United Utilities Electricity PLC

Regulatory Financial Statements 2005

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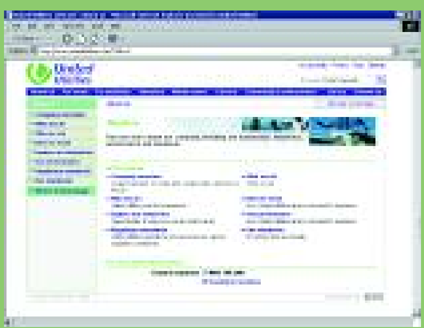

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Directors' responsibilities

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 Standard Licence Condition 42, which present fairly the assets, liabilities, reserves and provisions of, or reasonably attributable to, the distribution business, and the revenues, costs and cash flows of, or reasonably attributable to, the business for that year.

The Regulatory Accounts presented represent the legal entity that contains the distribution business 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 and Standard Licence Condition 42.

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 8 to 28 have been prepared in accordance with Standard Licence Condition 42 of United Utilities Electricity PLC's Distribution Licence as amended by subsequent Ofgem communications.

By order of the board
Martin Beesley
Finance Director
29 July 2005

Report on governance

The Combined Code

In July 2003, the Financial Reporting Council in the UK issued a revised Combined Code on Corporate Governance which superseded the Combined Code published in 1998 (the 'Combined Code'). The Combined Code does not apply to United Utilities Electricity PLC ('the Company') directly as it is not a listed company.

The Board of Directors

The United Utilities Electricity PLC board ('the board') is scheduled to meet six times each year with additional meetings called if required. The board is responsible for all major decisions affecting the business, however, certain matters are delegated to the United Utilities North West management board, including approval of risk assessment and management strategies and approval of health and safety and environmental policies. United Utilities North West manages the electricity distribution assets owned by United Utilities Electricity PLC.

The United Utilities PLC 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. Investment decisions taken by the board above certain limits must be referred to the United Utilities PLC board through its own approvals committee. This is necessary to ensure that major United Utilities PLC group cash inflows and outflows are co-ordinated and are in line with the strategic plan.

The United Utilities PLC board has formally delegated specific responsibilities to a treasury committee which is provided with sufficient resources to undertake its duties. The treasury committee comprises any two executive directors and its main duties are to appoint and terminate relationships with bankers, to open and close bank accounts, to enter into borrowing, leasing, bonding, hedging and any other banking facilities and guarantees in connection with them and to make inter-company loans. All decisions must be referred to the United Utilities PLC group treasury committee to ensure that such facilities are in accordance with the United Utilities PLC group policy and to ensure that they are co-ordinated with facilities negotiated across the United Utilities PLC group and do not in any way impinge on or breach the terms of these facilities.

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

The board of United Utilities Electricity PLC comprises nine executive directors. The board of United Utilities PLC aims to maintain a balance of executive and non-executive directors and, at the date of adoption of this statement, comprises the chairman, four executive directors and seven non-executive directors determined by the board to be independent.

Information and professional development

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 five days in advance of the relevant meeting to allow sufficient time for directors to be fully briefed. The papers are sufficiently detailed to enable the directors to obtain a thorough grasp of the management and financial performance of the Company and the operating businesses. Minutes of committee meetings are circulated to all board members.

Directors' remuneration

The Company must ensure that its remuneration arrangements attract and keep people of the right calibre in order to ensure corporate success and to enhance shareholder value. Its overall approach is to attract, develop, motivate and keep talented people at all levels, pay competitive salaries and benefits to all staff.

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

- pay a basic salary which compares with other companies of about the same size and complexity;
- use short and long term incentives to encourage executives to outperform key targets, thereby linking their rewards to the interests of shareholders and other stakeholders and giving them the opportunity to increase their earnings;
- encourage executives to hold shares in the ultimate parent company United Utilities PLC; and
- overall, reward executives fairly and responsibly for their contribution to the Company'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 United Utilities PLC remuneration committee ('the committee') assesses where the Company should be positioned relative to other companies.

It makes appropriate comparisons but treats them with caution. The Company aims to pay about the market median but may pay more for an outstanding performer or to attract executives of the right calibre. Earnings may be increased through the operation of annual and long term incentive plans.

The committee aims to achieve an appropriate balance between fixed and variable rewards consistent with and reflecting the Company's profile.

Fixed rewards include basic salary, a car allowance or company car and fuel for private mileage, medical insurance and pension benefits. Variable rewards take the form of an annual bonus and a long term incentive (the performance share plan). The plans are designed to establish a clear link between pay and performance by encouraging and rewarding out-performance in both the short and long term. They are based on business and individual performance, linking executives' rewards directly to the interests of shareholders and other stakeholders.

Financial reporting

In presenting the annual financial statements and similar significant publications, the directors aim to present a balanced and understandable assessment of the Company's position and prospects.

The directors have adopted the going concern basis in preparing these financial statements. This is based upon a review of the Company's budget for 2005/06, the five-year business plan and investment programme, together with the cash and committed borrowing facilities available to the Company. The board also took into account potential contingent liabilities and other risk factors as interpreted by the 'Guidance on Going Concern and Financial Reporting for Directors of Listed Companies registered in the United Kingdom', published in November 1994.

Report on governance (continued)

Internal control

The United Utilities PLC board is responsible for the United Utilities PLC group's system of internal controls and for reviewing its effectiveness. Throughout the year under review and up to the date of this report, procedures have been operated throughout the United Utilities PLC group meeting the requirements of the Combined Code relating to internal control as set out in the September 1999 guidance 'Internal Control Guidance for Directors on the Combined Code' published by the Institute of Chartered Accountants in England and Wales. Each year the United Utilities PLC 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 misstatement or loss.

In addition, the United Utilities PLC board is making preparations for compliance with s404 of the US Sarbanes-Oxley Act of 2002. This includes ensuring that key financial controls are adequately documented and that they have been specifically tested.

The key features of the internal control system are:

- a control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business;
- comprehensive business planning, risk assessment and financial reporting procedures including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- a bi-monthly board review of financial and non-financial key performance indicators to assess progress towards objectives;
- regular monitoring of risks and control systems throughout the year;
- a self-certification process, subject to internal 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 group finance director, and comprising the company secretary, the group internal audit manager, the group health and safety manager and senior representatives from each of the operating businesses, to scrutinise key risks in depth;
- 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;
- centralised group treasury operations operating within defined limits and subject to regular reporting requirements and internal audit reviews; and
- established procedures, set out in an internal control manual, for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews.

The audit committee and the auditor

The United Utilities PLC group audit committee has primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditor to the United Utilities PLC board, in order to put to shareholders for their approval. It keeps under review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the auditor. The committee has established policies and procedures to pre-approve the provision of any audit or non-audit services and keeps the nature and extent of non-audit services under review. It reviews periodically the scope, remit and effectiveness of the internal audit function and the effectiveness of the United Utilities PLC group's internal control system. It also reviews arrangements by which staff of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other areas. The terms of reference of the audit committee are available to shareholders on request and are also are available on the Company's website.

Audit and audit-related services are pre-approved annually by the United Utilities PLC audit committee. Audit-related services generally are highly correlated with the role of an independent auditor. Such services include assurance on non-statutory information, assurance work carried out in connection with reporting to the statutory regulator, analysis and interpretation of accounting principles and their application, support for debt issues and similar transactions, and other services that have a bearing on the Company's financial statements on which the external auditor provides their opinion.

Dialogue with institutional shareholders

There is a programme of United Utilities PLC investor meetings and presentations which take place throughout the year, both in the UK and overseas. During the year, the United Utilities PLC board met or offered to meet with 116 different funds, representing 43% of the Company's issued share capital. This, together with regular announcements of significant events affecting the United Utilities PLC group and frequent updates on current trading, emphasises the board's commitment to keeping United Utilities PLC's equity and debt investors informed of developments affecting the United Utilities PLC group. The United Utilities PLC board regards this programme as important to improve investors' awareness of the business and for them to gain an understanding of investors' priorities. As a wholly owned subsidiary of United Utilities PLC, United Utilities Electricity PLC has no direct equity investors in its own right.

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.

Results and dividends

The results for the year, set out in the profit and loss account on page 8, show that turnover for the year ended 31 March 2005 decreased to £258.4 million (2004 - £279.5 million), a decrease of 7.5 per cent from the previous year. Profit for the year after tax was £85.6 million (2004 - £117.4 million).

An interim dividend of 12.69 pence per share was paid in February 2005 (2004 – 12.38 pence). The directors recommend a final dividend of 24.93 pence per share for the year to 31 March 2005 (2004 – 24.33 pence).

Employment policies

Employees are key to achieving the business strategy and enhancing shareholder value and as such the Company remains committed to maintaining high standards of health and safety in every area of its business.

Further information on the Company's employment policies can be found in the Review of the year on page 5.

Research and development

The Company is committed to developing innovative, cost-effective and practical solutions for providing high quality services and standards to 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.

Supplier 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 49 days of purchases outstanding at the end of the financial year (2004 - 42 days).

Directors

The directors of the Company during the year ended 31 March 2005 are set out below. All were directors for the whole year except where otherwise indicated.

J E Roberts* Chairman (and Chief Executive, United Utilities PLC)
J Barnes (resigned 11 January 2005)
S G Batey*
S Beaumont
M Beesley (appointed 12 October 2004)
M J Boxall
K M Budinger
E Cooke (appointed 12 October 2004)
C Cornish*
G Dixon (appointed 11 January 2005)
J Lang (resigned 11 January 2005)
S Sullivan (resigned 5 October 2004)

* 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 and A shares of United Utilities PLC are set out in note 7 to the accounts or in the accounts of United Utilities PLC where appropriate.

At no time during 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
Martin Beesley
Finance Director
29 July 2005

Review of the year

Operating and financial review

Key factors affecting the 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 customer premises in north west England. In addition we have a contract with United Utilities Networks Limited to provide connections and metering services to domestic, commercial and industrial developers.

A major incident affecting Cumbria and Lancashire in the northern part of north west England, which saw an exceptional storm severely damage our electricity network supply to 250,000 customers, has affected our 2004/05 performance. 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. Excluding the effect of the exceptional winter storms, the average number of interruptions per 100 customers fell from 51.0 to 47.9* and the average number of minutes that customers were without supply fell from 59.3 to 52.0*. The targets set by the regulator for these two measures are 54.8 and 68.2 minutes respectively. (Figures in this paragraph denoted by * have not yet been audited by Ofgem).

Key performance measures for the business relate to quality of supply. Electricity supplies were available for 99.99 per cent of the time during the financial year ended 2005, sustaining the business's high level of performance in managing the network to maintain constant supplies for consumers. All the overall standards of performance set by the Gas and Electricity Markets Authority (the 'electricity regulator') were achieved.

Over £150 million was invested in the network during 2004/05, the year of highest investment during the 2000-2005 price review period.

Projects

Significant investment has taken place on specific quality of supply initiatives in order to improve the network performance and the service experienced by customers. The Company has invested in IT systems during 2004/05 which include the Geographical Information System and Master Asset Management System. These systems will contribute to better customer service by improving access to information on our network layout, assets and customer details. We have also invested in the development of new IT systems to support project and programme management and work management.

People

Good industrial relations remain a priority for the Company. The Company continues to recognise and work in partnership with a range of trade unions across the sectors in which it operates. A statement of principles underpins the approach to labour relations across the Group.

The Company is committed to improving its employees' skills through training and development and nurturing a culture in which employees feel valued. The Company encourages employees to work to their full potential and respects the dignity and rights of every employee and supports them in performing various roles in society. The Company also challenges prejudice and stereotyping.

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

The Company believes that share ownership is an effective way of strengthening employees' involvement in the development of the business and bringing together their interests and those of the shareholders. It offers employees an opportunity to build up a shareholding in the ultimate parent company United Utilities PLC.

Health and Safety

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

The majority of accidents at work resulted from manual handling activities and 'slips, trips and falls'. There are already specific programmes in place to manage these risks, together with improved absence management arrangements. As the business develops, the risk profile is continually monitored and the risks arising from the transition are managed appropriately. In this context, the Company works collaboratively with clients, contractors and partners, sharing experience and best practice. The Company met last year's short term published health and safety targets.

The Company's risk management procedures remain effective in highlighting high risk areas, which are then targeted for improvement. For example, during the year ended 31 March 2005, progress was made on a number of initiatives, including road risk, health and well being, stress management and behavioural safety programmes. In addition, in response to the threat of terrorist activity the Company has reviewed the security of its assets and steps have been taken to upgrade the existing security protection measures in line with national guidance.

The involvement of all staff in these initiatives is a prerequisite and the Company has continued to work in partnership with a range of trade unions and employee representatives across the business. These processes will continue and be developed further over the year ahead.

Financial Review

Profit and loss account

Turnover decreased by 7.5 per cent in the year to £258.4 million mainly as a result of the collection of the 2002/03 under recoveries of revenue in 2003/04 and a change in the National Grid Transmission (NGT) charging methodology in the current year. Operating profit fell from £157.1 million in 2003/04 to £113.6 million reflecting the reduction in turnover and increases to operating costs due to increased pension charges and restructuring costs to help achieve future regulatory targets, offset by the change made in the NGT charging methodology.

Net interest payable was £39.6 million (£35.5 million in 2003/04) reflecting an increase in net debt. Profit before tax decreased to £75.5 million compared with £122.8 million in the previous year.

The dividend per ordinary share for the year is 37.62 pence, an increase of 2.5% compared with the dividend of 36.71 pence in 2003/04.

Balance sheet

Tangible fixed assets have increased by £89.3 million as we continue to invest significantly in the network.

Current assets have decreased in 2004/05 due to the utilisation of current asset investments to fund the capital programme.

Creditors due in less than one year have also reduced from 2003/04 primarily due to a fall in the level of the corporation tax creditor offset by an increase in amounts owed to group undertakings.

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

Review of the year (continued)

Cash flow statement
The overdraft has fallen slightly during the period. Cash inflow from operating activities fell due to reduced profit in the year and cash outflow from increase in debtors which was mainly due to a pension lump sum payment (see note 8b).

Cash outflow from capital expenditure is of a comparable level to the prior year as we continue to invest to meet our regulatory targets and this was partly financed by a significant cash inflow from management of liquid resources.

Financing cash flow is lower in 2004/05 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 board, the United Utilities PLC Group treasury function does not act as a profit centre and does not undertake any speculative trading activity. It seeks to ensure that sufficient funding is available to meet foreseeable needs and 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 using short term hedges. The credit quality of counterparties and individual aggregate exposures are reviewed semi-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 stable outlook and A-2 short-term.

United Utilities PLC's $1.5 billion short-term note and €5 billion medium-term note issuance programme continue to be available to provide sources of funding. Net debt increased from £592.8 million to £691.4 million. At 31 March 2005, United Utilities Electricity PLC had £75 million of committed but unutilised medium-term bank facilities. Short-term current investments at 31 March 2005 are £nil (2004 - £100.0 million).

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 the use of financial futures contracts traded on LIFFE.

The Company's borrowings at 31 March 2005 are set out in the notes to the financial statements.

Taxation
The mainstream UK corporation tax credit in 2004/05 has been increased by tax credits following the finalisation of prior year tax returns and the accelerated tax allowances the Company receives from its high level of capital investment.

The deferred tax charge (including exceptional items) is £20.4 million in 2004/05 compared with £19.2 million in 2003/04.

The effective current ordinary tax credit of 40.4 per cent compares with 11.2 per cent in 2003/04. The effects of deferred tax result in the effective ordinary tax credit (including exceptional items) of 13.4 per cent in 2004/05 compared to a charge of 4.4 per cent in 2003/04.

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

The valuation of the United Utilities PLC Group's pension schemes under FRS 17 results in a net pension deficit at 31 March 2005 of £55.7 million compared with a net deficit of £264.4 million at 31 March 2004. United Utilities Electricity PLC made a lump sum pension contribution of £79.6 million, split between the United Utilities PLC Group's pension schemes, on 31 March 2005. The Company does not expect to make any further contributions during the 2005/10 period in to the defined benefit schemes, although the results of the next actuarial valuation will be incorporated into the 2007/08 financial statements.

Dividend policy
The ordinary dividend increased by 2.5 per cent in 2004/05. 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 this review period.

International Financial Reporting Standards (IFRS)
From 1 April 2005, the Group will be required to comply with International Financial Reporting Standards (IFRS) endorsed for use in the European Union.

The most significant areas of impact of IFRS for the Group's reported results are detailed below. However, this is not intended to represent an exhaustive list of differences. Any new standards or interpretations issued by the International Accounting Standards Board (IASB) will be assessed and considered by the Group on an individual basis.

- **Pensions** – under SSAP 24, any pension scheme surplus or deficit identified at the most recent actuarial valuation is recognised gradually through the profit and loss account over the average expected future working lifetime of current employees. Under IAS 19, any legal and constructive obligation for post employment benefit plans must be immediately recognised as an asset or liability on the balance sheet.
- **Financial instruments** – all derivative instruments, which under UK GAAP represent off balance sheet instruments, are to be carried at fair value within the balance sheet under IAS 39. The Company has elected to apply IAS 39 in relation to financial instruments from 1 April 2005, thereby taking advantage of the exemption afforded by the standard from its application to 2005 results when presented in accordance with IFRS. In June 2005, the IASB published an amendment to IAS 39 in respect of the fair value option that is effective for accounting periods commencing on or after 1 January 2006. Since this is yet to receive EU endorsement, it is not certain whether the Company will have the option to apply the fair value option in respect of its debt securities. The Company will continue to review its IAS 39 accounting policies in light of these developments.
- **Deferred tax** – unlike UK GAAP, IAS 12 does not permit discounting of the deferred tax provision.

Independent auditors' 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 2005 on pages 8 to 28 which comprise the profit and loss account, the statement of total recognised gains and losses, the note of historical cost profits and losses, the reconciliation of movements in shareholders' funds, the balance sheet, the cash flow statement, the reconciliation of net cash flow to movement in net debt and the related notes numbered 1 to 27. 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 granted to 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 and the accounting policies set out in the notes to the Regulatory Accounts and such derogations as have been granted to 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 granted to the Company are set out in the statement of directors' responsibilities on page 1.

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 granted to the Company and the accounting policies set out on pages 12 to 13, 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 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 29 July 2005, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "statutory audit") was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

Audit opinion

In our opinion, the Regulatory Accounts present fairly in accordance with Standard Condition 42 of the Regulatory Licence (as modified by derogations granted to the Company) and the accounting policies set out on pages 12 to 13 the financial position of the Company as at 31 March 2005 and its financial performance and cashflows for the year then ended, and have been properly prepared in accordance with Standard Condition 42 and the Company's accounting policies.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester
29 July 2005

Profit and loss account

for the year ended 31 March

	Note	2005 £m	2004 £m
Turnover	2	**258.4**	279.5
Cost of sales		**(17.2)**	(24.8)
Gross Profit		**241.2**	254.7
Distribution costs (including exceptional charges in 2004/05 of £8.7 million (2003/2004 - £nil)		**(112.4)**	(87.4)
Administration costs		**(15.2)**	(10.2)
Operating profit	3	**113.6**	157.1
Income from fixed asset investments		**1.5**	1.2
Profit on ordinary activities before interest		**115.1**	158.3
Net interest payable	4	**(39.6)**	(35.5)
Profit on ordinary activities before taxation		**75.5**	122.8
Taxation on profit on ordinary activities	5	**10.1**	(5.4)
Profit on ordinary activities after taxation		**85.6**	117.4
Dividends	6	**(59.0)**	(57.6)
Retained profit for the financial year	23	**26.6**	59.8

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

Note of historical cost profits and losses

for the year ended 31 March

	2005 £m	2004 £m
Profit on ordinary activities before taxation	**75.5**	122.8
Realisation of property revaluation losses of previous years	**(3.3)**	-
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	**78.8**	129.4
Historical cost profit for the financial year retained after taxation and dividends	**29.9**	66.4

Reconciliation of movements in shareholders' funds

for the year ended 31 March

	2005 £m	2004 £m
Profit for the financial year	**85.6**	117.4
Dividends	**(59.0)**	(57.6)
Retained profit for the financial year	**26.6**	59.8
Opening equity shareholders' funds	**583.5**	523.7
Closing equity shareholders' funds	**610.1**	583.5

Balance sheet

As at 31 March

	Note	2005 £m	2004 (Restated) £m
Fixed Assets			
Tangible assets	9	**1,666.6**	1,577.3
Investments in subsidiary undertakings	10	**65.0**	65.0
		1,731.6	1,642.3
Current assets			
Stock	11	**3.6**	3.6
Debtors	12	**142.7**	97.4
Investments	13	**-**	100.0
		146.3	201.0
Creditors:			
Amounts falling due within one year	14	**(270.3)**	(289.1)
Net current liabilities		**(124.0)**	(88.1)
Total assets less current liabilities		**1,607.6**	1,554.2
Creditors:			
Amounts falling due after more than one year	15	**(859.4)**	(856.4)
Provisions for liabilities and charges	17	**(138.1)**	(114.3)
Net assets		**610.1**	583.5
Capital and Reserves			
Called up share capital	21	**78.4**	78.4
Share premium account	22(b)	**4.4**	4.4
Revaluation reserve	22(a)	**184.3**	187.6
Other reserves	22(b)	**8.6**	8.6
Profit and loss account	23	**334.4**	304.5
Equity shareholders' funds		**610.1**	583.5

The restatement of 2004 figures is explained in note 9.

Approved by the board of directors on 29 July 2005 and signed on its behalf by

Martin Beesley
Finance Director

Cash flow statement

for the year ended 31 March

	Note	2005 £m	2004 £m
Net cash inflow from operating activities	25(a)	**129.7**	192.8
Returns on investments and servicing of finance	25(b)	**(40.4)**	(19.3)
Taxation	25(b)	**(0.3)**	(25.6)
Capital expenditure and financial investment	25(b)	**(129.4)**	(132.3)
Acquisitions and disposals	25(b)	**-**	0.7
Equity dividends	25(b)	**(58.0)**	(46.7)
Cash outflow before management of liquid resources and financing		**(98.4)**	(30.4)
Management of liquid resources	25(b)	**100.0**	59.0
Financing	25(b)	**(0.3)**	(8.5)
Increase in cash in the year		**1.3**	20.1

Reconciliation of net cash flow to movement in net debt

for the year ended 31 March

	Note	2005 £m	2004 £m
Increase in cash in the year		**1.3**	20.1
Cash outflow from change in debt		**0.3**	8.5
Cash inflow from management of liquid resources		**(100.0)**	(59.0)
Change in net debt resulting from cash flows		**(98.4)**	(30.4)
Amortisation of bond discount		**(0.2)**	(0.1)
Movement in net debt		**(98.6)**	(30.5)
Net debt at 1 April		**(592.8)**	(562.3)
Net debt at 31 March	25(c)	**(691.4)**	(592.8)

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 financial statements.

(a) Basis of preparation of the financial statements

These Regulatory Accounts, which are separate from the statutory accounts, have been prepared under Standard Licence Condition 42 modified by derogations to allow the Report on governance and Review of the year to be prepared in a manner consistent with the 2003/04 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.

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 electricity 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.

In addition, the Company participate in a defined contribution scheme operated by United Utilities PLC, for which the amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

The Company has included the disclosure requirements of FRS 17 'Retirement Benefits' together with details of pension and funding arrangements in note 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 less estimated residual value 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. This represents a change in accounting policy during the year in accordance with revised Ofgem guidance. The revised policy is now consistent with that applied in the United Utilities Electricity PLC statutory accounts. Deferred income is credited to the profit and loss account over the estimated economic lives of the related assets.

The carrying value of tangible fixed assets is 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.

(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 Regulatory Accounts.

Notes to the accounts (continued)

for the year ended 31 March

1 Accounting policies (continued)

(k) Taxation (continued)

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 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.

(n) Provisions (excluding deferred taxation)

Provisions are raised when the business identifies present obligations which result from a past event, and it is reasonably certain 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.

(o) Recent UK accounting pronouncements

The accounts for the year ended 31 March 2005 have been prepared under UK GAAP. These policies will be replaced by International Financial Reporting Standards (IFRS) with effect from 1 April 2005 and the Company will publish its 2006 Annual Report and Accounts in accordance with IFRS.

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):	2005 £m	2004 £m
Depreciation	**60.8**	55.1
Amortisation of consumers' contributions	**(6.2)**	(5.9)
Rental income	**(5.2)**	(5.0)
Profit on disposal of fixed assets	**(2.5)**	(1.6)
Exceptional charge - restructuring provision (see note 17)	**8.7**	-
Auditor's remuneration	**0.1**	0.2
Research and development	**0.1**	0.1
Operating leases:		
- hire of plant and machinery	**2.7**	3.2
- land and buildings	**1.7**	0.1

Fees payable to Deloitte & Touche LLP for non-audit services during 2005 were £nil (2004 - £0.1million), relating to regulatory work.

4 Net interest payable

	2005 £m	2004 £m
Interest payable and similar charges:		
External interest payable on bank loans and overdrafts	**41.5**	36.7
Interest payable to group undertakings	**3.3**	4.5
Total interest payable and similar charges	**44.8**	41.2
Interest receivable and similar income:		
Income received from current asset investments	**(0.9)**	(4.2)
External interest receivable and similar income	**(4.3)**	(1.5)
Total interest receivable and similar income	**(5.2)**	(5.7)
Net interest payable	**39.6**	35.5

Notes to the accounts (continued)

for the year ended 31 March

5 Taxation on profit on ordinary activities

(a) Analysis of (credit)/charge in period

	2005 £m	2004 £m
Current tax:		
UK Corporation tax at 30% (2004 - 30%)	**(6.0)**	9.0
Prior years' tax adjustments	**(24.5)**	(22.8)
Total ordinary current tax	**(30.5)**	(13.8)
Deferred tax:		
Origination and reversal of timing differences	**34.7**	25.0
Increase in discount	**(11.7)**	(16.1)
Prior years' tax adjustments	**-**	10.3
Total ordinary deferred tax, excluding exceptional items	**23.0**	19.2
Tax (credit)/charge on profit on ordinary activities excluding exceptional items	**(7.5)**	5.4
Tax on exceptional items		
Deferred tax:		
Origination and reversal of timing differences	**(2.6)**	-
Tax (credit)/charge on profit on ordinary activities	**(10.1)**	5.4

Total deferred taxation, including exceptional items, is £20.4 million (note 17) (2004 - £19.2 million).

(b) Factors affecting tax (credit)/charge for period

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

	2005 £m	2004 £m
Profit on ordinary activities before tax	**75.5**	122.8
	%	%
UK corporation tax rate	**30.0**	30.0
Capital allowances in excess of depreciation	**(40.6)**	(15.8)
Other timing differences	**(1.8)**	(4.6)
Prior years' tax adjustments	**(32.3)**	(18.5)
Net costs/(income) not deductible for tax purposes	**4.3**	(2.3)
Actual current tax rate	**(40.4)**	(11.2)

Notes to the accounts (continued)

for the year ended 31 March

6 Dividends

	2005 £m	2004 £m
Interim dividend of 12.69 pence per share (2004 - 12.38 pence)	**19.9**	19.5
Final dividend proposed of 24.93 pence per share (2004 - 24.33 pence)	**39.1**	38.1
	59.0	57.6

7 Directors and their interests

The aggregate emoluments of the directors in 2005 amounted to £444,168 in respect of services allocated to the Company (2004 - £367,920). 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, who are directors of United Utilities PLC, are disclosed in the accounts of United Utilities PLC. The emoluments of C Cornish who is also a director of United Utilities PLC are disclosed in the accounts of United Utilities PLC but an allocation to the Company is also included in the aggregate emoluments above.

The emoluments of the highest paid director M J Boxall in 2005 in respect of services allocated to the Company amounted to £109,147 (2004 M J Boxall - £104,591).

There were six directors (2004 – nil) who had long term incentive plans which vested during the year ended 31 March 2005, with an aggregate value of £228,198 (2004 - £nil). Information relating to long-term incentive awards is contained in the accounts of United Utilities PLC.

With the exception of M J Boxall and G Dixon, 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. It provides an entitlement on normal retirement at age 60 of between 1/30th and 1/45th of pensionable earnings for each completed year of service. The maximum pension is two thirds of pensionable earnings. Early retirement is possible from the age of 50 if the Company agrees.

M J Boxall and G Dixon are members of, and contribute 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 2005 for the highest paid director M J Boxall was £32,476 (2004 - M J Boxall £30,420).

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

At 31 March 2005 and 2004, or date of appointment, the directors and their families had the following interests, all of which were beneficial interests, in the ordinary shares 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 2005 or date of appointment Interest in ordinary shares				At 31 March 2004 or date of appointment Interest in ordinary shares			
	Ordinary shares	**A shares**	**Executive options**	**Employee sharesave options**	Ordinary shares	A shares	Executive options	Employee sharesave options
S Beaumont	**10,185**	**-**	**27,547**	**2,909**	7,522	2,229	27,696	2,909
M Beesley	**5,299**	**456**	**14,494**	**1,178**	4,232	456	14,494	2,091
M J Boxall	**2,224**	**-**	**-**	**1,351**	1,253	-	12,346	1,966
K M Budinger	**-**	**-**	**-**	**1,213**	-	-	-	1,213
E Cooke	**836**	**-**	**21,130**	**1,751**	-	-	21,130	1,751
G Dixon	**4,584**	**1,802**	**12,961**	**3,169**	4,513	1,802	12,961	3,169

During the year three directors exercised share options (2004 - one).

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

Notes to the accounts (continued)

for the year ended 31 March

8 Employees

(a) Average number of persons employed (including directors):	2005	2004
Electricity distribution	**1,459**	1,435

Their aggregate remuneration comprised:	2005 £m	2004 £m
Wages and salaries	**50.9**	46.9
Social security costs	**4.4**	4.1
Pension contributions	**12.3**	(5.1)
	67.6	45.9
Capital schemes and other	**(32.6)**	(30.7)
Charged to the profit and loss account	**35.0**	15.2

Employee costs including business restructuring exceptional items, net of charges to capital schemes, amount to £43.7 million (2004 - £15.2 million).

(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 United Utilities Group of the Electricity Supply Pension Scheme (ESPS) (the 'Schemes'), of which the ESPS is closed to new employees. UUPS also includes a defined contribution section which constitutes less than 0.5 per cent of the total asset value. The assets of the Schemes are held in trust funds independent of United Utilities PLC's and the Company's finances.

For UUPS and ESPS, the pension cost and asset under the accounting standard SSAP 24 have been assessed in accordance with the advice of a firm of actuaries, Mercer Human Resource Consulting, using the projected unit method. For this purpose, the actuarial assumptions adopted are based upon investment growth of 7.6 per cent per annum pre-retirement and 5.6 per cent per annum post-retirement, pay growth of 4.1 per cent per annum for UUPS and 4.3 per cent per annum for ESPS and increases to pensions in payment and deferred pensions of 2.8 per cent per annum. The actuarial value of the assets was taken as the market value of the assets.

The last actuarial valuations of the Schemes were carried out as at 31 March 2004. The combined market value of United Utilities PLC's share of the assets of the Schemes at the valuation date was £1,839.9 million. Using the assumptions adopted for SSAP 24 the combined actuarial value of the assets represented 97 per cent of the value of the accrued benefits after allowing for expected future earnings increases. In deriving the pension cost under SSAP 24, the deficit in the Schemes 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. 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 ended 31 March 2005, the Company contributed to UUPS at rates which ranged from 16.1 per cent to 30.3 per cent of pensionable salaries dependent upon benefit category. In addition, further contributions were made to cover the cost of additional severance benefits granted. During the year ended 31 March 2005, the contribution rate to ESPS was at a rate of 19 per cent of pensionable salaries.

On 31 March 2005, the Company made lump sum payments of £8.6 million and £71.0 million to UUPS and ESPS respectively. The payments were in lieu of the estimated Company contributions that would have been payable for defined benefit members over the five years from 1 April 2005. Subject to the results of the actuarial valuations at 31 March 2007, Company contributions will resume from 1 April 2010. In the meantime, the Company will continue to pay contributions in respect of the defined contribution members and insurance premiums. Other payments will be made by the Company in accordance with the funding agreement between the Trustee and United Utilities PLC.

Notes to the accounts (continued)

for the year ended 31 March

(b) Pensions (continued)

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

The total pension cost for the period was £17.4 million of which £5.1 million is included within the business restructuring exceptional provision (2004 – credit £5.1 million). A prepayment of £99.6 million is included in the balance sheet at 31 March 2005 (2004 - £30.1 million).

(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 FRS17 'Retirement benefits', these Schemes will be accounted for by the Company when FRS 17 is fully adopted as if the scheme were a defined contribution scheme. Information in respect of the Schemes as a whole for United Utilities PLC is set out below.

The pension cost figures used in these accounts comply with the current pension cost accounting standard SSAP 24. Under the transitional arrangements of FRS17, the group is required to disclose the following information about its pension arrangements and the figures that would have been shown under adoption of FRS17 in the financial statements.

The latest formal valuations of the Schemes were carried out at 31 March 2004. The valuation of liabilities detailed below has been derived by projecting forward the position at 31 March 2004 and has been performed by an independent actuary, Mercer Human Resource Consulting. FRS 17 gives the present value of pension liabilities by discounting pension commitments (including an allowance for salary growth), at an AA corporate bond yield. The major difference arising between these two methodologies is in the valuation of the Schemes' liabilities, which under FRS 17 is higher. Deferred pensions are revalued to retirement age in line with the Schemes' rules and statutory requirements. The major financial assumptions used by the actuary were as follows:

	At 31 March 2005	At 31 March 2004	At 31 March 2003
Discount rate	**5.40%**	**5.50%**	5.50%
Pensionable salary growth - UUPS	**4.10%**	**4.30%**	4.00%
Pensionable salary growth - ESPS	**4.30%**	**4.30%**	4.00%
Pension increases	**2.80%**	**2.80%**	2.50%
Price inflation	**2.80%**	**2.80%**	2.50%

The assets and liabilities of the United Utilities PLC Schemes, along with the expected rates of return on the Schemes' assets as at 31 March 2005, 31 March 2004 and 31 March 2003, were as follows:

	At 31 March 2005		At 31 March 2004		At 31 March 2003	
	Expected rate of return	**Total £m**	Expected rate of return	Total £m	Expected rate of return	Total £m
Equities	**7.60%**	**1,468.0**	7.60%	1,268.9	7.50%	1,008.00
Property	**7.60%**	**1.3**	7.60%	2.1	7.50%	3.5
Bonds	**5.40%**	**343.8**	5.50%	193.2	5.50%	217.4
Gilts	**4.60%**	**428.2**	4.60%	383.4	4.50%	314.3
Other	**4.60%**	**61.4**	4.60%	1.7	4.50%	24.2
Market value of assets		**2,302.7**		1,849.3		1,567.4
Present value of Schemes' liabilities		**(2,382.3)**		(2,227.0)		(1,993.2)
Implied deficit in the Schemes		**(79.6)**		(377.7)		(425.8)
Related deferred tax asset		**23.9**		113.3		127.7
Net pension liability under FRS 17		**(55.7)**		(264.4)		(298.1)

Notes to the accounts (continued)

for the year ended 31 March

9 Tangible fixed assets

	Operational structures £m	Non-operational land and buildings £m	Fixtures and equipment, vehicles and others £m	Assets in course of construction £m	Total (Restated) £m
Cost or valuation at 1 April 2004	2,007.3	43.1	90.8	140.4	2,281.6
Additions	74.8	-	6.5	71.9	153.2
Transfers	50.4	-	2.9	(53.3)	-
Disposals	(2.9)	(3.2)	(15.1)	-	(21.2)
At 31 March 2005	**2,129.6**	**39.9**	**85.1**	**159.0**	**2,413.6**
Depreciation at 1 April 2004	638.3	6.7	59.3	-	704.3
Charge for the year	44.9	1.0	14.9	-	60.8
Disposals	(2.9)	(0.4)	(14.8)	-	(18.1)
At 31 March 2005	**680.3**	**7.3**	**59.4**	**-**	**747.0**
Net book value:					
At 31 March 2005	**1,449.3**	**32.6**	**25.7**	**159.0**	**1,666.6**
At 1 April 2004	1,369.0	36.4	31.5	140.4	1,577.3

The 2004 values above have been restated to exclude grants and contributions. In accordance with Ofgem's draft Regulatory Accounting Guidelines the 2004 values were stated net of grants and contributions. These items are now disclosed in 'Creditors: amounts falling due within one year' and 'Creditors: Amounts falling due in more than one year' in accordance with guidance issued by Ofgem in 2005.

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 2005.

	Operational £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 2005					
Cost	1,881.6	47.2	80.8	159.0	2,168.6
Depreciation	(620.9)	(9.0)	(56.4)	-	(686.3)
Net book value	1,260.7	38.2	24.4	159.0	1,482.3

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

	2005 £m	2004 £m
Freehold	**57.5**	55.9
Long leasehold	**4.2**	4.2
Short leasehold	**3.8**	3.2
	65.5	63.3

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:

	2005 £m	2004 £m
Freehold	**27.3**	30.9
Long leasehold	**2.9**	3.0
Short leasehold	**2.4**	2.5
	32.6	36.4

Included in fixed assets at 31 March 2005 is land at cost or valuation of £9.0 million (2004 - £9.8 million) which is not depreciated.

	2005 £m	2004 £m
Capital commitments: Contracted but not provided for	**103.4**	80.5

10 Fixed asset investments

	Subsidiary undertaking £m
At 1 April 2004 and 31 March 2005 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 Ordinary shares of £1 each	100% 100%	Dormant
NB Generation Limited	Ordinary shares of £1 each	100%	Dormant
NB Property & Estate Services 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 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 Stock

	2005 £m	2004 £m
Raw materials and consumables	**3.6**	3.6

12 Debtors

	2005 £m	2004 £m
Trade debtors	**4.4**	27.6
Amounts owed by group undertakings	**7.1**	6.1
Amounts owed by subsidiary undertakings	**8.1**	6.9
Prepayments and accrued income	**123.1**	56.6
Other debtors	**-**	0.2
	142.7	97.4

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

Within prepayments and accrued income is £99.6 million which falls due after more than one year (2004 - £30.1million).

13 Current asset investments

	2005 £m	2004 £m
Short term deposits	**-**	100.0

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

14 Creditors: amounts falling due within one year

	2005 £m	2004 (Restated) £m
Bank overdrafts (see note 19)	**1.9**	3.2
Term loans (see note 19)	**4.4**	4.4
Trade creditors	**7.5**	8.5
Amounts owed to group undertakings	**36.6**	22.9
Amounts owed to subsidiary undertakings	**47.6**	48.6
Dividends	**39.1**	38.1
Corporation tax	**29.9**	59.4
Other taxation and social security	**8.1**	5.2
Other creditors	**12.0**	16.1
Consumers' contributions (see note 16)	**6.4**	6.1
Accruals and deferred income	**76.8**	76.6
	270.3	289.1

The restatement of 2004 figures is explained in note 9.
Amounts owed to group undertakings represent amounts owed to parent and fellow subsidiary undertakings.
Included within amounts owed to group undertakings is £12.8 million included in balances within note 19 (2004 -£10.5 million).
Included within amounts owed to subsidiary undertakings is £47.6 million included within balances within note 19 (2004 - £48.6 million).

Notes to the accounts (continued)

for the year ended 31 March

15 Creditors: amounts falling due after more than one year

	2005 £m	2004 (Restated) £m
Term loans (note 19)	**624.7**	628.9
Consumers' contributions (see note 16)	**221.6**	212.3
Refundable customer deposits	**13.1**	15.2
	859.4	856.4

The restatement of 2004 figures is explained in note 9.

16 Consumers' contributions

	£m
At 1 April 2004	218.4
Received in the year	15.8
Credit to the profit and loss account for the year	(6.2)
At 31 March 2005 (see notes 14 and 15)	**228.0**

17 Provisions for liabilities and charges

	Deferred tax (Note 18) £m	Restructuring £m	Other £m	Total £m
At 1 April 2004	113.5	-	0.8	114.3
Utilised	-	(5.1)	(0.2)	(5.3)
Charged to the profit and loss account	20.4	8.7	-	29.1
At 31 March 2005	**133.9**	**3.6**	**0.6**	**138.1**

18 Deferred tax

	2005 £m	2004 £m
Accelerated capital allowances	**286.0**	255.3
Short-term timing differences	**(10.8)**	(12.2)
Undiscounted provision for deferred tax	**275.2**	243.1
Discount	**(141.3)**	(129.6)
Discounted provision for deferred tax (see note 17)	**133.9**	113.5

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

19 Borrowings

	2005 £m	2004 £m
Bank overdrafts and temporary borrowings	**62.3**	59.5
Term loans	**629.1**	633.3
	691.4	692.8

Repayments fall due as follows:

	Year	2005 £m	Year	2004 £m
After five years	**2011+**	**607.0**	2010+	611.2
From two to five years	**2008-2010**	**13.3**	2007-2009	13.3
From one to two years	**2007**	**4.4**	2006	4.4
Within one year	**2006**	**66.7**	2005	63.9
		691.4		692.8

The Company had available, and unutilised, committed bank facilities of £75 million at 31 March 2005 (31 March 2004 - £75 million). The amounts currently unutilised expire as follows:

	£m
Less than one year	25.0
From one to two years	30.0
After two years	20.0
	75.0

Loans repayable after 5 years comprise bank and other loans repayable between 2011 and 2026. Interest rates are 8.875 per cent on £517.0 million (2004 - £521.2 million) prior to the effect of derivative instruments, and are at floating rates on £90.0 million (2004 - £90.0 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	
	2005 £m	2004 £m	**2005 %**	2004 %	**2005 Years**	2004 Years
Fixed rate borrowings: sterling	**626.0**	285.8	**7.2**	8.8	**9.7**	15.7
Floating rate borrowings: sterling	**65.4**	407.0				
	691.4	692.8				
Floating rate investments: sterling	**-**	(100.0)				
Net debt at 31 March	**691.4**	592.8				

Floating rate borrowings are based on LIBOR.

Notes to the accounts (continued)

for the year ended 31 March

20 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 United Utilities PLC 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.

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

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 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.

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.

b) Financial futures

Financial futures are used solely 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 values of financial instruments

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

	2005 Book value £m	**2005 Fair value £m**	2004 Book value £m	2004 Fair value £m
Short-term debt and current portion of long -term debt	**66.7**	**66.7**	63.9	63.9
Long-term debt	**624.7**	**709.1**	628.9	706.0
	691.4	**775.8**	692.8	769.9
Interest rate swaps	**-**	**6.8**	-	16.6
Total borrowings	**691.4**	**782.6**	692.8	786.5

Notes to the accounts (continued)

for the year ended 31 March

20 Financial instruments and risk management (continued)

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 fair values of interest rate swaps include the related accrued interest receivables and payables.

Hedges

Unrecognised gains and losses on financial assets and liabilities for which hedge accounting has been used at the balance sheet date were £1.9 million and £8.7 million respectively (2004 - £16.6 million unrecognised losses).

The Company anticipates that £0.5 million of these gains and £5.6 million of these losses will be realised in the forthcoming financial year (2004 - £4.6 million losses). Of the unrecognised gains and losses on hedges as at 1 April 2004, the net loss in the year's profit and loss account was £4.1 million (2004 - £1.8 million).

21 Share capital

Authorised	**2005 £**	2004 £
249,999,996 ordinary shares of 50 pence each (2004 - 249,999,996)	**124,999,998**	124,999,998
4 'A' ordinary shares of 50 pence each (2004 - 4)	**2**	2
Special rights redeemable preference share of £1 (2004 - 1)	**1**	1
	125,000,001	125,000,001

Allotted and fully paid	**2005 £**	2004 £
156,821,341 ordinary shares of 50 pence each (2004 - 156,821,341)	**78,410,671**	78,410,671
4 'A' ordinary shares of 50 pence each (2004 - 4)	**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

22 Reserves

(a) Revaluation reserve	2005 £m
At 1 April 2004	187.6
Realisation of property revaluation losses of previous years - transferred to profit and loss account	3.3
Transferred to profit and loss account	(6.6)
At 31 March 2005	**184.3**

(b) Other reserves	2005 £m
Capital redemption reserve	
At 1 April 2004 and 31 March 2005	**8.6**
Share premium account	
At 1 April 2004 and 31 March 2005	**4.4**

23 Profit and loss account

	£m
At 1 April 2004	304.5
Retained profit for the year	26.6
Transferred from revaluation reserve	3.3
At 31 March 2005	**334.4**

24 Operating leases

	Land and buildings 2005 £m	**Plant and machinery 2005 £m**	Land and buildings 2004 £m	Plant and machinery 2004 £m
The Company is committed to making the following payments during the year:				
Leases which expire:				
Within one year	**-**	**0.3**	-	0.7
Between two and five years	**0.1**	**0.5**	-	1.0
After five years	**0.5**	**0.1**	0.6	0.1
	0.6	**0.9**	0.6	1.8

Notes to the accounts (continued)

for the year ended 31 March

25 Notes to the cash flow statement

(a) Net cash inflow from operating activities:	2005 £m	2004 £m
Operating profit	**113.6**	157.1
Depreciation	**60.8**	55.1
Contributions amortised	**(6.2)**	(5.9)
Profit on disposal of fixed assets	**(2.5)**	(1.6)
Stock increase	**-**	(0.6)
Debtors increase	**(42.4)**	(21.7)
Creditors increase	**3.0**	10.5
Provisions for liabilities and charges increase/(decrease)	**3.4**	(0.1)
	129.7	192.8

(b) Analysis of cash flows for headings in the cash flow statement	2005 £m	2004 £m
Returns on investments and servicing of finance		
Interest paid	**(45.7)**	(41.2)
Interest received	**4.4**	1.2
Termination of interest rate swap contracts	**-**	16.3
Income received from current asset investments	**0.9**	4.4
	(40.4)	(19.3)
Taxation		
Corporation tax	**(0.3)**	(25.6)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(150.8)**	(150.8)
Consumer contributions received	**15.8**	16.1
Sale of tangible fixed assets	**5.6**	2.4
	(129.4)	(132.3)
Acquisitions and disposals		
Disposals:		
Tangible fixed assets	**-**	5.0
Net current liabilities	**-**	(4.3)
	-	0.7
The disposals in 2003/04 related to the metering and connections businesses.		
Equity dividends		
Equity dividends paid	**(58.0)**	(56.7)
Equity dividends received	**-**	10.0
	(58.0)	(46.7)

Notes to the accounts (continued)

for the year ended 31 March

25(b) Analysis of cash flows for headings in the cash flow statement (continued)

Management of liquid resources	2005 £m	2004 £m
Decrease in bank deposits and certificates of deposit	**100.0**	59.0
Financing		
Debt due within one year:		
- repayment of short-term borrowing	**(4.4)**	(4.4)
- receipt/(issue) of loan to group undertakings	**4.1**	(4.1)
	(0.3)	(8.5)

(c) Analysis of net debt	At 1 April 2004 £m	Cashflow £m	Other non cash movement £m	At 31 March 2005 £m
Overdrafts	(3.2)	1.3	-	**(1.9)**
Loans due after one year	(628.9)	-	4.2	**(624.7)**
Short-term borrowing	(4.4)	4.4	(4.4)	**(4.4)**
Current asset investments	100.0	(100.0)	-	**-**
Loan from group undertakings	(56.3)	(4.1)	-	**(60.4)**
Total	**(592.8)**	**(98.4)**	**(0.2)**	**(691.4)**

26 Related Party Transactions

In accordance with the exemption set out in Financial Reporting Standard 8 (Related Party Transactions), the Company has not disclosed transactions with its ultimate holding company or any members of its group.

27 Ultimate parent undertaking

The accounts of the Company are consolidated in the group accounts of the ultimate parent undertaking and ultimate controlling entity, 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.