

**United Utilities Water PLC**

**ANNUAL REPORT & FINANCIAL STATEMENTS**

For the year ended 31 March 2007

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**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**For the year ended 31 March 2007**

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## Managing Director's statement

### Performance

United Utilities Water PLC has delivered a strong financial performance in the year to 31 March 2007. Turnover increased by 7 per cent to £1,318.2 million, reflecting allowed price increases of 6.4 per cent above inflation. Operating profit increased to £568.7 million, up 11 per cent on last year, primarily reflecting the allowed price increases which support the substantial levels of capital investment being made by the company to improve operational standards and services for our customers.

Looking beyond the financial results, the board has been pleased with progress on important areas such as customer service, leakage and continued support for community programmes.

Better scheduling, improved communications and the use of new technology have seen us not only meet but outperform our Ofwat leakage target for 2006/07, while efficiency gains have been achieved through reduced bureaucracy and duplication of effort. Reservoir levels in March 2007 were over 95% full and in line with expectations for this time of year. The business expects to maintain a healthy supply and demand balance avoiding the need for water restrictions. In wastewater, we are moving up the efficiency rankings thanks to improvements in operations and maintenance.

We have made good progress in improving customer satisfaction levels, which have improved to 74 per cent during the year. We have further improved water quality, reduced pollution incidents by over 50%, and have made a net reduction of 149 properties on the sewer flooding register.

Changes now in place are already giving us greater clarity on our future capital investment programme. Cumulative water capital expenditure remains on track to match regulatory assumptions by 2008 and cumulative wastewater capital expenditure by 2009.

In June 2007, Ofwat imposed a penalty of £8.5 million on the company for rule breaches in respect of trading with associated companies. The company has worked closely with Ofwat to resolve the alleged breaches and has always fully disclosed the trading arrangements with associated companies to Ofwat. Following competitive tendering processes, the directors believe the company is now fully compliant with Ofwat rules.

The board places great importance on the quality, accuracy and reliability of information, both financial and non-financial, that we provide to our regulators. Such information is subject to rigorous internal, and sometimes external, checks, review and sign-off before it is submitted.

### Strategy

Although water and wastewater customers have continued to benefit from overall improved levels of efficiency, there is scope for further improvement. The business intends to focus on simultaneously improving its efficiency and levels of service. A number of initiatives are already in place and are progressing well. We have already seen improvements in comparative efficiency and we are on track to deliver better performance for all our stakeholders during the period to 2010.

We are currently implementing the right organisational model to help deliver our strategy which will also support the sharing of best practice and knowledge across the business. We intend to focus the structure of the business around the separate skills of Asset Management and Operations in order to accelerate performance improvement. As part of this overall strategy, we are developing a management scorecard that provides a high level comparison of our progress against respected companies in utility and wider corporate industries. We are also determined to improve capability through training and recruitment.

### The future

United Utilities is the first UK water company to set out an action plan to reduce its carbon emissions. The company's electricity consumption has almost doubled since privatisation, as a result of delivering environmental and customer improvements and this plan is actually targeting a reversal in the rising trend of carbon emissions. We have developed a cost-effective programme after working closely with the Carbon Trust to maximise our contribution in tackling climate change. Our carbon investment programme is estimated at around £37 million, with an expected three to five year payback period. We are targeting a gross reduction in carbon emissions of around 26 per cent in the medium term, with approximately eight per cent to come from our internal carbon reduction plans and around 18 per cent via renewable energy supply contracts. Harvesting sustainable energy from wastewater treatment processes is a key element in meeting this target and we now have close to a quarter of the UK's sewage gas combined heat and power plants.

So far we have made good progress in customer satisfaction levels as a result of the introduction of popular new practices such as two-hour appointment windows and Sunday working. Good progress has also been made on leakage levels, water quality, pollution incidents and sewer flooding. We recognise, though, that there is still more to do.

**Stakeholders**

We are committed to listening and responding to the needs of our different stakeholders employees, customers, investors, regulators and our commercial partners Understanding their requirements and then managing and reporting our performance is central to how we run our business The cornerstone of this approach is our employees and I would like to thank them for their continuing commitment and hard work

Clive Elphick  
Managing Director  
13<sup>th</sup> July 2007

## Operating and financial review

### NATURE OF THE BUSINESS

#### Business overview

United Utilities Water PLC is a public limited company registered in England and Wales, providing wastewater and water services in North West England. The company was incorporated on 1 April 1989 under the Companies Act 1985.

United Utilities Water PLC is a subsidiary of United Utilities North West PLC which, in turn, is a wholly owned subsidiary of United Utilities PLC. United Utilities PLC Group ("the group") is one of the largest operators of water and wastewater systems in the UK. This also includes the provision of operations and maintenance and shared services activities to Dŵr Cymru Welsh Water and capital investment partners for Scottish Water and Southern Water. The group also owns and operates an electricity network, operates a gas network and provides multi-utility metering and connections services.

The activities of United Utilities Water PLC during the year were controlled through the United Utilities North West business segment. This division also controlled the electricity distribution assets owned by United Utilities Electricity PLC in North West England.

Since the end of the financial year, the group has realigned its structure to encourage improved performance and to lead to more commercial behaviour. From 1 April 2007, the Utility Solutions function will manage the operation of all wastewater and water, electricity and gas networks, whether on behalf of United Utilities PLC's own businesses or for external clients. The Asset Management and Regulation function will develop and deliver the regulatory price review strategy and will engage with key opinion-formers, ministers, regulators and civil servants. Finally, the Business Development function will develop a business growth strategy for the group and deliver its international business financial targets.

#### Business description

The UK water industry is made up of local and regional companies operating the water and sewerage networks. Figure 1 shows the water and sewerage service boundary map of the UK. Under current legislation, domestic and small commercial customers have no ability to change their supplier. The Water Services Regulation Authority (Ofwat) is the economic regulator of the water and sewerage industry in England and Wales. Its role is to seek value for consumers.

Figure 1 UK Water and sewerage service boundaries



## *Wastewater collection, treatment and disposal operations*

In accordance with its licence, United Utilities Water PLC is responsible for the reception, conveyance, treatment and disposal of domestic wastewater, trade effluent (non-domestic wastewater) and surface water in North West England. Surface water, mainly from groundwater, infiltration and highway drainage, forms a major part of the volume of wastewater that must be treated. In some cases, separate sewers are provided for foul water and surface water so that uncontaminated surface water may be piped directly to a watercourse and re-enter the water cycle. Trade effluent accounts for over 25 per cent of the wastewater load needed to be treated, and is equivalent to the wastewater produced from a population of 2.4 million compared with the actual domestic population of seven million. United Utilities Water PLC's wastewater treatment works provide a range of treatments. These include primary, secondary and tertiary treatment involving a variety of physical, chemical and biological processes. These ensure the constituents of wastewater are broken down or removed before discharge. Fully treated final effluent is discharged into rivers, estuaries or via sea outfalls. The Environment Agency consents, and stringently monitors, all these discharges to ensure they comply with all relevant limits. A by-product of the treatment of wastewater is sewage sludge, which is further treated to produce an end-product that is suitable for recycling. Currently around three-quarters of this end-product is recycled to agricultural land as a soil conditioner or used in land reclamation, and one-quarter is incinerated. However, due to increasing environmental pressures, such as the Water Framework Directive and increasing designation of nitrate vulnerable zones (that is, zones that are subject to restrictions in the amount of nitrogen that can be applied to agricultural land), the amount of end-product that can be recycled to agricultural land is likely to decrease quite significantly in the short to medium term, while the amount of end-product that is incinerated is expected to increase.

## *Water supply operations, treatment and distribution*

United Utilities Water PLC obtains water from various sources including reservoirs, rivers and aquifers. The majority of its reservoirs are in the uplands of the Lake District and the Pennine Hills, areas with a higher than average rainfall. Conversely, the major population centres it serves are in the lowlands of Greater Manchester, Lancashire and Cheshire. Merseyside, the other major population centre served by United Utilities Water PLC, receives its water supply principally from the River Dee and Lake Vyrnwy in North Wales. A large proportion of water supplied by United Utilities Water PLC flows freely by gravity and does not need to be pumped. However, due to the nature of the water catchments, being peaty moorlands or coal measure strata, enhanced treatment methods are required to ensure the water satisfies all regulatory and quality standards. 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. The type of treatment varies from disinfection only (for some borehole sources) to more complex processes using coagulation, sedimentation, clarification and filtration and activated carbon absorption for certain waters. United Utilities Water PLC monitors water quality by analysing samples regularly for both microbiological and chemical parameters. United Utilities Water PLC takes over half a million tests annually at its water treatment works, service reservoirs and at random from our customers' domestic taps. Water quality, as measured by the Operational Performance Index (OPI), was 99.84 per cent in the year to December 2006. Treated water is delivered to the end customer through a network of large diameter trunk mains to smaller trunk mains, service reservoirs and water towers and distribution mains.

## *Customers, billing and debt collection*

United Utilities Water PLC places great importance on customer relations. It manages the sales, billing, cash collection and debt management activities and systems for 3.2 million domestic and business customers in North West England and has responsibility for improving the quality of service and the range of services provided to these customers. During the year, the customer management services were restructured and new contractual arrangements, competitively tendered, will be a key factor in delivering a continuously better service to our customers.

United Utilities Water PLC's aim is to improve continually upon the existing level of customer satisfaction, and to create value from its customer relationships. As the Water Industry Act 1999 prevents licensed water utilities from terminating services to customers for non-payment, the effective management of customer relationships is an important factor in controlling bad debts.

In the UK large-user water market (customers consuming more than 50 megalitres of water per annum), United Utilities Water PLC's activities include on-site treatment of wastewater and water at customers' premises and advice on both controlling leakage at customers' premises and the recycling of water.

## **Regulation and legislation**

### *Economic regulation*

The business is subject to incentive-based economic regulation which imposes caps on increases in customer prices, rewards efficiency and high standards of customer service and penalises inefficiency and poor standards of customer service.

The UK government awarded Instruments of Appointment ('licences') for the provision of wastewater services and water supply in 1989. These licences continue in force for an indefinite period, subject to potential termination rights as set out below. United Utilities Water PLC holds the licence for an area of North West England which comprises 3.2 million homes and businesses. The Water Industry Act 1991 (the 'Act'), as amended by the Water Act 2003 (the 'WA 2003'), provides for the appointment (by way of licensing) of water and sewerage undertakers. Economic regulation pursuant to these licences is currently the responsibility of Ofwat. Ofwat also exercises powers under UK competition legislation, most significantly the Competition Act 1998 and the Enterprise Act 2002.

## United Utilities Water PLC

Ofwat regulates wastewater and water charges by capping the average increase in charges that a company can impose in any year. Ofwat conducts a periodic review and sets price caps every five years. Ofwat has announced that it intends to maintain this five-year price control but that it will place price limits within a longer term framework. For example, it will ask water companies for a 25-year business plan at the next price control review.

This price cap is set by reference to inflation as measured by the retail price index in the UK plus an adjustment factor known as 'K', which is specific to each company and which can vary for each year of the review period. The size of a company's K factor (which can be positive, negative or zero) reflects the scale of its capital investment programme, its cost of capital and its operational and environmental obligations, taking into account the scope for it to improve its efficiency. 'Price cap' regulation, as operated in the UK, is performance-based: companies are incentivised to be efficient, both in terms of their operating costs and in the implementation of their capital expenditure programme. The benefit of any efficiency savings achieved through effective management is retained by the companies for a period of five years, after which time the benefit is passed to customers via the subsequent price setting process. The cost of any under-performance due to poor management is borne by the companies. Companies are also incentivised to provide a high quality of service and penalised if they provide a poor quality of service by means of an adjustment to the K factor at the subsequent price review. The last periodic review was completed in December 2004 and covers the period from 1 April 2005 to 31 March 2010. In the last review, Ofwat set the following K factors, being the amount by which prices are allowed to rise above inflation in each of the five financial years commencing on 1 April 2005:

2005/06	5.0 per cent
2006/07	6.4 per cent
2007/08	4.4 per cent
2008/09	3.5 per cent
2009/10	3.0 per cent

This equates to a real (i.e. excluding inflation) average annual price increase over the five-year period of 4.5 per cent. Ofwat is currently reviewing its cost base methodology in preparation for the next price review.

Unexpected costs or savings arising from changes in certain regulatory assumptions during a review period are recorded and agreed by the company and Ofwat. This process, known as 'logging up and down', allows prices to be adjusted up or down at the next periodic review to compensate (companies or customers) for the unexpected change. In addition, where the change exceeds the specified materiality thresholds, the company can request, and Ofwat can instigate, a re-setting of its price limit during the five-year period, known as an Interim Determination of K ('IDoK'). All water and sewerage companies' licences now include a 'shipwreck' or 'substantial effect' clause, which allows companies' price limits to be revised when events beyond their control have had a significant effect on their costs or turnover.

### *Environmental regulation*

The water and wastewater industry in the UK is subject to substantial domestic and European Union regulation, placing significant statutory obligations on United Utilities Water PLC with regard to, among other factors, the quality of treated water supplied and of wastewater treatment. European Directives (including the Drinking Water Directive, the Bathing Water Directive and the Urban Wastewater Treatment Directive) are transposed into UK law by primary and secondary legislation.

All water and wastewater companies have a general duty to exercise their powers to conserve and enhance natural beauty and to promote the efficient use of water. Environmental regulation is the responsibility of the Secretary of State for Environment, Food and Rural Affairs together with:

- The Environment Agency, which is responsible for conserving and redistributing water resources and securing the proper uses of those resources, including the licensing of water abstraction. The Agency also regulates discharges to controlled waters including discharges from wastewater treatment works,
- The Drinking Water Inspectorate, which enforces drinking water quality standards, and
- Natural England, (formerly English Nature), which is responsible for the protection of designated sites for nature conservation, e.g. Sites of Special Scientific Interest. There is a statutory requirement to manage these sites to conserve or improve biodiversity. As a result of new UK government targets, Natural England is seeking improvements to approximately 50 per cent of the sites within United Utilities PLC's ownership.

### *Regulatory and legislative developments*

United Utilities Water PLC expects regulatory regimes in water and wastewater to continue to evolve and become more onerous. Examples of such regulatory and legislative developments include the following:

- Amendments to the Water Resources Act 1991 by the WA 2003 and the Water Resources (Abstraction and Impounding) Regulations 2006 make new water abstraction licences time-limited and unused licences more easily able to be revoked or varied without compensation, and create a new statutory right of civil action where water abstraction causes loss or damage. Water undertakers must promote water conservation, and must publish drought plans and water resource plans. The government may require publication of flood plans showing the effect of a reservoir dam failure,
- The Water Framework Directive, transposed into UK law in 2003, which requires the UK government to – establish comprehensive river basin management plans from 2009, revised on a six-year cycle,

- implement the first set of river basin management plans by December 2015,
- prevent deterioration in the ecological status of water bodies, and
- achieve 'good' water status by 2027

The Directive is likely to require further improvements in discharges from wastewater networks and treatment works, and

- the Water Supply (Water Quality) Regulations 2000 and the Water Supply (Water Quality) Regulations 2001 (together the Water Quality Regulations), which transpose into UK legislation the Drinking Water Directive, introduce more stringent lead standards (ten micrograms per litre (10ug/l) from 25 December 2013) which will require improvements to treatment works and distribution systems. United Utilities Water PLC has a programme of installing additional phosphate dosing and pH control assets, and replacing lead communication pipes. Lead pipe replacement is likely to need acceleration during the AMP4 period (1 April 2005 to 31 March 2010), and
- the AMP4 Consumer Acceptability programme also provides part of a ten-year programme for the company to clean and refurbish up to 602.2 kilometres of large diameter trunk mains and up to 4,689 kilometres of smaller diameter mains, to deal with iron and manganese deposition and corrosion

Proposed changes to the Water Quality Regulations in 2007 cover emergency bottled water, monitoring by water companies of new abstraction sources, varied monitoring standards, modernised publicity requirements for authorised departures, other information provisions, amended disinfection requirements, altered risk assessment procedures and other matters about supply zones, sources, and standards. Both the company and the UK water companies' trade association, Water UK, have responded indicating a need for clarification of the detail of some of these proposals.

The European Union Urban Wastewater Treatment Directive, which was transposed into UK legislation by the Urban Wastewater Treatment Regulations 1994, requires improvements in the treatment of wastewater discharges, in particular, the provision of secondary treatment. United Utilities Water PLC continues to make progress towards achieving this for wastewater treatment works serving areas with a population equivalent of more than 2,000. The Directive also requires measures to be taken to limit pollution from storm water overflows. Dialogue continues with the regulators on the scope of works needed to meet this obligation and related requirements (for example, see "storm water overflows" below in relation to the recent United Utilities Water PLC 'lead case' appeal decisions).

### *Infringement proceedings*

Infringement proceedings, which began in 2006, by the European Commission against the United Kingdom regarding the implementation of the Urban Wastewater Directive, continue. The European Commission believes that the United Kingdom has not taken all measures needed to reduce the nutrients in wastewater to remedy problems in sensitive areas. Depending upon the outcome of this legal action, some of the Irish Sea could be designated as a sensitive area. This, in turn, could lead to requirements being placed upon United Utilities Water PLC to reduce some nutrient levels in discharges from many of its wastewater treatment facilities which feed into the Irish Sea. There are, in addition, other ongoing infringement proceedings by the European Commission against the United Kingdom regarding the implementation of the Urban Wastewater Treatment Directive, but these do not directly concern United Utilities Water PLC's appointed area.

### *Bathing waters*

A revised European Union Bathing Water Directive entered into force in March 2006, introducing more stringent microbiological standards at designated bathing waters around the UK coast. United Utilities Water PLC's programme of wastewater network and treatment projects relating to its operational facilities continues to improve the quality of, and meet the required standards for, bathing waters in North West England.

### *Sewage sludge on agricultural land*

Discussion at the European level of a new Waste Framework Directive continues and it is likely that the use of sewage sludge on agricultural land will be excluded. However, revision of the UK regulations may introduce tighter limits for metals in sludge. United Utilities Water PLC's preferred route of disposal for sewage sludge remains spreading on agricultural land, but it is concurrently taking steps to ensure sufficient incineration capacity, with expansion of its Shell Green sludge processing centre near Widnes under way, and the planning process having commenced for a further processing centre near Preston.

### *Odour*

Complaints of odour from wastewater treatment works may be actionable as statutory nuisance under the Environmental Protection Act 1990. The current capital programme includes measures to deal with this issue. United Utilities Water PLC complies with the voluntary 'Code of Practice on Odour Nuisance from Sewage Treatment Works', published by the Secretary of State on 12 April 2006. A test case decision of the High Court in January 2006 that certain of United Utilities Water PLC's wastewater treatment plant operations should, in addition, be regulated under the Pollution Prevention and Control Regulations, was upheld in the Court of Appeal in May 2006. Depending upon the outcome of an appeal to the House of Lords, this may result in increased costs of compliance with environmental legislation in relation to such operations.

### *Storm water overflows*

Certain 'lead case' appeals made by United Utilities Water PLC have been decided by a Planning Inspector (appointed by the Secretary of State) in January 2007 in relation to the extent of works required under discharge consents for storm water overflows, including for the purposes of compliance with the Urban Wastewater Treatment Regulations. The implications of these decisions are currently being



considered by Ofwat and the Environment Agency. As part of the five-year periodic review of prices, Ofwat takes into consideration the capital investment programme which United Utilities Water PLC needs to achieve in order to comply with environmental legislation.

### RESOURCES

#### People

Good industrial relations remain a priority for United Utilities Water PLC. The company continues to recognise and work in partnership with trade unions. A statement of principles governs the approach to labour relations across the company. Approximately 99 per cent of employees within the company are now represented by trade unions for collective bargaining purposes under the terms of a voluntary collective agreement, underpinned by the 'Together in Partnership' agreement. Following an independent and comprehensive review and re-evaluation of the agreement, a series of joint initiatives has been put in place to develop further this collaborative approach to employee relations.

United Utilities Water remains committed to maintaining high standards of health and safety in every area of its business and is in full alignment with the HSE 'Revitalising Health and Safety' strategy. Key performance indicators are in place and progress is monitored regularly at all levels throughout the business.

As a utility business, the risk profile remains broad with both major construction projects and contractor management playing a key part. The company had 13 accidents in 2006/07 (representing a rate of 349 per 100,000 employees) which were reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations, showing a significant reduction of over 40 per cent to the previous year's rate of 591 per 100,000 employees. In addition there were 24,251 working days lost, due to accidents and ill health, a rate of 6505 per 1000 employees, showing a reduction of over 6 per cent on the previous rate 6950 days per 1000 employees. Both these indicators show a reduction in excess of the 5 per cent target reduction set across the business.

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

The company is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and also best practice. The company gives equal consideration to applicants with disabilities in its employment criteria and will modify equipment and working practices wherever it is safe and practical to do so, both for new employees and for those employees that are disabled during the course of their employment. Additionally, the company is committed to providing full support and appropriate training for employees who become disabled during the course of their employment so that they can continue to work in a position appropriate to their experience and abilities.

#### Operating facilities

United Utilities Water PLC's water operations involve owning and managing assets which include

- 192 raw water impounding reservoirs and associated catchments,
- 1,183 kilometres of raw water aqueducts,
- 108 water treatment works,
- 862 kilometres of treated water large diameter trunk mains,
- 455 service reservoirs and water towers storing treated water,
- 633 pumping stations, and
- 40,080 kilometres of trunk and distribution mains.

United Utilities Water PLC owns some 58,500 hectares of catchment land. The key reason for owning and managing this land is to protect and improve the quality of raw water supplies, and hence to reduce the risk of non-compliance at our water treatment works, and to reduce operating costs. In the 2004 Periodic Review, the company was successful in obtaining funds (£10.1 million) for an innovative approach to land management entitled the Sustainable Catchment Management Programme (SCaMP). This programme seeks to restore moorland areas so as to meet the government's Public Service Agreement (PSA) targets to bring Sites of Special Scientific Interest (SSSIs) into good condition. At the same time, it seeks to enter into long-term agreements with tenant farmers to reduce livestock to acceptable levels so that, once restored, the moorland areas will be protected for the future. This integrated holistic approach will hopefully bring multiple benefits. As well as delivering the government's biodiversity targets, it is anticipated that there will be improvements in raw water quality (in particular colour) and potentially reduced risk of downstream flooding. The project has just completed its second year. Plans are in place for all the farms and the company has been successful in concluding agreements with tenant farmers covering over 85 per cent of the land area covered by the project. Subject to the availability of the relevant agri-environment grants, such as Higher Level Stewardship, the company is now poised to accelerate delivery on the ground.

United Utilities Water PLC's wastewater operations involve owning and managing assets, which include

- 584 wastewater treatment works,
- 40,323 kilometres of sewers,
- 1,749 pumping stations,
- 371 storage tanks,
- 3,087 combined sewer overflows, and,
- 36 sludge treatment facilities.

## United Utilities Water PLC

As at 31 March 2007, United Utilities Water PLC had the principal operating facilities shown in the table below, all of which are owned by United Utilities Water PLC and are freehold, except Sandon Dock which is leasehold.

Location	Description	Approximate area in hectares
Bowland Estate, Lancashire	Reservoir/gathering grounds	10,120
Haweswater Estate, Lake District, Cumbria	Reservoir/gathering grounds	9,900
Longdendale Estate, Derbyshire	Reservoir/gathering grounds	7,490
West Pennine Moors, Lancashire	Reservoir/gathering grounds	6,872
Thirlmere Estate, Lake District, Cumbria	Reservoir/gathering grounds	4,850
Huntington, near Chester, Cheshire	Water treatment works	107
Davyhulme, Greater Manchester	Wastewater treatment works	89
Prescot, Merseyside	Water treatment works	84
Woodgate Hill, Greater Manchester	Water treatment works	40
Shell Green, Widnes, Cheshire	Sludge processing centre	12
Sandon Dock, Liverpool	Wastewater treatment works	8

Note One hectare equals 2.47 acres .

In addition to the properties described above, the company occupies various non-operational properties consisting primarily of offices, depots, warehouses and workshops. These are either owned by the company or leased. It is anticipated that the company will be able to negotiate renewals of any expiring leases, or relocate the relevant facilities, without having a material adverse impact on the company.

### PRINCIPAL RISKS AND UNCERTAINTIES

The board considers the following risks to be the principal ones that might affect the company's performance and results but cautions that the risks listed in this section do not address all the factors that could cause results to differ materially. There may be additional risks that the company does not currently know of, or that are deemed immaterial based on either information currently available or the company's current assessment of the risk. The company's business, financial condition or results of operations could be materially affected by any of these risks, resulting in a decline in the trading price of the group's ordinary shares. The company operates an internal control system to evaluate and manage risks as described immediately below.

#### *Internal control*

The board is responsible for the company's system of internal controls and for reviewing its effectiveness. Each year management reviews all controls including financial, operational and compliance controls and risk management procedures. The internal control system is designed to manage, rather than to eliminate, the risk of failure to achieve the company's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The key features of the internal control system are

- a control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business,
- comprehensive business planning, risk assessment and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years,
- a bi-monthly board review of financial and non-financial performance to assess progress towards objectives,
- regular monitoring of risks and control systems throughout the year, supported by the use of risks and issues databases,
- a self-certification process, whereby management are required to confirm that the system of internal control is operating effectively,
- a group internal audit function provides independent scrutiny of internal control systems and risk management procedures,
- an annual risk assessment exercise involving self-assessment by management of all business risks in terms of impact, likelihood and control efficacy and an objective challenge of that assessment by the internal audit team,
- health and safety performance reviews carried out by our in-house safety professionals in addition to the normal health and safety risk assessment and management processes carried out within each of the operating businesses,
- centralised treasury operations operating within defined limits and subject to regular reporting requirements and internal audit reviews, and
- established procedures, set out in a group internal control manual, for planning, approving and monitoring major capital expenditure, major projects (which includes short and long-term project budgets), risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

#### *Principal risks and uncertainties*

**The company's turnover is substantially influenced by regulators, which could adversely affect profitability**

Turnover and profitability are substantially influenced by price limits established every five years by the Regulator. Price reviews covering the five-year period commencing on 1 April 2005 were determined by Ofwat in December 2004. Determinations were accepted and United Utilities Water PLC did not exercise its right to appeal adverse price determinations to the Competition Commission. An adverse price determination may occur as a result of a number of factors, including an inadequate allowed cost of capital or unrealistic regulatory assumptions concerning operating expenses, required capital expenditure and turnover forecasts. Scope to re-open these price controls within the charging period is limited but there are provisions for Interim Determinations of K ('IDoK') and the application of the 'shipwreck clause'.

**Failure to deliver the capital investment programmes**

The company requires significant capital expenditure for additions to, or replacement of, plant and equipment for its facilities and networks. The price limits set by Ofwat take into account the level of capital expenditure expected to be incurred during the relevant five-year price review period and the associated funding costs. Historically, the company has financed the expenditures from cash flows from operations and from debt financing. There can be no assurance that cash flows from operations will not decline or that additional debt financing or other sources of capital will be available to meet these requirements.

If the company is unable to deliver the capital programme at expected expenditure levels, is unable to secure the expected capital efficiencies associated with the capital programme or the programme falls behind schedule for other reasons, or adverse legacy effects of earlier capital investment emerge, the company's profitability may suffer. The regulator may factor such failure into future price reviews. In addition, the company's ability to meet regulatory and environmental performance standards could be adversely affected by such failure, which may result in fines or other sanctions. The company is currently in discussions with Ofwat and the Environment Agency in relation to the scope of works required in order to complete that part of its capital programme for the last charging period (i.e. 2000-05) which related to limiting pollution from storm water overflows. These are referred to by the Environment Agency as 'Unsatisfactory Intermittent Discharges' ('UIDs'). This means that some of these works are being delayed until the required scope is determined. Once the cost of the scope of works is finally determined, it may be more than the amounts that have been allowed for by Ofwat in the 1999 and 2004 price reviews. In such cases the company will seek to process the resulting changes through Ofwat's protocol for dealing with changes to the regulatory contract (the 'change protocol'). In respect of those UID's which were the subject of the company's 2003 interim determination, Ofwat has stated that additional costs of completing these works will be recoverable through future price reviews provided that they meet Ofwat's conditions for recovery under the change protocol. In respect of the UID's which were not dealt with in the 2003 interim determination, Ofwat has given a similar confirmation in relation to those which the company considers present the greatest risk of significantly exceeding the costs assumed in the 1999 price review. The company cannot be certain, however, that all these additional costs will be recoverable on this basis and will not adversely affect its profitability or financial position.

**Failure to deliver operational performance or cost savings implicit in the regulatory review**

Operating cost savings to be achieved during the current five-year regulatory period are implicit in the regulatory review. To assist the achievement of these operating cost savings a business change programme is underway. If the operating cost savings are not achieved, or the business change programme is not delivered, then the company's profitability would suffer. Similarly, if operational performance were to deteriorate, this may be reflected by less favourable outcomes from future price reviews and the company's profitability would suffer.

**Environmental regulations could increase the company's costs**

Various government environmental protection and health and safety laws and regulations govern the wastewater and water businesses. These laws and regulations establish, amongst other things, standards for drinking water and discharges into the environment, which affect the company's operations. In addition, the company is required to obtain various environmental permissions from regulatory agencies for its operations. The company endeavours to comply with all regulatory standards. However, historically the company has not been in total compliance and cannot guarantee in the future that it will be in total compliance at all times with these laws and regulations. Should the company fail to comply, it would face fines imposed by the courts or otherwise face sanction by the regulators.

Environmental laws and regulations are complex and change frequently. These laws, and their enforcement, have tended to become more stringent over time. Whilst management believes it has taken into account the future capital and operating expenditures necessary to achieve and maintain compliance with current and known future changes in laws and regulations, it is possible that new or stricter standards could be imposed, or current interpretation of existing legislation could be amended, which will increase the company's operating costs by requiring changes or modifications to the assets in order to comply with environmental laws and regulations. Although these costs may be recoverable in part through the regulatory process of setting appropriate future price limits, there can be no assurance of this. Therefore, the company cannot guarantee that the costs of complying with or discharging its liabilities under, current and future environmental and health and safety laws will not adversely affect its profitability or financial position.

**Service interruptions or contamination to water supplies**

In addition to the capital investment programmes, the company controls and operates water and wastewater networks and undertakes maintenance of the associated assets with the objective of providing a continuous service. Historically, there have been interruptions to the supply of services, the majority of which relate to minor issues that are rectified promptly. However, the failure of a key asset could cause a more significant interruption to the supply of services (in terms of duration or number of customers affected) which may have an adverse effect on the company's operating results or financial position.

Water supplies may be subject to contamination, including contamination from the development of naturally occurring compounds and pollution from man-made sources or third parties' actions. In the event that water supply is contaminated and the company is unable to substitute water supply from an uncontaminated water source, or to treat adequately the contaminated water source, the regulated business is required to provide a statutory minimum alternative water supply quantity within a stipulated period until piped supplies can be restored. The company could also be held liable for human exposure to hazardous substances in its water supplies or other environmental damage. Although the company has continued to refine its contingency planning process, it is only possible to be reasonably, but not absolutely, certain that such measures will be effective in managing large scale incidents to the satisfaction of its customers, regulators and the wider stakeholder community. Consequently, it is possible there may be an adverse effect on the company's operating results or financial position. It is possible that some of the costs associated with service interruptions or contaminations may be partly recoverable through the shipwreck clause or future price reviews. The company maintains insurance policies in relation to legal liabilities likely to be associated

with these risks, although there can be no assurance that all costs of any such claims would be covered or that coverage will continue to be available in the future

### **Non-recovery of customer debt**

The company manages the billing, cash collection and debt management activities for 3.2 million domestic and business wastewater and water customers. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply for non-payment and the limiting of a supply with the intention of enforcing payment for certain premises including domestic dwellings. Non-recovery of debt is a risk to the company and may cause the company's profitability to suffer, although allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable.

### **Pension scheme obligations may require the company to make additional contributions to the schemes which would reduce profitability**

The company participates in a number of pension schemes. The principal schemes are funded defined benefit schemes and the assets of the schemes are held in trust funds independent of company finances. The company increased pension contribution rates to the United Utilities Pension Scheme ('UUPS') and the United Utilities Group of the Electricity Supply Pension Scheme ('ESPS') in 2003/04 and the results of the full actuarial valuation resulted in further increases being required to the UUPS and the ESPS schemes from 1 April 2005.

One-off lump sum contributions of £113.8 million were made on 31 March 2005. These contributions were calculated to equal the capitalised value of the company's funding obligations to the schemes for the next five years (based on the actuarial valuation as at 31 March 2004) and represents advance payment of certain employer contributions which would have been made to the schemes during that period. As a consequence the schemes were estimated to have a combined post-tax surplus of £11.8 million as at 31 March 2007, compared with a post-tax obligation of £11.9 million at 31 March 2006. However, the company continues to monitor the funding of the schemes and cannot guarantee that during the next five years further contributions will not be required to eliminate shortfalls in the schemes. This may adversely affect the financial position of the company.

Should long-term investment returns remain lower than the rate assumed by the actuaries in their pension scheme valuations, or interest rates reduce further leading to an increased deficit, the profitability of the company may be further adversely affected and the company required to increase its contributions to eliminate this under-funding. Currently, anticipated future pensions contributions and a proportion of existing pension scheme deficits are recoverable through the price limits established by the regulators.

## **LONG TERM STRATEGY, BUSINESS OBJECTIVES AND PERFORMANCE**

United Utilities Water PLC's vision is to be a world class owner and operator of utility infrastructure. The company is targeting an upper quartile position on key operational and service measures in the medium term whilst simultaneously outperforming financially its regulatory contract (effective April 2005) pursuant to which the company operates the water and wastewater networks.

### **Developing a high performance company**

Our strategy is built upon the key enabler of a high performance culture and the achievement of a long term sustainable operating model. Building on the progress that has been made in the last two years, this requires significant transformational change of the business over the next two years in the way it will enhance expenditure planning and manage its assets and workforce. The company has identified a number of measurements against which it would assess its performance.

#### **• Relative efficiency – to be upper quartile in the medium term**

United Utilities Water PLC improved its 2005/06 operating expenditure relative efficiency position, as assessed by Ofwat. The company is now band B for the water service and band C for the wastewater service. This represents a one band improvement on each service, compared with the previous year, moving the company nearer to the efficiency frontiers.

#### **• Security of water supply – to meet or outperform rolling leakage targets and avoid the need for water restrictions**

United Utilities Water PLC met the economic level of leakage rolling target of 470 megalitres per day for 2006/07 for the first time in five years. There were no water restrictions in the year. In addition to its water mains rehabilitation and replacement programmes, the company will be spending around £69 million on finding and fixing leaks over the next three years.

#### **• Pollution – To reduce incidents by at least 50 per cent in the medium term**

The business has achieved a significant reduction in the number of Category One and Two pollution incidents in 2006/07, with no water pollution incidents (2005/06 two incidents) and nine wastewater pollution incidents (2005/06 21 incidents). This performance already meets the medium term target of reducing these incidents by around 50 per cent and the challenge for the business is to sustain performance at these levels and aim for outperformance against this target.

#### **• Sewer flooding – To reduce incidents by at least 50 per cent in the medium term**

United Utilities Water PLC is on track to meet its medium-term target of reducing the number of properties on the sewer flooding register by around 50 per cent. This is defined as properties at risk of experiencing at least one sewer flooding incident in ten years. Good progress was made in 2006/07 with 149 properties (on a net basis) removed from this register. There are now 492 properties on this register compared with 641 properties in 2005/06.

• Overall customer satisfaction – 85 per cent in the medium term

Good progress continues to be made and around 74 per cent of United Utilities Water PLC's water customers who had made an enquiry were satisfied with the overall service they received.

Good progress has already been made in meeting the efficiency challenges set by Ofwat. Successful delivery of the capital investment programme is vital and the partnership framework approach that has been developed will help to optimise the company's performance. The current strategy is to target customer service and operational performance improvement. With further real price increases ahead, the company should continue to deliver strong profit growth. Overall the company's progress means that it has a strong platform from which to develop. Overall United Utilities Water PLC remains on course to meet its medium term targets on these measures.

To ensure that higher levels of performance continue to be achieved, new initiatives have been designed to improve efficiency and reduce cost. We are currently implementing the right organisational model to help deliver our strategy. It will also support the sharing of best practice and knowledge across the business. We intend to focus the structure of the business around the separate skills of Asset Management and Operations in order to accelerate performance improvement. We are also determined to improve capability through training and recruitment. This new organisational model will also support the sharing of best practice and knowledge across the business. However, we recognise that this is only the start of our journey. The company is now focussing on preparation for the next price review process so that it is strongly positioned for the 2010/15 period.

Our progress on our strategic objectives is monitored by the Board of Directors by reference to key performance indicators. Performance in 2006/07 against these measures is set out in the table below, together with the prior year performance data.

## Key performance indicators

	2007	2006
<i>Financial</i>		
Turnover <sup>(1)</sup>	£1,318.2m	£1,229.3m
Operating profit	£568.7m	£513.8m
Profit before tax	£431.0m	£275.1m
RCV Gearing <sup>(2)</sup>	49%	51%
Interest cover <sup>(3)</sup>	2.6	2.2
Capital expenditure (net cash flow)	£537.7m	£478.7m
<i>Non-financial</i>		
Relative efficiency - water <sup>(4)</sup>	Band B	Band C
Relative efficiency - wastewater <sup>(4)</sup>	Band C	Band D
Leakage <sup>(5)</sup>	468 MI/day	477 MI/day
Pollution incidents <sup>(6)</sup>	9	23
Sewer flooding – properties removed from the at-risk register <sup>(7)</sup>	149	237
Water quality – OPI water quality index <sup>(8)</sup>	99.84%	99.84%
Non-compliant wastewater treatment works <sup>(9)</sup>	1.09%	0.4%
Written complaints <sup>(10)</sup>	24,193	29,842
Overall Performance Assessment (OPA) <sup>(11)</sup>	379 points	395 points
Health & Safety – accident incident rate <sup>(12)</sup>	349	591

<sup>(1)</sup> Turnover is the consideration receivable by the company for services provided during the year.

<sup>(2)</sup> RCV Gearing is measured as borrowings net of cash and short-term deposits divided by the Regulatory Capital Value (RCV). The RCV is a company-specific measure calculated by Ofwat which is widely used in the investment community as a component of the market value of regulated water businesses.

<sup>(3)</sup> Interest cover is the number of times the net underlying finance expense is covered by operating profit from continuing operations before restructuring costs and the Ofwat penalty. Net underlying interest expense is calculated as the underlying cost of borrowings excluding any pension adjustment and movements in the fair value of debt and derivatives but including the £53.5 million (2006: £28.5 million) interest on swaps and debt under fair value option.

<sup>(4)</sup> Relative efficiency is the operating expenditure relative efficiency band as assessed by Ofwat for the years to 31 March 2006 and 31 March 2005.

<sup>(5)</sup> Annual rolling average leakage – figures given are in megalitres per day for the years to 31 December 2006 and 31 December 2005. The Ofwat Regulatory rolling average leakage target was 470 megalitres per day.

<sup>(6)</sup> Number of category One and Two incidents during the year as defined by the Environment Agency. Figures stated are for the years to 31 December 2006 and 2005.

<sup>(7)</sup> Sewer flooding refers to the net number of properties removed from the sewer flooding register during the year. The register records properties at risk of experiencing one sewer flooding incident in ten years.

<sup>(8)</sup> The Operational Performance Index (OPI) is calculated by the Drinking Water Inspectorate as a means of monitoring water quality. It is based on an average of the mean zonal compliance for six water quality parameters (iron, manganese, aluminium, turbidity, E.coli, trihalomethanes) as measured at customers' taps. Figures stated are for the years to 31 December 2006 and 31 December 2005.

<sup>(9)</sup> The proportion of non-compliant wastewater treatment works measured per head of population served.

<sup>(10)</sup> Total number of written complaints received.

<sup>(11)</sup> As the Overall Performance Assessment (OPA) at March 2007 has not been confirmed by Ofwat this represents the company's current best estimate. The OPA is a measure used by Ofwat to compare the quality of the overall service that water companies provide to their customers across a basket of measures.

<sup>(12)</sup> This accident incident rate is the number of lost time accidents in the year pro-rated to produce a rate per 100,000 employees.

## Financial review

### *Statutory accounts measures*

Turnover increased by 7 per cent to £1,318.2 million in 2006/07, largely due to an allowed price increase of K of 6.4 per cent plus RPI of 2.43 per cent, offset by a decline in customer demand including the impact of an increase in metered customers. Operating profit increased by 11 per cent to £568.7 million in 2006/07, primarily reflecting the increase in turnover and cost efficiencies offset by increases in externally driven cost prices such as power and business rates.

The net finance expense for the year was £137.7 million compared with £238.7 million in 2005/06. This reduction reflects fair value movements on debt and derivative financial instruments due to rising sterling interest rates, and full year effect of the equity injection in March 2006.

The current UK mainstream corporation tax charge for 2006/07, reflects the high level of accelerated tax allowances arising from the capital investment undertaken by the company. The effective current tax charge relating to continuing operations is 17.6 per cent, compared with a charge of 4.0 per cent in 2005/06. Including deferred tax, there is an effective tax charge of 22.5 per cent, compared with 40.7 per cent in 2005/06.

Net cash generated from operating activities increased to £867.5 million, from £785.0 million in 2005/06. A significant level of capital investment continues to be made, mainly as a result of the water and wastewater capital investment programme. The 2006/07 net capital investment spend of £537.7 million represents a 12.3 per cent increase over 2005/06, reflecting the planned rephasing of the AMP4 capital programme. As a result of the above, short-term deposits increased by £569.0 million in the year ended 31 March 2007. Borrowings net of cash and short-term deposits increased by £112.1 million to £3,374.5 million at 31 March 2007. RCV gearing, measured as borrowings net of cash and short-term deposits divided by the regulatory capital value, decreased to 49.0 per cent compared with 51.0 per cent at 31 March 2006.

In 2006/07, United Utilities Water PLC dividends recognised in the period were £270.3 million. This figure represents a dividend payment relating to the financial year 2005/06 of £178.2 million and an interim payment in 2006/07 of £92.1 million. The directors have recommended a final ordinary dividend for 2006/07 of £196.3 million.

The company's dividend policy is to distribute the theoretical maximum consistent with the 5 year regulatory contract. The earnings available for distribution comprise the return on equity assumed by the regulatory contract plus or minus any out-performance or under-performance over the period of the contract. Annual distributions are based on this policy.

### *Regulatory accounts measures*

#### *Atypical operating expenditure items*

Atypical costs in the year included a penalty from Ofwat of £8.5 million for breaching intra-group trading rules, transformation and transition costs in restructuring and competitively tendering customer management arrangements and other restructuring costs of £13.5 million. These costs have been treated as exceptional charges in the statutory and regulatory accounts. Atypical income includes £4.9 million from settlement of legal claims.

#### *Significant movements in Infrastructure Renewals Charge and Current Cost Depreciation*

The annual Regulatory Accounts infrastructure renewals charge continues to be based on the current 5 year business plan plus the 10 year (2010 to 2020) annual expenditure projections submitted at PR04. The 2006/07 charge is £113.0 million, compared to £107.0 million in 2005/06.

The current cost depreciation charge attributable to the company (net of amortisation of deferred grants) for the year of £285.5 million compares with the Final Determination assumption of £308.6 million. The variance is due largely to lower capital expenditure in this and the previous two years, and the impact of our asset revaluation in 2004/05.

#### *Donations to charitable trusts assisting customers or similar funds*

During the year, United Utilities Water PLC has made donations of £3.0 million to a United Utilities independent charitable trust. The company intends donating a further £9 million – £10 million over the next three years which will be expensed via the profit and loss account.

### *Business performance*

United Utilities Water PLC maintained water supplies to all customers during 2006/07 without the need for any water use restrictions. Improvements made to the water supply system during the year will help ensure security of supply in dry weather and during maintenance of key water distribution mains. The twelve month rolling average leakage level in the year reduced to 468 megalitres per day which is below Ofwat's twelve month rolling leakage target of 470 megalitres per day for 2006/07. This places the business in a strong position to meet Ofwat's reduced target of 465 megalitres per day for 2007/08. In addition to its water mains rehabilitation and replacement programmes, the company will be spending around £69 million on finding and fixing leaks over the next three years. Reservoir levels in March 2007 were approximately 95 per cent full, in line with expectations for the time of year. Following a dry April (50 per cent of

average rainfall), we had a wet May and June. This, combined with operational actions, has helped reservoir stocks to be at 88.6 per cent at the time of this report. This is still 10 per cent lower than the equivalent period last year but stocks are in line with expectations for this time of year. The business expects to maintain a healthy supply and demand balance throughout the year, avoiding the need for water restrictions. Water meters were also installed in 39,503 domestic properties under the free meter option scheme, whereby customers can have a meter fitted free of charge.

United Utilities Water PLC met or outperformed its key internal outputs targets during the year. It refurbished 810 kilometres of water mains, restored a number of properties from the low pressure and flooding registers and is on track to deliver its water treatment works quality programme. Drinking water quality at customers' taps remains high at 99.9 per cent.

During 2006/07, the score on non-compliant wastewater treatment works (measured per head of population served) was 1.1 per cent compared to 0.4 per cent in the previous year. This increase was caused by a customer disposing of non-compliant waste at one of the large treatment works thereby affecting a greater proportion of the population served. As part of the capital investment programme, 15 continuous discharge and 32 unsatisfactory intermittent discharge (UID) improvement projects were delivered during the year.

In the calendar year ended 31 December 2006, the business was prosecuted on eight separate occasions relating to pollution incidents and consent breaches (eight to 31 December 2005). The company continues to work closely with the Environment Agency, highlighting the reduction in pollution incidents as a particular target for the business.

The company has continued to focus upon the health and safety of its employees. The United Utilities North West business gained Occupational Health and Safety (OHSAS) 18001 accreditation and was awarded a four-star rating in the British Safety Council audit in January 2007. The company has also cut the incidence rate for notifiable and reportable accidents to 4.60 in 2006/07 (per thousand employees) from 7.87 in 2005/06.

The financial performance includes a charge of £8.5 million relating to a penalty from Ofwat relating to transfer pricing arrangements with associate companies. The directors note that, as intercompany margins were deducted during the price-setting process, customers' bills have not been affected by this matter and, following competitive tendering processes completed by April 2007, the directors believe the company is now fully compliant with Ofwat's requirements.

The Overall Performance Assessment (OPA) score, as measured by Ofwat, was 379 points in 2006/07 (2005/06 - 395 points). The deterioration is largely due to the performance on customer service (arising following a period of transition to new customer service contracts) and wastewater treatment works' compliance measures (due to legacy design issues) which are now both being remedied. Overall customer satisfaction levels in response to queries have improved for water and wastewater customers to 74 per cent during the year.

## CAPITAL STRUCTURE

### *Liquidity and resources*

The company's primary source of liquidity is cash generated from its ongoing business operations. As reflected in the cash flow statement on page 24, in the financial year ended 31 March 2007, net cash generated from the company's continuing operating activities was £867.5 million, compared with £785.0 million in 2005/06. The water regulator has established price increase limits to 2010 which will provide certainty for a large majority of the company's turnover from ongoing operations, providing both a stable and a predictable source of funds.

### *Treasury policy*

United Utilities PLC's treasury function operates with the delegated authority of, and under policies approved by, the United Utilities Water PLC board. The treasury function does not act as a profit centre and does not undertake any speculative trading activity. It seeks to ensure that sufficient funding is available to meet foreseeable needs and maintains reasonable headroom for contingencies. Long term borrowings are structured or hedged to match earnings, which are largely in sterling, indexed to inflation and subject to regulatory price reviews every five years.

As such, index-linked debt is the preferred method of funding. Over the last two years, the company has made significant progress in raising this type of funding, holding £1.3 billion (2006 - £0.5 billion) of index-linked debt at the year end. The longer dated nature of this funding provides a good match to the company's long life infrastructure assets.

Exposure to interest rate movements for the following 12 months, where necessary, is largely eliminated at the start of each financial year using short-term hedges. The credit quality of counterparties and individual aggregate exposures are reviewed annually.

### *Debt financing*

Moody's Investor Service rates the credit of United Utilities Water PLC as A2 on a long-term basis (on review for potential downgrade since 5 June 2007) and P1 on a short-term basis. Equivalent ratings published by Standard and Poor's Rating Services are A long-term (on CreditWatch with negative implications since 6 June 2007) and A1 short-term.

*Short-term liquidity*

Short-term liquidity requirements are met from the company's normal operating cashflow. Further liquidity is provided by cash and short-term deposit balances, the company's US\$1.5 billion euro-commercial paper programme, supported by committed bank facilities and committed but undrawn long-term credit facilities.

*Long-term liquidity*

The company has effective access to the international debt capital markets through its €7 billion medium-term note programme, which provides for the periodic issuance by United Utilities Water PLC of debt instruments on terms and conditions determined at the time that the instruments are issued. This programme does not represent a funding commitment, with funding only becoming committed when debt securities have been successfully issued. The currencies in which borrowings are held are disclosed in note 19 to the financial statements.

*Interest rate and foreign currency management*

The company manages interest rate exposure by seeking to match financing costs as closely as possible with the turnover generated by its assets. The company uses a combination of interest rate swaps, futures and funding instruments to hedge exposure to interest rate volatility. The company's use of derivative instruments relates directly to underlying indebtedness, no speculative or trading transactions are undertaken. The proportion of borrowings at effective fixed rates of interest for a period greater than one year is set in conjunction with the level of floating rate borrowings and projected regulatory turnover that are exposed to inflationary adjustments (index linked). In addition, where necessary, the company aims to manage its short-term budgetary commitments by ensuring that the majority of floating rate interest is fixed for periods of less than one year through the use of exchange traded financial futures. The company has limited exposure to foreign currency exchange rate movements.

In order to hedge the interest cost implicit in the regulatory contracts, the company fixes the majority of interest rates for the duration of each five-year review period by typically swapping fixed rate debt to floating at the time of issue and then swapping back to fixed rate at the outset of each five-year regulatory contract period.

*Summary*

The board has reviewed the business plan and considers that the company has sufficient liquidity to meet the anticipated financial commitments for the next 12 months. In total, at 31 March 2007, unutilised committed facilities of £375.0 million expiring in more than one year, together with cash and short-term deposits of £1,307.0 million, provide substantial pre-funding for the company.

The United Utilities PLC Board has taken the decision to initiate a sale process for United Utilities' electricity distribution assets, with a view to maximising shareholder value. At the conclusion of this sale process, United Utilities intends to review its capital structure and dividend policy so that they will be appropriate for the revised composition of the group. The review of capital structure will include determining a target credit rating that the directors believe best mirrors regulatory assumptions for United Utilities Water PLC and management will be consulting with the credit rating agencies on appropriate financial indicators to maintain this rating.

**ACCOUNTING ISSUES**

The financial statements for the year ended 31 March 2007 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 1 (f)), with the Companies Act 1985.

**CRITICAL ACCOUNTING POLICIES**

The company prepares its statutory financial statements in accordance with accounting principles generally accepted in the United Kingdom (UK GAAP). As such, the company is required to make certain estimates, judgements and assumptions that it believes are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of turnover and expenses during the periods presented. On an ongoing basis, the company evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known. The company's accounting policies are detailed in note 1 of the financial statements. The following paragraphs detail the policies the company believes to have the most significant impact on the annual results under UK GAAP.

*Carrying value of long-lived assets*

The company's accounting policy for tangible fixed assets is detailed in note 1(e) of the financial statements. The carrying value of tangible fixed assets under UK GAAP as at 31 March 2007 was £6,692.2 million. The estimated useful economic lives of fixed assets are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of fixed asset investment to the company, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.



## *Renewals accounting*

Under UK GAAP, 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 asset management plan, which has been certified by Halcrow Management Sciences Limited, an independent infrastructure management consultant approved by Ofwat. Variations between actual infrastructure spend and estimated spend are included in the balance sheet, with the principle being to 'equalise' the effect of annual spend variations on the charge to the profit and loss account. Therefore, the independently certified asset management plan has an impact on the company's operating profit and changes in the plan assumptions could give rise to a different operating profit. These assumptions include judgements relating to the condition and performance of infrastructure assets.

## *Deferred tax*

The company accounts for deferred tax on a discounted basis, as permitted by UK GAAP. The deferred tax provision under UK GAAP as at 31 March 2007 is £358.3 million. The balance sheet provision is discounted using the rates of interest at the balance sheet date on UK gilts with similar maturity dates and currencies to those of the deferred tax assets and liabilities. Therefore, the company uses 15+ years UK gilt rate to reflect the long-life nature of infrastructure and operational assets. An increase or decrease in applicable discount rates of 0.1 per cent would change the balance sheet provision at 31 March 2007 by approximately £9.0 million and the tax charge, for the year then ended, by the same amount.

## *Revenue recognition*

Under UK GAAP, the company recognises revenue generally at the time of delivery and when collection of the resulting debt is reasonably assured. Should management consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of revenue recognition are recorded as deferred revenue. The company raises bills and recognises revenue in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review process. For customers with water meters, the receivable billed is dependent upon the volume supplied including an estimate of the sales value of units supplied between the date of the last meter reading and the year end. Meters are read on a cyclical basis and the company recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year. The estimated usage is based on historic data, judgement and assumptions, actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined. For customers who do not have a meter, the receivable billed is dependent upon the rateable value of the property, as assessed by an independent rating officer.

## *Provision for doubtful debts*

At each balance sheet date, the company evaluates the collectability of trade debtors and records provisions for doubtful debts based on experience. These provisions are based on, amongst other things, comparisons of the relative age of accounts and consideration of customer payment history. The actual level of debt collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

## *Accounting for provisions and contingencies*

The company is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The company routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable estimates involve judgements made by management after considering information including notifications, settlements, and estimates performed by independent parties and outside counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. In accordance with UK GAAP, a provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available. Matters that either are possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

## *Pensions*

United Utilities Water PLC participates in two defined benefit schemes, one of which has a defined contribution section, which are independent of the group's finances. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years. Under UK GAAP, the pension cost under FRS17 is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note 21 of the financial statements. These assumptions include investment returns on the schemes' assets, discount rates, pay growth and increases to pensions in payment and deferred pensions and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants.

## *Derivatives and borrowings*

The company's default treatment is for borrowings to be carried at amortised cost, whilst derivatives are recognised separately on the balance sheet at fair value with movements in those fair values reflected through the profit and loss account. This has the potential to introduce considerable volatility to both the profit and loss account and balance sheet. Therefore, for fair value hedges, changes in the

recognised value of hedged debt that are attributable to the hedged risk are adjusted through the profit and loss account. In the case of cashflow hedges, movements in the fair value of derivatives are deferred within reserves until they can be recycled through the profit and loss account to offset the future effect of changes in the hedged risk. In order to apply this treatment, it must be demonstrated that the derivative has been, and will continue to be, an effective hedge of the hedged risk within the debt item. Changes in the fair value of all derivatives are recognised in the profit and loss account, except for derivatives that are designated and effective in terms of cashflow hedging relationships, in which case the gains and losses are deferred in equity. The company applies the fair value option through profit or loss where the complexity of the swaps means that they are disallowed from being allocated in a hedge relationship despite there being significant fair value offset between the hedged item and the derivative itself. This area is considered to be of significance due to the magnitude of the company's level of borrowings.

### RESEARCH AND DEVELOPMENT

The company undertakes research primarily to provide improved standards of service to customers, together with continuing improvements in business efficiency. Its intention is to strengthen its understanding of science and technology in relation to its range of wastewater and water treatment processes to ensure that treatment plants are able to meet the required current and future standards of environmental performance. The company is a member of a number of collaborative research programmes including UK Water Industry Research and Water Research Centre, both of which address common issues that face the UK water industry. The company also undertakes specific projects with these and other research and development providers, manufacturers and with universities. Research and development expenditure by the company was £1.0 million in the year ended 31 March 2007 (2005/06 - £0.9 million).

### POST BALANCE SHEET EVENTS

The directors have recommended a final ordinary dividend for 2006/07 of £196.3 million. There were no other events arising after the balance sheet date that require recognition or disclosure in the financial statements for the year ended 31 March 2007.

### CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

This report contains certain statements with respect to the financial condition, results of operations and business of the company. Some of these statements are not facts, including those about the board's beliefs and expectations. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential', 'reasonably possible', 'targets' and variations of these words and similar expressions reflect inherent risks and uncertainty. Such statements are based on current plans, estimates and projections, and therefore investors should not rely on them. Further, the company undertakes no obligation to update publicly any of them in light of new information or future events and they are relevant only as at the date made. The company cautions investors that a number of important factors could cause actual results to differ materially from those anticipated or implied in any forward-looking statements. These factors include (i) the effect of, and changes in, regulation and government policy, (ii) the effects of competition and price pressures, (iii) the ability of the company to achieve cost savings and operational synergies, (iv) the ability of the company to service its future operations and capital requirements, (v) the timely development and acceptance of new products and services by the company, (vi) the effect of technological changes, and (vii) the company's success in managing the risks of the foregoing. The company cautions that the foregoing list of important factors does not address all the factors that could cause results to differ materially.

The directors of United Utilities Water PLC advise that all the information supplied in the managing director's statement beginning on page 3 and the operating and financial review on pages 5 to 18 is part of the directors' report as incorporated by reference under the 'Business Review'. Any liability for the information is restricted to the extent prescribed in the Companies Act 2006.

## Directors' report

for the year ended 31 March 2007

The directors present their report and the audited financial statements of the company for the year ended 31 March 2007

### Profit and dividends

The results for the year, set out in the profit and loss account on page 22, show that turnover for the year ended 31 March 2007 increased to £1,318.2 million, an increase of 7 per cent over the previous year. Profit for the year before tax was £431.0 million (2006 - £275.1 million)

Dividends are only recognised in the financial statements if they are declared in that financial year. Dividends declared after the balance sheet date are not recognised as a liability. This has resulted in the final ordinary dividend for the year to 31 March 2006 of £178.2 million, which was declared after 31 March 2006, being recognised in the current year financial statements.

An interim ordinary dividend of £92.1 million (2006 - £89.1 million) was paid in February 2007. The directors have recommended a final ordinary dividend for 2006/07 of £196.3 million. There are no other significant events since the balance sheet date that are required to be disclosed.

### 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 2007, 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".

### Business review and principal activities

The company is a wholly owned subsidiary of United Utilities PLC and operated during the year as part of the UUNW segment.

The company's principal activities are the management and operation of water and wastewater assets.

The Managing Director's statement and the Operating and Financial Review on pages 3 to 18 report on the company's activities during the year and on likely future developments. A summary of key performance indicators can be found in the operating and financial review.

The directors of United Utilities Water PLC advise that all the information supplied in the managing director's statement beginning on page 3 and the operating and financial review on pages 5 to 18 is part of the directors' report as incorporated by reference. Any liability for the information is restricted to the extent prescribed in the Companies Act 2006.

### Principal risks

The principal risks and uncertainties are commented on within the operating and financial review beginning on page 5.

### 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.

### 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.

### Supplier payment policy and practice

The policy is 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 18 days of purchases (2006: 25 days) outstanding at the end of the financial year.

**Directors**

The directors of the company during the year ended 31 March 2007 are set out below. All were directors for the whole year except where otherwise indicated. There are no directors' interests that require disclosure under Companies Act 1985, other than those disclosed in note 5 to the accounts.

*Non-executive directors*

P G S Entwistle

D E Morton JP

*Executive directors*

J A Barnes

S G Batey\* (resigned 28 July 2006)

S Beaumont (resigned 5 July 2006)

M Beesley

C Cornish\*

G Dixon

C H Elphick

B W Hurd (appointed 21 December 2006)

J Lang (resigned 30 September 2006)

G L Sims (appointed 19 April 2007)

T P Weller\* (appointed 1 August 2006)

*Company secretary*

T M Rayner (resigned 31 March 2007)

P A Davies (appointed 1 April 2007)

\*Director, United Utilities PLC. Details of directors' interests in ordinary 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. At 31 March 2007, the directors and their immediate families had various interests in United Utilities Group PLC shares, which have been disclosed in note 5 of the accounts. None of the directors or immediate families had any interests in the company.

**Directors' and officers' insurance**

The company maintains an appropriate level of directors' and officers' insurance whereby directors are indemnified against liabilities to third parties to the extent permitted by the Companies Act.

**Statement of directors' responsibilities**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Information given to auditors**

Each of the persons who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

**Independent Auditor**

A resolution to reappoint Deloitte & Touche LLP as the auditor of the company will be proposed at the forthcoming Annual General Meeting.

**Registered address**  
Haweswater House  
Lingley Mere Business Park  
Lingley Green Avenue  
Great Sankey  
Warrington  
WA5 3LP

Registered number: 2366678

By order of the board



Martin Beesley  
Director  
13<sup>th</sup> July 2007

## 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 2007, which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses, the reconciliation of movement in shareholders' funds and the related notes 1 to 31. 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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion, the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Managing Director's statement and the Operating and financial review that is cross-referenced from the "Business review and principal activities" section of the directors' report.

We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

### Basis of audit opinion

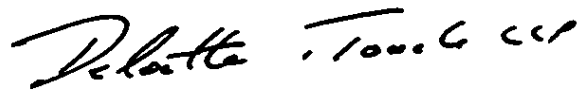
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 company's circumstances, 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

Manchester

England

13<sup>th</sup> July 2007

## Profit and loss account

For the year ended 31 March	Note	2007 £m	2006 £m
<b>Turnover</b>	1(c), 2	<b>1,318.2</b>	<b>1,229.3</b>
Net operating costs (including exceptional charges of £22.0 million (2006 – £0.7 million))	3	(749.5)	(715.5)
<b>Operating Profit</b>		<b>568.7</b>	<b>513.8</b>
Net interest payable and other similar charges	7	(137.7)	(238.7)
<b>Profit on ordinary activities before taxation</b>		<b>431.0</b>	<b>275.1</b>
Tax on profit on ordinary activities	8	(97.2)	(112.0)
<b>Profit for the financial year</b>		<b>333.8</b>	<b>163.1</b>

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

## Statement of total recognised gains and losses

For the year ended 31 March	Note	2007 £m	2006 £m
Profit for the financial year		333.8	163.1
Fair value adjustment on adoption of FRS26 at 1 April 2005	30	-	26.8
Deferred tax on fair value adjustment on adoption of FRS26 at 1 April 2005	30	-	(8.0)
Actuarial gains on defined benefit pension schemes	21, 23	44.6	53.5
Deferred tax attributable to actuarial gains	23	(13.4)	(16.1)
<b>Total recognised gains and losses for the financial year</b>		<b>365.0</b>	<b>219.3</b>
Prior year adjustments in respect of the year ended 31 March 2005	30	-	(125.1)
<b>Total gains and losses since last annual report</b>		<b>365.0</b>	<b>94.2</b>

## Reconciliation of movements in shareholder's funds

For the year ended 31 March	Note	2007 £m	2006 £m
Profit for the financial year	23	333.8	163.1
Dividends	9	(270.3)	(226.6)
Actuarial gains on pension assets net of deferred tax	21, 23	31.2	37.4
New share capital issued		-	400.0
<b>Net movement in shareholder's funds</b>		<b>94.7</b>	<b>373.9</b>
<b>Opening shareholder's funds</b>		<b>2,518.9</b>	<b>2,145.0</b>
<b>Closing shareholder's funds</b>	23	<b>2,613.6</b>	<b>2,518.9</b>

**Balance Sheet**

As at 31 March

	Note	2007 £m	2006 £m
<b>Fixed assets</b>			
Tangible assets	10	6,692.2	6,432.9
Investments	11	0.3	0.3
		<u>6,692.5</u>	<u>6,433.2</u>
<b>Current assets</b>			
Stock		3.9	3.2
Debtors amounts falling due within one year	12	294.0	294.9
Debtors amounts falling due after more than one year	12	13.1	27.6
Current asset investments	13	1,307.0	738.0
Cash at bank and in hand		-	4.4
		<u>1,618.0</u>	<u>1,068.1</u>
<b>Creditors: amounts falling due within one year</b>			
Trade and other creditors	14	(455.1)	(476.1)
Borrowings	14	(1,116.7)	(89.1)
		<u>(1,571.8)</u>	<u>(565.2)</u>
<b>Net current assets</b>		<b>46.2</b>	<b>502.9</b>
<b>Total assets less current liabilities</b>		<u><b>6,738.7</b></u>	<u><b>6,936.1</b></u>
<b>Creditors amounts falling due after more than one year</b>			
Trade and other creditors	15	(162.8)	(113.7)
Borrowings	15	(3,605.4)	(3,956.4)
		<u>(3,768.2)</u>	<u>(4,070.1)</u>
<b>Provisions for liabilities</b>	17	<b>(368.7)</b>	<b>(335.2)</b>
<b>Net assets excluding pension asset/(liability)</b>		<u><b>2,601.8</b></u>	<u><b>2,530.8</b></u>
Pension asset/(liability)	21	11.8	(11.9)
<b>Net assets including pension asset/(liability)</b>		<u><b>2,613.6</b></u>	<u><b>2,518.9</b></u>
<b>Capital and reserves</b>			
Share capital	22	1,025.3	1,025.3
Share premium account	22	647.8	647.8
Profit and loss account	23	940.5	845.8
<b>Equity shareholder's funds</b>		<u><b>2,613.6</b></u>	<u><b>2,518.9</b></u>

Approved by the board of directors on 13<sup>th</sup> July 2007 and signed on its behalf by



Martin Beesley  
Finance Director

**Cash flow statement**

For the year ended 31 March

	Note	2007 £m	2007 £m	2006 £m	2006 £m
<b>Net cash inflow from operating activities</b>	25		867.5		785.0
<b>Returns on investments and servicing of finance</b>					
Interest received		58.7		16.5	
Interest paid		(224.3)		(226.4)	
Interest element of finance lease repayments		(2.9)		(6.2)	
Income received from current asset investments		-		0.3	
Non-equity dividends paid		(9.1)		(9.1)	
<b>Net cash outflow from returns on investment and servicing of finance</b>			(177.6)		(224.9)
<b>Taxation</b>			(54.0)		-
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(561.0)		(508.4)	
Grants and contributions received		19.1		19.5	
Disposal of tangible fixed assets		4.2		10.2	
<b>Net cash outflow for capital expenditure</b>			(537.7)		(478.7)
<b>Equity dividends paid</b>			(270.3)		(226.6)
<b>Cash outflow before management of liquid resources and financing</b>			(172.1)		(145.2)
<b>Management of liquid resources</b>					
Increase in short term deposits	28		(569.0)		(247.0)
<b>Financing</b>	27		734.7		385.7
<b>Movement in cash and overdrafts</b>	28		(6.4)		(6.5)



## Notes to the accounts

### 1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the 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 preparation of financial statements in conformity with generally accepted accounting principles in the United Kingdom requires management to make estimates and assumptions that affect the

- reported amounts of assets and liabilities,
- disclosure of contingent assets and liabilities at the date of the financial statements, and
- reported amounts of turnover and expenses during the financial year

Actual results could differ from these estimates

#### (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. 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). Employee costs incurred in implementing the capital schemes of the company are capitalised within fixed assets

##### (i) Infrastructure assets

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

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

##### (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 and released to the profit and loss account over the useful life of the corresponding 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 charged 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 charged 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

## Notes to the accounts (continued)

### (j) Current asset investments

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

### (k) Pensions

The company participates in the following pension schemes sponsored by the United Utilities Group: the United Utilities Pension Scheme (UUPS) and the United Utilities Group of the Electricity Supply Pension Scheme (ESPS). UUPS has both a defined benefit section and a defined contribution section, the defined contribution section constituting less than 0.5 per cent of the total asset value of UUPS.

ESPS is a defined benefit scheme. Both defined benefit schemes are closed to new employees. Under FRS 17 ("Retirement Benefits"), the current service cost is calculated using the Projected Unit Method and will therefore increase as the members of the scheme approach retirement.

The pension schemes are independent of the company's finances.

Actuarial valuations of the defined benefit schemes are performed at intervals of not more than three years and the rates of contribution payable are determined on the advice of the Scheme Actuary for each scheme having regard to the results of these actuarial valuations.

The cost of providing pensions is expensed in line with the requirements of FRS 17. The actuarial assumptions adopted are determined by United Utilities PLC after taking advice from their actuarial advisors, Mercer Human Resource Consulting Limited. The actuarial assumptions adopted affect the operating results and profit on ordinary activities before taxation and are disclosed in note 21, they include assumptions for the long term investment return expected to be achieved on the schemes' assets and the long term increases expected to apply to pensionable earnings, pension increases and deferred pension increases. Actual experience may differ from the assumptions adopted.

The disclosure requirements of FRS 17 are set out in note 21, together with details of pension and funding arrangements.

### (l) Taxation

Current tax, primarily UK corporation 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

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes a party to the contractual provisions of the instrument.

#### *Cash and short-term deposits*

Cash and short-term deposits include cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash, have a short maturity of three months or less from the date of acquisition and which are subject to an insignificant risk of change in value. In the cash flow statement and related notes, cash and cash equivalents include cash and short-term deposits and bank overdrafts.

#### *Financial investments*

Investments are recognised and derecognised on a trade date and are initially measured at fair value, including transaction costs. Investments are classified as available-for-sale and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

#### *Trade receivables*

Trade receivables are stated at nominal value less allowances for estimated irrecoverable amounts.

#### *Trade payables*

Trade payables are stated at their nominal value.

#### *Financial liabilities and equity*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

#### *Equity instruments*

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

#### *Bank borrowings*

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### *Derivative financial instruments and hedge accounting*

Interest rate swap agreements and financial futures are used to manage interest rate exposure, while the company enters into cross-currency swaps to manage its exposure to fluctuations in foreign exchange rates. The company does not use derivative financial instruments for speculative purposes. All financial derivatives are recognised in the balance sheet at fair value. Changes in the fair value of all derivative financial instruments are recognised in the profit and loss account within finance expense as they arise, except for derivatives that are designated and effective in terms of cash flow hedging relationships, in which case the gains and losses are deferred in the profit and loss account. Where hedge accounting has not been applied, the company may elect to designate a financial liability at inception as fair value through profit or loss provided the financial liability meets the conditions specified in FRS 26 ("Financial Instruments: Recognition and Measurement"). Where possible, hedge accounting is applied.

## Notes to the accounts (continued)

### *Fair value hedges*

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from remeasuring the derivative are recognised in profit or loss. Where changes in the fair value of a derivative differ from changes in the fair value of the hedged item attributable to the risks being hedged, the hedge ineffectiveness is recorded in the profit and loss account within finance costs. Any adjustment that has been recognised to the hedged item, for which the effective interest rate is used, is amortised to the profit and loss account and is based on the recalculated effective interest rate at the time at which amortisation commences.

### *Cash flow hedges*

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the profit and loss account. If the cash flow hedge for foreign currency risk of a firm commitment results in the recognition of a non-financial asset or a liability, then, at the time the non-financial asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial recognition of the non-financial asset or liability. For hedges that do not result in the recognition of a non-financial asset or liability, amounts deferred in equity are recognised in the profit and loss account in the same period in which the hedged item affects net profit or loss. Hedge ineffectiveness is recognised directly in the profit and loss account within finance costs.

Hedge accounting is discontinued when the hedge designation is revoked, or the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period.

### *Financial assets and liabilities designated at fair value through profit or loss*

The company applies this designation where the complexity of the swaps means that they are disallowed from being allocated in a hedge relationship despite there being significant fair value offset between the hedged item and the derivative itself. The otherwise inconsistent accounting treatment that would have resulted allows the company to satisfy the criteria for this designation. The treatment of financial assets and liabilities designated at fair value through profit and loss is consistent with the company's documented risk management strategy.

### *Borrowing costs and finance income*

All borrowing costs and finance income are recognised in the profit and loss account in the period in which they are accrued.

### **(n) Environmental remediation**

Environmental expenditure that relates to current or future turnover 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.

### **(o) Share-based compensation arrangements**

The United Utilities PLC Group operates equity-settled, share-based compensation plans in the shares of United Utilities PLC. In accordance with the transitional provisions, FRS 20 ("Share-based payment") has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2004.

The United Utilities PLC Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on estimates of the number of options that are expected to vest. Fair value is based on both simulation and binomial models, according to the relevant measures of performance.

At each balance sheet date, the United Utilities PLC Group revises its estimate of the number of options that are expected to become exercisable with the impact of any revision being recognised in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

United Utilities Water PLC is recharged the amount expensed under FRS 20 ("Share-based payment") that relates to the company's employees.

Notes to the accounts (continued)

2 Segmental information

The company operated in the United Kingdom in one class of business as stated in the Directors' report

3 Net operating costs

	2007 £m	2006 £m
<b>Employee costs:</b>		
Wages and salaries	115.1	107.3
Social security costs	9.5	9.1
Pension cost (note 21)	23.5	20.2
	<u>148.1</u>	<u>136.6</u>
Less charged to capital schemes	(55.8)	(43.8)
Charged to profit and loss account	<u>92.3</u>	<u>92.8</u>
<b>Depreciation</b>		
Owned non-infrastructure fixed assets	187.1	189.4
Non-infrastructure fixed assets held under finance leases	1.9	1.7
Non-infrastructure depreciation	<u>189.0</u>	<u>191.1</u>
Infrastructure depreciation	105.2	102.0
Total depreciation (note 10)	<u>294.2</u>	<u>293.1</u>
<b>Raw materials and consumables</b>	<u>32.5</u>	<u>31.6</u>
<b>Other operating costs include:</b>		
Other operating costs	314.6	302.0
Auditors' remuneration	0.4	0.2
Amortisation of grants and contributions (note 16)	(5.5)	(4.7)
Research and development	1.0	0.9
Operating leases		
- hire of plant and machinery	0.8	1.6
- land and buildings	1.7	1.4
Exceptional charge – restructuring costs	13.5	0.7
– Ofwat penalty	8.5	-
Other income (note 4)	(4.5)	(4.1)
	<u>330.5</u>	<u>298.0</u>
<b>Total net operating costs</b>	<u>749.5</u>	<u>715.5</u>

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 £0.2 million, primarily relating to regulatory work (2006 - £0.1 million). The Deloitte & Touche LLP audit fee for 2006/07 in relation to the company amounted to £0.2 million (2006 £0.1 million).

Employee costs including business restructuring exceptional items, net of charges to capital schemes, amount to £98.2 million (2006 £93.5 million).

Exceptional restructuring costs include £5.9 million (2006 £0.7 million) in respect of staff severance costs. The remainder of the restructuring costs relate to transition and transformation of new customer service contract arrangements.

The exceptional charge for the Ofwat penalty relates to breaches of intra-group trading rules.

The total expense included within operating profit in respect of share-based payments was £0.2 million (2006 £0.1 million).

Notes to the accounts (continued)

4 Other income (see note 3)

	2007 £m	2006 £m
Profit on disposal of fixed assets	3.5	2.9
Rents receivable	1.0	1.2
<b>Other income</b>	<b>4.5</b>	<b>4.1</b>

5 Directors

The aggregate emoluments of the directors in 2007 amounted to £1,779,174 in respect of services allocated to the company (2006 £1,883,534). 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 £479,388 (2006 £352,537). Pension contributions of the highest paid director were £77,520 (2006 £45,500). The emoluments of T P Weller (appointed on 1 August 2006) and S G Batey (resigned on 28 July 2006) are not included in the aggregate directors' emoluments figures as they were remunerated by United Utilities PLC and their emoluments are not recharged to United Utilities Water PLC. G L Sims joined the board after the year end so his emoluments are also not included in the aggregate directors' emoluments' figures.

There were 7 directors (2006 7) who had incentive plans which vested during the year ended 31 March 2007, with an aggregate value of £342,898 (2006 £582,448).

At 31 March 2007 and the prior year, the directors and their families had the following interests, all of which were beneficial interests, in the ordinary shares and options to subscribe for ordinary shares in United Utilities PLC (details of the interests of S G Batey, T P Weller and C Cornish in United Utilities PLC are disclosed in that company's accounts). Details of the employee Sharesave Scheme and the executive share option scheme operated by United Utilities PLC are given in that company's accounts.

	Interest in shares at 31 March 2007			Interest in shares at 31 March 2006		
	Ordinary Shares	Executive Option scheme	Employee sharesave scheme	Ordinary Shares	Executive Option scheme	Employee sharesave scheme
J A Barnes	21,437	24,200	278	30,803	24,489	1,442
M Beesley	7,534	578	-	6,769	578	465
G Dixon	13,496	867	1,426	8,637	5,585	2,609
C H Elphick	22,736	-	666	18,402	-	3,556
P G S Entwistle	2,332	-	-	2,332	-	-
D E Morton	-	-	-	-	-	-
B W Hurd	-	-	-	N/A	N/A	N/A

Three directors exercised options during the year (2006 four)

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. The scheme provides a pension for them on normal retirement at age 60 of between 1/45<sup>th</sup> and 1/60<sup>th</sup> 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 1/80<sup>th</sup> of pensionable earnings for each completed year of service (plus 3/80ths 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.

Notes to the accounts (continued)

6 Employees

	2007	2006
Average number of persons employed during the year		
Licensed utility operations	<u>3,490</u>	<u>3,470</u>

7 Net interest payable and similar charges

	2007 £m	2006 £m
<b>Interest payable and similar charges:</b>		
On bank loans, overdrafts and other loans	197.7	195.3
On finance leases	2.9	3.2
On borrowings from parent and fellow subsidiary undertakings	23.1	18.2
<b>Interest payable before preference share dividends and fair value adjustments</b>	<u>223.7</u>	<u>216.7</u>
Preference share dividends	9.1	9.1
Fair value (gain)/loss on debt and derivative instruments	(22.4)	41.6
<b>Total interest payable and similar charges</b>	<u>210.4</u>	<u>267.4</u>
<b>Investment income</b>		
Income received from current asset investments	-	(0.3)
Interest receivable and similar income		
- Parent and fellow subsidiary undertakings	-	(4.6)
- External	(60.6)	(16.5)
Net return on pension scheme (see note 21)	(12.1)	(7.3)
<b>Net interest payable and similar charges</b>	<u>137.7</u>	<u>238.7</u>

The company has changed its presentation of interest on swaps and interest on debt under the fair value option. The amounts were previously disclosed within interest payable on bank borrowings but have been reclassified to the fair value movement on debt and derivative instruments line as the directors believe this provides a fairer presentation of the nature of the interest. Corresponding amounts for 2006 have been re-presented accordingly. The reclassification for 2006 has reduced interest payable on bank and parent company borrowings by £28.5m and increased the fair value loss on debt and derivative instruments by the same amount.

8 Taxation on profit on ordinary activities

(a) Analysis of charge in the year

	2007 £m	2007 £m	2006 £m	2006 £m
<b>Current tax:</b>				
UK corporation tax at 30%		79.8		10.9
Tax on exceptional items		(4.0)		-
<b>Total ordinary current tax</b>		<u>75.8</u>		<u>10.9</u>
<b>Deferred tax:</b>				
Origination and reversal of timing differences	58.1		75.0	
(Increase)/decrease in discount	(38.7)		26.3	
Prior year tax adjustments	2.0		-	
Exceptional origination and reversal of timing differences	-		(0.2)	
<b>Total deferred tax</b>		<u>21.4</u>		<u>101.1</u>
<b>Tax charge on profit on ordinary activities</b>		<u>97.2</u>		<u>112.0</u>

Notes to the accounts (continued)

8 Taxation on profit on ordinary activities (continued)

(b) Factors affecting current tax charge for the year

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

	2007 £m	2006 £m
Profit on ordinary activities before tax	431.0	275.1
	%	%
UK corporation tax rate	30.0	30.0
Capital allowances in excess of depreciation	(7.7)	(9.3)
Utilisation of tax losses	-	(9.2)
Other timing differences	(5.7)	(8.7)
Net non-deductible expenses	1.0	1.2
<b>Actual current tax rate</b>	<b>17.6</b>	<b>4.0</b>

9 Dividends

	2007 £m	2006 £m
Final dividend	178.2	137.5
Interim dividend	92.1	89.1
	<b>270.3</b>	<b>226.6</b>

United Utilities Water PLC has increased its ordinary dividend payment to United Utilities North West PLC by 19 per cent to £270.3 million for the year reflective of the increase in share capital at the end of 2005/06. The dividend policy is consistent with the company's performance and the management of the economic risks of the business.

The directors have recommended a final ordinary dividend for 2006/07 of £196.3 million which is not recognised as a liability at the balance sheet date.

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
<b>Cost</b>						
At 1 April 2006	196.3	4,112.4	3,690.3	527.3	633.1	9,159.4
Additions	4.0	137.4	63.3	18.9	344.6	568.2
Grants and contributions	-	(14.1)	-	-	-	(14.1)
Transfers	2.6	124.6	241.1	9.4	(377.7)	-
Disposals	(3.9)	-	(17.0)	(43.7)	-	(64.6)
<b>At 31 March 2007</b>	<b>199.0</b>	<b>4,360.3</b>	<b>3,977.7</b>	<b>511.9</b>	<b>600.0</b>	<b>9,648.9</b>
<b>Depreciation</b>						
At 1 April 2006	58.4	1,378.6	1,014.1	275.4	-	2,726.5
Charge for the year	7.8	105.2	131.1	50.1	-	294.2
Disposals	(3.3)	-	(17.0)	(43.7)	-	(64.0)
<b>At 31 March 2007</b>	<b>62.9</b>	<b>1,483.8</b>	<b>1,128.2</b>	<b>281.8</b>	<b>-</b>	<b>2,956.7</b>
<b>Net book value</b>						
<b>At 31 March 2007</b>	<b>136.1</b>	<b>2,876.5</b>	<b>2,849.5</b>	<b>230.1</b>	<b>600.0</b>	<b>6,692.2</b>
<b>At 31 March 2006</b>	<b>137.9</b>	<b>2,733.8</b>	<b>2,676.2</b>	<b>251.9</b>	<b>633.1</b>	<b>6,432.9</b>

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 (see note 1 (f)). As a consequence, the net book value of fixed assets, as adjusted for depreciation, is £105.6 million (2006: £119.7 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 asset replacements to maintain the operating capability of the water and wastewater network in accordance with defined standards of service is capitalised, and depreciation is charged based on the expenditure set out in the company's independently verified Asset Management Plan for the period 1 April 2005 to 31 March 2010, in accordance with FRS 15 ("Tangible Fixed Assets")

The amount of excess depreciation over expenditure is as follows

	£m
Excess depreciation over expenditure at 1 April 2006	(31.3)
Expenditure on asset replacements to maintain the network in the year	101.2
Depreciation for the year	(105.2)
<b>Excess depreciation over expenditure at 31 March 2007</b>	<b>(35.3)</b>

Operational structures held under finance lease

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

Operational structures	2007 £m	2006 £m
Cost at 31 March	81.0	81.0
Accumulated depreciation at 31 March	(15.0)	(13.1)
<b>Net book value at 31 March</b>	<b>66.0</b>	<b>67.9</b>

The depreciation charge for the year for assets held under finance leases is £1.9 million (2006 £1.7 million)

	2007 £m	2006 £m
Capital commitments Contracted but not provided for	273.4	154.0

11 Fixed asset investments

	Other investments £m
<b>Cost at 1 April 2006 and 31 March 2007</b>	<b>0.3</b>

Details of other investments, 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	0.6%	Cash collection service
	Deferred shares of 1 pence each	0.6%	
Lingley Mere Management Company Ltd	Ordinary shares of £1 each	93.27%	Dormant

The company also has an interest in Rivington Heritage Trust and Rossendale Groundwork Trust Limited both of which are limited by guarantee. Consolidated financial statements have not been prepared as neither the results of the subsidiary companies, nor their net assets, are material in the overall context of United Utilities Water PLC.



Notes to the accounts (continued)

12 Debtors

(a) Amounts falling due within one year

	Note	2007 £m	2006 £m
Trade debtors		81.0	101.1
Amounts owed by parent and fellow subsidiary undertakings		13.6	25.2
Amounts owed by parent and fellow subsidiary undertakings (floating rate loans)		40.6	40.7
Other debtors		11.0	7.6
Prepayments and accrued income		110.1	84.7
Current derivative financial instruments	20	37.7	35.6
		<u>294.0</u>	<u>294.9</u>

(b) Amounts falling due after more than one year

	Note	2007 £m	2006 £m
Non-current derivative financial instruments	20	<u>13.1</u>	<u>27.6</u>

13 Current asset investments

	2007 £m	2006 £m
Short-term deposits	<u>1,307.0</u>	<u>738.0</u>

Short-term deposits comprise short term highly liquid investments with a maturity of three months or less. The effective interest rate on short-term deposits during the year ended 31 March 2007 was 4.91 per cent (2006 4.60 per cent). These deposits have a weighted average maturity of 42 days.

14 Creditors: amounts falling due within one year

(a) Trade and other creditors

	Note	2007 £m	2006 £m
Trade creditors		15.7	21.6
Amounts owed to parent and fellow subsidiary undertakings		5.8	53.8
Taxation and social security		60.5	38.6
Deferred grants and contributions	16	5.4	4.7
Accruals and deferred income		319.4	295.2
Derivative financial instruments	20	48.3	62.2
		<u>455.1</u>	<u>476.1</u>

(b) Borrowings

	Note	2007 £m	2006 £m
Bonds and other term borrowings	19	941.8	36.3
130,000,000 7 per cent £1 redeemable preference shares	19	130.0	-
Bank overdrafts	19	25.9	23.9
Finance lease obligations	19	12.0	5.0
Amounts owed to parent and fellow subsidiary undertakings	19	7.0	23.9
		<u>1,116.7</u>	<u>89.1</u>

The £130.0 million 7 per cent redeemable preference shares have been presented as amounts falling due within one year as they may be redeemed by not less than 30 days written notice served by the company or the shareholder. Preference shareholders are not entitled to

Notes to the accounts (continued)

(b) Borrowings (continued)

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 latest redemption date of 1 October 2099.

15 Creditors: amounts falling due after more than one year

(a) Trade and other creditors

	Note	2007 £m	2006 £m
Other creditors		3.4	4.6
Deferred grants and contributions	16	87.3	84.1
Derivative financial instruments	20	72.1	25.0
		<b>162.8</b>	<b>113.7</b>

(b) Borrowings

	Note	2007 £m	2006 £m
Bonds and other term borrowings	19	3,093.6	3,303.4
130,000,000 7 per cent £1 redeemable preference shares	19	-	130.0
Finance lease obligations	19	63.1	75.2
Amounts owed to parent and fellow subsidiary undertakings	19	448.7	447.8
		<b>3,605.4</b>	<b>3,956.4</b>

16 Deferred grants and contributions

	£m
At 1 April 2006	88.8
Received in the year	9.4
Charged to the profit and loss account	(5.5)
At 31 March 2007	<b>92.7</b>

17 Provisions for liabilities

	Deferred tax (note 18) £m	Other £m	Total £m
At 1 April 2006	333.4	1.8	335.2
Reclassification from accruals	-	10.9	10.9
Net profit and loss account	21.4	5.8	27.2
Reclassified to pension deficit	3.5	-	3.5
Utilised in the year	-	(8.1)	(8.1)
At 31 March 2007	<b>358.3</b>	<b>10.4</b>	<b>368.7</b>

Other provisions represent obligations for restructuring costs which are expected to be incurred within the next twelve months and also legal claims. The ultimate amount and timing of the settlement of such claims are uncertain.

The directors have reviewed the liabilities of the company and, after due consideration of their nature, consider that it is appropriate to reclassify certain liabilities, in respect of potential legal claims against the company, from accruals to provisions. The total effect is to increase provisions and decrease accruals and deferred income within trade and other payables by £10.9 million during the year.

Notes to the accounts (continued)

18 Deferred tax (see note 17)

	2007 £m	2006 £m
Accelerated capital allowances	1,191.3	1,165.0
Short-term timing differences	(17.6)	(54.6)
Undiscounted provision for deferred tax	<u>1,173.7</u>	<u>1,110.4</u>
Discount	(815.4)	(777.0)
Discounted provision for deferred tax	<u>358.3</u>	<u>333.4</u>

The 2007 Chancellor's Budget proposed various changes to the rules in claiming tax allowances on capital expenditure together with a reduction in the main corporate tax rate. The impact of these changes on the company's future deferred tax position is currently under review.

19 Borrowings

The following analysis provides information about the contractual terms of the company's loans and borrowings. For more information about the company's exposure to interest rate and foreign exchange risk, see note 20.

	2007 £m	2006 £m
<i>Non-current liabilities</i>		
Bank and other term borrowings	236.0	494.3
Bonds	2,857.6	2,809.1
Preference shares	-	130.0
Finance lease obligations	63.1	75.2
Amounts owed to parent and fellow subsidiary undertakings	448.7	447.8
	<u>3,605.4</u>	<u>3,956.4</u>
<i>Current liabilities</i>		
Bank overdrafts	25.9	23.9
Bank and other term borrowings	258.2	16.7
Preference shares	130.0	-
Bonds	683.6	19.6
Finance lease obligations	12.0	5.0
Amounts owed to parent and fellow subsidiary undertakings	7.0	23.9
	<u>1,116.7</u>	<u>89.1</u>
<b>Total</b>	<u>4,722.1</u>	<u>4,045.5</u>

Notes to the accounts (continued)

19 Borrowings (continued)

Terms and debt repayment schedule

The principal economic terms and conditions of outstanding loans and borrowings were as follows

	Currency	Year of maturity	2007 Carrying value £m	2006 Carrying value £m
<b>Borrowings in fair value hedge relationships</b>				
5.625% 300m bond	GBP	2027	295.9	317.6
5% 200m bond	GBP	2035	188.4	202.4
5.25% 150m bond	GBP	2010	145.8	148.9
5.375% 150m bond	GBP	2018	142.9	150.8
6.625% 1,000m bond	EUR	2007	673.8	690.9
4.875% 600m bond	EUR	2009	403.4	420.4
4.25% 500m bond	EUR	2020	321.7	337.6
5.02% 10,000m reverse dual currency bond	JPY	2029	53.9	60.8
0.44%+HIBOR 150m (floating) bond	HKD	2007	9.8	11.1
<b>Borrowings designated at fair value through profit and loss</b>				
6.875% 400m bond (owed to parent undertaking)	USD	2028	217.5	240.1
1.135% 3,000m bond	JPY	2013	12.5	13.6
0.75% 1,000m bond	JPY	2007	-	4.9
<b>Borrowings measured at amortised cost</b>				
1.97%+RPI 200m IL bond	GBP	2016	200.7	-
1.9799%+RPI 100m IL bond	GBP	2035	104.7	101.5
1.7829%+RPI 100m IL bond	GBP	2040	103.6	100.5
1.5802%+RPI 100m IL bond	GBP	2042	103.3	100.0
1.847%+RPI 100m IL bond	GBP	2056	102.5	-
1.815%+RPI 100m IL bond	GBP	2056	102.1	-
1.662%+RPI 100m IL bond	GBP	2056	101.9	-
3.375%+RPI 50m IL bond	GBP	2032	55.4	54.8
1.3258%+RPI 50m IL bond	GBP	2041	51.7	50.1
1.397%+RPI 50m IL bond	GBP	2046	51.6	50.1
1.5366%+RPI 50m IL bond	GBP	2043	51.5	-
1.7937%+RPI 50m IL bond	GBP	2049	51.4	-
1.5865%+RPI 50m IL bond	GBP	2056	50.9	-
1.556%+RPI 50m IL bond	GBP	2056	50.6	-
1.435%+RPI 50m IL bond	GBP	2056	50.5	-
1.3805%+RPI 35m IL bond	GBP	2056	35.3	-
1.591%+RPI 25m IL bond	GBP	2056	25.4	-
0.765% 3,000m bond	JPY	2006	-	14.7
Commission for the New Towns loan – 14.83%	GBP	2053	31.2	31.4
Long-term bank borrowings floating – 5.41% - 5.608%	GBP	2007-2012	253.0	256.0
Long-term bank borrowings 6.55%-6.89%	GBP	2007-2008	210.0	223.6
Preference shares – 7% (130,000,000 £1 shares)	GBP	2099	130.0	130.0
Parent and fellow subsidiary borrowings	GBP	Various	238.2	229.6
<b>Other borrowings</b>				
Finance lease obligations – 4.26%	GBP	2014	75.1	80.2
Bank overdrafts	GBP	2007	25.9	23.9
			<b>4,722.1</b>	<b>4,045.5</b>

Loans and borrowings are unsecured. The fair values of the company's financial instruments are shown in note 20.

Notes

Base interest rates:

HIBOR Hong Kong Inter-Bank Offered Rate

Currency

GBP Pound Sterling  
 EUR Euro  
 HKD Hong Kong Dollar  
 USD United States Dollar  
 JPY Japanese Yen

Index-linked debt:

IL Index-linked debt – this debt is adjusted for movements in RPI with reference to a base RPI established at the trade date.

RPI

Retail Price Index – the UK general index of retail prices (for all items) as published by the Office of National Statistics (Jan 1987 = 100) as published by HM Government.

Notes to the accounts (continued)

19 Borrowings (continued)

Borrowing facilities

The company had available unutilised committed bank facilities of £400.0 million (2006 £415.0 million). Details of the expiry dates of the amounts unutilised are as follows

	2007 £m	2006 £m
Within one year	25.0	165.0
After one year but less than two years	50.0	50.0
More than two years	325.0	200.0
	<u>400.0</u>	<u>415.0</u>

Bank overdrafts are repayable on demand

Finance leases

Finance lease liabilities are payable as follows

	Minimum lease payments		Present value of minimum lease payments	
	2007 £m	2006 £m	2007 £m	2006 £m
Amounts payable under finance leases				
- within one year	12.0	5.0	12.0	5.0
- in the second to fifth year inclusive	54.2	51.9	43.6	32.9
- after five years	31.8	52.5	19.5	42.3
	<u>98.0</u>	<u>109.4</u>	<u>75.1</u>	<u>80.2</u>
Less future finance charges	(22.9)	(29.2)	-	-
Present value of lease obligations	<u>75.1</u>	<u>80.2</u>	<u>75.1</u>	<u>80.2</u>
Less amounts due for settlement in less than 1 year			(12.0)	(5.0)
Amounts due for settlement in more than 1 year			<u>63.1</u>	<u>75.2</u>

Finance lease obligations relate to operational structures. Interest rates implicit in the minimum lease payments were fixed on completion of the assets when the primary period of the lease commenced. In addition, contingent rentals are either payable or receivable, which adjust the minimum lease payments to reflect changes in future market rates of interest. These contingent rentals are recognised as a finance income or expense in the year to which they relate. The finance expense in the year relating to contingent rentals was £3.4 million (2006 £3.5 million). The net finance charge (after adjusting for contingent rentals) for the year was £2.9 million (2006 £3.2 million) and the effective borrowing rate (after adjusting for contingent rentals) for the year was 4.26 per cent (2006 4.47 per cent).

The minimum lease payments are also subject to changes in taxation. Any adjustment is recognised as a financial income or expense over the remaining term of the lease.

The comparative information has been re-presented to show separately gross payments and future finance charges.

The directors consider that the fair values of the company's lease obligations approximate to their carrying values.

20 Financial Instruments

Exposure to credit, interest rate and foreign exchange risks arise in the normal course of the company's business. Derivatives are used to hedge exposure to fluctuations in interest rate and foreign exchange rates.

Risk management

The primary financial risks faced by the company are interest rate risk and foreign exchange 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. The United Utilities PLC group's treasury function, which is authorised to conduct the day-to-day treasury activities of the company, reports at least annually to the board. The use of financial derivatives is governed by the company's policies approved by the board, which provide written principles on the use of financial derivatives.

## Notes to the accounts (continued)

### 20 Financial Instruments (continued)

All of the company's activities involve analysis, acceptance and management of some degree of risk or combination of risks. The most important types of financial risk are credit risk, liquidity risk and market risk. Market risk includes currency, interest rate and equity price risks.

The company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up-to-date systems. The company modifies and enhances its risk management policies and systems to reflect changes in markets and products. The United Utilities PLC Group board formulates high level company risk management policy, monitors risk and receives reports that allow it to review the effectiveness of the company's risk management policies.

#### Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its financial obligations under a contract. It arises principally from lending, trade finance, treasury and leasing activities. The company has dedicated standards, policies and procedures to control and monitor all such risks.

The counterparties under these activities 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 by limiting the total amount of exposure to any one party. Management does not anticipate that any counterparty will fail to meet its obligations.

The company does not believe that the company is exposed to any material concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives, in the balance sheet.

#### Liquidity risk

Liquidity risk is the risk that the company will not have sufficient funds to meet its financial obligations or commitments. The company maintains a strong liquidity position and manages the liquidity profile of its assets, liabilities and commitments so that cash flows are appropriately balanced and all financial obligations are met when due.

#### Market risk

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates, equity and commodity prices will reduce the company's income. The management of market risk is undertaken using risk limits approved by the finance director under delegated authority from the board.

The company borrows in the major global debt markets at both fixed and floating rates of interest, using derivatives, where appropriate, to generate the desired effective interest basis.

#### Interest rate risk

The company's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The company's floating rate borrowings are exposed to a risk of change in cash flows due to changes in interest rates. Investments in equity securities and short-term receivable and payables are not exposed to interest rate risk.

The company uses interest rate swap contracts and financial futures to hedge these exposures.

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.

Non-current asset investments, trade and other receivables and trade and other payables are not directly exposed to interest rate risk.

#### Currency risk

The company is exposed to foreign currency risk on borrowings that are denominated in currency other than the respective functional currency. The company utilises foreign currency swap contracts to hedge this exposure. Under a currency 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.

As noted above, the company uses derivatives to manage its exposure to currency risk on its borrowings. The company makes no significant sales or purchases in currencies other than its functional currency. Accordingly, the company has no material unhedged foreign currency exposures.

## Notes to the accounts (continued)

### 20 Financial instruments (continued)

#### Hedging

The company adopts a policy of ensuring that 80 per cent of its exposure to changes in interest rates on borrowings is on a fixed rate basis. Interest rate instruments have been entered into to achieve an approximate mix of fixed and floating rate exposure within the company's policy. The residual short-term interest rate exposure is hedged using exchange traded financial futures.

The derivative financial instruments utilised by the company to achieve the hedging of these exposures can be summarised as follows:

#### *Interest rate swaps*

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

Interest rate and cross-currency swaps are denominated in sterling, United States dollars, Japanese yen, euro and Hong Kong dollars and mature between 2007 and 2035. Swaps are executed in conjunction with bond issues to ensure that the combined cash flows equate to floating sterling. In these cases, interest on the swap is received to coincide with bond interest payments which are generally annual on fixed rate bonds. Interest received on these swaps will match the nominal interest paid on the bonds, these rates are detailed in borrowings note 19. The floating sterling side payable on these swaps will generally occur semi-annually. Taking into account the latest fixings prior to the year end, rates range from 5.90 to 6.54 per cent on these floating legs. Additionally, swaps are executed to fix floating rate cash flows over the regulatory period. Cash flows on these regulatory swaps will coincide with the floating cash flow it is intended to fix. Interest received on these regulatory swaps is floating sterling and the fixed payable side ranges from 4.84 to 5.67 per cent.

#### *Financial futures*

Financial futures are used to manage the company's exposure to possible future changes in short-term interest rates. The financial future contracts are traded on the London International Financial Futures and Options Exchange.

#### *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.

#### *Cross-currency swaps*

The company uses currency swaps to hedge currency exposure where debt is raised in one currency to fund in a different currency. The company does not use derivative financial instruments for speculative purposes, and has not pledged collateral in relation to any of its derivative instruments. The derivative financial instruments do not contain any early settlement or termination options.

Those derivative instruments that are not part of a designated and effective hedging relationship are classified as held for trading and are therefore measured at fair value through profit and loss. Where fair value hedges exist, they are designated as a hedge of interest rate and/or currency risks.

The cash flow hedge relates to the management of cash flow on a particular floating rate loan over the regulatory period to 2010. The company largely manages all its financing cash flows over the observed five-year regulatory period, however, the majority of these economic hedges do not qualify for hedge accounting as they would be overlaid onto transactions which are already within fair value hedge relationships.

#### **Effective interest rate and repricing analysis**

In respect of interest earning financial assets and interest bearing financial liabilities, the following tables indicate their average effective interest rates at the reporting date and the periods in which they mature or, if earlier, reprice. The 7 per cent preference shares have been classified according to their latest redemption date of 1 October 2099.

## Notes to the accounts (continued)

## 20 Financial instruments (continued)

31 March 2007	Average effective interest rate %	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
<b>Borrowings in fair value hedge relationships:</b>								
<i>Fixed rate instruments</i>								
5 625% GBP 300m bond due 2027	5.69	295.9	-	-	-	-	-	295.9
5% GBP 200m bond due 2035	5.12	188.4	-	-	-	-	-	188.4
5.25% GBP 150m bond due 2010	5.34	145.8	-	-	145.8	-	-	-
5 375% GBP 150m bond due 2018	5.44	142.9	-	-	-	-	-	142.9
6 625% EUR 1,000m bond due 2007	6.49	673.8	673.8	-	-	-	-	-
4 875% EUR 600m bond due 2009	5.10	403.4	-	403.4	-	-	-	-
4.25% EUR 500m bond due 2020	4.38	321.7	-	-	-	-	-	321.7
5 02% JPY 10,000m reverse dual currency bond due 2029	5.02	53.9	-	-	-	-	-	53.9
Effect of Swaps (3)	6.17	-	1,552.0	(403.4)	(145.8)	-	-	(1,002.8)
<i>Floating rate instruments</i>								
HKD 150m bond due 2007 (1)	4.71	9.8	9.8	-	-	-	-	-
Effect of swaps (3)	6.06	-	-	-	-	-	-	-
		<b>2,235.6</b>	<b>2,235.6</b>	-	-	-	-	-
<b>Borrowings designated at fair value through profit and loss</b>								
<i>Fixed rate instruments</i>								
6 875% USD 400m bond due 2028	7.10	217.5	-	-	-	-	-	217.5
1 135% JPY 3,000m bond due 2013	1.14	12.5	-	-	-	-	-	12.5
Effect of swaps (3)	6.51	-	230.0	-	-	-	-	(230.0)
		<b>230.0</b>	<b>230.0</b>	-	-	-	-	-
<b>Borrowings measured at amortised cost</b>								
<i>Fixed rate instruments</i>								
Commission for the New Towns loan - 14 83%	11.40	31.2	0.2	0.2	0.2	0.2	0.3	30.1
Long-term bank borrowings 6 55% - 6 89%	6.72	210.0	205.0	5.0	-	-	-	-
7% Preference shares - 130,000,000 £1 shares	7.00	130.0	-	-	-	-	-	130.0
<i>Floating rate instruments</i>								
Long-term bank borrowings (1)	5.56	253.0	253.0	-	-	-	-	-
Finance lease obligations	4.26	75.1	75.1	-	-	-	-	-
Parent and fellow subsidiary borrowings	Various	238.2	238.2	-	-	-	-	-
Bank overdrafts (2)	Various	25.9	25.9	-	-	-	-	-
		<b>963.4</b>	<b>797.4</b>	<b>5.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>160.1</b>
<i>Index-linked instruments</i>								
1 97%+RPI GBP 200m IL bond due 2016 (4)	1.97+RPI	200.7	200.7	-	-	-	-	-
1 9799%+RPI GBP 100m IL bond due 2035 (4)	1.9799+RPI	104.7	104.7	-	-	-	-	-
1 7829%+RPI GBP 100m IL bond due 2040 (4)	1.7829+RPI	103.6	103.6	-	-	-	-	-
1 5802%+RPI GBP 100m IL bond due 2042 (4)	1.5802+RPI	103.3	103.3	-	-	-	-	-
1 847%+RPI GBP 100m IL bond due 2056 (4)	1.847+RPI	102.5	102.5	-	-	-	-	-
1 815%+RPI GBP 100m IL bond due 2056 (4)	1.815+RPI	102.1	102.1	-	-	-	-	-
1 662%+RPI GBP 100m IL bond due 2056 (4)	1.662+RPI	101.9	101.9	-	-	-	-	-
3 375%+RPI GBP 50m IL bond 2056 (4)	3.375+RPI	55.4	55.4	-	-	-	-	-
1 3258%+RPI GBP 50m IL bond due 2041 (4)	1.3258+RPI	51.7	51.7	-	-	-	-	-
1.397%+RPI GBP 50m IL bond due 2046 (4)	1.397+RPI	51.6	51.6	-	-	-	-	-
1 5366%+RPI GBP 50m IL bond due 2043 (4)	1.5366+RPI	51.5	51.5	-	-	-	-	-
1 7937%+RPI GBP 50m IL bond due 2049 (4)	1.7937+RPI	51.4	51.4	-	-	-	-	-
1 5865%+RPI GBP 50m IL bond due 2056 (4)	1.5865+RPI	50.9	50.9	-	-	-	-	-
1 556%+RPI GBP 50m IL bond due 2056 (4)	1.556+RPI	50.6	50.6	-	-	-	-	-
1 435%+RPI GBP 50m IL bond due 2056 (4)	1.435+RPI	50.5	50.5	-	-	-	-	-
1 3805%+RPI GBP 35m IL bond due 2056 (4)	1.3805+RPI	35.3	35.3	-	-	-	-	-
1 591%+RPI GBP 25m IL bond due 2056 (4)	1.591+RPI	25.4	25.4	-	-	-	-	-
		<b>1,293.1</b>	<b>1,293.1</b>	-	-	-	-	-
<b>Effect of a fixed hedge for the term of the regulatory business plan</b>								
		<b>5.26</b>	<b>(2,938.6)</b>	-	<b>1,971.1</b>	<b>967.5</b>	-	-
		<b>4,722.1</b>	<b>1,617.5</b>	<b>5.2</b>	<b>1,971.3</b>	<b>967.7</b>	<b>0.3</b>	<b>160.1</b>

(1) Where a floating rate is quoted, the latest fixing is quoted here including any appropriate margins,

(2) This represents a number of bank balances with various floating rates,

(3) The rate quoted here is the last GBP LIBOR fixing plus any margin which is payable under the relevant swap. The interest receivable on these swaps will be the coupon due on the corresponding debt item,

(4) The debt balance on these index-linked items, and thus the balance upon which interest is paid at the quoted coupon, is adjusted for movements in the Retail Price Index established at the trade date. The corresponding annualised inflation rate for the year to March 2007 was 4.8 per cent (2006 2.4 per cent)



Notes to the accounts (continued)

20 Financial Instruments (continued)

31 March 2006	Average effective interest rate %	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
<b>Borrowings in fair value hedge relationships:</b>								
<i>Fixed rate instruments</i>								
5 625% GBP 300m bond due 2027	5.69	317.6	-	-	-	-	-	317.6
5% GBP 200m bond due 2035	5.12	202.4	-	-	-	-	-	202.4
5.25% GBP 150m bond due 2010	5.34	148.9	-	-	-	148.9	-	-
5.375% GBP 150m bond due 2018	5.44	150.8	-	-	-	-	-	150.8
6.625% EUR 1,000m bond due 2007	6.49	690.9	-	690.9	-	-	-	-
4.875% EUR 600m bond due 2009	5.10	420.4	-	-	420.4	-	-	-
4.25% EUR 500m bond due 2020	4.38	337.6	-	-	-	-	-	337.6
5.02% JPY 10,000m reverse dual currency bond due 2029	5.02	60.8	-	-	-	-	-	60.8
Effect of swaps (3)	5.28	-	2,329.4	(690.9)	(420.4)	(148.9)	-	(1,069.2)
<i>Floating rate instruments</i>								
HKD 150m bond due 2007 (1)	4.50	11.1	11.1	-	-	-	-	-
Effect of swaps (3)	4.68	-	-	-	-	-	-	-
		2,340.5	2,340.5	-	-	-	-	-
<b>Borrowings designated at fair value through profit and loss</b>								
<i>Fixed rate instruments</i>								
6.875% USD 400m bond due 2028	7.10	240.1	-	-	-	-	-	240.1
0.75% JPY 1,000m bond due 2007	0.75	4.9	4.9	-	-	-	-	-
1.135% JPY 3,000m bond due 2013	1.14	13.6	-	-	-	-	-	13.6
Effect of swaps (3)	5.43	-	253.7	-	-	-	-	(253.7)
		258.6	258.6	-	-	-	-	-
<b>Borrowings measured at amortised cost</b>								
<i>Fixed rate instruments</i>								
Commission for New Towns loan - 14.83%	11.40	31.4	0.3	0.2	0.2	0.2	0.2	30.3
Long-term bank borrowings 6.55% - 6.89%	6.89	223.6	13.5	205.0	5.1	-	-	-
7% Preference shares - 130,000,000 £1 shares	7.00	130.0	-	-	-	-	-	130.0
0.765% JPY 3,000m bond due 2006	0.77	14.7	14.7	-	-	-	-	-
<i>Floating rate instruments</i>								
Long-term bank borrowings floating (1)	4.79	256.0	256.0	-	-	-	-	-
Finance lease obligations	4.47	80.2	80.2	-	-	-	-	-
Parent and fellow subsidiary undertakings	Various	229.6	229.6	-	-	-	-	-
Bank overdrafts (2)	Various	23.9	23.9	-	-	-	-	-
		989.4	618.2	205.2	5.3	0.2	0.2	160.3
<i>Index-linked instruments</i>								
1.9799%+RPI GBP 100m IL bond due 2035 (4)	1.9799+RPI	101.5	101.5	-	-	-	-	-
1.7829%+RPI GBP 100m IL bond due 2040 (4)	1.7829+RPI	100.5	100.5	-	-	-	-	-
1.5802%+RPI GBP 100m IL bond due 2042 (4)	1.5802+RPI	100.0	100.0	-	-	-	-	-
3.375%+RPI GBP 50m IL bond 2056 (4)	3.375+RPI	54.8	54.8	-	-	-	-	-
1.3258%+RPI GBP 50m IL bond due 2041 (4)	1.3258+RPI	50.1	50.1	-	-	-	-	-
1.397%+RPI GBP 50m IL bond due 2046 (4)	1.397+RPI	50.1	50.1	-	-	-	-	-
		457.0	457.0	-	-	-	-	-
Effect of a fixed hedge for the term of the regulatory business plan	5.26	-	(2,938.6)	-	-	1,971.1	967.5	-
		4,045.5	735.7	205.2	5.3	1,971.3	967.7	160.3

Notes:

The abbreviations used in the tables above are listed on page 36

Notes to the accounts (continued)

20 Financial instruments (continued)

Sensitivity analysis

In managing interest rate risk the group aims to reduce the impact of short-term fluctuations on the company's earnings. Over the longer term permanent changes in interest rates will have an impact on profit. The analysis in the table below illustrates the sensitivity of the market value (fair value) of the company's financial instruments to changes in interest rates. The analysis assumes a general increase or decrease of one percentage point in interest rates for all maturities from their levels at the each year end with all other variables held constant.

	Fair value at 31 March 2007 £m	+1% movement in interest rate £m	-1% movement in interest rate £m
<i>Interest rate movement</i>			
Non-current borrowings	(3,613.0)	410.6	(548.7)
Derivatives	(69.6)	(72.9)	95.2
Cash and short-term deposits	1,309.3	(1.0)	0.9
	Fair value at 31 March 2006 £m	+1% movement in interest rate £m	-1% movement in interest rate £m
<i>Interest rate movement</i>			
Non-current borrowings	(4,072.9)	121.0	(140.6)
Derivatives	(24.0)	(43.8)	58.6
Cash and short-term deposits	742.4	-	-

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2007 Carrying value £m	2007 Fair value £m	2006 Carrying value £m	2006 Fair value £m
<b>Financial assets:</b>				
<i>Non-current assets</i>				
Derivative financial instruments				
- Fair value hedge swaps	13.1	13.1	27.6	27.6
<i>Current assets</i>				
Cash and short-term deposits (1)	1,307.0	1,309.3	742.4	742.4
Trade and other debtors (1)	256.3	256.3	259.3	259.3
Derivative financial instruments				
- Held for trading swaps	37.7	37.7	35.6	35.6
<b>Financial liabilities:</b>				
<i>Non-current liabilities</i>				
Trade and other creditors (excluding derivatives)	(90.7)	(90.7)	(88.7)	(88.7)
Borrowings				
- designated at fair value through profit and loss	(230.0)	(230.0)	(253.7)	(253.7)
- in fair value hedge relationships (2)	(1,552.0)	(1,586.9)	(2,340.5)	(2,393.4)
- measured at amortised cost (2)	(1,823.4)	(1,796.1)	(1,362.2)	(1,425.8)
	(3,605.4)	(3,613.0)	(3,956.4)	(4,072.9)
Derivative financial instruments				
- Fair value hedge swaps	(72.1)	(72.1)	(25.0)	(25.0)
<i>Current liabilities</i>				
Trade and other creditors (excluding derivatives) (2)	(406.8)	(406.8)	(413.9)	(413.9)
Borrowings				
- designated at fair value through profit and loss	-	-	(4.9)	(4.9)
- in fair value hedge relationships (2)	(683.6)	(715.7)	-	-
- measured at amortised cost (2)	(433.1)	(440.8)	(84.2)	(84.2)
	(1,116.7)	(1,156.5)	(89.1)	(89.1)
Derivative financial instruments				
- Held for trading derivatives	(48.3)	(48.3)	(62.2)	(62.2)

- (1) The fair value price quoted includes £2.7 million interest receivable. This interest receivable is also included within the fair value of trade and other receivables.
- (2) Fair value prices quoted include accrued interest of £48.7 million in respect of the associated borrowings. This accrued interest is also included in the fair value of trade and other payables.

In respect of the total change in fair value of financial liabilities designated as at fair value through profit and loss of £28.6 million gain (2006: £9.2 million loss), £nil (2006: £1.3 million loss) is attributable to changes in credit risk.

Notes to the accounts (continued)

21 Retirement benefits

The company participates in the following pension schemes sponsored by the United Utilities Group the United Utilities Pension Scheme (UUPS) and the United Utilities Group of the Electricity Supply Pension Scheme (ESPS) UUPS has both a defined benefit section and a defined contribution section, the defined contribution section constituting less than 0.5 per cent of the total asset value of UUPS. ESPS is a defined benefit scheme. Both defined benefit schemes are now closed to new employees. Under FRS 17, the current service cost is calculated using the Projected Unit Method and will therefore increase as the members of the scheme approach retirement.

The pension schemes are independent of the company's finances.

The last actuarial valuation of the schemes was carried out as at 31 March 2006. These valuations have been updated to take account of the requirements of FRS 17 in order to assess the position at 31 March 2007 by projecting forward from 31 March 2006, and have been performed by an independent actuary, Mercer Human Resource Consulting Limited.

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 the defined benefit members over the five years from 1 April 2005. Subject to the results of the actuarial valuations as at 31 March 2007, the company contributions are expected to 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 schemes' trustees and United Utilities PLC.

The company does not expect to make any contribution in respect of the defined benefit members over the year to 31 March 2008.

The total defined benefit pension cost for the period was £11.4 million (2006 - £12.9 million). A pension surplus of £11.8 million, net of deferred tax of £5.0 million, is included in the balance sheet at 31 March 2007 (2006 - obligation of £11.9 million, net of deferred tax of £5.1 million).

Information about pension arrangements for executive directors is contained in note 5.

The main financial assumptions used by the actuary were as follows:

	At 31 March 2007	At 31 March 2006	At 31 March 2005
Discount rate - UUPS	5.20%	4.90%	5.4%
Discount rate - ESPS	5.30%	4.90%	5.4%
Expected return on assets - UUPS	6.50%	6.20%	6.7%
Expected return on assets - ESPS	6.30%	5.90%	6.5%
Pensionable salary growth - UUPS	3.95%	3.75%	4.1%
Pensionable salary growth - ESPS	4.00%	3.80%	4.3%
Pension increases	3.00%	2.80%	2.8%
Price inflation	3.00%	2.80%	2.8%

The current male life expectancies at age 60 underlying the accrued liabilities for the schemes are:

	2007 years	2006 years	2005 years
Retired member	23.8	22.5	21.2
Non retired member	25.9	24.8	23.9

Notes to the accounts (continued)

21 Retirement benefits (continued)

As at 31 March 2007, the fair value of the schemes' assets, together with the liabilities in the schemes' recognised in the balance sheet, and the expected rates of return were as follows

	Plan assets at 31 March 2007 %	Long-term rate of return expected at 31 March 2007 %	Value at 31 March 2007 £m	Plan assets at 31 March 2006 %	Long-term rate of return expected at 31 March 2006 %	Value at 31 March 2006 £m
Equities	69.5	7.3	783.5	66.6	7.1	746.8
Gilts	16.4	4.3	184.4	22.3	4.1	250.1
Bonds	13.1	5.1	147.0	11.0	4.9	123.4
Property	-	-	-	0.1	7.1	1.1
Cash	1.0	4.3	11.3	-	4.1	-
Total fair value of assets	<u>100.0</u>		<u>1,126.2</u>	<u>100.0</u>		<u>1,121.4</u>
Present value of liabilities			<u>(1,109.4)</u>			<u>(1,138.4)</u>
Net retirement benefit surplus/ (obligations)			<u>16.8</u>			<u>(17.0)</u>
Related deferred tax (liability)/asset			<u>(5.0)</u>			<u>5.1</u>
Net pension surplus/(obligations)			<u>11.8</u>			<u>(11.9)</u>

Details in connection with 2005 are as follows

	Plan assets at 31 March 2005 %	Long-term rate of return expected at 31 March 2005 %	Value at 31 March 2005 £m
Equities	63.7	7.6	593.0
Gilts	18.6	4.6	173.1
Bonds	14.9	5.4	138.7
Property	0.1	7.6	0.9
Cash	2.7	4.6	25.1
Total fair value of assets	<u>100.0</u>		<u>930.8</u>
Present value of liabilities			<u>(989.7)</u>
Net retirement benefit obligations			<u>(58.9)</u>
Related deferred tax asset			<u>17.7</u>
Net pension obligations			<u>(41.2)</u>

Notes to the accounts (continued)

21 Retirement benefits (continued)

The net pension expense before taxation recognised in the profit and loss account in respect of the defined benefit schemes is summarised as follows

	2007 £m	2006 £m
Current service cost	(21.3)	(20.2)
Past service cost	(2.2)	-
Expected return on schemes' assets	68.3	53.3
Interest on schemes' obligations	(56.2)	(46.0)
<b>Net pension expense before taxation</b>	<b>(11.4)</b>	<b>(12.9)</b>

The above amounts are all recognised within operating costs except for expected return on schemes' assets and interest on schemes' obligations which have been recognised within net interest payable and similar charges

The reconciliation of the opening and closing pension scheme asset/(liability) is as follows

	2007 £m	2006 £m
At 1 April	(17.0)	(58.9)
Expenses recognised in the profit and loss account	(11.4)	(12.9)
Contributions paid	0.6	1.3
Actuarial gains gross of taxation	44.6	53.5
<b>At 31 March</b>	<b>16.8</b>	<b>(17.0)</b>

Actuarial gains and losses are recognised directly in the statement of total recognised gains and losses

The history of the schemes is as follows

	2007	2006	2005
Experience gain/(loss) on schemes' liabilities (£m)	28.7	-	(2.3)
Percentage of scheme liabilities (%)	(2.6)	-	0.2
Difference between the expected and actual return on schemes' assets (£m)	(7.3)	168.3	7.2
Percentage of scheme assets (%)	(0.6)	15.0	0.8
Total amount recognised in statement of total recognised gains and losses (£m)	44.6	53.5	(1.6)
Percentage of scheme liabilities (%)	(4.0)	(4.7)	0.2
Change in assumptions (£m)	23.2	(114.8)	(6.5)
Percentage of scheme liabilities (%)	(2.1)	10.1	0.7

Notes to the accounts (continued)

22 Called up share capital and share premium account

	2007 £m	2006 £m
<b>Authorised share capital</b>		
1,050,000,000 ordinary shares of £1 each	1,050.0	1,050.0
223,437,000 zero per cent preference shares of £1 each	223.4	223.4
<b>Allotted and fully paid share capital</b>		
931,930,000 ordinary shares of £1 each	931.9	931.9
93,437,000 zero per cent preference shares of £1 each	93.4	93.4
	<u>1,025.3</u>	<u>1,025.3</u>
<b>Share premium account</b>	<u>647.8</u>	<u>647.8</u>

Zero per cent 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.

23 Share capital and reserves

	Note	Called up share capital £m	Share premium account £m	Profit and loss account £m	Total £m
At 1 April 2006		1,025.3	647.8	845.8	2,518.9
Profit for the financial year		-	-	333.8	333.8
Actuarial gains on defined benefit schemes	21	-	-	44.6	44.6
Deferred tax charge arising on actuarial gains on defined benefit schemes		-	-	(13.4)	(13.4)
Dividends paid	9	-	-	(270.3)	(270.3)
<b>At 31 March 2007</b>		<u>1,025.3</u>	<u>647.8</u>	<u>940.5</u>	<u>2,613.6</u>

24 Operating leases

The company is committed to make the following payments during the year

	Land and buildings 2007 £m	Plant and machinery 2007 £m	Land and buildings 2006 £m	Plant and machinery 2006 £m
Non-cancellable operating leases which expire				
Within one year	-	0.2	-	0.3
Between two and five years	-	0.7	-	0.9
After five years	1.0	-	1.0	-
	<u>1.0</u>	<u>0.9</u>	<u>1.0</u>	<u>1.2</u>

Notes to the accounts (continued)

25 Reconciliation of operating profit to net cash inflow from operating activities

	2007 £m	2006 £m
Operating profit	568.7	513.8
Depreciation	294.2	293.1
Amortisation of grants and contributions	(5.5)	(4.7)
Profit on disposal of tangible fixed assets	(3.5)	(2.9)
Increase in stocks	(0.7)	(0.4)
Decrease/(increase) in debtors	4.8	(21.0)
(Decrease)/increase in creditors	(22.2)	10.7
Movement in other provisions (including pensions assets/(liability))	31.7	(3.6)
<b>Net cash inflow from operating activities</b>	<b>867.5</b>	<b>785.0</b>

26 Reconciliation of net cash flow to movement in net debt

	Note	2007 £m	2006 £m
Movement on cash and overdrafts in the year	28	(6.4)	(6.5)
Cash flow from movements in debt and lease financing	28	(734.7)	14.3
Cash used to increase liquid resources	28	569.0	247.0
<b>Changes in net debt resulting from cash flows</b>		<b>(172.1)</b>	<b>254.8</b>
Non-cash adjustments	28	60.0	(43.9)
<b>Movement in net debt in the year</b>	<b>28</b>	<b>(112.1)</b>	<b>210.9</b>
<b>Opening net debt</b>	<b>28</b>	<b>(3,262.4)</b>	<b>(3,473.3)</b>
<b>Net debt at 31 March</b>	<b>28</b>	<b>(3,374.5)</b>	<b>(3,262.4)</b>

Non-cash adjustments include fair value movements, capitalised interest and indexation

27 Financing

	2007 £m	2006 £m
New loans	804.9	449.4
Loans repaid	(65.1)	(462.9)
	<b>739.8</b>	<b>(13.5)</b>
Issue of shares	-	400.0
Finance lease repayments	(5.1)	(0.8)
<b>Net cash inflow from financing</b>	<b>734.7</b>	<b>385.7</b>

Notes to the accounts (continued)

28 Analysis of changes in net debt

	At 31 March 2006 £m	Cashflow £m	Non-cash Movements £m	At 31 March 2007 £m
Cash at bank and in hand	4.4	(4.4)	-	-
Overdrafts	(23.9)	(2.0)	-	(25.9)
	(19.5)	(6.4)	-	(25.9)
Parent undertaking loans	40.7	(0.1)	-	40.6
Debt due after one year	(3,881.2)	148.9	190.0	(3,542.3)
Debt due within one year	(60.2)	(888.6)	(130.0)	(1,078.8)
	(3,941.4)	(739.7)	60.0	(4,621.1)
Finance leases	(80.2)	5.1	-	(75.1)
	(4,000.4)	(741.1)	60.0	(4,681.5)
Current asset investments	738.0	569.0	-	1,307.0
<b>Net debt</b>	<b>(3,262.4)</b>	<b>(172.1)</b>	<b>60.0</b>	<b>(3,374.5)</b>

29 Related party transactions

In accordance with the exemption set out in Financial Reporting Standard 8 'Related Party Disclosures', 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. United Utilities PLC, our ultimate parent undertaking, owns 22.63% of the shareholding of the ordinary share capital of THUS Group plc. Details of the transactions with this company are set out below.

	2007 £m	2006 £m
Sale of goods	0.3	0.1
Purchase of goods	2.2	0.3
Debtor outstanding	0.4	0.2
Creditor outstanding	-	-

There were no amounts written off intercompany debtors in the year (2006: £nil).



Notes to the accounts (continued)

30 Prior year adjustments 2006

At 31 March 2006, the company made two prior year adjustments following the adoption of new accounting standards. Details were as follows

	Impact on 2005 results £m	Impact on 2005 balance sheet £m
<b>Adoption of FRS17 "Retirement Benefits"</b>		
Decrease in operating profit	(3.6)	
Decrease in the tax credit/(charge)	1.1	
Decrease in debtors		(125.0)
Decrease in provisions		37.5
Increase in the pension liability		(41.2)
Decrease in reserves (see below)		(128.7)
<b>Adoption of FRS 21 "Events after the balance sheet date"</b>		
Decrease in dividends	2.6	
Decrease in creditors amounts falling due after more than 1 year		137.5
Increase in reserves		137.5

The total impact of £128.7m on the reserves at 31 March 2005 following the adoption of FRS17 was as follows

Opening reserves impact (gross)	(178.7)
Deferred tax thereon	53.6
	<u>(125.1)</u>
Net actuarial gains	(1.1)
Profit and loss account impact (see above)	(2.5)
	<u><u>(128.7)</u></u>

At 1 April 2005, FRS 25 ("Financial Instruments Disclosure and Presentation") and FRS 26 ("Financial Instruments Recognition and Measurement") were applied resulting in £130.0 million of preference shares being reclassified from equity to debt and the fair value of debt, derivatives and deferred income being reduced by £26.8 million, deferred tax increased by £8.0 million and reserves increased by £18.8 million at this date

31 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, Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP