Company Registration No. 2366616

United Utilities PLC

Interim Financial Statements (unaudited)

Period ended 16 November 2007

Directors

Dr Catherine Bell
Norman Broadhurst
Charlie Cornish
Sir Richard Evans
Philip Green
Paul Heiden
David Jones
Andrew Pinder
Nick Salmon
Tim Weller

Secretary

Paul Davies

Registered Office

United Utilities PLC
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Lingley Green Avenue
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Warrington
WA5 3LP

INCOME STATEMENT
For the period ended 16 November 2007

	Note	2007 £m
Operating expenses		
Employee benefits expense		(22 7)
Other operating costs		(13 8)
Other income	2	1,565 3
Operating profit		**1,528 8**
Investment income and finance expense		
Investment income	3	21 1
Finance expense	3	(88 9)
		(67.8)
Profit before taxation		**1,461.0**
Taxation	4	24 4
Profit for the financial period		**1,485 4**

All amounts are derived from continuing activities

BALANCE SHEET
At 16 November 2007

	Note	2007 £m
ASSETS		
Non-current assets		
Property, plant and equipment		0 5
Investments	6	5,352 3
Retirement benefit surplus		12 7
Deferred tax asset		7 3
		5,372 8
Current assets		
Trade and other receivables	7	1,174 9
Cash and short-term deposits		802 2
Derivative financial instruments		4 1
		1,981.2
Total assets		**7,354 0**
LIABILITIES		
Non-current liabilities		
Borrowings	9	(493 2)
Provisions		(12 4)
Derivative financial instruments		(62 4)
		(568.0)
Current liabilities		
Trade and other payables	8	(703 1)
Borrowings	9	(478 1)
Provisions		(3 8)
Derivative financial instruments		(61 9)
		(1,246 9)
Total liabilities		**(1,814 9)**
Total net assets		**5,539.1**
EQUITY		
Capital and reserves attributable to equity holders of the company		
Share capital	10	880 3
Share premium account	10	1,424 0
Treasury shares	10	(0 3)
Cumulative exchange reserve	10	(3 4)
Retained earnings	10	3,238 5
Shareholders' equity	10	**5,539.1**

Approved by the Board of Directors and signed on behalf of the Board by

T Weller
Director

26 November 2007

STATEMENT OF RECOGNISED INCOME AND EXPENSE
For the period ended 16 November 2007

	2007 £m
Actuarial gains on defined benefit schemes	0 4
Foreign exchange adjustments	(1 7)
Tax on items taken directly to equity	(0 1)
Net expense recognised directly in equity	**(1.4)**
Profit for the period	1,485 4
Total recognised income for the period attributable to equity holders of the company	**1,484.0**

NOTES TO THE FINANCIAL STATEMENTS
16 November 2007

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below

a) Basis of preparation

These interim accounts have been prepared to meet the statutory requirements in respect of interim accounts prepared for a proposed distribution by a public company The accounts have been properly prepared in accordance with the Companies Act 1985, subject only to matters which are not material for determining, by reference to items mentioned in section 270(2), whether the proposed distribution would contravene the relevant section

These financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments

The preparation of financial statements, in conformity with generally accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates

b) Property, plant and equipment

Property, plant and equipment comprise fixtures and fittings and is stated at historical cost less accumulated depreciation

Historical cost includes expenditure that is directly attributable to the acquisition of the items Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred

Assets are depreciated by writing off their cost less their estimated residual value evenly over their estimated useful lives, based on management's judgement and experience, which are principally as follows

Fixtures, fittings, tools and equipment 3-40 years

Depreciation methods, residual values and useful lives are reassessed annually and, if necessary, changes are accounted for prospectively

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income

NOTES TO THE FINANCIAL STATEMENTS
16 November 2007

1 ACCOUNTING POLICIES (CONTINUED)

c) Impairment

Property, plant and equipment are reviewed for impairment at each reporting date to determine whether there is any indication that those assets may have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any Where the asset does not generate cashflows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs

The recoverable amount is the higher of fair value less costs to sell, and value in use Value in use represents the net present value of expected future cashflows discounted on a pre-tax basis using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cashflows have not been adjusted

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount Impairment of non-current assets is recognised in the income statement within operating costs

Where an impairment loss subsequently reverses, it is recognised in the income statement and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years

d) Financial instruments

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

Cash and short-term deposits

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

Trade receivables

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

Trade payables

Trade payables are stated at their nominal value

Financial liabilities and equity

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

Equity instruments

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

Bank borrowings

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

NOTES TO THE FINANCIAL STATEMENTS
16 November 2007

1 ACCOUNTING POLICIES (CONTINUED)

d) Financial instruments (continued)

Derivative financial instruments and hedge accounting

Interest rate swap agreements and financial futures are used to manage interest rate exposure, while the company enters into currency swaps to manage its exposure to fluctuations in currency rates The company does not use derivative financial instruments for speculative purposes

All financial derivatives are recognised in the balance sheet at fair value Changes in the fair value of all derivative financial instruments are recognised in the income statement within finance expense as they arise

Where hedge accounting has not been applied, the company may elect to designate a financial liability at inception as fair value through profit or loss provided the financial liability meets the conditions specified in IAS 39 'Financial Instruments Recognition and measurement' Where possible, hedge accounting is applied

Fair value hedges

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss Gains or losses from remeasuring the derivative are recognised in profit or loss

Where changes in the fair value of a derivative differ from changes in the fair value of the hedged item attributable to the risks being hedged, the hedge ineffectiveness is recorded in the income statement within finance costs

Hedge accounting is discontinued prospectively when the hedging instrument is sold, terminated or exercised, where the hedge relationship no longer meets the criteria for hedge accounting in accordance with IFRS, or where the hedge designation is revoked Any adjustment that has been recognised to the hedged item, for which the effective interest rate is used, is amortised to the income statement and is based on the recalculated effective interest rate at the time at which amortisation commences

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

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

e) Foreign currency translation

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling on the balance sheet date Gains and losses arising on retranslation are included in net profit or loss for the period Exchange differences arising on investments in equity instruments classified as available for sale are included in the gains or losses arising from changes in fair value which are recognised directly in equity

f) Borrowing costs and finance income

All borrowing costs and finance income are recognised in the income statement in the period in which they are accrued

g) Operating profit

Operating profit is stated after charging operating expenses but before investment income and finance expense

NOTES TO THE FINANCIAL STATEMENTS
16 November 2007

1 ACCOUNTING POLICIES (CONTINUED)

h) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax

Current taxation

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

Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit Deferred tax liabilities are provided, using the liability method, on all taxable temporary differences at the balance sheet date Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer more likely than not that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in equity

i) Employee benefits

Retirement benefit obligations

The company operates two defined benefit pension schemes, 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 pension scheme trustees using the projected unit credit method 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

Defined benefit assets are measured at fair value while liabilities are measured at present value The difference between the two amounts is recognised as a surplus or obligation in the balance sheet

The cost of providing pension benefits to employees relating to the current year's service is included within the income statement within employee costs The difference between the expected return on scheme assets and interest on scheme liabilities are included within the income statement within investment income

All actuarial gains and losses are recognised outside the income statement in retained earnings and presented in the statement of recognised income and expense

NOTES TO THE FINANCIAL STATEMENTS
16 November 2007

1 ACCOUNTING POLICIES (CONTINUED)

i) Employee benefits (continued)

In addition, the company also operates defined contribution pension schemes Payments are charged as employee costs as they fall due The company has no further payment obligations once the contributions have been paid

Share-based compensation arrangements

The company operates equity-settled, share-based compensation plans In accordance with the transitional provisions, IFRS 2 'Share-based Payments' has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2004

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

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

j) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated

Environmental expenditure that relates to current or future revenues is expensed or capitalised as appropriate

Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed Liabilities for environmental remediation costs are recognised when there is a legal or constructive obligation, environmental assessments or clean up are probable, and the associated costs can be reliably estimated

k) Leases

Operating lease rentals are charged to the income statement on a straight-line basis over the period of the lease

l) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the company's accounting policies, the company is required to make certain estimates, judgements and assumptions that it believes are reasonable based upon the information available These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented

On an ongoing basis, the company evaluates its estimates using historical experience, consultation with experts and other methods considered reasonable in the particular circumstances

Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known

The following paragraphs detail the estimates and judgements the company believes to have the most significant impact on the annual results under IFRS

Accounting for provisions and contingencies

The company is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business The company routinely assesses the likelihood of any

NOTES TO THE FINANCIAL STATEMENTS
16 November 2007

1. ACCOUNTING POLICIES (CONTINUED)

l) Critical accounting judgements and key sources of estimation uncertainty (continued)

adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses Reasonable estimates involve judgements made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter The required provision may change in the future due to new developments and as additional information becomes available Matters that either are possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote

Retirement benefits

The company operates two defined benefit schemes, one of which has a defined contribution section, which are independent of the company's finances Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years The pension cost under IAS 19 is assessed in accordance with the advice of a firm of actuaries based on the latest actuarial valuation and assumptions determined by the actuary The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management Profit before taxation is affected by the actuarial assumptions used

These assumptions include investment returns on the schemes' assets, discount rates, pay growth and increases to pensions in payment and deferred pensions and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants

Derivatives and borrowings

The company's default treatment is for borrowings to be carried at amortised cost, whilst derivatives are recognised separately on the balance sheet at fair value with movements in those fair values reflected through the income statement This has the potential to introduce considerable volatility to both the income statement and balance sheet Therefore, for fair value hedges, changes in the recognised value of hedged debt that are attributable to the hedged risk are adjusted through the income statement

In order to apply this treatment, it must be demonstrated that the derivative has been, and will continue to be, an effective hedge of the hedged risk within the debt item Changes in the fair value of all derivatives are recognised in the income statement The company applies the fair value through profit or loss option where the complexity of the swaps means that they are disallowed from being allocated in a hedge relationship despite there being significant fair value offset between the hedged item and the derivative itself This area is considered to be of significance due to the magnitude of the company's level of borrowings

NOTES TO THE FINANCIAL STATEMENTS
16 November 2007

2 OTHER INCOME

Other income includes an amount of £1,540 8 million in respect of dividends received from subsidiary undertakings

3 INVESTMENT INCOME AND FINANCE EXPENSE

	2007 £m	2007 £m
Investment income		
Interest receivable		3 2
Interest receivable from group undertakings		14 8
Expected return on pension schemes' assets	15 3	
Interest cost on pension schemes' obligations	(12 2)	
Net pension interest income		3 1
		21 1
Finance expense		
Interest payable on bank borrowings		(37 6)
Interest payable to group undertakings		(42 4)
Fair value gain on debt and derivative instruments		(8 9)
		(88.9)

4 TAXATION

	2007 £m
Current Tax	
UK corporation tax credit	24 3
	24 3
Deferred Tax	
Current year	0 6
Movement in deferred tax due to change in tax rates	(0 5)
	0 1
	24 4

5. DIVIDENDS

Amounts recognised as distribution to equity holders in the year comprise

	2007 £m
Final dividend for the year ended 31 March 2007 at 30 30 pence per share	266 6
	266 6

The proposed interim dividend for the period ended 30 September 2007 of 15 20 pence per ordinary share will be paid on 11 February 2008 to shareholders on the register at the close of business on 21 December 2007 The ex-dividend date for the interim dividend is 19 December 2007

NOTES TO THE FINANCIAL STATEMENTS
16 November 2007

6 INVESTMENTS

	Associate	Shares in subsidiary undertakings	Total
	£m	£m	£m
At 31 March 2007	65 0	5,203 3	5,268 3
Additions	-	149 0	149 0
Disposals	(65 0)	-	(65 0)
At 16 November 2007	**-**	**5,352 3**	**5,352.3**

A full list of the company's subsidiary undertakings is included within the company's latest annual return filed with the Registrar of Companies

The company's investment in its associate THUS Group plc was disposed of during the period £8 7 million profit on disposal has been included in the current period results within other income

During the period the company invested £149 0 million in a 100 per cent owned subsidiary, United Utilities Utility Solutions Holding Limited, which will act as an intermediate holding company in the United Utilities group

7. TRADE AND OTHER RECEIVABLES

	2007
	£m
Trade receivables	2 1
Amounts owed by subsidiary undertakings	955 3
Prepayments and accrued income	217 5
	1,174.9

8. TRADE AND OTHER PAYABLES

	2007
	£m
Trade payables	0 2
Amounts owed to subsidiary undertakings	666 2
Other tax and social security	0 9
Other creditors	17 0
Accruals and deferred income	18 8
	703.1

NOTES TO THE FINANCIAL STATEMENTS
16 November 2007

9. BORROWINGS

	2007 £m
Non-current liabilities	
Bonds	492 1
Bank and other term borrowings	1 1
	493 2
Current liabilities	
Bonds	263 1
Euro commercial paper	80 0
Bank and other term borrowings	135 0
	478.1
	971 3

10 SHAREHOLDERS' EQUITY

	Share capital £m	Share premium account £m	Treasury shares £m	Cumulative exchange reserve £m	Retained earnings £m	**Total £m**
At 31 March 2007	879 8	1,421 9	(0 3)	(1 7)	2,018 1	**4,317.8**
Profit for the period attributable to equity holders	-	-	-	-	1,485 4	**1,485 4**
Dividends	-	-	-	-	(266 6)	**(266.6)**
New share capital issued	0 5	2 1	-	-	-	**2.6**
Post employment benefits – actuarial losses on defined benefit schemes	-	-	-	-	0 4	**0.4**
Share-based compensation – charged to income statement	-	-	-	-	1 3	**1.3**
Tax on items taken directly to equity	-	-	-	-	(0 1)	**(0.1)**
Exchange adjustments	-	-	-	(1 7)	-	**(1.7)**
At 16 November 2007	**880 3**	**1,424 0**	**(0 3)**	**(3.4)**	**3,238.5**	**5,539 1**

The authorised share capital of the company was 1,119,000,000 ordinary shares of £1 each at 16 November 2007 The allotted and fully paid ordinary share capital of the company at 16 November 2007 was 880,323,506 ordinary shares