



United Utilities Electricity PLC

Regulatory Financial Statements 2004

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Directors' responsibilities

Statement of directors' responsibilities in respect of the preparation of the Regulatory Accounts

The directors are required to prepare Regulatory Accounts for each financial year, prepared in accordance with the draft Regulatory Accounting Guidelines modified as agreed with Ofgem, which present fairly the assets, liabilities, reserves and provisions of the company, and of the revenues, costs and cash flows of, or reasonably attributable to, the company for that year.

The Regulatory Accounts presented represent the legal entity that contains the distribution and the corporate function.

The directors consider that, in preparing the Regulatory Accounts, the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates. All accounting standards they consider applicable have been followed, subject to any departure and explanation described in the notes to the accounts. They consider that the company has selected suitable bases of charges, apportionment and allocation and applied them consistently.

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

The directors have a responsibility at law for ensuring that the company keeps accounting records, which disclose with reasonable accuracy at any time, the financial position of each of the separate businesses, and other records and reporting arrangements as are necessary to enable them to prepare and publish Regulatory Accounts in accordance with the Companies Act 1985, the license condition and the draft Regulatory Accounting Guidelines as modified by derogations granted by Ofgem and correspondence between Ofgem and the Company.

The directors have also a general responsibility at law for taking such steps as are reasonably open to them to safeguard the company's assets, and to prevent and detect fraud and any other irregularities.

Licence condition compliance statement

The statements on pages 10 to 33 have been prepared in accordance with Standard Condition 42 of United Utilities Electricity PLC's Distribution Licence and the draft October 2003 Electricity Distribution Business Regulatory Accounting Guidelines, as amended by subsequent Ofgem communications.

By order of the board

John Barnes

Director

10 September 2004

Report on governance

The Combined Code

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

The board

The operation of United Utilities Electricity PLC assets is mainly managed by the Service Delivery business.

The board is responsible for all major decisions affecting the business, however certain matters are delegated to the Service Delivery management board, including approval of risk assessment and management strategies and approval of health and safety and environmental policies.

The United Utilities Electricity PLC board is scheduled to meet ten times each year with additional meetings called if required. The Service Delivery management board meets monthly.

The board has access to the services of the company secretary who is responsible to the board for ensuring that board procedures are followed and that applicable rules and regulations are complied with.

The United Utilities PLC group ("the group") has established a governance framework which encourages all directors to bring an independent judgement to bear on issues of strategy, performance, resources, including key appointments. The group maintains an appropriate level of directors' and officers' insurance in respect of legal action against the directors.

Delegating and working through committees

The group's governance structure ensures that all decisions are made by the most appropriate people in such a way that the decision-making process itself does not unnecessarily delay progress.

The United Utilities PLC board has formally delegated specific responsibilities to board committees, including the audit, remuneration, approvals, nomination and treasury committees.

The roles of the audit and remuneration committees are detailed in the group's reports on governance and remuneration respectively.

Investment decisions taken by the board above certain limits, must be referred to the United Utilities PLC board. This is necessary to ensure that major group cash outflows are co-ordinated and are within the overall group strategic plan.

The United Utilities Electricity PLC Treasury Committee considers and approves borrowing, leasing, bonding and other banking facilities within limits set by the board. Its members are any of two directors, one of which shall be the group Finance Director (who is also a director of United Utilities Electricity PLC). All decisions must be referred to the group treasury committee to ensure that such facilities are in accordance with group policy and to ensure that they are co-ordinated with facilities negotiated across the group, and do not in any way impinge on or breach the terms of those group facilities.

Supply of information

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

Appointments to the board

The board appoints all new directors. The positions of chairman and managing director are held by separate individuals. The board does not have any independent non-executive directors. However, the board of the ultimate parent company United Utilities PLC, has six non-executive directors.

Shareholders

Publications and the web

The annual report and the regulatory reports are the primary means available to the board to communicate with all the company's stakeholders. However, the board recognises the growing importance of the internet as a means of communicating widely, quickly and cost-effectively. A library of information about the company is available 24 hours-a-day, world-wide from the group's website at www.unitedutilities.com. Financial news releases are made available on the site contemporaneously with release through other news channels and anyone with an e-mail address can register free of charge to receive an e-mail alert upon the posting of each new release.

Institutional shareholders

At group level, there is a planned, on-going programme of investor meetings and presentations which take place throughout the year, both in the UK and overseas. This, together with regular announcements of significant events affecting the group and frequent updates on current trading, emphasises our commitment to keep our equity and debt investors informed of developments affecting the group. The board regards this programme as important to improve investors' awareness of the business and for the board to gain an understanding of investors' priorities.

Financial reporting and going concern

As a regulated business within a group environment, the company takes measures to ensure that no loans are made to other group companies and that dividends paid do not jeopardise the company's own working capital requirements. No cross guarantees are entered into with other group companies and accordingly the company retains significant financial independence from its parent and other group companies.

Review of the year

A full review of the year is shown on page 6.

Report on governance (continued)

Internal control system – evaluating and managing risk

Management of risks

The board is responsible for the company's internal control framework and for reviewing its effectiveness. Throughout the year under review and up to the date of this report, the board has operated within the group's internal control framework as set out in the September 1999 guidance 'Internal Control Guidance for Directors on the Combined Code' produced by the Institute of Chartered Accountants in England and Wales. Each year the board reviews all controls, including financial, operational and compliance controls and risk management procedures. The internal control system is designed to manage, rather than to eliminate, the risk of failure to achieve the company's business objectives and can only provide reasonable, and not absolute, assurance against material mis-statement 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 and financial reporting procedures including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- A monthly board review of financial and non-financial key performance indicators to assess progress towards objectives;
- Regular monitoring of risks and control systems throughout the year by the business;
- A self-certification process, subject to both internal and external audit, whereby managers are required to confirm that the system of internal control is operating effectively;
- An internal audit function to provide independent scrutiny of internal control systems and risk management procedures;
- A bi-monthly group risk management forum chaired by the United Utilities group Finance Director, and comprising the company secretary, the group Internal Audit Manager and senior representatives from across United Utilities to scrutinise key risks in depth;
- An annual risk assessment exercise involving self-assessment by management of all business risks in terms of impact, likelihood and control strength and an objective challenge of that assessment by the internal audit team;
- An annual health and safety performance review carried out by our in-house safety professionals in addition to the normal health and safety risk assessment and management processes carried on within each of the operating businesses;
- Centralised United Utilities treasury operations operating within defined limits and subject to regular reporting requirements and audit reviews; and
- Established procedures for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

The group audit committee and the auditor

The group audit committee's constitution is set out in the group's report on governance and its terms of reference are available on the group's web site www.unitedutilities.com

The committee considers reports from the internal and external auditors and from management and reports and makes recommendations to the United Utilities PLC board. The audit committee keeps under review the scope and results of the external audit, its cost effectiveness, the independence and objectivity of the auditor and the nature and extent of non-audit services supplied to the group by the external auditor, seeking to balance the maintenance of objectivity and value for money.

Audited accounts for United Utilities Electricity PLC are prepared, reviewed and approved each year at a duly convened full board meeting of United Utilities Electricity PLC.

The group remuneration committee

The group remuneration committee's constitution is set out in the group's report on governance and its terms of reference are available on the group's web site www.unitedutilities.com

The United Utilities PLC board's policy for executive directors' and senior executives' remuneration is to:

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

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

Earnings may be increased through the operation of annual and long term incentive plans. The incentive plans are designed to encourage and reward outperformance. They link executives' rewards directly to the company's performance and shareholders' interests.

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

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

Directors' report

Principal activities and business review

The principal activity of the company 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 review of the year reports 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 10, 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 from the previous year. Profit for the year after tax was £117.4 million (2003 - £115.4 million).

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.

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 its 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 with them on 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 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 of United Utilities PLC. Information relating to remuneration of these directors is provided in that company's accounts.

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

At no time during the year did any directors 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

Tim Rayner

Secretary

10 September 2004

Review of the year

Operational

Key factors affecting the business

United Utilities Electricity PLC manages a 58,000 kilometre distribution network which delivers 25,500 gigawatt hours of electricity annually from the National Grid to more than 2.3 million customer premises in North West England. The United Utilities' designated area includes 12,500 square kilometres, from Macclesfield to Carlisle and from Blackpool to Settle. This covers a diverse range of terrain and customer mix from isolated farms in Cumbria to areas of heavy industry and dense urban population in Manchester. Despite the large areas of countryside within the North West, approximately 75% of the network is underground.

The Service Delivery operating division created in 2000 brings together the management and operation of the licensed water and electricity distribution assets to secure multi-utility synergies, acting as the stewards of regulated electricity and water asset bases of the United Utilities group. This co-ordinated asset management and operations team are focussed upon delivering the programme of cost reductions required from the electricity and water regulators' Price Control reviews. At the same time we are delivering a capital investment programme this year of over £149 million and improved levels of service in a number of important areas.

The company won recognition of our work to improve the quality of our electricity network 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.

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. As a consequence of this, on 1 April 2003 United Utilities Electricity PLC entered into a contract with United Utilities Networks Limited to fulfil most of its metering and connections obligations.

Overall, the average number of minutes that customers were without supply during the year was 59.3 minutes against a regulatory target of 68.2 minutes and 99.7 per cent of supplies were restored within 18 hours.

Projects

2003/04 was the year of highest investment so far in the current 5 year price control period.

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. During 2004/05 these will also be converted to fully automatic operation, further improving performance. These switches act to minimise disruption to customers by providing greater control of the network. As part of this £35 million 5 year investment programme, we spent £11.4

million in 2003/04, and are due to spend £9.2 million in 2004/05.

Following a number of major faults on the United Utilities 132kV and 33kV systems in 2002/03 a three year programme was commenced in 2003/04 to install additional Protection and Control systems at our 400 major sites to improve the resilience of these networks to supply interruptions.

During 2003/04 over £10 million has been spent as part of the ongoing programme to refurbish and replace the high voltage (11kV and 6.6kV) overhead line network. This work is designed to maintain the underlying performance of this important asset base.

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 the most vulnerable to extreme weather conditions. Over £32 million has been invested and network performance has substantially improved.

Major projects carried out in 2003/04 and planned for 2004/05 include:

- A £12.1 million project continues in 2004/05 to install new 132 kV switchgear at Rochdale;
- Work continues on a £3.3 million project to install an additional grid transformer at Lancaster bulk supply point and to refurbish the Natland to Lancaster 132kV overhead line. This is to reinforce the network in response to general load growth; and
- A £2.4 million project was completed to replace two primary transformers and install 7.2km of 33kV cable. This reinforced part of the network supplied from Leyland and Wrightington bulk supply points and improved security of supply.

People

Employees are key to achieving our business strategy and the company is committed to making special efforts to recruit new employees from ethnic minority communities and is seeking more applications from people with disabilities.

A statement of principles underpins the company's approach to labour relations. Changes to employment legislation in the UK are increasing the number of employees embraced by collective bargaining arrangements and good industrial relations remains a priority for the company.

The company is committed to improving its employees' skills. Through training and developing and nurturing a culture in which they feel valued, the company encourages them to work to their full potential. The company respects the dignity and rights of every employee 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.

The company participates extensively in community programmes as part of our Corporate and Social Responsibility commitments and supports employees in performing various roles in society.

Review of the year (continued)

Health and Safety

United Utilities Electricity PLC is committed to achieving the highest standards of health and safety in every area of its business. We believe that accidents, injuries, occupational illness and damage to property or the environment can be prevented by the application of sound management practices. We aim to establish and maintain safe working practices for all our activities, services or products that will eliminate or minimise risk to employees, customers, the public and the environment.

We have aligned our safety goals and targets with the new Revitalising Health and Safety strategy launched jointly by the Government and Health and Safety Commission in June 2000. This ten-year strategy seeks significant improvements in workplace health and safety by setting challenging targets aimed at reducing the incidence of work-related ill-health, the number of fatal and major injuries and working days lost caused by injuries and ill-health. This will build on the improvement the business has already achieved in its lost time accident incidence rate.

Our risk profile reflects our activities and the overwhelming proportion of accidents involve slips, trips, falls, lifting and handling. We address the underlying cause of such accidents through, for example, behaviour based programmes including a manual handling campaign. Driving at work has also been identified as a key risk and is currently the focus of a major initiative. All identified risks are subject to policies, management systems and specific control measures that are regularly monitored and reviewed. The company is implementing measures to promote employee involvement in health and safety issues and to make consultation arrangements more effective.

The company is also committed to contractor safety. In line with this the company has rationalised the number of its main contractors and has developed a closer working relationship with them by holding monthly and quarterly review meetings which include health and safety issues.

In addition, the increasing terrorist threat has prompted us to review the potential impact of major incidents on our business and we have taken steps to upgrade our existing emergency and business continuity plans.

Financial Review

Profit and loss account

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 £157.1 million compared with £156.4 million in 2002/03.

Net finance charges were £35.5 million in 2003/04 compared to £35.6 million in 2002/03 reflecting an increase in net debt offset by a reduction in interest rates.

Profit before tax increased to £122.8 million compared to £120.4 million in 2002/03 reflecting an improvement in the operating efficiency of the business and amounts written off investments in 2002/03 offset by the transfer of our multi-utility activities.

Balance sheet

As expected, tangible fixed assets have increased by £78.8 million as we continue to invest significantly in the network. Part of this expenditure has been financed by the disposal of current asset investments.

The transfer of the metering and connections activities to United Utilities Networks Limited has impacted on the level of both current assets and current liabilities.

Current assets have also decreased in 2003/04 due to a reduction in inter-company tax and trade debtor balances, offset by an increase in SSAP 24 prepayments.

Creditors due in less than one year have also reduced from 2002/03 due to a fall in corporation tax and in the level of bank overdraft following the improved cash position in the year. The significant fall in the corporation tax creditor follows payment and agreement of prior year tax returns and the high level of capital allowances we received reflecting our significant level of capital investment.

Continuing the trend of recent years there has been a significant increase in the level of provisions due to the movement on the deferred tax provision primarily due to our high level of capital expenditure.

Cashflow statement

Overall cash holdings have improved during the period.

This was partly due to the overall reduced increase in debtors during the year.

There was also an improvement in cash outflow from Returns on investment and servicing of finance due to the cash received on the early termination of certain interest rate swap contracts as detailed below.

Cash outflow from Capital expenditure has increased to meet our regulatory targets in this price review period and this was partly financed by a significant cash inflow from management of liquid resources.

Financing cash flow is lower in 2003/04 due to the use of current asset investments to fund our capital programme rather than raising finance from new loans.

Capital structure and treasury policy

Operating within policies approved by the United Utilities Electricity PLC board, the United Utilities PLC's treasury function does not act as a profit centre and does not undertake any speculative trading activity. It ensures sufficient funding is available to meet foreseeable needs and maintain reasonable headroom for contingencies. Long-term borrowings are structured or hedged to match earnings, which are largely in sterling and 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 programme continue to be available to provide sources of funding. Net debt increased from £562.3 million to £592.8 million. At 31 March 2004 United Utilities Electricity PLC had £75 million of committed but unutilised medium-term bank facilities. Short term current investments at 31 March 2004 are £100.0 million (2003 - £159.0 million).

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

Review of the year (continued)

Interest policy

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 credit quality of counterparties and individual aggregate exposures are reviewed annually. The company's borrowings at 31 March 2004 are set out in the notes to the financial statements.

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 11.2 per cent compares with 12.7 per cent in 2002/03. The effects of deferred tax results in the effective ordinary tax charge of 4.4 per cent in 2003/04 compared to 4.2 per cent in 2002/03.

Pensions

Details of pensions are recorded in the notes to the financial statements.

Dividend policy

The ordinary dividend increased by 2.6 per cent in 2003/04.

The company's dividend policy is to declare dividends that are consistent with the company's performance and the management of the economic risk of the business. This policy has resulted in dividend growth broadly in line with inflation in the first four years of the review period.

Independent auditor's report to the gas and electricity markets authority ("the Regulator") and United Utilities Electricity PLC ("the Company")

We have audited the Regulatory Accounts of the Company for the year ended 31 March 2004 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in net debt, the note of historical cost profits and losses, the reconciliation of movements in shareholders' funds and the related notes numbered 1 to 26. These Regulatory Accounts have been prepared under the accounting policies set out therein.

This report is made, on terms that have been agreed, solely to the Company and the Regulator in order to meet the requirements of Standard Condition 42 of the Electricity Distribution Licence, as modified by derogations applied for by the Company (the "Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the Regulator those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the Regulator of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Regulator, for our audit work, for this report, or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared under the historical cost convention and in accordance with the Regulatory Licence, the draft Regulatory Accounting Guidelines issued by the Regulator on 3 October 2003 (the "RAGs") and the accounting policies set out in the notes to the Regulatory Accounts and such derogations as have been applied for by the Company.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not necessarily been prepared under the basis of Generally Accepted Accounting Practice in the United Kingdom ("UK GAAP"). Financial information other than that prepared on the basis of UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the Regulator, the Directors and auditors

The nature, form and content of Regulatory Accounts are determined by the Regulator. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the Regulator's purposes. Accordingly we make no such assessment.

The Directors' responsibilities for preparing the Regulatory Accounts in accordance with Standard Condition 42 of the Regulatory Licence as modified by derogations applied for by the Company and the RAGs are set out in the statement of directors' responsibilities on page 2.

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

We report to you our opinion as to whether the Regulatory Accounts present fairly, in accordance with Standard Condition 42 of the Regulatory Licence as modified by derogations applied for by the Company, the draft Regulatory Accounting Guidelines issued on 3 October 2003 by the Regulator and the accounting policies set out therein, the results and financial position of the Company. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations that we require for our audit.

We read the other information presented with the Regulatory Accounts, being the review of the year, the directors' report, the report on governance, and the statement of directors' responsibilities, on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the UK Auditing Practices Board, except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Regulatory Accounts, and of whether the accounting policies are 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 Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the Regulator, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under United Kingdom Auditing Standards.

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory accounts of the Company on which we reported on 16 July 2004, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "statutory audit") was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

Opinion

In our opinion, the Regulatory Accounts present fairly in accordance with Standard Condition 42 of the Regulatory Licence as modified by derogations applied for by the Company, the draft Regulatory Accounting Guidelines issued by the Regulator on 3 October 2003 and the accounting policies set out therein, the financial position of the Company as at 31 March 2004 and of its financial performance and cash flows for the year then ended, and have been properly prepared in accordance with those draft Regulatory Accounting Guidelines and accounting policies.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Manchester
10 September 2004

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)	(17.5)
Operating profit	3	157.1	156.4
Income from fixed asset investments		1.2	2.1
Amounts written off investments		–	(2.5)
Profit on ordinary activities before interest		158.3	156.0
Net finance charges	4	(35.5)	(35.6)
Profit on ordinary activities before taxation		122.8	120.4
Taxation on profit on ordinary activities	5	(5.4)	(5.0)
Profit on ordinary activities after taxation for the financial year		117.4	115.4
Dividends	6 (a)	(57.6)	(56.1)
Retained profit for the financial year		59.8	59.3
Earnings per share			
Basic	6 (b)	74.9p	73.6p
Diluted	6 (b)	74.9p	73.6p

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 profits and losses

for the year ended 31 March

	2004 £m	2003 £m
Profit on ordinary activities before taxation	122.8	120.4
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	129.4	127.0
Historical cost profit for the financial year retained after taxation and dividends	66.4	65.9

Reconciliation of movements in shareholders' funds

for the year ended 31 March

	2004 £m	2003 £m
Profit for the financial year	117.4	115.4
Dividends	(57.6)	(56.1)
Net addition to shareholders' funds	59.8	59.3
Opening equity shareholders' funds	523.7	464.4
Closing equity shareholders' funds	583.5	523.7

Balance sheet

at 31 March

	Note	2004 £m	2003 £m
Fixed assets			
Tangible assets	9	1,358.9	1,280.1
Investments in subsidiary undertakings	10	65.0	65.0
		1,423.9	1,345.1
Current assets			
Stocks	11	3.6	3.6
Debtors	12	97.4	137.9
Investments	13	100.0	159.0
		201.0	300.5
Creditors:			
Amounts falling due within one year	14	(283.0)	(393.5)
		(82.0)	(93.0)
Net current liabilities			
		(82.0)	(93.0)
Total assets less current liabilities			
		1,341.9	1,252.1
Creditors:			
Amounts falling due after more than one year	15	(644.1)	(633.2)
Provisions for liabilities and charges	16	(114.3)	(95.2)
		583.5	523.7
Net assets			
		583.5	523.7
Capital and reserves			
Called up share capital	20	78.4	78.4
Share premium account	21	4.4	4.4
Revaluation reserve	21	187.6	194.2
Other reserves	21	8.6	8.6
Profit and loss account	22	304.5	238.1
		583.5	523.7
Equity shareholders' funds			
		583.5	523.7

Approved by the board of directors on 10 September 2004 and signed on its behalf by

Steven Beaumont
Finance Director

Cash flow statement

for the year ended 31 March

	Note	2004 £m	2003 £m
Net cash inflow from operating activities	24 (a)	192.8	184.7
Returns on investments and servicing of finance	24 (b)	(19.3)	(34.7)
Taxation	24 (b)	(25.6)	(16.2)
Capital expenditure and financial investment	24 (b)	(132.3)	(113.0)
Acquisitions and disposals	24 (b)	0.7	–
Equity dividends	24 (b)	(46.7)	(55.6)
Cash outflow before management of liquid resources and financing		(30.4)	(34.8)
Management of liquid resources	24 (b)	59.0	(63.5)
Financing	24 (b)	(8.5)	97.2
Increase/(decrease) in cash in the year		20.1	(1.1)

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		20.1	(1.1)
Cash outflow/(inflow) from change in debt		8.5	(97.2)
Cash (inflow)/outflow from management of liquid resources		(59.0)	63.5
Change in net debt resulting from cash flows		(30.4)	(34.8)
Amortisation of bond discount		(0.1)	(0.2)
Movement in net debt		(30.5)	(35.0)
Net debt at 1 April		(562.3)	(527.3)
Net debt at 31 March	24 (c)	(592.8)	(562.3)

Notes to the accounts

for the year ended 31 March

1 Accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's Regulatory Accounts.

(a) Basis of preparation of Regulatory Accounts

These Regulatory Accounts, which are separate from the statutory accounts, have been prepared under the historical cost convention, modified by the valuation of operational assets and non-operational properties, in accordance with applicable United Kingdom accounting standards and the Companies Act 1985, except where draft Regulatory Accounting Guidelines, dated 3rd October 2003, are different or have subsequently been modified, in which case these have been followed.

The October 2003 draft Electricity Distribution Business Regulatory Accounting Guidelines have been subsequently amended by Ofgem as follows:

- Permit the company to present the Regulatory Accounts on a legal entity basis that contains the distribution business and the corporate function.
- Capital contributions are deducted from fixed assets.
- The disclosure requirements being at least consistent with the prior year accounts.

These Regulatory Accounts have been prepared on a United Utilities Electricity PLC company basis which excludes the United Utilities Electricity PLC subsidiaries as agreed with Ofgem in accordance with standard licence condition 42(2).

The United Utilities Electricity PLC statutory accounts are prepared on a group basis and are publicly available.

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

(d) Cost of sales, distribution costs and administrative expenses

Cost of sales represent the actual costs of obtaining electricity from the National Grid and Non-Trading Rechargeable costs, distribution costs are associated with transporting this electricity to our customers and administrative expenses represent the costs of running the business. All costs are reported on an accruals basis.

(e) Research and development

Expenditure on research and development is expensed as incurred.

(f) Pensions

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

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

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

(g) 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 received have been deducted from the cost of operational fixed assets as required by Ofgem's draft Regulatory Accounting Guidelines as modified by derogations granted by Ofgem.

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

(h) Fixed asset investments

Fixed asset investments are stated at cost less amounts written off for impairment.

(i) Current asset investments

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

(j) 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)

for the year ended 31 March

(k) 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.

(l) Taxation

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

Deferred tax is recognised in respect of 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 Regulatory Accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Regulatory Accounts.

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.

(m) Leased assets

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

(n) Financial instruments

Debt instruments

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

Interest rate swaps and financial futures

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

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

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

(o) Provisions (excluding deferred taxation)

Provisions are raised when the business identifies present obligations which result from a past event, and it is probable that the business will have to make a transfer of economic benefits, the amount of which can be reliably estimated. The provision is utilised when the transfer of economic benefit occurs. Over time any expense incurred relating to a provided amount will be allocated directly to this provision. If it is deemed no longer probable that a transfer of economic benefits will be required to settle the obligation, the provision will be reversed.

(p) Related party transactions

Related party transactions are conducted on an arm's length basis with material transactions being subject to service level agreements. Related party transactions are conducted in line with Regulatory Accounting Guidelines.

Notes to the accounts (continued)

for the year ended 31 March

2 Segmental information

The geographical origin and destination of turnover is all within the United Kingdom. The company 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)	(2.1)
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), relating to regulatory work.

4 Net finance charges

	2004 £m	2003 £m
Interest payable and similar charges:		
External interest payable on bank loans and overdrafts	36.7	41.5
Interest payable to group undertakings	4.5	3.9
Total interest payable and similar charges	41.2	45.4
Investment income:		
Income from current asset investments	(4.2)	(1.5)
External interest receivable and similar income	(1.5)	(8.3)
Total investment income	(5.7)	(9.8)
Net finance charges	35.5	35.6

Notes to the accounts (continued)

for the year ended 31 March

5 Taxation on profit on ordinary activities

(a) Analysis of charge in period

	2004 £m	2003 £m
Current tax:		
UK Corporation tax at 30% (2003: 30%)	9.0	16.4
Prior years' tax adjustments	(22.8)	(31.7)
Total current tax	(13.8)	(15.3)
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	5.4	5.0

(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	122.8	120.4
	%	%
UK corporation tax rate	30.0	30.0
Capital allowances in excess of depreciation	(15.8)	(12.5)
Other timing differences	(4.6)	(4.8)
Prior years' tax adjustments	(18.5)	(26.3)
Net non-taxable (income)/costs not deductible for tax purposes	(2.3)	0.9
Actual current tax rate	(11.2)	(12.7)

Notes to the accounts (continued)

for the year ended 31 March

6(a) 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

6(b) Earnings per share

The calculations of earnings per share are based on the following profits and number of shares.

	Basic		Diluted	
	2004	2003	2004	2003
Profit for the financial year (£m's)	117.4	115.4	117.4	115.4

	2004 Number of shares (m's)	2003 Number of shares (m's)
Weighted average number of shares for basic earnings per share and for diluted earnings per share	156.8	156.8

Notes to the accounts (continued)

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			At 1 April 2003 or date of appointment		
	Interest in ordinary shares			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)

for the year ended 31 March

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 company participates in a number of pension schemes principally in the UK. The major schemes are funded defined benefit schemes – the United Utilities Pension Scheme (UUPS) and the 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)

for the year ended 31 March

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 as a whole 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)

for the year ended 31 March

9 Tangible fixed assets

	Operational £m	Non-operational land and buildings £m	Fixtures and equipment, vehicles and others £m	Assets in course of construction £m	Grants and Contributions £m	Total £m
Cost or valuation at 1 April 2003	1,908.2	44.0	105.2	111.9	(289.6)	1,879.7
Additions	61.6	–	2.7	85.4	(16.1)	133.6
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	(305.7)	1,975.9
Depreciation at 1 April 2003	601.9	6.3	72.8	–	(81.4)	599.6
Charge for the year	42.0	1.0	12.1	–	(5.9)	49.2
Transfers	6.2	–	(6.2)	–	–	–
Disposals	(11.8)	(0.6)	(19.4)	–	–	(31.8)
At 31 March 2004	638.3	6.7	59.3	–	(87.3)	617.0
Net book value: At 31 March 2004	1,369.0	36.4	31.5	140.4	(218.4)	1,358.9
At 1 April 2003	1,306.3	37.7	32.4	111.9	(208.2)	1,280.1

Grants and contributions received relating to operational assets have been deducted from the cost of fixed assets in accordance with the draft Regulatory Accounting Guidelines as modified by derogations granted by Ofgem. As a consequence the net book value of fixed assets is £218.4 million (2003 - £208.2 million) lower than it would have been had this treatment not been adopted.

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.

	Operational £m	Non-operational land and buildings £m	Fixtures and equipment, vehicles and others £m	Assets in course of construction £m	Grants and Contributions £m	Total £m
Historical cost at 31 March 2004						
Cost	1,759.3	53.7	87.8	140.4	(305.7)	1,735.5
Depreciation	(585.5)	(8.4)	(57.6)	–	87.3	(564.2)
Net book value	1,173.8	45.3	30.2	140.4	(218.4)	1,171.3

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

Notes to the accounts (continued)

for the year ended 31 March

9 Tangible fixed assets (continued)

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.

	2004 £m	2003 £m
Capital commitments: Contracted but not provided for	80.5	80.0

10 Fixed asset investments

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

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

Subsidiary undertakings	Description of holding	Proportion held	Nature of business
NB Gas Limited	Preference shares of £1 each	100%	Dormant
	Ordinary shares of £1 each	100%	
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
Joint ventures	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)

for the year ended 31 March

11 Stocks

	2004 £m	2003 £m
Raw materials and consumables	3.6	3.6

12 Debtors

	2004 £m	2003 £m
Trade debtors	27.6	44.7
Amounts owed by group undertakings	6.1	36.4
Amounts owed by subsidiary undertakings	6.9	5.7
Prepayments and accrued income	56.6	41.5
Amounts recoverable on long term contracts	–	8.9
Other debtors	0.2	0.7
	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

	2004 £m	2003 £m
Short term deposits	100.0	19.0
Managed funds and short term deposits	–	140.0
	100.0	159.0

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

14 Creditors: amounts falling due within one year

	2004 £m	2003 £m
Bank overdrafts and temporary borrowings (see note 18)	3.2	23.3
Term loans (see note 18)	4.4	4.4
Trade creditors	8.5	7.9
Amounts owed to group undertakings	22.9	38.3
Amounts owed to subsidiary undertakings	48.6	48.6
Dividends	38.1	37.2
Corporation tax	59.4	107.2
Other taxation and social security	5.2	4.3
Other creditors	16.1	19.9
Accruals and deferred income	76.6	102.4
	283.0	393.5

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

Notes to the accounts (continued)

for the year ended 31 March

15 Creditors: amounts falling due after more than one year

	2004 £m	2003 £m
Loans (note 18)	628.9	633.2
Refundable customer deposits	15.2	–
	644.1	633.2

16 Provisions for liabilities and charges

	Deferred tax (note 17) £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

17 Deferred tax

	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)
Discount provision for deferred tax (see note 16)	113.5	94.3

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

Notes to the accounts (continued)

for the year ended 31 March

18 Borrowings

	2004 £m	2003 £m
Bank overdrafts and temporary borrowings	59.5	83.7
Term loans	633.3	637.6
	692.8	721.3

Repayments fall due as follows:

	Year ended 31 March	2004 £m	Year ended 31 March	2003 £m
After five years	2010+	611.2	2009+	615.5
From two to five years	2007-2009	13.3	2006-2008	13.3
From one to two years	2006	4.4	2005	4.4
Within one year	2005	63.9	2004	88.1
		692.8		721.3

UUE PLC had available, and unutilised, committed bank facilities of £75 million at 31 March 2004 (31 March 2003 – £75 million), which all expire 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 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	407.0	435.7				
Floating rate investments: sterling	692.8 (100.0)	721.3 (159.0)				
Net debt at 31 March	592.8	562.3				

Floating rate borrowings are based on LIBOR.

Notes to the accounts (continued)

for the year ended 31 March

19 Financial instruments and risk management

The primary financial risk faced by the company in relation to the treasury function is interest rate risk. The board has reviewed and agreed policies for managing this risk as summarised below. The board has also approved all of the classes of financial instruments used by the company. The treasury function, which is authorised to conduct the day-to-day treasury activities of the company, reports at least annually to the board.

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

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

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

The company makes no significant sales or purchases in currencies other than that of the country in which it operates. Accordingly the company has no material unhedged foreign currency exposures.

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

(a) Interest rate swaps

Interest rate swaps are used to manage floating rate borrowings in order to reduce the financial risk to the company from potential future changes in medium-term interest rates. In certain instances interest rate swaps are used to reduce the cost of borrowing in the short term.

(b) Financial futures

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

(c) Forward contracts

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

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 Fair value £m	2003 Book value £m	2003 Fair value £m
Short term debt and current portion of long term debt	63.9	63.9	88.1	88.1
Long term debt	628.9	706.0	633.2	737.3
Interest rate swaps	692.8	769.9	721.3	825.4
	–	16.6	–	(4.8)
Total borrowings	692.8	786.5	721.3	820.6

Notes to the accounts (continued)

for the year ended 31 March

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

Interest rate swaps

The company 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 interest rates prevailing at the year end. The carrying and fair values of interest rate swaps include 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 company 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).

20 Share capital

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)

for the year ended 31 March

21 Reserves

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

(b) Other reserves	2004 £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

22 Profit and loss account

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

23 Operating leases

	Land and buildings 2004 £m	Plant and machinery 2004 £m	Land and buildings 2003 £m	Plant and machinery 2003 £m
The company is committed to making the following payments during the year:				
Leases which expire:				
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)

for the year ended 31 March

24 Notes to the cash flow statement

	2004 £m	2003 £m
(a) Net cash inflow from operating activities:		
Operating profit	157.1	156.4
Depreciation	55.1	54.4
Contributions amortised	(5.9)	(5.6)
Profit on disposal of fixed assets	(1.6)	(2.1)
Stock increase	(0.6)	(1.7)
Debtors increase	(21.7)	(28.6)
Creditors increase	10.5	14.3
Provisions for liabilities and charges decrease	(0.1)	(2.4)
	192.8	184.7
(b) Analysis of cash flows for headings netted in the cash flow statement		
Returns on investments and servicing of finance		
Interest paid	(41.2)	(39.4)
Interest received	1.2	3.2
Termination of interest rate swap contracts	16.3	–
Income received from current asset investments	4.4	1.5
	(19.3)	(34.7)
Taxation		
Corporation tax paid	(25.6)	(16.2)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(150.8)	(131.6)
Consumer contributions received	16.1	15.3
Sale of tangible fixed assets	2.4	2.5
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)	–
The disposals relate to the metering and connections businesses.	0.7	–
Equity dividends		
Equity dividends paid	(56.7)	(55.6)
Equity dividends received	10.0	–
	(46.7)	(55.6)

Notes to the accounts (continued)

for the year ended 31 March

24(b) Analysis of cash flows for headings netted in the cash flow 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 a year:		
- repayment of short-term borrowing	(4.4)	(4.4)
- (repayment)/receipt of loan to group undertakings	(4.1)	11.8
- repayment of loan to subsidiary undertakings	-	(0.2)
Debt due beyond a year:		
- new long-term loans	-	90.0
	(8.5)	97.2

(c) Analysis of net debt

	At 1 April 2003 £m	Cash flow £m	Other non-cash movement £m	At 31 March 2004 £m
Overdrafts	(23.3)	20.1	-	(3.2)
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 from group undertakings	(60.4)	4.1	-	(56.3)
Total	(562.3)	(30.4)	(0.1)	(592.8)

25 Related party transactions

Related party transactions above 0.25% of turnover for the immediately preceding year are set out below.

Borrowings and sums lent

The following loans from associated companies existed at 31 March 2004 and at 31 March 2003:

	£m	Interest Rate
NB Generation Ltd	48.6	0%

Dividends paid to associated undertakings

During the year dividends payable to United Utilities Service Delivery PLC totalled £57.6 million (2003 - £56.1 million). This comprised a final dividend for the year ended 31 March 2004 of £38.1 million (2003 - £37.2 million) and an interim dividend of £19.5 million (2003 - £18.9million).

The ordinary dividend increased by 2.6% in 2004 (2003 - 1.3%). The company's dividend policy is to declare dividends which are consistent with the company's performance and the management of the economic risk of the business. This policy has resulted in dividend growth broadly in line with inflation in the first four years of this review period.

Notes to the accounts (continued)

for the year ended 31 March

25 Related party transactions (continued)

Services supplied to United Utilities Electricity PLC from associated companies

Nature of transaction	Company	Total value of service 2004 £m	Total value of service 2003 £m
Connections services	United Utilities Networks Limited	16.1	–
Facility services	United Utilities Water PLC	13.6	12.9
Metering services	United Utilities Networks Limited	11.7	–
Managed services	Vertex Data Science Limited	10.5	10.8
Accommodation	United Utilities Facilities and Property Services Limited	3.2	0.5
Group management charge	United Utilities PLC	3.2	4.5
Transfer of assets	United Utilities Water PLC	2.6	0.5
Systems development	Vertex Data Science Limited	2.1	2.4
Communication services	Your Communications Limited	1.6	2.5
Insurance	United Utilities PLC	1.0	1.2

Amounts due to associated companies at the balance sheet date from United Utilities Electricity PLC

Company	At 31 March 2004 £m	At 31 March 2003 £m
United Utilities Water PLC	8.1	4.0
United Utilities PLC	3.9	0.3
United Utilities Networks Limited	2.6	–
Vertex Data Science Limited	1.2	2.1
United Utilities Facilities and Property Services Limited	0.8	–
Your Communications Limited	0.5	0.7

On 1 April 2003, United Utilities Electricity PLC entered in to contract with United Utilities Networks Ltd to fulfil most of its metering and connections obligations, in 2002/03 these activities had been performed internally by United Utilities Electricity PLC.

Facility services include support services and procurement.

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

The Group management charge of £3.2 million (2003 - 4.5 million) from United Utilities PLC represents 13 per cent (2003 - 24 per cent) of the total management charge to subsidiaries. Approximately 80 per cent of the charge is allocated by activity (2003 - 80 per cent).

Notes to the accounts (continued)

for the year ended 31 March

25 Related party transactions (continued)

Services supplied by United Utilities Electricity PLC to associated companies

Nature of transaction	Company	Total value of service 2004 £m	Total value of service 2003 £m
Electricity connections	United Utilities Networks Limited	16.6	–
Accommodation asset charges	United Utilities Facilities and Property Services Limited	3.0	0.7
Sales of assets	United Utilities Networks Limited	1.3	–
Vehicle hire	Your Communications Limited	1.2	1.5
Vehicle hire	United Utilities Networks Limited	1.0	–
Vehicle hire	Vertex Data Science Limited	0.9	1.4

Amounts due from associated companies at the balance sheet date to United Utilities Electricity PLC

Company	At 31 March 2004 £m	At 31 March 2003 £m
United Utilities Networks Limited	0.7	–
Your Communications Limited	0.6	0.7
United Utilities Facilities and Property Services Limited	0.4	0.1
Vertex Data Science Limited	0.1	0.5

26 Ultimate parent undertaking

The accounts of the company 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.