005 £m	2004 £m
Turnover	1(c),2	1,135.1	1,029.3
Net operating costs (including exceptional charges in 2005 of £14.1 million, 2004 - nil)	3	(676.2)	(648.2)
Operating profit		458.9	381.1
Net interest payable and other similar charges	7	(214.9)	(183.6)
Profit on ordinary activities before taxation		244.0	197.5
Tax on profit on ordinary activities	8	(37.9)	40.9
Profit for the financial year		206.1	238.4
Dividends	9	(214.9)	(210.7)
Transfer (from)/to reserves	21	(8.8)	27.7

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

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

Reconciliation of movements in shareholders' funds

For the year ended 31 March

	2005 £m	2004 £m
Profit for the financial year	206.1	238.4
Dividends	(214.9)	(210.7)
Net movement in shareholders' funds for the year	(8.8)	27.7
New share capital issued	-	100.0
Opening shareholders' funds	2,256.2	2,128.5
Closing shareholders' funds	2,247.4	2,256.2

Balance sheet

At 31 March

	Note	2005 £m	2004 £m
Fixed assets			
Tangible assets	10	6,292.6	5,846.5
Investments	11	0.3	0.4
		6,292.9	5,846.9
Current assets			
Stock		2.8	2.4
Debtors	12	366.5	255.1
Investments	13	491.0	278.8
Cash at bank and in hand		-	7.7
		860.3	544.0
Creditors			
Amounts falling due within one year	14	(1,174.9)	(767.0)
Net current liabilities		(314.6)	(223.0)
Total assets less current liabilities		5,978.3	5,623.9
Creditors			
Amounts falling due after more than one year	15	(3,467.3)	(3,148.4)
Provisions for liabilities and charges	17	(263.6)	(219.3)
Net assets		2,247.4	2,256.2
Capital and reserves			
Share capital	20	755.3	755.3
Share premium account	20	647.8	647.8
Profit and loss account	21	844.3	853.1
Shareholders' funds		2,247.4	2,256.2
Shareholders' funds may be analysed as:			
Equity interests		2,024.0	2,032.8
Non-equity interests		223.4	223.4
		2,247.4	2,256.2

Approved by the board of directors on 15 July 2005 and signed on its behalf by:



Martin Beesley
Finance Director

Cash flow statement

For year ended 31 March

	2005 £m	2005 £m	2004 £m	2004 £m
Net cash inflow from operating activities		605.9		667.1
Returns on investments and servicing of finance				
Interest received	9.9		11.9	
Interest paid	(222.0)		(194.6)	
Interest element of finance lease repayments	(5.6)		(6.0)	
Termination of interest rate swap contracts	19.7		64.0	
Income received from current asset investments	2.3		8.0	
Non-equity dividends paid	(9.1)		(9.1)	
Net cash outflow from returns on investment and servicing of finance		(204.8)		(125.8)
Taxation		13.5		9.1
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(735.5)		(831.9)	
Grants and contributions received	17.6		13.9	
Disposal of tangible fixed assets	2.3		7.2	
Net cash outflow for capital expenditure		(715.6)		(810.8)
Acquisitions and disposals		0.1		1.0
Equity dividends paid		(203.2)		(198.1)
Cash outflow before management of liquid resources and financing		(504.1)		(457.5)
Management of liquid resources				
(Increase)/decrease in short term deposits		(212.2)		174.2
Financing		734.1		250.4
Increase/(decrease) in cash and overdrafts		17.8		(32.9)

Notes to the cash flow statement

For year ended 31 March

	2005 £m	2004 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	458.9	381.1
Depreciation	249.3	259.1
Amortisation of grants and contributions	(4.1)	(3.7)
Profit on disposal of tangible fixed assets	(2.1)	(4.5)
Stock (increase)/decrease	(0.4)	0.1
Debtors (increase)/decrease	(111.8)	3.5
Creditors increase	10.7	31.5
Movement in other provisions	5.4	-
Net cash inflow from operating activities	605.9	667.1

Notes to the cash flow statement (continued)

For the year ended 31 March

	2005 £m	2004 £m
Reconciliation of net cash flow to movement in net debt		
Increase/(decrease) in cash and overdrafts in the year	17.8	(32.9)
Cash inflow from increase in debt and lease financing	(734.1)	(150.4)
Cash used to increase/(decrease) liquid resources	212.2	(174.2)
Changes in net debt resulting from cash flows	(504.1)	(357.5)
Exchange and other non-cash adjustments	(4.9)	4.6
Movement in net debt in the year	(509.0)	(352.9)
Opening net debt	(2,840.3)	(2,487.4)
Net debt at 31 March	(3,349.3)	(2,840.3)

	2005 £m	2004 £m
Analysis of cash flows for headings netted in the cash flow statement		
Financing		
Issue of shares	-	100.0
New loans	779.4	322.6
Loans repaid	(45.3)	(51.8)
Finance lease repaid	-	(102.3)
New short term borrowings	-	12.3
Short term borrowings repaid	-	(30.4)
Net cash inflow from financing	734.1	250.4

	2005 £m	2004 £m
Acquisitions and disposals		
Disposals:		
Current assets	0.1	(6.1)
Current liabilities	-	5.1
Net cash inflow from disposal	0.1	1.0

	At 1 April 2004 £m	Cashflow £m	Non - cash movements £m	At 31 March 2005 £m
Analysis of changes in net debt				
Cash at bank and in hand	7.7	(7.7)	-	-
Overdrafts	(38.5)	25.5	-	(13.0)
	(30.8)	17.8	-	(13.0)
Parent undertaking loans	40.7	-	-	40.7
Debt due after one year	(2,990.4)	(313.1)	(1.5)	(3,305.0)
Debt due within one year	(57.6)	(421.0)	(3.4)	(482.0)
Finance Leases	(81.0)	-	-	(81.0)
	(3,119.1)	(716.3)	(4.9)	(3,840.3)
Current asset investments	278.8	212.2	-	491.0
Net debt	(2,840.3)	(504.1)	(4.9)	(3,349.3)

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 Company's financial statements.

(a) Basis of preparation of financial statements

The financial statements of United Utilities Water PLC have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and, except for the treatment of certain grants and contributions (note (f)), with the Companies Act 1985. The Company disposed of its only subsidiary (North West Water Finance PLC, a dormant subsidiary) in the period and therefore no longer produces consolidated group accounts.

(b) Cash

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

(c) Turnover

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

(d) Research and development

Expenditure on research and development is expensed as incurred.

(e) Tangible fixed assets

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

(i) Infrastructure assets

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

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

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

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

(ii) Other assets

Additions are included at cost. Freehold land is not depreciated. Other assets are depreciated by writing off their cost less their estimated residual value evenly over their estimated 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

(iii) Carrying value of tangible fixed assets

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

(f) Grants and contributions

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

The directors are of the opinion that, although provision is made for depreciation of infrastructure assets (see note (e)(i)), 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 Company's effective investment in infrastructure assets. The financial effect of this accounting policy is set out in note 10.

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

(g) Leased assets

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

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

(h) Fixed asset investments

Fixed asset investments are stated at the lower of cost and recoverable amount.

(i) Stocks

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

(j) Current asset investments

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

Notes to the accounts (continued)

1 Accounting policies (continued)**(k) Pensions**

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

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

In addition, the Company participates in a defined contribution scheme operated by United Utilities PLC, 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 paid are shown as either accruals or prepayments in the balance sheet.

The Company has included the disclosure requirements of FRS 17 'Retirement Benefits' together with details of pension and funding arrangements in note 22.

(l) Taxation

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

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

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

(m) Financial instruments**Debt instruments**

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

Interest rate swaps 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 debt are accounted for on an accruals basis, with amounts payable or receivable in respect of these instruments being recognised as adjustments to interest expense of the designated liability.

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

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

Currency swaps

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

(n) Environmental remediation

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

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

Notes to the accounts (continued)

2 Segmental information

The Company operates in the United Kingdom in one class of business as stated in the Directors' report.

3 Net operating costs

	2005 £m	2004 £m
Employee costs:		
Wages and salaries	109.2	94.7
Social security costs	8.6	7.8
Pension contributions (note 22)	14.9	7.2
	132.7	109.7
Capital schemes	(45.2)	(41.6)
	87.5	68.1
Depreciation:		
Owned fixed assets	200.5	169.1
Fixed assets held under finance leases	1.7	1.7
	202.2	170.8
Non-infrastructure depreciation	47.1	88.3
Infrastructure depreciation	249.3	259.1
	28.8	27.4
Raw materials and consumables	28.8	27.4
Other operating costs include:		
Other operating costs	299.9	300.3
Auditors' remuneration	0.2	0.2
Amortisation of grants and contributions	(4.1)	(3.7)
Research and development	0.5	0.6
Operating leases:		
- hire of plant and machinery	2.0	1.2
- land and buildings	1.4	0.9
Exceptional charge - restructuring provision (note 17)	14.1	-
Other income (note 4)	(3.4)	(5.9)
	310.6	293.6
Total net operating costs	676.2	648.2

Managed service fees and asset charges from parent and fellow subsidiary undertakings are contained within other operating costs. Fees payable to Deloitte & Touche LLP for non-audit services during the year were £0.4 million, primarily relating to regulatory and advisory work (2004 - £0.1 million).

Employee costs including business restructuring exceptional items, net of charges to capital schemes, amount to £101.6 million (2004 - £68.1 million).

Notes to the accounts (continued)

4 Other income (see note 3)

	2005 £m	2004 £m
Profit on disposal of fixed assets	2.1	4.5
Net rents receivable	1.3	1.4
<i>Other income</i>	3.4	5.9

5 Directors

The aggregate emoluments of the directors in 2005 amounted to £1,566,426 in respect of services allocated to the Company (2004 - £1,152,012). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of the highest paid director, C Cornish, in respect of services allocated to the Company amounted to £392,312. In 2004, R D Armstrong was the highest paid director, with total emoluments of £277,612, and accrued pension entitlement of £98,154 per annum. The emoluments of J E Roberts and S G Batey are not included in the aggregate emoluments figures. The emoluments of these two directors are disclosed in the accounts of United Utilities PLC.

There were 7 directors (2004 - nil) who had long term incentive plans which vested during the year ended 31 March 2005, with an aggregate value of £330,968 (2004 - £nil).

At 31 March 2005 and the prior year, the directors and their families had the following interests, all of which were beneficial interests, in the ordinary and A shares and options to subscribe for ordinary and A shares in United Utilities PLC (details of the interests of J E Roberts, S G Batey and C Cornish in United Utilities PLC are disclosed in that company's accounts).

	At 31 March 2005 Interest in shares				At 31 March 2004 or date of appointment Interest in shares			
	Ordinary shares	A Shares	Executive option scheme	Employee sharesave scheme	Ordinary shares	A Shares	Executive option scheme	Employee sharesave scheme
R D Armstrong	30,080	4,569	-	2,909	16,125	7,480	3,235	2,909
J A Barnes	13,534	2,570	25,645	3,545	8,765	1,141	25,645	3,545
S Beaumont	10,185	-	27,547	2,909	7,522	2,229	27,696	2,909
M Beesley	5,299	456	14,494	1,178	4,232	456	14,494	2,091
K Budinger	-	-	-	1,213	-	-	-	1,213
G Dixon	4,584	1,802	12,961	3,169	3,450	1,802	1,752	3,169
C H Elphick	19,007	-	-	3,556	8,308	7,683	27,306	3,556
P G S Entwistle	1,500	832	-	-	1,500	832	-	-
J Lang	543	70	-	2,909	318	70	-	2,909
D E Morton JP	-	-	-	-	-	-	-	-

Four directors exercised options during the period (2004 - one).

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

Notes to the accounts (continued)

5 Directors (continued)

With the exception of G Dixon, all executive directors are members of, and contribute to the United Utilities Pension Scheme which is an exempt approved pension scheme with defined benefit and defined contribution sections of membership. It contains sections which are open to all eligible employees. It provides pensions and other benefits to members within Revenue & Customs limits. All the current executive directors are members and contribute to the Scheme. The defined benefit scheme provides a pension for them on normal retirement at age 60 of between 1/30th and 1/45th of pensionable earnings for each completed year of service. The maximum pension is two thirds of pensionable earnings. Early retirement is possible from the age of 50 if the Company agrees.

G Dixon is a member of, and contributes to, the Electricity Supply Pension Scheme, a defined benefit scheme which provides on normal retirement at the age of 60 a pension equal to 1/80th of pensionable earnings for each completed year of service (plus 3/80th cash). Early retirement is possible from the age of 50 if the Company agrees.

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

6 Employees

Average number of persons employed during the year	2005	2004
Licensed utility operations	3,430	3,249

7 Net interest payable and other similar charges

	2005 £m	2004 £m
Interest payable and similar charges:		
On bank loans, overdrafts and other loans	213.4	170.1
On finance leases	3.3	2.9
Parent and fellow subsidiary undertakings	40.0	29.6
Total interest payable and similar charges	256.7	202.6
Investment income:		
Income received from current asset investments	(3.1)	(8.0)
Interest receivable and similar income		
- Parent and fellow subsidiary undertakings	(9.8)	(6.4)
- External	(28.9)	(4.6)
Net interest payable and other similar charges	214.9	183.6

Notes to the accounts (continued)

8 Taxation on profit on ordinary activities**(a) Analysis of charge/(credit) in the year**

	2005 £m	2004 £m
Current tax:		
UK corporation tax at 30%	-	(16.1)
Prior year tax adjustments	(1.0)	4.9
Total ordinary current tax	(1.0)	(11.2)
Deferred tax:		
Origination and reversal of timing differences	78.9	73.2
Increase in discount	(36.8)	(98.0)
Prior year tax adjustments	1.0	(4.9)
Total ordinary deferred tax excluding exceptional items	43.1	(29.7)
Tax charge/(credit) on profit on ordinary activities excluding exceptional items	42.1	(40.9)
Tax on exceptional items		
Deferred tax:		
Origination and reversal of timing differences	(4.2)	-
Total tax on exceptional items	(4.2)	-
Tax charge/(credit) on profit on ordinary activities	37.9	(40.9)

Total deferred tax for the period, including exceptional items, is £38.9 million charge (2004 - £29.7 million credit).

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

(b) Factors affecting tax charge/(credit) for the year

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

	2005 £m	2004 £m
Profit on ordinary activities before tax	244.0	197.5
	%	%
UK corporation tax rate	30.0	30.0
Capital allowances in excess of depreciation	(31.2)	(60.2)
Utilisation of tax losses	1.3	11.1
Other timing differences	0.1	12.0
Prior year tax adjustments	(0.4)	2.5
Non-taxable income	(0.2)	(1.1)
Actual current tax rate	(0.4)	(5.7)

Notes to the accounts (continued)

9 Dividends

	2005 £m	2004 £m
Interim dividend of 12.83 pence per share (2004 - 15.44 pence)	68.3	66.7
Final dividend of 25.85 pence per share recommended (2004 - 25.36 pence)	137.5	134.9
Preference share dividend 7.00 pence per share (2004 - 7.00 pence)	9.1	9.1
	214.9	210.7

United Utilities Water PLC has increased its ordinary dividend payment to United Utilities North West PLC (formerly United Utilities Service Delivery PLC) by 2.1 per cent to £205.8 million for the year. The dividend policy this year is consistent with the Company's performance and the management of the economic risks of the business. During the prior year, United Utilities Water PLC received £100 million of new share capital. Had the 100 million shares not been issued, the total dividend this year would have remained the same and the pence per share on the interim dividend would have been 15.81 pence (2004 - 15.44 pence). United Utilities Water PLC has also paid a preference dividend of £9.1 million for the year to United Utilities North West PLC.

10 Tangible fixed assets

	Land and buildings £m	Infrastructure assets £m	Operational structures £m	Fixtures, fittings tools and equipment £m	Assets in course of construction £m	Total £m
Cost:						
At 1 April 2004	213.3	3,630.1	2,880.9	576.4	998.1	8,298.8
Additions	1.0	111.3	62.9	33.2	498.6	707.0
Grants and contributions	-	(11.4)	-	-	-	(11.4)
Transfers	2.2	145.7	250.1	39.9	(437.9)	-
Disposals	(9.3)	-	(7.3)	(76.7)	-	(93.3)
At 31 March 2005	207.2	3,875.7	3,186.6	572.8	1,058.8	8,901.1
Depreciation:						
As 1 April 2004	63.7	1,229.5	815.5	343.6	-	2,452.3
Charge for the year	8.1	47.1	119.6	74.5	-	249.3
Disposals	(9.2)	-	(7.4)	(76.5)	-	(93.1)
At 31 March 2005	62.6	1,276.6	927.7	341.6	-	2,608.5
Net book value:						
At 31 March 2005	144.6	2,599.1	2,258.9	231.2	1,058.8	6,292.6
At 31 March 2004	149.6	2,400.6	2,065.4	232.8	998.1	5,846.5

Grants and contributions received relating to infrastructure assets have been deducted from the cost of fixed assets in order to show a true and fair view. As a consequence, the cost of fixed assets, as adjusted for amortisation, is £106.3 million (2004 - £94.9 million) lower than it would have been had this treatment not been adopted.

Notes to the accounts (continued)

10 Tangible fixed assets (continued)**Infrastructure renewals**

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

	£m
Excess depreciation over expenditure at 1 April 2004	(7.6)
Expenditure on maintaining the network in the year	54.7
Depreciation for the year	(47.1)
Excess depreciation over expenditure at 31 March 2005	-

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

	2005 £m	2004 £m
Cost:		
Operational structures	81.0	132.2
Fixtures, fittings, tools and equipment	-	0.9
At 31 March	81.0	133.1
Accumulated depreciation:		
Operational structures	(11.4)	(60.9)
Fixtures, fittings, tools and equipment	-	(0.8)
At 31 March	(11.4)	(61.7)
Net book value:		
Operational structures	69.6	71.3
Fixtures, fittings, tools and equipment	-	0.1
At 31 March	69.6	71.4

The depreciation charge for the year for assets held under finance leases is £1.7 million (2004 - £1.7 million).

	2005 £m	2004 £m
Capital commitments:		
Contracted but not provided for	225.8	439.5

Notes to the accounts (continued)

11 Fixed asset investments

	Shares in subsidiary undertakings £m	Other investments £m	Total £m
Cost at 1 April 2004	-	0.4	0.4
Disposals	-	(0.1)	(0.1)
Cost at 31 March 2005	-	0.3	0.3

The Company disposed of its only subsidiary, North West Water Finance PLC (a dormant company), in the year.

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

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

12 Debtors

	2005 £m	2004 £m
Trade debtors	95.2	99.1
Amounts owed by parent and fellow subsidiary undertakings	57.5	58.0
Other debtors	38.3	39.4
Prepayments and accrued income	175.5	58.6
	366.5	255.1

Amounts owed by parent and fellow subsidiary undertakings includes £40.7 million floating rate loans (2004 - £40.7 million). Within other debtors is £19.9 million (2004 - £19.0 million) and within prepayments is £105.1 million (2004 - nil) which fall due after more than one year.

13 Current asset investments

	2005 £m	2004 £m
Cash on deposit	191.0	278.8
Managed funds and other short-term investments	300.0	-
	491.0	278.8

Maturity profile of current asset investments is overnight to 12 months, with amounts repayable on maturity.

Notes to the accounts (continued)

14 Creditors : amounts falling due within one year

	2005 £m	2004 £m
Loans (note 19)	254.1	45.3
Bank overdrafts (note 19)	13.0	38.5
Obligations under finance leases (note 19)	0.8	-
Trade creditors	25.7	31.1
Amounts owed to parent and fellow subsidiary undertakings	286.0	50.8
Dividends	137.5	134.9
Other creditors	0.7	1.7
Taxation and social security	27.5	15.3
Deferred grants and contributions (note 16)	4.3	3.7
Accruals and deferred income	425.3	445.7
	1,174.9	767.0

Included in amounts owed to parent and fellow subsidiary undertakings is £212.1 million (2004 - nil) included within term loans, and £15.8 million (2004 - £12.3 million) included within temporary borrowings, in balances less than one year within note 19.

15 Creditors : amounts falling due after more than one year

	2005 £m	2004 £m
Loans (note 19)	2,862.6	2,535.9
Obligations under finance leases (note 19)	80.2	81.0
Amounts owed to parent and fellow subsidiary undertakings (note 19)	442.4	454.5
Other creditors	2.5	2.1
Deferred grants and contributions (note 16)	79.6	74.9
	3,467.3	3,148.4

16 Deferred grants and contributions

	£m
At 1 April 2004	78.6
Received in the year	9.4
Profit and loss account	(4.1)
At 31 March 2005	83.9

Notes to the accounts (continued)

17 Provision for liabilities and charges

	Restructuring £m	Deferred Tax (note 18) £m	Total £m
At 1 April 2004	-	219.3	219.3
Charged to the profit and loss account	14.1	38.9	53.0
Utilised in the year	(8.7)	-	(8.7)
At 31 March 2005	5.4	258.2	263.6

The majority of the restructuring provision is expected to be utilised within the next 12 months.

18 Deferred tax (see note 17)

	2005 £m	2004 £m
Accelerated capital allowances	1,139.5	1,063.4
Short-term timing differences	(78.0)	(77.6)
Undiscounted provision for deferred tax	1,061.5	985.8
Discount	(803.3)	(766.5)
Discounted provision for deferred tax	258.2	219.3

19 Borrowings

	2005 £m	2004 £m
Bank overdrafts and temporary borrowings	28.8	50.8
Term loans	3,771.2	3,035.7
Finance leases	81.0	81.0
	3,881.0	3,167.5

Repayments fall due as follows:

	Year ending 31 March	2005 £m	Year ending 31 March	2004 £m
After five years	2011+	1,849.0	2010+	1,255.4
From four to five years	2010	159.1	2009	417.6
From three to four years	2009	417.9	2008	886.8
From two to three years	2008	909.8	2007	47.9
From one to two years	2007	49.4	2006	463.7
After more than one year		3,385.2		3,071.4
Within one year	2006	495.8	2005	96.1
		3,881.0		3,167.5

Notes to the accounts (continued)

19 Borrowings (continued)

Included in the above are finance lease payments falling due as follows:

	2005 £m	2004 £m
Less than one year	0.8	-
Between one and five years	27.5	19.5
After five years	52.7	61.5
Total	81.0	81.0

Loans repayable by instalments after five years comprise bank and other loans repayable between 2011 and 2053. Interest rates range from 1.135 per cent to 14.83 per cent (2004 - 0.75 per cent to 14.83 per cent) on £1,396.4 million (2004 - £1,041.0 million) and are at floating rates on £452.6 million (2004 - £214.4 million).

Bank overdrafts and temporary borrowings

The Company had available unutilised committed bank facilities of £365 million (2004 - £315 million). The amounts currently unutilised expire as follows:

	£m
Less than one year	25.0
One to two years	-
After two years	340.0
Total	365.0

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

	Borrowings at 31 March 2005 £m	Borrowings at 31 March 2004 £m
Fixed rate borrowings		
Sterling	1,233.5	1,047.1
United States Dollars*	454.6	454.5
Euros*	1,463.7	1,086.5
Japanese Yen*	104.2	102.2
	3,256.0	2,690.3
Floating rate borrowings		
Sterling	400.2	438.6
United States Dollars*	200.0	13.8
Japanese Yen*	12.3	12.3
Hong Kong Dollars*	12.5	12.5
	625.0	477.2
Floating rate parent undertaking loan - sterling	(40.7)	(40.7)
Short term investments - sterling	(491.0)	(278.8)
Cash at bank	-	(7.7)
Net debt at 31 March	3,349.3	2,840.3

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

Notes to the accounts (continued)

19 Borrowings (continued)

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	
	2005 £m	2004 £m	2005 %	2004 %	2005 Years	2004 Years
Fixed rate borrowings - sterling	3,386.9	2,777.6	6.0	7.1	4.8	2.3
Floating rate borrowings - sterling	494.1	389.9				
	3,881.0	3,167.5				
Floating rate parent undertaking loan - sterling	(40.7)	(40.7)				
Short term investments - sterling	(491.0)	(278.8)				
Cash at bank	-	(7.7)				
Net debt at 31 March	3,349.3	2,840.3				

Floating rate borrowings are based on LIBOR.

Financial instruments and risk management

The primary financial risks faced by the Company are exchange rate risk and interest rate risk. The board has reviewed and agreed policies for managing each of these risks as summarised below. The board has also approved all of the classes of financial instruments used by the Company. United Utilities PLC'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 Company uses a variety of financial instruments, including derivatives, to raise finance for its operations and to manage the risks arising from those operations.

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

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

Under a currency rate swap, the Company 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 Company's involvement in the instruments, but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

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

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

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

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

a) Interest rate swaps

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

Notes to the accounts (continued)

19 Borrowings (continued)**b) Financial futures**

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

c) Forward contracts

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

d) Currency swaps

The Company 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.

	2005 Book value £m	2005 Fair value £m	2004 Book value £m	2004 Fair value £m
Short term debt and current portion of long term debt	495.8	495.8	96.1	96.1
Long term debt	3,385.2	3,485.9	3,071.4	3,249.8
	3,881.0	3,981.7	3,167.5	3,345.9
Interest rate swaps	-	35.2	-	13.0
Foreign exchange contracts and currency swaps	-	(50.7)	-	(107.4)
Total borrowings	3,881.0	3,966.2	3,167.5	3,251.5

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

Current assets and liabilities

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

Long term receivables and liabilities

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

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

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

Currency and interest rate swaps

The Company 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 £17.4 million (2004 - £5.1 million). The fair value of these financial instruments was estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year end. The fair values of currency and interest rate swaps exclude the related accrued interest receivables and payables.

Hedges

Unrecognised gains and losses on financial assets and liabilities for which hedge accounting has been used at the balance sheet date were £151.8 million and £136.3 million respectively (2004 - £182.3 million and £88.0 million).

The Company anticipates that £85.2 million of these gains and £62.1 million of these losses will be realised in the forthcoming financial year (2004 - £20.3 million and £53.7 million). Of the unrecognised gains and losses on hedges as at 1 April 2004, the net loss in the profit and loss account for the year ended 31 March 2005 was £44.2 million (2004 - £28.0 million).

Notes to the accounts (continued)

20 Called up share capital and share premium accounts

	2005 £m	2004 £m
Authorised share capital		
650,000,000 ordinary shares of £1 each	650.0	650.0
223,437,000 preference shares of £1 each	223.4	223.4
Allotted and fully paid share capital		
531,930,000 ordinary shares of £1 each (2004 - 431,930,000 ordinary shares of £1 each)	531.9	531.9
130,000,000 7 per cent preference shares of £1 each	130.0	130.0
93,437,000 zero per cent preference shares of £1 each	93.4	93.4
	755.3	755.3
Share premium account	647.8	647.8

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

21 Profit and loss account

	2005 £m
At 1 April 2004	853.1
Loss for the year	(8.8)
At 31 March 2005	844.3

22 Pensions

The Company participates in a number of pension schemes principally in the UK. The major schemes are funded defined benefit schemes – the United Utilities Pension Scheme ('UUPS') and the United Utilities Group of 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 United Utilities PLC's and the Company's finances.

For UUPS and ESPS, the pension cost and asset under the accounting standard SSAP 24 have been assessed in accordance with the advice of a firm of actuaries, Mercer Human Resource Consulting, using the projected unit method. For this purpose, the actuarial assumptions adopted are based upon investment growth of 7.6 per cent per annum pre-retirement and 5.6 per cent per annum post-retirement; pay growth of 4.1 per cent per annum for UUPS and 4.3 per cent per annum for ESPS; and increases to pensions in payment and deferred pensions of 2.8 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 Schemes were carried out as at 31 March 2004. The combined market value of United Utilities PLC's share of the assets of the Schemes at the valuation date was £1,839.9 million. Using the assumptions adopted for SSAP 24, the combined actuarial value of the assets represented 97 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 deficit in the Schemes was 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 actuarial assumptions from those described above. For ESPS, the employer's contributions have been assessed in accordance with the advice of a firm of actuaries, Hewitt Bacon and Woodrow, using different actuarial assumptions and methods from those described above.

During the year ended 31 March 2005, the Company contributed to UUPS at rates which ranged from 16.1 per cent to 30.3 per cent of pensionable salaries dependent upon benefit category. In addition, further contributions were made to cover the cost of additional severance benefits granted. During the year ended 31 March 2005, the Company contributed to ESPS at a rate of 19.0 per cent of pensionable salaries.

Notes to the accounts (continued)

22 Pensions (continued)

On 31 March 2005, the Company made lump sum payments of £110.9 million and £2.9 million to UUPS and ESPS respectively. The payments were in lieu of the estimated Company contributions that would have been payable for defined benefit members over the five years from 1 April 2005. Subject to the results of the actuarial valuations at 31 March 2007, Company contributions will resume from 1 April 2010. In the meantime, the Company will continue to pay contributions in respect of the defined contribution members and insurance premiums. Other payments will be made by the Company in accordance with the funding agreement between the Trustee and United Utilities PLC.

The Company 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.

The total pension cost for the period was £23.6 million of which £8.7 million is included within the business restructuring exceptional provision (2004 - £7.2 million). A prepayment of £125.0 million is included in the balance sheet at 31 March 2005 (2004 - £19.0 million).

FRS 17 transitional disclosure

The Company is unable to identify its share of the Schemes' assets and liabilities on a consistent and reasonable basis. As permitted by FRS 17 'Retirement Benefits', these Schemes will be accounted for by the Company when the accounting standard is fully adopted, as if the Schemes were a defined contribution scheme. Information in respect of the Schemes as a whole for United Utilities PLC is set out below.

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. Under transitional arrangements of FRS 17 'Retirement Benefits', United Utilities PLC 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 2004. The valuation of liabilities detailed below has been derived by projecting forward the position at 31 March 2004 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 is 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 2005	At 31 March 2004	At 31 March 2003
Discount rate	5.40%	5.50%	5.50%
Pensionable salary growth - UUPS	4.10%	4.30%	4.00%
Pensionable salary growth - ESPS	4.30%	4.30%	4.00%
Pension increases	2.80%	2.80%	2.50%
Price inflation	2.80%	2.80%	2.50%

	At 31 March 2005		At 31 March 2004		At 31 March 2003	
	Expected rates of return	Total £m	Expected rates of return	Total £m	Expected rates of return	Total £m
Equities	7.60%	1,468.0	7.60%	1,268.9	7.50%	1,008.0
Property	7.60%	1.3	7.60%	2.1	7.50%	3.5
Bonds	5.40%	343.8	5.50%	193.2	5.50%	217.4
Gilts	4.60%	428.2	4.60%	383.4	4.50%	314.3
Other	4.60%	61.4	4.60%	1.7	4.50%	24.2
Market value of assets		2,302.7		1,849.3		1,567.4
Present value of Schemes' liabilities		(2,382.3)		(2,227.0)		(1,993.2)
Implied deficit in the Schemes		(79.6)		(377.7)		(425.8)
Related deferred tax asset		23.9		113.3		127.7
Net pension liability under FRS 17		(55.7)		(264.4)		(298.1)

Notes to the accounts (continued)

23 Operating leases

	Land and buildings 2005 £m	Plant and machinery 2005 £m	Land and buildings 2004 £m	Plant and machinery 2004 £m
The Company is committed to making the following payments during the year:				
Non-cancellable operating leases which expire:				
Within one year	-	0.2	-	0.4
Between two and five years	-	1.2	-	1.0
After five years	0.9	-	0.9	-
	0.9	1.4	0.9	1.4

24 Related party transactions

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

25 Ultimate parent undertaking

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

Regulatory accounting information

The Regulatory Accounts on pages 29 to 44 have been prepared in accordance with the requirements of Regulatory Accounting Guidelines issued by the Director General of Water Services.

Turnover and net operating assets for the non-appointed business, as defined by Regulatory Accounting Guidelines, are not

material and, therefore, the current cost profit and loss account, balance sheet and cash flow statement show the figures for the total Company.

Independent accountants' report

to the Director General of Water Services ("the Regulator") and United Utilities Water PLC ("the Company").

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2005 which comprise;

- the regulatory historical cost accounting statements, comprising the regulatory historical cost profit and loss account and the regulatory historical cost balance sheet; and
- the regulatory current cost accounting statements, comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes numbered 1 to 11 to the current cost financial statements including note 1 regarding the accounting policies on which the Regulatory Accounts have been prepared.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Condition F of the Instrument of appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991 (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Regulatory Licence and the Regulatory Accounting Guidelines (being versions 1.03, 2.03, 3.05, 4.02 and 5.03), the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles ("UK GAAP") and the basis of preparation of information provided in the Regulatory Accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the Regulator, the Directors and auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess

whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 5.

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

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, asset and liabilities of the Company and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guidelines for the classification of expenditure), Regulatory Accounting Guideline 3.05 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.02 (Guideline for the analysis of operating costs and assets) and whether the regulatory current cost accounting statements on pages 31 to 42 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02. We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F of the Regulatory Licence or if we have not received all the information and explanations we require for our audit, and whether the information provided is in agreement with the appointee's underlying accounting records.

We read the other information contained within the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the performance review, the notes on regulatory information, and the additional information required by the licence.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the UK Auditing Practices Board, except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the

Independent accountants' report (continued)

information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory accounts of the Company on which we reported on 15 July 2005, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "statutory audit") was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 29 to 30 have been drawn up in accordance with Regulatory Accounting Guideline 3.05 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given on page 30.

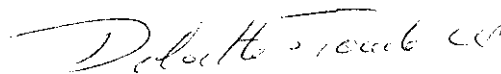
Audit Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2005 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act

1991, the Regulatory Accounting Guidelines issued by the Regulator and the accounting policies set out on page 34, the state of the Company's affairs at 31 March 2005 and its profit for the period then ended.

We are also required to report in respect of various specific obligations of the Company as set out in its Instrument of Appointment. In respect of these obligations, we report that in our opinion:-

- a) proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument;
- (b) the information is in agreement with the appointee's accounting records;
- (c) the regulatory historical cost accounting statements on pages 29 to 30 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator; and
- (d) the regulatory current cost accounting statements on pages 31 to 42 have been properly prepared in accordance with Regulatory Accounting Guideline 1.03, Regulatory Accounting Guideline 3.05 and Regulatory Accounting Guideline 4.02 issued by the Regulator.



Deloitte & Touche LLP
Chartered Accountants
Manchester
15 July 2005

Summarised Company historical cost profit and loss account

For the year ended 31 March

	Note	2005 £m	2004 £m
Turnover		1,135.1	1,029.3
Operating costs		(691.1)	(654.1)
Operating income	4	2.1	4.5
Operating profit		446.1	379.7
Other income	5	4.4	9.4
Net interest payable	6	(218.0)	(191.6)
Profit on ordinary activities before taxation		232.5	197.5
Taxation		(34.4)	40.9
Profit for the year		198.1	238.4
Dividends		(214.9)	(210.7)
Retained (loss)/profit for the year		(16.8)	27.7

For the purpose of the Regulatory Accounts, income from rents receivable of £1.3 million (2004 - £1.4 million) is disclosed within other income, and not operating income, and income from current asset investments of £3.1 million (2004 - £8.0 million) is disclosed within other income, and not net interest payable and similar charges.

In 2004/05 £11.5 million of expenditure relating to aqueduct security of supply work has been capitalised in the statutory accounts based on the Company's interpretation of FRS15. This expenditure has been classified as infrastructure renewals expenditure in the regulatory accounts based on the Company's interpretation of RAG2.03. Accordingly, an adjustment of £3.5 million has also been made to the deferred taxation charge. This classification is similarly reflected in the historic cost balance sheet on page 30 and current cost profit and loss account and balance sheet on page 31.

Summarised Company historical cost balance sheet

At 31 March

	2005 £m	2004 £m
Fixed assets		
Tangible fixed assets	6,281.2	5,854.1
Investments	0.3	0.4
Total fixed assets	6,281.5	5,854.5
Current assets		
Stock	2.8	2.4
Debtors	325.8	214.4
Cash at bank	-	7.7
Short-term investments	531.7	319.5
Total current assets	860.3	544.0
Creditors: amounts falling due within a year		
Borrowings	(495.8)	(96.1)
Dividends payable	(137.5)	(134.9)
Other creditors	(537.4)	(536.0)
Total creditors	(1,170.7)	(767.0)
Net current liabilities	(310.4)	(223.0)
Total assets less current liabilities	5,971.1	5,631.5
Creditors: amounts falling due after more than one year		
Borrowings	(3,385.3)	(3,071.4)
Other creditors	(2.4)	(2.1)
	(3,387.7)	(3,073.5)
Provision for liabilities and charges	(260.1)	(226.9)
Deferred income	(83.9)	(74.9)
Net assets employed	2,239.4	2,256.2
Capital and reserves		
Called up share capital	755.3	755.3
Share premium	647.8	647.8
Profit and loss account	836.3	853.1
Capital and reserves	2,239.4	2,256.2

In the preparation of the statutory accounts, the Company has followed industry practice and adopted the infrastructure renewals accounting basis as set out in FRS 15 'Tangible fixed assets'. However, for the purposes of the Regulatory Accounts, Ofwat has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. The infrastructure renewals accrual of nil in 2005 (2004 - £7.6 million) is therefore shown within provisions for liabilities and charges, not fixed assets.

Expenditure relating to aqueduct security of supply work is classified as described on page 29.

For the purposes of the Regulatory Accounts, loans to parent and fellow subsidiary undertakings of £40.7 million (2004 - £40.7 million) are disclosed within short-term investments, not debtors.

For the purposes of the Regulatory Accounts, deferred income is classified separately. For the purposes of the statutory accounts £4.3 million of deferred income is disclosed within creditors falling due within one year (2004 - £3.7 million), and £79.6 million is classified within creditors falling due after more than one year (2004 - £74.9 million).

Current cost profit and loss account

For year ended 31 March

	Note	2005 £m	2004 £m
Turnover	2	1,135.1	1,029.3
Current cost operating costs	3	(776.9)	(724.6)
Operating income	2	1.3	2.8
Working capital adjustment	2	359.5	307.5
		8.6	4.1
Current cost operating profit		368.1	311.6
Other income	5	4.4	9.4
Net interest payable	6	(218.0)	(191.6)
Financing adjustment		99.8	72.6
Current cost profit on ordinary activities before taxation		254.3	202.0
Taxation			
- Current tax		1.0	11.2
- Deferred tax		(35.4)	29.7
Current cost profit attributable to shareholders		219.9	242.9
Dividends		(214.9)	(210.7)
Current cost profit retained		5.0	32.2

The cost of services provided by Vertex Data Science Limited, an associated company of United Utilities Water PLC, has been analysed across operating costs as if the service were carried out by United Utilities Water PLC, in accordance with RAG4 guidelines.

Expenditure relating to aqueduct security of supply work is classified as described on page 29.

Current cost balance sheet

At 31 March

	Note	2005 £m	2004 £m
Tangible assets	7	40,587.2	37,799.4
Third party contributions since 1989/90		(230.4)	(211.1)
Working capital	9	(132.1)	(269.3)
Net operating assets		40,224.7	37,319.0
Cash and investments		531.9	319.8
Non-trade debtors		144.9	40.5
Non-trade creditors due within one year		(719.1)	(191.5)
Creditors due after one year		(3,387.7)	(3,073.8)
Provisions for liabilities and charges			
- Deferred tax		(254.7)	(219.3)
- Other provisions		(5.4)	-
Dividends payable		(137.5)	(134.9)
Net assets employed		36,397.1	34,059.8
Capital and reserves			
Called up share capital		755.4	755.4
Share premium account		647.8	647.8
Profit and loss account		(251.7)	(256.7)
Current cost reserve	10	35,245.6	32,913.3
Shareholders' funds		36,397.1	34,059.8

Expenditure relating to aqueduct security of supply work is classified as described on page 29.

Current cost cash flow statement

For the year ended 31 March

	2005 £m	2005 £m	2004 £m	2004 £m
Net cash flow from operating activities		605.9		667.1
Returns on investments and servicing of finance				
Interest received	9.9		11.9	
Interest paid	(222.0)		(194.6)	
Interest in finance lease rentals	(5.6)		(6.0)	
Termination of interest rate swap contracts	19.7		64.0	
Income received from current asset investments	2.3		8.0	
Non-equity dividends paid	(9.1)		(9.1)	
Net cash outflow from returns on investments and servicing of finance		(204.8)		(125.8)
Taxation received		13.5		9.1
Capital expenditure				
Gross cost of purchase of fixed assets	(669.2)		(750.9)	
Receipt of grants and contributions	17.6		13.9	
Infrastructure renewals expenditure	(66.3)		(81.0)	
Disposal of fixed assets	2.3		7.2	
Net cash outflow from investing activities		(715.6)		(810.8)
Acquisitions and disposals		0.1		1.0
Equity dividends paid		(203.2)		(198.1)
Management of liquid resources				
(Increase)/decrease in short-term deposits		(212.2)		174.2
Net cash outflow before financing		(716.3)		(283.3)
Financing		734.1		250.4
Increase/(decrease) in cash and overdrafts		17.8		(32.9)

Notes to the current cost cash flow statement

For the year ended 31 March

	2005 £m	2004 £m
Reconciliation of current cost operating profit to net cash flow from operating activities		
Current cost operating profit	368.1	311.6
Working capital adjustment	(8.6)	(4.1)
Changes in stock	(0.4)	0.1
Receipts from other income	1.3	1.4
Current cost depreciation	296.1	265.5
Effect of other deferrals and accruals on operating activity cashflow	(4.9)	(4.3)
Current cost profit on disposal of fixed assets	(1.3)	(2.9)
(Increase)/decrease in debtors and prepaid expenses	(111.8)	3.6
(Decrease)/increase in creditors and accrued expenses	(4.3)	15.2
Infrastructure renewals expenditure	66.3	81.0
Movement in other provisions	5.4	-
Net cash inflow from operating activities	605.9	667.1

Notes to the current cost cash flow statement (continued)

For the year ended 31 March

	2005 £m	2004 £m
Analysis of cash flows for headings netted in the cash flow statement		
Financing		
Issue of shares	-	100.0
New loans	779.4	322.6
Loans repaid	(45.3)	(51.8)
Finance lease repaid	-	(102.3)
New short term borrowings	-	12.3
Short term borrowings repaid	-	(30.4)
Net cash inflow from financing	734.1	250.4

	At 1 April 2004 £m	Cashflow £m	Non cash movements £m	At 31 March 2005 £m
Analysis of changes in net debt				
Cash at bank and in hand	7.7	(7.7)	-	-
Overdrafts	(38.5)	25.5	-	(13.0)
	(30.8)	17.8	-	(13.0)
Debt due after one year	(2,990.4)	(313.1)	(1.5)	(3,305.0)
Debt due within one year	(57.6)	(421.0)	(3.4)	(482.0)
Finance Leases	(81.0)	-	-	(81.0)
	(3,159.8)	(716.3)	(4.9)	(3,881.0)
Current asset investments	319.5	212.2	-	531.7
Net debt	(2,840.3)	(504.1)	(4.9)	(3,349.3)

Notes to the current cost accounts

1 Current cost accounting policies

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

An Asset Management Plan (AMP) survey of existing assets as at 31 March 2003 was undertaken during 2003/04 and the adjustments to asset values as a result of that exercise were included within the tangible fixed asset note in 2004/05. The current cost depreciation figures included in the 2004/05 current cost operating costs have been based upon the revised values. In the intervening years, between AMP surveys, values are restated to take account of changes in the general level of inflation as measured by changes in the Retail Price Index (RPI), and any other significant changes in asset records identified during the year.

(a) Tangible fixed assets

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

(i) Operational assets

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

Specialised operational assets are valued on the basis of information provided by the Asset Management Plan (AMP). Values are adjusted by changes in RPI between Periodic Reviews. The unamortised portion of third party contributions received is deducted in arriving at net operating assets (as described below).

(ii) Infrastructure assets

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

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

(iii) Other fixed assets

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

(b) Grants and other third party contributions

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

(c) Real financial capital maintenance adjustments

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

(i) Working capital adjustment

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

(ii) Financing adjustment

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

(iii) Depreciation adjustment

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

(iv) Disposal of fixed assets adjustment

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

(d) Allocation of costs to principal services

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

Notes to the current cost accounts (continued)

2 Analysis of turnover and operating income

For the year ended 31 March	2005			2004		
	Water services £m	Sewerage services £m	Total £m	Water services £m	Sewerage services £m	Total £m
Turnover						
Tariff basket						
- Measured	160.5	222.7	383.2	142.1	196.5	338.6
- Unmeasured	311.5	316.7	628.2	277.6	295.6	573.2
- Trade effluent	-	25.9	25.9	-	21.4	21.4
	472.0	565.3	1,037.3	419.7	513.5	933.2
Non-tariff basket						
- Revenue grants	0.3	-	0.3	0.1	-	0.1
- Large user revenues	44.5	28.9	73.4	42.9	29.9	72.8
- Other sources	2.6	1.0	3.6	3.6	1.5	5.1
- Third party services	14.5	6.0	20.5	16.2	1.9	18.1
Total Turnover	533.9	601.2	1,135.1	482.5	546.8	1,029.3
Operating income						
Current cost profit on disposal of fixed assets	1.1	0.2	1.3	1.0	1.8	2.8
Total operating income	1.1	0.2	1.3	1.0	1.8	2.8
Working capital adjustment	4.0	4.6	8.6	1.9	2.2	4.1

Notes to the current cost accounts (continued)

3 Current cost operating costs for the year ended 31 March 2005

Service Analysis	Water services				Sewerage services		
	Resource and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage £m	Sewage treatment £m	Sludge treatment and disposal £m	Sewerage service subtotal £m
Direct costs							
Employment costs	11.0	10.4	21.4	3.3	13.6	7.6	24.5
Power	5.4	6.4	11.8	2.2	10.3	4.6	17.1
Hired and contracted services	2.3	14.7	17.0	9.2	3.7	9.3	22.2
Materials and consumables	7.5	1.4	8.9	0.2	5.1	4.0	9.3
Service charges EA	12.6	-	12.6	1.9	3.9	-	5.8
Other direct costs	-	1.3	1.3	0.3	0.5	0.3	1.1
Total direct costs	38.8	34.2	73.0	17.1	37.1	25.8	80.0
General and support expenditure	19.9	22.2	42.1	3.9	28.4	16.7	49.0
Functional expenditure	58.7	56.4	115.1	21.0	65.5	42.5	129.0
Operating expenditure							
Customer services			30.9				31.2
Scientific services			7.5				3.7
Other business activities			3.6				3.6
Total business activities			42.0				38.5
Local authority rates			21.9				18.5
Doubtful debts			18.5				20.9
Exceptional items			7.1				7.1
Total opex less third party services			204.6				214.0
Third party services - operating expenditure			13.9				1.1
Total operating expenditure			218.5				215.1
Capital maintenance							
Infrastructure renewals expenditure	5.2	37.9	43.1	22.9	-	0.3	23.2
Infrastructure renewals accrual/ (prepayment)	-	14.1	14.1	(29.8)	-	-	(29.8)
Current cost depreciation (allocated)	54.2	20.3	74.5	17.8	100.4	22.7	140.9
Amortisation of deferred credits			(2.9)				(2.1)
Business activities current cost depreciation (non allocated)			42.3				38.0
Capital maintenance excluding third party services			171.1				170.2
Third party services - capital maintenance			2.0				-
Total capital maintenance			173.1				170.2
Total operating costs			391.6				385.3
CCA (MEA) values:							
Service activities	4,132.1	8,912.7	13,044.8	24,296.1	2,009.9	1,002.3	27,308.3
Business activities			111.2				89.4
Total			13,156.0				27,397.7
Services for the third parties			33.5				-
Total			13,189.5				27,397.7

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

Notes to the current cost accounts (continued)

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

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

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

Notes to the current cost accounts (continued)

4 Operating income

	2005 £m	2004 £m
Profit on disposal of fixed assets	2.1	4.5
Operating income	2.1	4.5

5 Other income

	2005 £m	2004 £m
Income received from current asset investments	3.1	8.0
Net rents receivable	1.3	1.4
Other income	4.4	9.4

6 Net interest payable

	2005 £m	2004 £m
Interest payable and similar charges:		
On bank loans, overdrafts and other loans	213.4	170.1
On finance leases	3.3	2.9
Group undertakings	40.0	29.6
Total interest payable and similar charges	256.7	202.6
Interest receivable and similar income:		
Group undertakings	(9.8)	(6.4)
External	(28.9)	(4.6)
Net interest payable	218.0	191.6

7 Current cost analysis of fixed assets by asset type for the year ended 31 March 2005

Total services	Specialised operational assets £m	Non-specialised operational assets £m	Infrastructure assets £m	Other tangible assets £m	Total £m
Gross replacement cost:					
At 1 April 2004	7,765.1	125.6	33,629.8	875.1	42,395.6
AMP adjustment	(28.5)	(5.2)	84.6	(308.7)	(257.8)
RPI adjustment	248.2	4.0	1,074.8	28.0	1,355.0
Transfer	-	-	-	-	-
Disposals	(25.1)	(2.9)	-	(84.5)	(112.5)
Additions	390.7	6.7	194.7	45.3	637.4
At 31 March 2005	8,350.4	128.2	34,983.9	555.2	44,017.7
Depreciation:					
At 1 April 2004	4,052.4	13.7	-	530.1	4,596.2
AMP adjustment	(1,336.5)	28.0	-	(188.7)	(1,497.2)
RPI adjustment	129.5	0.4	-	17.0	146.9
Transfer	-	-	-	-	-
Disposals	(24.8)	(2.4)	-	(84.3)	(111.5)
Charge for the year	208.7	6.7	-	80.7	296.1
At 31 March 2005	3,029.3	46.4	-	354.8	3,430.5
Net book value					
At 31 March 2005	5,321.1	81.8	34,983.9	200.4	40,587.2
At 1 April 2004	3,712.7	111.9	33,629.8	345.0	37,799.4

Notes to the current cost accounts (continued)

7 Current cost analysis of fixed assets by asset type for the year ended 31 March 2005 (continued)

As disclosed in note 1 to the current cost accounts on page 34 the Company completed an Asset Management Plan (AMP) survey and revaluation of its existing assets as at 31 March 2003. In accordance with instructions from Ofwat the Company has incorporated the adjustment this year within the AMP adjustment line. The revaluation is based on an assessment of the Modern Equivalent Asset Value (MEAV) of the Company's assets being the current cost and accumulated depreciation of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued. The Company's assessments, which were completed as part of the 2004 Price Review process, reflect its judgements in respect of asset lives, age profiles, asset condition and performance as at 31 March 2003.

Water services	Specialised operational assets £m	non-specialised operational assets £m	Infrastructure assets £m	Other tangible assets £m	Total £m
Gross replacement cost:					
At 1 April 2004	3,175.2	56.1	11,794.3	421.5	15,447.1
AMP adjustment	(423.4)	19.6	(1,364.1)	(150.8)	(1,918.7)
RPI adjustment	101.5	1.8	376.9	13.5	493.7
Transfer	-	-	-	23.5	23.5
Disposals	(18.4)	(2.9)	-	(42.8)	(64.1)
Additions	159.2	3.6	81.5	29.3	273.6
At 31 March 2005	2,994.1	78.2	10,888.6	294.2	14,255.1
Depreciation:					
At 1 April 2004	1,899.5	3.6	-	259.1	2,162.2
AMP adjustment	(1,157.5)	22.2	-	(90.6)	(1,225.9)
RPI adjustment	60.7	0.1	-	8.3	69.1
Transfer	-	-	-	5.4	5.4
Disposals	(18.1)	(2.4)	-	(42.7)	(63.2)
Charge for the year	70.5	4.0	-	43.5	118.0
At 31 March 2005	855.1	27.5	-	183.0	1,065.6
Net book value:					
At 31 March 2005	2,139.0	50.7	10,888.6	111.2	13,189.5
At 1 April 2004	1,275.7	52.5	11,794.3	162.4	13,284.9
Sewerage services	Specialised operational assets £m	Non-specialised operational assets £m	Infrastructure assets £m	Other tangible assets £m	Total £m
Gross replacement cost:					
At 1 April 2004	4,589.9	69.5	21,835.5	453.6	26,948.5
AMP adjustment	394.9	(24.8)	1,448.7	(157.9)	1,660.9
RPI adjustment	146.7	2.2	697.9	14.5	861.3
Transfer	-	-	-	(23.5)	(23.5)
Disposals	(6.7)	-	-	(41.7)	(48.4)
Additions	231.5	3.1	113.2	16.0	363.8
At 31 March 2005	5,356.3	50.0	24,095.3	261.0	29,762.6
Depreciation:					
At 1 April 2004	2,152.9	10.1	-	271.0	2,434.0
AMP adjustment	(179.0)	5.8	-	(98.1)	(271.3)
RPI adjustment	68.8	0.3	-	8.7	77.8
Transfer	-	-	-	(5.4)	(5.4)
Disposals	(6.7)	-	-	(41.6)	(48.3)
Charge for the year	138.2	2.7	-	37.2	178.1
At 31 March 2005	2,174.2	18.9	-	171.8	2,364.9
Net book value:					
At 31 March 2005	3,182.1	31.1	24,095.3	89.2	27,397.7
At 1 April 2004	2,437.0	59.4	21,835.5	182.6	24,514.5

Notes to the current cost accounts (continued)

7 Current cost analysis of fixed assets by asset type for the year ended 31 March 2005 (continued)

The transfer of other cost and depreciation from sewerage to water services in the tables on page 39 are reclassifications relating to other tangible asset additions from financial years 2001 to 2004. These reclassifications represent the Company's estimation of the most appropriate basis of allocation in order to align allowances and expenditure for the 2000-2005 period.

8 Regulatory capital value

	2005 £m
Opening RCV for the year	5,538
Capital expenditure	493
Infrastructure renewals expenditure	103
Infrastructure renewals charge	(111)
Grants and contributions	(19)
Depreciation	(234)
Outperformance of regulatory assumptions (5 years in arrears)	8
Price Review rebasing by Ofwat	280
Closing RCV carried forward	6,058
Average RCV (2004/05 year average prices)	5,590

The figures quoted are as published by Ofwat in March 2005 (at March 2004 prices) and therefore do not agree with other actual values reflected in the Company's regulatory financial statements. All costs have been indexed to March 2005 (RPI - 190.5) prices, except for the average RCV, which is shown at year average prices (RPI - 188.5), in accordance with Ofwat's regulatory accounting guidelines. Ofwat have rebased the 1 April 2005 RCV to £6,058 million due to the logging up of expenditure excluded from the price control in the 2005-10 period and additions for indexation due to construction prices being in excess of RPI.

9 Working capital

	2005 £m	2004 £m
Stocks	2.8	2.4
Trade debtors	95.2	99.1
Working cash balances	-	7.7
Trade creditors	(25.7)	(31.1)
Short-term capital creditors	(154.5)	(186.3)
Infrastructure renewals accrual	-	(15.7)
Other trade accruals	(85.4)	(179.3)
Trade payments in advance	-	53.1
Payroll related taxation and social security	(2.8)	(2.6)
Group trade creditors	(31.3)	(22.1)
Prepayments and other debtors	69.6	5.5
Total working capital	(132.1)	(269.3)

10 Movement on current cost reserve

	2005 £m	2004 £m
At 1 April	32,913.3	32,045.3
AMP adjustment	1,239.4	0.4
RPI adjustments:		
Fixed assets	1,208.1	949.5
Working capital	(8.6)	(4.1)
Financing	(99.8)	(72.6)
Grants and third party contributions	(6.8)	(5.2)
At 31 March	35,245.6	32,913.3

Notes to the current cost accounts (continued)

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

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

Borrowings and sums lent

The following loans from associated companies existed at 31 March 2005:

	£m	Interest rate	Repayment date
United Utilities PLC - 400 million US \$ bonds	242.4	6.875%	August 2028
United Utilities PLC - 350 million US \$ bonds	212.1	6.25%	August 2005
United Utilities Delaware Inc - 364.5 million US \$ bonds	200.0	2.41% to 3.41%	July 2034

United Utilities Water PLC operates a daily zero balancing sweep banking arrangement with its parent United Utilities PLC. This has resulted in a total of £0.9 million net interest payable to United Utilities PLC for the year.

The following loans to associated companies existed at 31 March 2005:

	£m	Interest rate	Repayment date
United Utilities PLC	40.0	4.45% to 5.36%	On demand

Dividends paid to associated undertakings

During the year, dividends payable to United Utilities North West PLC (formerly United Utilities Service Delivery PLC) totalled £214.9 million. This comprised a final dividend for the year ended 31 March 2005 of £137.5 million, an interim dividend of £68.3 million and a 7 per cent preference share dividend of £9.1 million.

The ordinary dividend increased by 2.1 per cent in 2004/05. The Company's dividend policy is to declare dividends which are consistent with the Company's performance and the management of the economic risk of the business. This policy has resulted in dividend growth broadly in line with inflation in this review period.

Notes to the current cost accounts (continued)

11 Information in respect of transactions with any other business or activity of the appointee or any associated company (continued)**Supply of services****Services supplied to United Utilities Water PLC from associated companies:**

Nature of transaction	Company	Terms of supply	Total value of service £m
Managed Services	Vertex Data Science Limited	Market tested rates based on actual activity undertaken and other market testing	60.0
Systems and software development	Vertex Data Science Limited	Market tested rates based on actual activity undertaken and other market testing	19.8
Group management charge	United Utilities PLC	Recharge of costs	17.4
Water meter supply and installation	United Utilities Networks Limited	Recharge of costs	13.6

Note - The Group management charge of £17.4 million (2004 - £14.6 million) from United Utilities PLC represents 53.3 per cent (2004 - 60.3 per cent) of the total management charge to subsidiaries. Approximately 80 per cent of the charge is allocated by activity (2004 - 80 per cent).

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

Services supplied by United Utilities Water PLC to associated companies:

Nature of transaction	Company	Terms of supply	Total value of service £m
Shared services	United Utilities Electricity PLC	Recharge of costs	14.7
New connections	United Utilities Networks Limited	Recharge of costs	7.9

Note - Shared services include support, accounting and procurement services.

Turnover of associated companies (based on draft statutory accounts) for the year ended 31 March 2005:

	Turnover of associated company £m
Vertex Data Science Limited	362.4
United Utilities Electricity PLC	258.4
United Utilities Networks Limited	170.2

Regulatory accounts commentary

This review should be read in conjunction with the Chairman's statement, the Operating and Financial review and the directors' report that form part of the statutory financial statements.

Movements from prior year and five year trends

Turnover and operating costs

The factors outlined in the Operating and Financial review contribute to the movements in turnover and operating costs from the prior year.

Over the five year period turnover has been impacted by the price review, which reduced income in 2001 and 2002, and then increased it over the next three years. Measured sales, including large user revenues now represent 40 per cent of total sales, compared with 34 per cent in 2000/01 as new properties are always connected with a measured supply. The switch from unmeasured to measured methods of billing has also led to small decreases in per capita consumption.

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

Net interest

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

Financing adjustment

The increase in the financing adjustment over the five year period is a result of the uplift in the RPI figure and increased borrowing to fund the capital programme. Note 1 c(ii) on page 34 contains further explanation on this adjustment.

Taxation

The factors outlined in the Operating and Financial review contribute to the movements in taxation during the period. With the exception of 2003/04, the tax charge over the period has remained relatively consistent. The credit in 2003/04 was principally due to the impact of increased UK government bond rates on the discount of the full potential liability.

Dividends

The basis of the dividend is outlined in note 11 under the heading "Dividends paid to associated undertakings".

Tangible fixed assets

Tangible assets increased each year as a result of the continued investment as part of the asset management programme together with the RPI adjustment to restate the asset values in real terms, offset by the depreciation in the year. During the year, adjustments were made to the current cost asset base following the 2004 Periodic Review in line with Ofwat instructions (see page 34).

Third party contributions

Movements over the five year period in third party contributions are broadly in line with the increase in tangible fixed assets.

Working capital

Movements in working capital for the period are outlined in note 9 on page 40. Other trade accruals have reduced due to a reclassification of interest accruals from working capital to non-trade creditors. Short-term capital creditors have reduced reflecting a fall in capital expenditure from the peak in 2003/04. The reduction in the infrastructure renewals accrual reflects the activity on the programme and the movement to a nil balance by the end of the AMP period. Accrued income has been reclassified

from trade payments in advance to prepayments and accrued income in the period. The overall increase in the five year period is mainly due to an increase in capital accruals in line with the increase in capital investment.

Cash and investments

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

Non-trade debtors

The increase in non-trade debtors in the year is mainly due to a prepayment of pension contributions.

Non-trade creditors

The increase in the period reflects £700 million of new borrowing offset by a reclassification of debt less than one year as discussed above.

Creditors due after one year

The increased level of creditors since 2001 predominantly reflects the long-term debt raised to fund the capital investment programme, and the subsequent prefunding as detailed above.

Current Cost Reserve

The increase in the year mainly reflects the RPI and AMP adjustment to tangible fixed assets (see note 10).

Called up share capital

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

Provisions

The increase in provisions from 2000/01 mainly reflects the implementation of FRS 19 'Deferred taxation'. The increase in the period mainly reflects capital allowances in excess of depreciation and the creation of a restructuring provision in 2004/05.

Atypical amounts

Atypical amounts in 2005 totalled £15.3 million mainly relating to restructuring costs to enable the regulated business to meet its required efficiency targets for the AMP4 period and a reassessment of prior year liabilities.

Changes in the treatment of expenditure

There have been no material changes in the treatment of expenditure in 2004/05.

Basis of allocation of expenditure

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

Amounts paid to charitable trusts

The Company has created an independent charitable trust to assist customers with payment difficulties to which it intends to donate approximately £15 million over the next five years commencing in 2005/06.