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United Utilities

United Utilities Electricity PLC

Annual Report & Accounts 2004

Chairman's statement

Delivering efficiency and quality

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

Our business

United Utilities Electricity PLC manages a 58,000 kilometre distribution network which delivers over 25,500 gigawatt hours of electricity annually from the National Grid to more than 2.3 million consumer premises in North West England.

In January 2004 we welcomed Charlie Cornish as Managing Director of United Utilities Service Delivery. United Utilities Service Delivery manages the operation of the electricity distribution assets owned by United Utilities Electricity PLC, and the licensed water and wastewater network assets owned by United Utilities Water PLC in North West England.

Our performance

The electricity distribution business beat both its regulatory targets and our own internal targets for providing continuous supplies to customers.

The average number of interruptions per 100 customers fell from 66.5 last year to 51.0 and the average number of minutes that customers were without supply fell from 67.7 last year to 59.3. Through good contingency planning and rapid response, our teams were able to minimise the impact on customers of damage to the distribution network caused by winter storms.

We won recognition for our work to improve the quality of our electricity networks in this year's Utility Industry Achievement Awards in the categories of capital project management and team of the year. The awards focus on the work we have done to improve customer service by significantly improving the performance of the worst performing networks.

£150 million was invested in the network in 2003/04, as we increased our spend to meet performance targets for the current price review period.

Looking forward

The key event for the business in the year ahead is the price review and it is essential that we achieve balanced outcomes, which are fair to all our stakeholders. To ensure that we continue to deliver higher levels of performance during the five years 2005-2010, we are working on new initiatives to improve efficiency and reduce cost. These include a change programme to ensure we have the appropriate business processes, organisation, systems and commercial contracts in place, a realignment of operational strategy to deliver further efficiencies and improvements to scheduling systems.

We have submitted our final business plan to Ofgem for 2005-2010, outlining an investment programme of £642 million to preserve the current high quality of supply, keep fault rates stable and to maintain existing levels of service, security and network risk. We have also proposed investing a further £106 million to strengthen and reinforce the distribution network to allow renewable energy generators to be connected in the region.

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

John Roberts.

John Roberts
Chairman
United Utilities Electricity PLC

Operational and financial review

Operating review

We have continued to improve the reliability of our electricity distribution network delivering a capital investment programme this year of £150 million and improved levels of service in a number of important areas. Overall, the average number of minutes that customers were without supply during the year was 59.3 against a regulatory target of 68.2 and 99.7 per cent of supplies were restored within 18 hours.

2003/04 also saw the conclusion of our Project Cumbria initiative to strengthen the high voltage overhead line network in those areas shown to be most vulnerable to extreme weather conditions. This project was developed to provide a programme of reinforcement to the weaker parts of the Cumbrian network in order to improve the security and availability of supply. It comprised many individual schemes, for example performance was improved by refurbishing or replacing old assets with modern equipment and remote control technology has been introduced to reduce the time taken to restore supplies. We have invested £32 million and network performance has substantially improved.

An extensive programme is ongoing to install additional equipment to improve the quality of supply to customers supplied from targeted poorly performing high voltage circuits. This includes the installation of circuit breakers and switches at the mid point of such circuits, with full remote control facilities. These switches act to minimise disruption to customers by providing greater control of the network. As part of this five year investment programme we spent £11.4m in 2003/04.

As part of United Utilities PLC's continuing aim to become a market leader in the fast developing multi-utility market the metering and connections activities of the group have been brought together in United Utilities Networks Limited. On 1 April 2003 United Utilities Electricity PLC entered into a contract with United Utilities Networks Limited to fulfil certain metering and connections activities.

Financial results

Turnover decreased by 10.0 per cent in the year to £279.5 million mainly as a result of the transfer of the competitive multi-utility activities offset by the collection of previous years' under recoveries of revenue.

Operating profit was £157.1m compared with £156.6 million in 2002/03.

Net finance charges were £33.8 million in both 2003/04 and 2002/03, reflecting an increase in net debt offset by a reduction in interest rates.

Profit before tax decreased to £123.3 million compared to £123.6 million in the previous year, reflecting the transfer of the multi-utility activities offset by improvements in the operating efficiency of the business.

Taxation

The mainstream UK corporation tax charge in 2003/04 has been offset by tax credits following the finalisation of prior year tax returns and the accelerated tax allowances the company receives arising from its high level of capital investment.

The deferred tax charge is £19.2 million in 2003/04 compared with £20.3 million in 2002/03.

The effective current ordinary tax credit of 10.8 per cent compares with 11.5 per cent in 2002/03. The effects of deferred tax results in the effective ordinary tax charge of 4.8 per cent in both 2003/04 and 2002/03.

Operational and financial review (continued)

Capital structure and treasury policy

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

Moody's Investors Service rates the credit of United Utilities Electricity PLC as A2 on a long-term basis with a stable outlook and P-1 on a short-term basis. Equivalent ratings published by Standard and Poor's Rating Services are A- long-term with a positive outlook and A-2 short-term.

The United Utilities PLC group's $1.5 billion Euro Commercial Paper and €5 billion medium-term note issuance programmes continue to be available to provide sources of funding.

Net debt increased from £463.3 million to £493.8 million. At 31 March 2004 United Utilities Electricity PLC had £75 million of committed but unutilised medium-term bank facilities. Short-term current investments and the non-trading elements of amounts owed by group undertakings at 31 March 2004 are £142.6 million (2003 - £197.6 million).

Returns on investment and servicing of finance includes £16.3m of cash received in 2003/04 due to the early termination of certain interest rate swap contracts. This reduced particularly large exposures to swap counterparties. The resultant gain has been deferred in the balance sheet and will be released over the period of the underlying debt, which was unchanged by these transactions.

Interest rate management

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

The company's borrowings at 31 March 2004 are set out in note 19 on page 21.

Steven Beaumont
Finance Director
United Utilities Electricity PLC

Directors' report

for the year ended 31 March 2004

Principal activities

The principal activity of the company and of the group is the operation of electricity distribution assets.

The distribution of electricity is regulated by the terms of the company's Electricity Distribution Licence granted under the Electricity Act 1989 and monitored by the Gas and Electricity Markets Authority. The Chairman's statement, together with the operational and financial review, on pages 1 to 3, report on the company's activities during the year and likely future developments.

Profits and dividends

The results for the year, set out in the profit and loss account on page 6, show that turnover for the year ended 31 March 2004 decreased to £279.5 million (2003 – £310.4 million), a decrease of 10.0 per cent over the previous year. Profit for the year after tax was £117.4 million (2003 – £117.6 million).

An interim dividend of 12.38 pence per share was paid in February 2004 (2003 – 12.07 pence). The directors recommend a final dividend of 24.33 pence per share for the year to 31 March 2004 (2003 – 23.71 pence).

Employment policies

Employees are key to achieving our business goals and the company is committed to improving the skills of its people. As an equal opportunities employer, the company respects the dignity and rights of every employee by challenging 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, and to work in partnership with the trade unions.

We participate extensively in community programmes as part of our Corporate and Social Responsibility commitments and support employees in performing various roles in society.

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

Research and development

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

Creditor payment policy and practice

The policy is normally to pay suppliers according to agreed terms of business. These terms are agreed upon entering into binding contracts and the company seeks to adhere to the payment terms provided the relevant goods and services have been supplied in accordance with the contracts. The group and company had 42 days of purchases outstanding at the end of the financial year (2003 – 29 days).

Directors

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

J E Roberts*, Chairman (and Chief Executive, United Utilities PLC)
J Barnes (appointed 15 May 2003)
S G Batey*
S Beaumont
M J Boxall
K M Budinger
C Cornish* (appointed 13 January 2004)
J Lang
S Sullivan (appointed 15 May 2003)
M F Bradbury (resigned 4 April 2003)

* Director, United Utilities PLC

Details of directors' interests in ordinary shares and A shares of United Utilities PLC are set out in note 7 to the accounts.

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

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Registered address

United Utilities Electricity PLC
Dawson House
Great Sankey
Warrington
WA5 3LW
Registered number : 2366949

By order of the board
Steven Beaumont
Director
15 July 2004

Directors' responsibilities

in respect of the preparation of the financial statements

The directors are responsible for preparing, in accordance with the Companies Act 1985, financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year, and of the profit for the financial year.

The directors consider that in preparing the financial statements on pages 6 to 26 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards they consider to be applicable to these financial statements have been followed, subject to any departure and explanation described in the notes to the accounts.

The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are also responsible for the system of internal control, for safeguarding the assets of the company and the group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

Independent auditor's report

to the members of United Utilities Electricity PLC

We have audited the financial statements of United Utilities Electricity PLC for the year ended 31 March 2004 which comprise the consolidated profit and loss account, the balance sheets, the note of historical cost profit and losses, the statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds, the consolidated cashflow statement, the reconciliation of net cashflow to movement in net debt, and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

Basis of audit opinion

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

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

Opinion

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

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
16 July 2004

Consolidated profit and loss account

for the year ended 31 March

	Note	2004 £m	2003 £m
Turnover	2	**279.5**	**310.4**
Cost of sales		(24.8)	(50.9)
Gross profit		**254.7**	**259.5**
Distribution costs		(87.4)	(85.6)
Administration costs		(10.2)	(17.3)
Operating profit	3	**157.1**	**156.6**
Income from fixed asset investments		–	0.8
Profit on ordinary activities before interest		**157.1**	**157.4**
Net finance charges	4	(33.8)	(33.8)
Profit on ordinary activities before taxation		**123.3**	**123.6**
Taxation on profit on ordinary activities	5	(5.9)	(6.0)
Profit on ordinary activities after taxation for the financial year		**117.4**	**117.6**
Dividends	6	(57.6)	(56.1)
Retained profit for the financial year		**59.8**	**61.5**

All the results shown in the profit and loss account derive from continuing operations.

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

Note of historical cost consolidated profit and losses

for the year ended 31 March

	2004 £m	2003 £m
Profit on ordinary activities before taxation	**123.3**	123.6
Difference between historical cost depreciation charge and actual charge based on the revalued amount of tangible assets	**6.6**	6.6
Historical cost profit on ordinary activities before taxation	**129.9**	130.2
Historical cost profit for the financial year retained after taxation and dividends	**66.4**	68.1

Reconciliation of movements in shareholders' funds

for the year ended 31 March

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Profit for the financial year	**117.4**	117.6	**117.4**	115.4
Dividends	**(57.6)**	(56.1)	**(57.6)**	(56.1)
Retained profit for the financial year	**59.8**	61.5	**59.8**	59.3
Opening equity shareholders' funds	**537.3**	475.8	**523.7**	464.4
Closing equity shareholders' funds	**597.1**	537.3	**583.5**	523.7

Balance sheets

at 31 March

	Note	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Fixed assets					
Tangible assets	9	**1,577.3**	1,488.3	**1,577.3**	1,488.3
Investments in subsidiary undertakings	10	**–**	–	**65.0**	65.0
		1,577.3	1,488.3	**1,642.3**	1,553.3
Current assets					
Stocks	11	**3.6**	3.6	**3.6**	3.6
Debtors	12	**131.3**	173.3	**97.4**	137.9
Investments	13	**100.0**	159.0	**100.0**	159.0
		234.9	335.9	**201.0**	300.5
Creditors:					
Amounts falling due within one year	14	**(244.4)**	(350.3)	**(289.1)**	(393.5)
Net current liabilities		**(9.5)**	(14.4)	**(88.1)**	(93.0)
Total assets less current liabilities		**1,567.8**	1,473.9	**1,554.2**	1,460.3
Creditors:					
Amounts falling due after more than one year	15	**(856.4)**	(841.4)	**(856.4)**	(841.4)
Provisions for liabilities and charges	17	**(114.3)**	(95.2)	**(114.3)**	(95.2)
Net assets		**597.1**	537.3	**583.5**	523.7
Capital and reserves					
Called up share capital	21	**78.4**	78.4	**78.4**	78.4
Share premium account	22	**4.4**	4.4	**4.4**	4.4
Revaluation reserve	22	**187.6**	194.2	**187.6**	194.2
Other reserves	22	**8.6**	8.6	**8.6**	8.6
Profit and loss account	23	**318.1**	251.7	**304.5**	238.1
Equity shareholders' funds		**597.1**	537.3	**583.5**	523.7

Approved by the board of directors on 15 July 2004 and signed on its behalf by:

Steven Beaumont
Finance Director

Consolidated cash flow statement

for the year ended 31 March

	Note	2004 £m	2003 £m
Net cash inflow from operating activities	25 (a)	**191.0**	186.4
Returns on investments and servicing of finance	25 (b)	**(17.5)**	(33.2)
Taxation	25 (b)	**(25.6)**	(16.2)
Capital expenditure and financial investment	25 (b)	**(132.3)**	(113.0)
Acquisitions and disposals	25 (b)	**0.7**	–
Equity dividends	25 (b)	**(46.7)**	(55.5)
Cash outflow before management of liquid resources and financing		**(30.4)**	(31.5)
Management of liquid resources	25 (b)	**59.0**	(63.5)
Financing	25 (b)	**(8.4)**	50.4
Increase/(decrease) in cash in the year		**20.2**	(44.6)

Reconciliation of net cash flow to movement in net debt

for the year ended 31 March

	Note	2004 £m	2003 £m
Increase/(decrease) in cash in the year		**20.2**	(44.6)
Cash outflow/(inflow) from changes in debt		**8.4**	(50.4)
Cash (inflow)/outflow from management of liquid resources		**(59.0)**	63.5
Change in net debt resulting from cash flows		**(30.4)**	(31.5)
Amortisation of bond discount		**(0.1)**	(0.2)
Movement in net debt		**(30.5)**	(31.7)
Net debt at 1 April		**(463.3)**	(431.6)
Net debt at 31 March	25 (c)	**(493.8)**	(463.3)

Notes to the accounts

for the year ended 31 March 2004

1 Accounting policies

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

(a) Basis of preparation of financial statements
The consolidated financial statements of United Utilities Electricity PLC and its subsidiaries (together 'the group') have been prepared under the historical cost convention, modified by the valuation of certain operational assets and non-operational properties, in accordance with applicable United Kingdom accounting standards and the Companies Act 1985.

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

(c) Turnover
Turnover represents the charge for energy distributed during the year and the invoice value of other goods sold and services provided, exclusive of value added tax.

(d) Research and development
Expenditure on research and development is expensed as incurred.

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

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

The company has followed the transitional arrangements of FRS 17 'Retirement Benefits' in these financial statements. Details of pension arrangements and funding benefits are set out in note 8.

(f) Tangible fixed assets
Tangible fixed assets are included at cost or valuation less accumulated depreciation, freehold land is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated by writing off their cost or valuation evenly over their estimated economic lives which are principally as follows:

Operational structures	Between 5 and 80 years (Mainly between 30 and 80)
Non-operational assets:	
– Freehold buildings	Up to 60 years
– Leasehold buildings	Lower of lease period or remaining economic life up to 60 years
Fixtures and equipment, vehicles and other	Up to 10 years

Consumers' contributions towards the work of operational assets are treated as deferred income, which is credited to the profit and loss account over the estimated economic lives of the related 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.

(g) Fixed asset investments
Fixed asset investments, except for investments in associated undertakings, are stated at cost less amounts written off for impairment. The consolidated profit and loss account includes the group's share of the profits less losses and taxation of associated undertakings. The group balance sheet includes the investment in associated undertakings at the group's share of their net assets in accordance with Financial Reporting Standard 9.

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

(i) Stocks
Stocks are stated at cost less any provision necessary to recognise damage and obsolescence. The value of work in progress is based on the cost of labour plus appropriate overheads and the cost of materials. Progress invoices are deducted in arriving at the amounts stated.

Notes to the accounts (continued)

(j) Long-term contracts
Amounts recoverable on long-term contracts, which are included in debtors, are stated at the net sales value of the work done less amounts received as progress payments on account.

Profit is recognised on long term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as the proportion of the total contract value based on the percentage level of work completed for the contract.

The value of work in progress is based on the cost of labour plus appropriate overheads and the cost of materials. Progress invoices are deducted in arriving at the amounts stated.

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

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

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

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

(m) Financial instruments

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

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

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

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

Notes to the accounts (continued)

2 Segmental information

The geographical origin and destination of turnover is all within the United Kingdom. The group has one class of business relating to the distribution of electricity.

3 Operating profit

Operating profit is stated after charging/(crediting):	2004 £m	2003 £m
Depreciation	**55.1**	54.4
Amortisation of consumers' contributions	**(5.9)**	(5.6)
Profit on disposal of fixed assets	**(1.6)**	(2.0)
Auditor's remuneration	**0.2**	0.1
Research and development	**0.1**	0.3
Operating leases:		
- hire of plant and machinery	**3.2**	3.1
- land and buildings	**0.1**	0.3

Fees payable to Deloitte & Touche LLP and its associates for non-audit services during 2004 were £0.1million (2003 - £nil), primarily relating to regulatory work.

4 Net finance charges

	2004 £m	2003 £m
Interest payable and similar charges:		
Interest payable on bank loans and overdrafts	**36.7**	41.4
Interest payable to group undertakings	**4.5**	3.9
Total interest payable and similar charges	**41.2**	45.3
Investment income:		
Income received from current asset investments	**(4.2)**	(1.5)
Interest receivable and similar income		
- External	**(1.4)**	(8.2)
- Group undertakings	**(1.8)**	(1.8)
Total investment income	**(7.4)**	(11.5)
Net finance charges	**33.8**	33.8

Notes to the accounts (continued)

5 Taxation on profit on ordinary activities

(a) Analysis of charge in period

	2004 £m	2003 £m
Current tax:		
UK corporation tax at 30%	**9.5**	17.4
Prior years' tax adjustments	**(22.8)**	(31.7)
Total current tax	**(13.3)**	(14.3)
Deferred tax:		
Origination and reversal of timing differences	**25.0**	20.9
(Increase)/decrease in discount	**(16.1)**	6.9
Prior years' tax adjustments	**10.3**	(7.5)
Total deferred tax	**19.2**	20.3
Tax on profit on ordinary activities	**5.9**	6.0

(b) Factors affecting tax charge for period

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

	2004 £m	2003 £m
Profit on ordinary activities before tax	**123.3**	123.6

	%	%
UK corporation tax rate	**30.0**	30.0
Capital allowances in excess of depreciation	**(15.7)**	(12.2)
Other timing differences	**(4.6)**	(4.7)
Prior years' tax adjustments	**(18.5)**	(25.6)
Net non-taxable (income)/costs not deductible for tax purposes	**(2.0)**	1.0
Actual current tax rate	**(10.8)**	(11.5)

Notes to the accounts (continued)

6 Dividends

	2004 £m	2003 £m
Interim dividend of 12.38 pence per share (2003 – 12.07 pence)	**19.5**	18.9
Final dividend proposed of 24.33 pence per share (2003 – 23.71 pence)	**38.1**	37.2
	57.6	56.1

7 Directors and their interests

The aggregate emoluments of the directors in 2004 amounted to £367,920 (2003 – £351,431). Emoluments comprise salaries, fees, taxable benefits and the value of short-term incentive awards. The emoluments of J E Roberts and S G Batey are not included in the aggregate emoluments figures. The emoluments of these two directors are disclosed in the accounts of United Utilities PLC. The emoluments of the highest paid director (M J Boxall) in 2004 in respect of services to the company amounted to £104,591 (2003 L Dawson – £120,365).

No long-term incentive awards vested in the year ended 31 March 2004 (aggregate value in respect of the year ended 31 March 2003 was £nil). Information relating to long-term incentive awards is contained in the accounts of United Utilities PLC.

With the exception of M J Boxall, all directors are members of, and contribute to, the United Utilities Pension Scheme, which is an exempt approved pension scheme with defined benefit and defined contribution sections of membership. It contains sections which are open to all eligible employees. The defined benefit scheme provides an entitlement on normal retirement at age 60 equal to between 1/30th and 1/45th of pensionable earnings for each completed year of service. The maximum pension is two thirds of pensionable earnings. Early retirement is possible from the age of 50 if the company agrees.

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

The Finance Act 1989 restricts the pensions benefits that can be paid by these schemes 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 separate arrangements for some of the executive directors affected, the effect of which is to provide for them the same total pension benefits as for those executives who are not limited by the cap. These arrangements are unfunded.

The accrued pension at 31 March 2004 for the highest paid director M J Boxall was £30,420 (2003 L Dawson - £18,237).

Directors have no interest in the shares of United Utilities Electricity PLC.

At 31 March 2004 and 2003, or date of appointment, the directors and their families had the following interests, all of which were beneficial interests, in the ordinary and A shares and options to subscribe for ordinary shares in United Utilities PLC. The interests of J E Roberts, S G Batey and C Cornish in United Utilities PLC are disclosed in that company's accounts.

	At 31 March 2004 or date of appointment Interest in ordinary shares			At 1 April 2003 or date of appointment Interest in ordinary shares		
	Ordinary shares	**Executive options**	**Employee sharesave options**	Ordinary shares	Executive options	Employee sharesave options
J Barnes	**8,765**	**25,645**	**3,545**	8,765	22,175	2,986
S Beaumont	**7,522**	**27,696**	**2,909**	4,013	26,984	1,823
M J Boxall	**1,253**	**12,346**	**1,966**	162	10,676	1,575
K M Budinger	**–**	**–**	**1,213**	–	–	1,049
J Lang	**318**	**–**	**2,909**	21	–	–
S Sullivan	**–**	**8,673**	**–**	–	7,500	–

During the year one director exercised share options (2003 - nil).

Notes to the accounts (continued)

7 Directors and their interests (continued)

	At 31 March 2004 or date of appointment Interest in A shares	At 1 April 2003 or date of appointment Interest in A shares
J Barnes	1,141	–
S Beaumont	2,229	–
M J Boxall	–	–
K M Budinger	–	–
J Lang	70	–
S Sullivan	–	–

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

8 Employees

(a) Average number of persons employed (including directors)	**2004**	2003
Electricity distribution	**1,435**	1,577

Their aggregate remuneration comprised:	**2004 £m**	2003 £m
Wages and salaries	**46.9**	52.6
Social security costs	**4.1**	4.1
Pension costs	**(5.1)**	(4.9)
	45.9	51.8
Capital schemes	**(30.7)**	(24.8)
Charged to the profit and loss account	**15.2**	27.0

(b) Pensions

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

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

The last actuarial valuations of the two schemes were carried out as at 31 March 2001. An Actuarial valuation as at 31 March 2004 is currently being performed. The combined market value of United Utilities PLC's share of the assets of the two schemes at the valuation date was £1,833 million. Using the assumptions adopted for SSAP 24 the combined actuarial value of the assets represented 113 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP 24, the surplus in the schemes is being spread over the future working lifetime of the existing members.

For UUPS, the employer's contributions have been assessed in accordance with the advice of Mercer Human Resource Consulting using different assumptions from those described above. During the year contribution rates ranged from 14.8 per cent to 30.3 per cent dependent on the benefit category. For ESPS, the employer's contributions have been assessed in accordance with the advice of a firm of actuaries, Hewitt, Bacon and Woodrow, using different assumptions and methods from those described above. During the year the contribution rate was 19.0 per cent. Contribution rates are expected to remain the same for both schemes in 2004/05.

The company also operates a series of unfunded, unapproved retirement benefit schemes. The cost of the unfunded, unapproved retirement benefit schemes is included in the total pension cost, on a basis consistent with SSAP 24 and the assumptions set out above.

The total pension credit for the period was £5.1 million (2003 – £4.9 million). A prepayment of £30.1 million is included in the balance sheet at 31 March 2004 (2003 – prepayment of £18.5 million).

Notes to the accounts (continued)

8 Employees (continued)

(c) FRS 17 transitional disclosure

The company is unable to identify its share of the schemes' assets and liabilities on a consistent and reasonable basis. As permitted by FRS 17 'Retirement benefits', these schemes will be accounted for by the company when the accounting standard is fully adopted, as if the scheme were a defined contribution scheme. The latest full actuarial valuations were carried out at 31 March 2001 and were updated for FRS 17 purposes to 31 March 2004 by qualified independent actuaries. Information in respect of the schemes in relation to United Utilities PLC is set out below.

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

During the year the UUPS employer's contribution rates ranged from 14.8 per cent to 30.3 per cent dependent on the benefit category, and the ESPS contribution rate was 19.0 per cent. These contribution rates have resulted in total pension contributions of £6.5 million. Contribution rates are expected to remain the same for both schemes in 2004/05.

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

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

The assets and liabilities of the United Utilities PLC group wide schemes, along with the expected rates of return on the schemes' assets as at 31 March 2004 and 31 March 2003 and 31 March 2002 were as follows:

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

Notes to the accounts (continued)

9 Tangible fixed assets

Group and company	Operational structures £m	Non-operational land and buildings £m	Fixtures and equipment, vehicles and others £m	Assets in course of construction £m	Total £m
Cost or valuation at 1 April 2003	1,908.2	44.0	105.2	111.9	2,169.3
Additions	61.6	–	2.7	85.4	149.7
Transfers	53.5	–	3.4	(56.9)	–
Disposals	(16.0)	(0.9)	(20.5)	–	(37.4)
At 31 March 2004	**2,007.3**	**43.1**	**90.8**	**140.4**	**2,281.6**
Depreciation at 1 April 2003	601.9	6.3	72.8	–	681.0
Charge for the year	42.0	1.0	12.1	–	55.1
Transfers	6.2	–	(6.2)	–	–
Disposals	(11.8)	(0.6)	(19.4)	–	(31.8)
At 31 March 2004	**638.3**	**6.7**	**59.3**	**–**	**704.3**
Net book value:					
At 31 March 2004	**1,369.0**	**36.4**	**31.5**	**140.4**	**1,577.3**
At 1 April 2003	1,306.3	37.7	32.4	111.9	1,488.3

The 1997 accounts incorporated a directors' revaluation of operational assets and non operational land and buildings. The historical cost of these assets is shown below together with any additions and disposals up to and including 31 March 2004.

Group and company	Operational structures £m	Non-operational land and buildings £m	Fixtures and equipment, vehicles and others £m	Assets in course of construction £m	Total £m
Historical cost at 31 March 2004					
Cost	1,759.3	53.7	87.8	140.4	**2,041.2**
Depreciation	(585.5)	(8.4)	(57.6)	–	**(651.5)**
Net book value	1,173.8	45.3	30.2	140.4	**1,389.7**

Operational structures include land and buildings, the net book amount of which comprises:

	2004 £m	2003 £m
Freehold	**55.9**	54.4
Long leasehold	**4.2**	3.7
Short leasehold	**3.2**	2.9
	63.3	61.0

The net book amount of non-operational land and buildings comprises:

	2004 £m	2003 £m
Freehold	**30.9**	32.1
Long leasehold	**3.0**	3.1
Short leasehold	**2.5**	2.5
	36.4	37.7

Included in fixed assets at 31 March 2004 is land at cost or valuation of £9.8 million (2003 – £9.7 million) which is not depreciated.

Notes to the accounts (continued)

9 Tangible fixed assets (continued)

	Group and company	
	2004 **£m**	2003 £m
Capital commitments:		
Contracted but not provided for	**80.5**	80.0

10 Fixed asset investments

Company	Subsidiary undertakings £m
At 1 April 2003 at cost or valuation	65.0
At 31 March 2004 at cost or valuation	**65.0**

Details of subsidiary undertakings and other investments, all of which are registered in England and Wales are:

Subsidiary undertakings	Description of holding	Proportion held	Nature of business
NB Gas Limited	Preference shares of £1 each Ordinary shares of £1 each	100% 100%	Dormant
NB Generation Limited	Ordinary shares of £1 each	100%	Dormant
NB Property & Estate Service Limited	Ordinary shares of £1 each	100%	Pursuance of investment opportunities on behalf of United Utilities Electricity PLC
NB Leasing Limited	Ordinary shares of £1 each	100%	Lessor of assets to other companies within the United Utilities Electricity PLC Group
NB Miles Platting Limited	Ordinary shares of £1 each	100%	Dormant

Associated undertaking	Description of holding	Proportion held	Nature of business
Nor.Web Limited	Ordinary shares of £1 each	50%	Dormant

Other investments	Description of holding	Proportion held	Nature of business
ESN Holdings Limited	Ordinary shares of £1 each	6.2%	Investment company
National Grid Group plc	Ordinary shares of 11.76p each	Negligible	Energy distribution

A full list of the company's subsidiary undertakings is included within the company's annual return.

Notes to the accounts (continued)

11 Stocks

	Group and company	
	2004 **£m**	2003 £m
Raw materials and consumables	**3.6**	3.6

12 Debtors

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Trade debtors	**27.6**	44.8	**27.6**	44.7
Amounts owed by group undertakings	**46.8**	77.4	**6.1**	36.4
Amounts owed by subsidiary undertakings	**–**	–	**6.9**	5.7
Other debtors	**0.2**	0.7	**0.2**	0.7
Amounts recoverable on long-term contracts	**–**	8.9	**–**	8.9
Prepayments and accrued income	**56.7**	41.5	**56.6**	41.5
	131.3	173.3	**97.4**	137.9

Amounts owed by group undertakings represent amounts owed by parent and fellow subsidiary undertakings.
Within prepayments and accrued income is £30.1 million which falls due after more than one year in respect of pensions (2003 – £18.5 million).

13 Current asset investments

	Group and company	
	2004 **£m**	2003 £m
Short-term deposits	**100.0**	19.0
Other unlisted investments	**–**	140.0
	100.0	159.0

Maturity profile of short-term deposits is overnight to twelve months, with amounts repayable on maturity.

14 Creditors: amounts falling due within one year

	Group 2004 £m	Group 2003 £m	Company 2004 £m	Company 2003 £m
Bank overdrafts and temporary borrowings (see note 19)	**3.1**	23.3	**3.2**	23.3
Term loans (see note 19)	**4.4**	4.4	**4.4**	4.4
Trade creditors	**8.5**	8.0	**8.5**	7.9
Amount owed to group undertakings	**15.3**	29.8	**22.9**	38.3
Amounts owed to subsidiary undertakings	**–**	–	**48.6**	48.6
Dividends	**38.1**	37.2	**38.1**	37.2
Corporation tax	**70.9**	119.1	**59.4**	107.2
Other taxation and social security	**5.2**	4.3	**5.2**	4.3
Other creditors	**16.1**	19.9	**16.1**	19.9
Consumers' contributions (note 16)	**6.1**	–	**6.1**	–
Accruals and deferred income	**76.7**	104.3	**76.6**	102.4
	244.4	350.3	**289.1**	393.5

Amounts owed to group undertakings represent amounts owed to parent and fellow subsidiary undertakings.

Notes to the accounts (continued)

15 Creditors: amounts falling due after more than one year

	Group and company	
	2004 **£m**	2003 £m
Loans (note 19)	**628.9**	633.2
Consumers' contributions (note 16)	**212.3**	208.2
Refundable customer deposits	**15.2**	–
	856.4	841.4

16 Consumers' contributions

	Group and company £m
At 1 April 2003	208.2
Received in the year	16.1
Credit to profit and loss account for the year	(5.9)
At 31 March 2004 (see notes 14 and 15)	**218.4**

17 Provisions for liabilities and charges

	Group and company		
	Deferred tax (note 18) £m	Other £m	Total £m
At 1 April 2003	94.3	0.9	95.2
Utilised	–	(0.1)	(0.1)
Charged to the profit and loss account	19.2	–	19.2
At 31 March 2004	**113.5**	**0.8**	**114.3**

Notes to the accounts (continued)

18 Deferred tax

	Group and company	
	2004 £m	2003 £m
Accelerated capital allowances	**255.3**	225.6
Short-term timing differences	**(12.2)**	(17.8)
Undiscounted provision for deferred tax	**243.1**	207.8
Discount	**(129.6)**	(113.5)
Discounted provision for deferred tax (see note 17)	**113.5**	94.3

Full provision has been made for deferred tax assets and liabilities arising from timing differences between recognition of gains and losses in the financial statements and their recognition in a tax computation (discounted where material).

19 Borrowings

	Group 2004 £m	Group 2003 £m	**Company 2004 £m**	Company 2003 £m
Bank overdrafts and temporary borrowings	**3.1**	23.3	**59.5**	71.9
Term loans	**633.3**	637.6	**633.3**	637.6
	636.4	660.9	**692.8**	709.5

Repayments fall due as follows:

	Year ended 31 March	**Group 2004 £m**	**Company 2004 £m**	Year ended 31 March	Group 2003 £m	Company 2003 £m
After five years	**2010+**	**611.2**	**611.2**	2009+	615.5	615.5
From two to five years	**2007-2009**	**13.3**	**13.3**	2006-2008	13.3	13.3
From one to two years	**2006**	**4.4**	**4.4**	2005	4.4	4.4
Within one year	**2005**	**7.5**	**63.9**	2004	27.7	76.3
		636.4	**692.8**		660.9	709.5

The group had available, and unutilised, committed bank facilities of £75 million at 31 March 2004 (31 March 2003 - £75 million), which all expires in greater than two years.

Loans repayable after 5 years comprise bank and other loans repayable between 2013 and 2026. Interest rates are 8.875% on £521.2 million (2003 – £525.5 million) prior to the effect of derivative instruments, and are at floating rates on £90 million (2003 – £90 million).

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

	Borrowings at 31 March		Weighted average interest rate at which borrowings are fixed		Weighted average period for which interest is fixed	
	2004 £m	2003 £m	**2004 %**	2003 %	**2004 years**	2003 years
Fixed rate borrowings: sterling	**285.8**	285.6	**8.8**	8.6	**15.7**	16.7
Floating rate borrowings: sterling	**350.6**	375.3				
	636.4	660.9				
Floating rate investments: sterling (including cash)	**(142.6)**	(197.6)				
Net debt at 31 March	**493.8**	463.3				

Floating rate borrowings are based on LIBOR.

Notes to the accounts (continued)

20 Financial instruments and risk management

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

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

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

The group borrows in the major global debt markets in a range of currencies at both fixed and floating rates of interest, using derivatives where appropriate, to generate the desired effective currency profile and interest basis. The effect of the use of derivatives is illustrated in note 19.

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

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

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

(a) Interest rate swaps

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

(b) Financial futures

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

(c) Forward contracts

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

Fair value of financial instruments

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

	2004 Book value £m	**2004 Current value £m**	2003 Book value £m	2003 Current value £m
Short term debt and current portion of long term debt	**7.5**	**7.5**	27.7	27.7
Long term debt	**628.9**	**706.0**	633.2	737.3
	636.4	**713.5**	660.9	765.0
Interest rate swaps	**–**	**16.6**	–	(4.8)
Total financial instruments	**636.4**	**730.1**	660.9	760.2

Notes to the accounts (continued)

20 Financial instruments and risk management (continued)

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

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

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

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

Interest rate swaps
The group enters into interest rate swaps in order to manage its interest rate exposures.

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

Hedges
Unrecognised losses on financial assets and liabilities for which hedge accounting has been used at the balance sheet date were £16.6 million (2003 – £15.2 million unrecognised gains and £10.4 million unrecognised losses).

The group anticipates that £4.6 million of these losses will be realised in the forthcoming financial year (2003 - £2.6 million gains and £2.9 million losses).

Of the unrecognised gains and losses on hedges as at 1 April 2003, the net gain in the period's profit and loss account was £1.8 million (2003 - £1.8 million).

21 Share capital

	Group and company	
Authorised	**2004 £**	2003 £
249,999,996 ordinary shares of 50p each	**124,999,998**	124,999,998
4 'A' ordinary shares of 50p each	**2**	2
Special rights redeemable preference share of £1	**1**	1
	125,000,001	125,000,001

Allotted, called up and fully paid	**2004 £**	2003 £
156,821,341 ordinary shares of 50p each	**78,410,671**	78,410,671
4 'A' ordinary shares of 50p each	**2**	2
	78,410,673	78,410,673

The "A" ordinary shares and the ordinary shares rank pari passu in all respects, save that dividends may be declared on one class of shares without being declared on the other.

Notes to the accounts (continued)

22 Reserves

(a) Revaluation reserve	Group and company £m
At 1 April 2003	194.2
Transferred to profit and loss account	(6.6)
At 31 March 2004	**187.6**

(b) Other reserves	Group and company £m
Capital redemption reserve	
At 1 April 2003 and 31 March 2004	**8.6**
Share premium account	
At 1 April 2003 and 31 March 2004	**4.4**

23 Profit and loss account

	Group £m	Company £m
At 1 April 2003	251.7	238.1
Retained profit for the year	59.8	59.8
Transferred from revaluation reserve	6.6	6.6
At 31 March 2004	**318.1**	**304.5**

As permitted by Section 230 (4) of the Companies Act 1985, the company has not presented its own profit and loss account. The company's profit for the year was £117.4 million (2003 – £115.4 million).

24 Operating leases

	Land and buildings 2004 £m	**Plant and machinery 2004 £m**	Land and buildings 2003 £m	Plant and machinery 2003 £m
The group and company is committed to making the following payments during the year:				
Expiry date:				
Within one year	**–**	**0.7**	–	0.5
Between two and five years	**–**	**1.0**	–	2.0
After five years	**0.6**	**0.1**	0.2	–
	0.6	**1.8**	0.2	2.5

Notes to the accounts (continued)

25 Notes to the cash flow statement

(a) Net cash inflow from operating activities:	2004 £m	2003 £m
Operating profit	**157.1**	156.6
Depreciation	**55.1**	54.4
Contributions amortised	**(5.9)**	(5.6)
Profit on disposal of fixed assets	**(1.6)**	(2.0)
Stock increase	**(0.6)**	(1.7)
Debtors increase	**(21.7)**	(28.7)
Creditors increase	**8.7**	16.0
Provisions for liabilities and charges	**(0.1)**	(2.6)
	191.0	186.4

(b) Analysis of cashflows for headings in the cashflow statement	2004 £m	2003 £m
Returns on investments and servicing of finance		
Interest paid	**(41.2)**	(39.4)
Interest received	**3.0**	4.7
Termination of interest rate swap contracts	**16.3**	–
Income received from current asset investments	**4.4**	1.5
	(17.5)	(33.2)
Taxation		
Amounts paid to group undertakings in relation to UK corporation tax	**(25.6)**	(16.2)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(150.8)**	(131.5)
Consumer contributions received	**16.1**	15.3
Sale of tangible fixed assets	**2.4**	2.4
Income from fixed asset investments	**–**	0.8
	(132.3)	(113.0)
Acquisitions and disposals		
Disposals:		
Tangible fixed assets	**5.0**	–
Net current liabilities	**(4.3)**	–
	0.7	–

The disposals relate to the metering and connections businesses.

Equity dividends		
Equity dividends paid	**(56.7)**	(55.5)
Equity dividends received	**10.0**	–
	(46.7)	(55.5)

Notes to the accounts (continued)

25(b) Analysis of cashflows for headings in the cashflow statement (continued)

	2004 £m	2003 £m
Management of liquid resources		
Decrease/(increase) in bank deposits and certificates of deposit	**59.0**	(63.5)
Financing		
Debt due within one year		
- new loans to group undertakings	**(4.0)**	(35.2)
- repayment of short-term loans	**(4.4)**	(4.4)
Debt due beyond one year		
- new long-term loans	**–**	90.0
Net cash (outflow)/inflow from financing	**(8.4)**	50.4

(c) Analysis of net debt	At 1 April 2003 £m	Cashflow £m	Other non-cash movement £m	At 31 March 2004 £m
Overdrafts	(23.3)	20.2	–	**(3.1)**
Loans due after one year	(633.2)	–	4.3	**(628.9)**
Short term borrowing	(4.4)	4.4	(4.4)	**(4.4)**
Current asset investments	159.0	(59.0)	–	**100.0**
Loan to group undertakings	38.6	4.0	–	**42.6**
Total	(463.3)	(30.4)	(0.1)	**(493.8)**

26 Related party transactions

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

27 Ultimate and immediate parent undertaking and controlling party

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