

**VERTEX DATA SCIENCE LIMITED**  
**DIRECTORS' REPORT**  
**AND**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 MARCH 2005**

Registered Office  
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Registered in England and Wales  
Company number: 3153391

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## Directors' report

The directors present their report and the audited financial statements of the group for the year ended 31 March 2005.

### Principal activities

The group is a leading UK provider of business process outsourcing services and one of the UK's major customer management service suppliers. It undertakes long-term contracts with clients to handle administrative functions, such as billing and dealing with customer enquiries. It operates in the commercial, utility, financial services, central and local government sectors. The group also has operations in the US, Canada and India.

### Profit and dividends

The group results for the year, set out in the consolidated profit and loss account on page 10, show turnover for the year to 31 March 2005 was £413.5 million (2004: £386.9 million). The profit for the year after tax was £12.4 million (2004: £14.1 million).

The directors recommend a final dividend of 7.31 pence per ordinary share for the year to 31 March 2005 (2004: 2.83 pence).

### Business performance

In the financial year ended 31 March 2005, Vertex won contracts with a total contract value in excess of £550 million (2004: £219 million). The Thurrock Unitary Council contract announced in November 2004 is Vertex's largest ever deal with a total contract value of £427 million.

Vertex's outsourcing contract with Westminster City Council continues to progress well. Since last year, the scope of the contract has been extended to include parking services. This extension is worth around £45 million over ten years in addition to Vertex's original £422 million contract with Westminster.

Vertex has signed a new seven-year contract, with a review point after four years, with Powergen Retail Limited, part of E.ON UK. This amends the previous agreement, which began in 2003. The new longer-term contract will redistribute work on a functional basis to enable both companies to maximise economies of scale.

In November 2004, United Utilities PLC acquired Capgemini's 14.6 per cent equity stake in Vertex for £47.7 million (including costs) in cash. Following this transaction, United Utilities PLC now owns 100 per cent of Vertex's share capital and Capgemini no longer has any representation on the board of Vertex. This acquisition does not alter the strategic alliance that exists between the two companies.

## Directors' report continued

### Financial highlights

Sales increased by 6.9 per cent to £413.5 million, predominantly due to the increase in volumes on public sector contracts and the first full year impact of the North American debt collection activity.

Operating profit (before goodwill amortisation and exceptional items) increased by 3.4 per cent to £25.2 million (2004: £24.4 million). This reflects the increased trading activity, offset by higher bid and mobilisation costs, principally on the Thurrock and Walsall contracts, together with other opportunities Vertex is pursuing.

Statutory operating profit has declined by 25.1 per cent due to exceptional restructuring costs of £5.0m and increased goodwill amortisation of £1.1m (see note 3).

Net interest receivable for the year was £1.8 million (2004: £0.2 million). Profit before tax was £17.3 million (2004: £20.8 million).

Operating cash flows have been strongly positive in the year. Net cash flow from operating activities (excluding lump sum pensions contributions) increased by 52.1 per cent to £69.4 million (2004: £45.6 million). Total operating cash flows in the year include a lump sum pensions contribution of £58.3 million made in lieu of annual cash contributions for the 2005 to 2010 period.

### Business objectives

In order to accommodate the growth and broader business base of the company, Vertex has recently restructured from a functionally based organisation to a divisionalised structure, which better reflects the markets in which it operates. Since May 2005, the company now operates through four distinct lines of business, with the creation of a Public Sector division, Financial Services division, Utilities and Enterprise division and North American division. Vertex believes that the reorganisation has positioned the company for further growth and will enable greater responsiveness to client requirements within the target sectors.

#### *Public sector*

Vertex is successfully pursuing its strategy of growing its business in both local and central government. It regards the Westminster City Council contract as a blueprint for transforming service delivery in local government and a basis for its future expansion plans. At the time of contract signature, it was the UK's largest local government outsourcing deal, worth up to £422 million. In this contract, Vertex developed a fresh approach - called 'Citizen First' - to deliver local authority services. This was applied to the successful bid for Thurrock Unitary Council. This contract, secured during the year, is one of the largest transformational outsourcing deals in the UK, worth £427 million over 15 years. In partnership with the Thurrock Unitary Council, Vertex will manage and re-engineer a number of their business processes, ranging from business accounting and financial services to revenue services, procurement and human resources. The contract is being managed in partnership with United Utilities Contract Solutions, which is providing facilities management, highways engineering and transportation services to the council.

In the central government market, Vertex has operated the successful 'Payments Modernisation Programme' for the Department of Work and Pensions for the last two years and is currently in discussions about a number of other central government BPO opportunities.

## **Directors' report continued**

### **Business objectives continued**

#### *Financial Services*

In May 2005, Vertex acquired Marlborough Stirling plc. This acquisition will provide Vertex with an entry point into the BPO segment of the financial services market. The group believes that Marlborough Stirling has significant untapped potential that can be unlocked by combining its sector specific knowledge with Vertex's expertise in BPO. The merger of the two businesses also provides opportunities to secure synergy savings. Vertex has already identified immediate opportunities to deliver efficiencies of around £6 million per annum on a full-year basis from the acquisition. These savings will be derived from a reduction in central overheads, such as corporate costs, and the alignment and integration of Marlborough Stirling's systems, processes and facilities with Vertex's existing operations. For further details, see note 24.

#### *Utilities and Enterprise*

The Utilities and Enterprise division offers clients customer management expertise, coupled with benefits from the economies of scale available across its multi-client sites as it standardises processes across its operations, reducing the cost base, sharing common infrastructure and improving margins.

Underpinning its strategy in both the utilities and private enterprise sectors, Vertex has continued to grow its operations in New Delhi, India and has commissioned a second site to support that growth. Clients using this service benefit from fast, low-risk access to the economic and educational benefits of the Indian marketplace.

#### *North America*

Vertex's strategy in North America is firstly to optimise delivery on the Hydro One contract in Canada (a ten-year deal worth approximately £140 million); and, secondly, to pursue large North American energy and utilities opportunities as the market continues to deregulate, by leveraging off its UK energy and utilities market deregulation experience. In March 2004, Vertex acquired US based debt collection agency First Revenue Assurance (FRA), giving it a route to the larger utilities deals by gaining a foothold in the US utilities collections market and supporting its North America utilities strategy.

In July 2005, as part of the alliance with IBM to provide business transformation services to the North American energy and utility market, Vertex partnered IBM as part of its \$1.6 billion contract with US multi-state energy company NiSource. The scope of the services the alliance can provide is very broad and this will help Vertex transfer its core customer management skills into a market which presents significant opportunities.

Finally, through its channel partners, Vertex intends to continue to pursue deals that have the potential to utilise its facilities in India and it is already in discussions with a number of potential clients.

### **Business impacts**

Vertex has an active and robust corporate governance programme designed to manage strategic and tactical risks, which could impact the business. Risks are clearly identified and monitored on a regular basis. With clear objectives, and an experienced management team, Vertex believes it is on course to continue its growth by increasing the choice of services offered to clients and by helping them transform the way they do business.

## Directors' report continued

### Directors

The directors of the company during the year ended 31 March 2005 are set out below.

J E Roberts <sup>1</sup>	Non-Executive Chairman	
J A Pinder <sup>1</sup>	Non-Executive Director	Appointed 1 August 2004
T W Drury	Chief Executive	
J A Gittins	Finance Director	
S Willis	Human Resources Director	Appointed 30 September 2005
J McLeod	Managing Director - North America	
A M Dutton	Managing Director - Utilities & Enterprise	
A Hunt	Managing Director - Financial Services	
A Warren <sup>2</sup>	Managing Director - Public Sector	
A J Desira	IT Director	Resigned 17 November 2004
D G Smith	Executive Director	Resigned 1 April 2005
H J Campbell	Human Resources Director	Resigned 30 September 2005

<sup>1</sup> The interests of J E Roberts and J A Pinder are disclosed in the accounts of United Utilities PLC.

<sup>2</sup> A Warren was appointed to the board as a Non-Executive Director in January 2003 and became an Executive Director in October 2004.

### Directors' interests

At 31 March 2005 the directors and their immediate families had the following interests, all of which were beneficial interests, in United Utilities PLC's shares and options to subscribe for shares. None of the directors or their immediate families had any interests in the company or its subsidiaries.

	2005				2004 or on appointment			
	Ordinary Shares	A Shares	Share Options		Ordinary Shares	A Shares	Share Options	
			Executive Option Scheme	Employee Sharesave Scheme			Executive Option Scheme	Employee Sharesave Scheme
T W Drury	20,123	5,323	3,469	303	10,807	5,323	6,154	1,524
H J Campbell	8,997	4,997	16,190	-	8,997	4,997	16,190	1,103
J A Gittins	2,012	-	-	-	2,012	-	-	-
J McLeod	-	-	28,914	2,648	-	-	28,914	2,648
D G Smith	2,054	-	-	-	2,054	-	-	-
A M Dutton	2,318	1,141	-	2,014	2,054	1,141	-	2,014
A Hunt	515	-	-	-	227	-	-	-
A Warren	-	-	-	-	-	-	-	-

In previous years, part of T W Drury's bonus was satisfied by contingent shares to be held in trust for a set period. The number of contingent shares held in trust at 31 March 2005 was nil (2004: 11,995).

## **Directors' report continued**

### **Directors' responsibilities in respect of the preparation of the financial statements**

The directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group as at the end of the financial year and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that the financial statements comply with the above requirements. The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

### **Employees**

The group is committed to effective communications with employees, using a wide variety of media, to enhance their active participation in the group's development and to keep them informed about financial performance and other significant business issues.

The group is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice and has retained during the year the 'Two ticks positive about disabled people' symbol awarded by the Employment Service. As an equal opportunities employer, the group 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 group 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.

### **Payments to suppliers**

The group does not follow any specific external code or standard on payment practice. The group's policy is normally to pay suppliers according to the agreed terms of business. These terms are agreed upon entering into binding contracts and the group seeks to adhere to the payment terms providing the relevant goods and services have been supplied in accordance with the contracts. The group and the company had 73 days (2004: 74 days) and 76 days (2004: 79 days) respectively of purchases outstanding at the end of the financial year.

## Directors' report continued

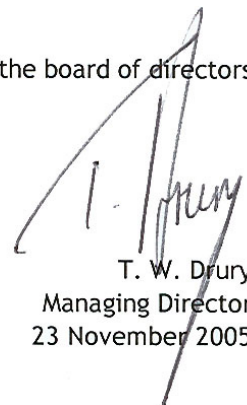
### Charitable and political donations

During the year, charitable donations amounted to £43,000 (2004: £29,000). Political contributions of £8,000 were made to the Labour party for the Association of Labour Councillors conference.

### Independent auditor

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

Signed on behalf of the board of directors

A handwritten signature in black ink, appearing to read 'T. W. Drury', is written over the printed name and date.

T. W. Drury  
Managing Director  
23 November 2005

# Independent auditor's report

## Independent auditor's report to the members of Vertex Data Science Limited

We have audited the financial statements of Vertex Data Science Limited for the year ended 31 March 2005, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the reconciliations of movements in shareholders' funds, the reconciliation of net cash flow to movement in net funds and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

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

### Respective responsibilities of directors and auditors

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

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

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of audit opinion

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

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

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 March 2005 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*Deloitte & Touche LLP*

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditors  
Manchester

*20 January 2006.*

## Consolidated profit and loss account

For the year ended 31 March

	Note	2005			2004		
		Before goodwill amortisation and exceptional items £000	Goodwill amortisation and exceptional items £000	Total £000	Before goodwill amortisation and exceptional items £000	Goodwill amortisation and exceptional items £000	Total £000
Turnover	2	413,516	-	413,516	386,889	-	386,889
Cost of sales	3	(360,763)	(4,647)	(365,410)	(338,362)	-	(338,362)
<b>Gross profit</b>		<b>52,753</b>	<b>(4,647)</b>	<b>48,106</b>	<b>48,527</b>	<b>-</b>	<b>48,527</b>
Administrative expenses	3	(27,510)	(5,138)	(32,648)	(24,119)	(3,771)	(27,890)
<b>Operating profit</b>	3	<b>25,243</b>	<b>(9,785)</b>	<b>15,458</b>	<b>24,408</b>	<b>(3,771)</b>	<b>20,637</b>
Net interest receivable	6			1,841			185
<b>Profit on ordinary activities before taxation</b>				<b>17,299</b>			<b>20,822</b>
Taxation charge on profit on ordinary activities	7			(4,890)			(6,695)
<b>Profit after taxation</b>				<b>12,409</b>			<b>14,127</b>
Minority interests				(260)			(79)
<b>Profit for the financial year</b>				<b>12,149</b>			<b>14,048</b>
Dividends	8			(12,149)			(4,700)
<b>Transfer to reserves</b>				<b>-</b>			<b>9,348</b>

See accompanying notes to the accounts.

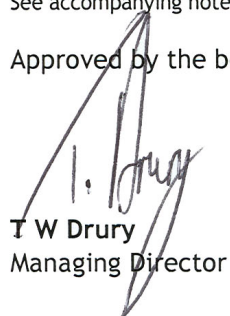
## Balance sheets

As at 31 March

	Note	Group		Company	
		2005 £000	2004 £000	2005 £000	2004 £000
<b>Fixed assets</b>					
Intangible assets	9	47,463	54,276	36,911	39,624
Tangible assets	10	76,350	88,007	72,095	81,933
Investments	11	20	20	5,310	4,727
		<b>123,833</b>	<b>142,303</b>	<b>114,316</b>	<b>126,284</b>
<b>Current assets</b>					
<b>Debtors</b>					
Due within one year	12	229,584	204,711	234,495	215,441
Due after more than one year	12	46,640	-	46,640	-
Cash at bank and in hand		9,468	11,628	-	-
		<b>285,692</b>	<b>216,339</b>	<b>281,135</b>	<b>215,441</b>
<b>Creditors: amounts falling due within one year</b>	13	<b>(180,190)</b>	<b>(124,903)</b>	<b>(167,757)</b>	<b>(110,069)</b>
<b>Net current assets</b>		<b>105,502</b>	<b>91,436</b>	<b>113,378</b>	<b>105,372</b>
<b>Total assets less current liabilities</b>		<b>229,335</b>	<b>233,739</b>	<b>227,694</b>	<b>231,656</b>
<b>Creditors: amounts falling due after more than one year</b>	14	<b>(5,584)</b>	<b>(15,954)</b>	<b>(2,588)</b>	<b>(12,723)</b>
<b>Provisions for liabilities and charges</b>	15	<b>(12,473)</b>	<b>(7,000)</b>	<b>(15,332)</b>	<b>(9,790)</b>
<b>Net assets</b>		<b>211,278</b>	<b>210,785</b>	<b>209,774</b>	<b>209,143</b>
<b>Capital and reserves</b>					
Called up share capital	17	149,183	149,183	149,183	149,183
Share premium account	18	39,521	39,521	39,521	39,521
Profit and loss account	18	21,239	21,202	21,070	20,439
<b>Shareholders' funds</b>		<b>209,943</b>	<b>209,906</b>	<b>209,774</b>	<b>209,143</b>
Equity minority interests		1,335	879	-	-
<b>Capital employed</b>		<b>211,278</b>	<b>210,785</b>	<b>209,774</b>	<b>209,143</b>
<b>Shareholders' funds</b>					
Equity		109,943	109,906	109,774	109,143
Non-equity		100,000	100,000	100,000	100,000
		<b>209,943</b>	<b>209,906</b>	<b>209,774</b>	<b>209,143</b>

See accompanying notes to the accounts.

Approved by the board of directors on 23 November 2005 and signed on its behalf by

  
**T W Drury**  
 Managing Director

# Consolidated cash flow statement

For the year ended 31 March

	Note	2005 £000	2004 £000
<b>Net cash inflow from operating activities before exceptional lump sum pensions contribution</b>	19	69,366	45,615
Exceptional lump sum pensions contribution	21	(58,300)	-
<b>Net cash inflow from operating activities</b>		11,066	45,615
<b>Returns on investment and servicing of finance:</b>			
Interest received		1,577	320
Interest element of finance lease payments		(2)	(66)
		1,575	254
<b>Taxation</b>		(9,140)	(4,948)
<b>Capital expenditure:</b>			
Payments to acquire tangible fixed assets		(15,569)	(21,052)
Receipts from sale of tangible fixed assets		32	57
		(15,537)	(20,995)
<b>Acquisitions:</b>			
Purchase of subsidiary undertakings		-	(6,517)
Net cash acquired with subsidiary		-	194
		-	(6,323)
<b>Equity dividends paid</b>		(4,700)	(3,000)
<b>Cash (outflow) inflow before financing</b>		(16,736)	10,603
<b>Financing:</b>			
Issue of ordinary share capital		228	372
Capital element of finance lease payments		(33)	(50)
Movement in short term group loans		14,057	(5,512)
		14,252	(5,190)
<b>(Decrease) increase in cash and cash equivalents</b>		(2,484)	5,413

## Statement of total recognised gains and losses

For the year ended 31 March

	Group	
	2005 £000	2004 £000
Profit for financial year	12,149	14,048
Currency translation differences on foreign currency net investments	37	(242)
<b>Total recognised gains and losses for the financial year</b>	<b>12,186</b>	<b>13,806</b>

## Reconciliations of movements in shareholders' funds

For the year ended 31 March

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Profit for the financial year	12,149	14,048	12,780	13,311
Dividends	(12,149)	(4,700)	(12,149)	(4,700)
<b>Retained profit for the financial year</b>	<b>-</b>	<b>9,348</b>	<b>631</b>	<b>8,611</b>
New share capital issued	-	817	-	817
Movement in shares to be issued reserve - deferred consideration relating to acquisitions	-	(2,113)	-	(2,113)
Currency translation differences on foreign currency net investments	37	(242)	-	-
<b>Net addition to shareholders' funds</b>	<b>37</b>	<b>7,810</b>	<b>631</b>	<b>7,315</b>
Opening shareholders' funds	209,906	202,096	209,143	201,828
<b>Closing shareholders' funds</b>	<b>209,943</b>	<b>209,906</b>	<b>209,774</b>	<b>209,143</b>

## Reconciliation of net cash flow to movement in net funds

For the year ended 31 March

	Note	Group	
		2005 £000	2004 £000
(Decrease) increase in cash in the period		(2,484)	5,413
Movement in finance leases		33	50
Movement in group loans		(14,057)	5,512
Exchange rate translation		574	(9)
<b>(Decrease) increase in net funds in the year</b>		<b>(15,934)</b>	<b>10,966</b>
Opening net funds		113,784	102,818
<b>Net funds as at 31 March</b>	20	<b>97,850</b>	<b>113,784</b>

# Notes to the accounts

## 1. Accounting policies

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

### (a) Basis of preparation of the financial statements

The consolidated financial statements of Vertex Data Science Limited and its subsidiaries (the group) set out on pages 10 to 33 have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and with the Companies Act 1985.

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

The preparation of financial statements in conformity with generally accepted accounting principles in the United Kingdom requires management to make estimates and assumptions that affect the:

- reported amounts of assets and liabilities;
- disclosure of contingent assets and liabilities at the date of the financial statements; and
- reported amounts of revenues and expenses during the reporting period.

Actual results could differ from these estimates.

### (b) Turnover

Revenue is stated net of VAT and is recognised in line with activity and performance, normally using amounts specified in contractual obligations and when collectability is reasonably assured.

In general:

- Variable revenues, for example, revenues dependent upon customer volumes in the period, are recognised only when those variable activities are performed;
- Performance incentives are recognised in revenue only to the extent that incentives are reasonably considered to have been earned;
- Revenue received in advance of performance is recognised as deferred income. When performance occurs, the deferred income is released and simultaneously reported as revenue;
- Set up fees received from clients as contributions to costs are credited to deferred income when received and recognised in revenue
  - (i) as costs are incurred for fees identified as being against transition costs, or
  - (ii) over the expected life of fixed assets if the fees are received as a contribution to assets or
  - (iii) over the period of the contract in line with activity or performance levels for fees not contractually identified against delivered services.

# Notes to the accounts continued

**(c) Research and development**

Expenditure on research and development is expensed as incurred.

**(d) Pre-contract costs**

Costs incurred in the development of activities are treated in accordance with Urgent Issues Task Force (UITF) Abstract 34 'Pre-contract costs', which requires that pre-contract costs should only be recognised as an asset after the point where it is virtually certain that a contract will be entered into with net cash inflows that will recover the costs capitalised. Such capitalised costs are amortised over the expected contract period.

**(e) Goodwill**

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs over the fair value of the separable assets acquired) arising on consolidation in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life, generally not exceeding 20 years.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any impairment.

**(f) Tangible fixed assets**

Tangible fixed assets comprise short leasehold land and buildings, computer hardware and software, fixtures and fittings, other equipment, and assets under construction. Additions are included at cost. Assets are depreciated evenly over their estimated economic life as follows:

Short leasehold land and buildings	over the life of the lease
Hardware, software, fixtures, fittings, other equipment	3 - 10 years

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

**(g) Grants and contributions**

Grants receivable in respect of tangible fixed assets are treated as deferred income, which is credited to the profit and loss account over the estimated economic lives of the related assets. Other grants are credited to the profit and loss account as the related expenditure is incurred.

**(h) Leased assets**

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over the shorter of the lease term and their useful economic lives. Finance charges under finance leases and hire purchase contracts are allocated to accounting periods over the lease period and represent a constant proportion of the capital repayments outstanding.

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

## Notes to the accounts continued

### (i) Cash

In the consolidated cash flow statement and related notes, cash includes cash at bank, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. Cash balances under the United Utilities Group cash pooling arrangement are included as a short term group loan within these financial statements.

### (j) Pensions

The group participates in a number of defined benefit schemes offered by United Utilities Group. 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 result 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 remaining service lives of current employees. Any difference between the charge to the profit and loss account in respect of funded plans and the contributions payable to each plan is recorded in the balance sheet as a prepayment or provision.

The group also provides a defined contribution scheme and contributions are charged to the profit and loss account in the year in which they are due. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

The group has included the disclosure requirements of FRS 17 'Retirement Benefits' in note 21, together with details of pension and funding arrangements.

### (k) Fixed asset investments

Fixed asset investments are stated at the lower of cost and recoverable amount.

### (l) Foreign currency

Transactions in foreign currency are recorded at the exchange rates ruling on the date of transactions, adjusted for the effects of any hedging arrangements. Assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling at the consolidated balance sheet date.

On consolidation, the balance sheets of overseas subsidiaries are translated into sterling at exchange rates applicable at the year end. The profit and loss accounts are translated into sterling using the average rate. Exchange differences resulting from the translation of such balance sheets at rates ruling at the beginning and end of the year, together with the differences between profit and loss accounts translated at average rates and rates ruling at 31 March, are dealt with as movements on group reserves.

Where net investments in overseas subsidiaries are matched in whole or in part by foreign currency borrowings, the exchange differences arising on the re-translation of such borrowings are also recorded as movements on group reserves to the extent allowed by Statement of Standard Accounting Practice (SSAP) 20 'Foreign Currency Translation'. Any excess is taken to the profit and loss account.

## Notes to the accounts continued

### (m) 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. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. The deferred tax balance is not measured on a discounted basis.

### (n) Share-based compensation arrangements

The costs of short-term and long-term incentive awards are expensed on a straight-line basis over the period in which performance is measured. The amount to be expensed is based upon management's estimate of the probability that the performance criteria will be met.

In respect of the ShareSave schemes of United Utilities PLC, no compensation expense is recorded for the difference between the exercise price and the share price at the date of grant or exercise, as the group is taking advantage of the exemption permitted by UITF 17 'Employee share schemes' in respect of Inland Revenue approved SAYE schemes.

## Notes to the accounts continued

### 2. Segmental information

The group operates within one business segment, that of business process outsourcing, specialising in customer management, to clients within the United Kingdom, Canada and United States. These services include the development of enabling software systems and the management of the related information technology infrastructure. Turnover by geographical market is analysed as follows:

	2005	2004
	£000	£000
United Kingdom	391,360	369,680
The Americas	22,156	17,209
<b>Total turnover by destination</b>	<b>413,516</b>	<b>386,889</b>

### 3. Operating profit

Operating profit is stated after charging (crediting):

		2005	2004
	Note	£000	£000
Staff costs	4	170,693	156,983
Auditor's remuneration		55	45
Operating lease costs			
-plant and machinery		105	365
-land and buildings		5,377	5,218
Loss (profit) on sale of fixed assets		185	(13)
Depreciation		27,027	24,955
Own work capitalised		(604)	(963)
Exceptional restructuring costs			
-cost of sales	15	4,647	-
-administrative expenses	15	309	-
Goodwill amortisation		4,829	3,771

Fees payable to Deloitte & Touche LLP and its associates for non-audit services during the year were £74,000 (2004: £63,000), relating to due diligence and proposal work. The audit fee for 2005 in relation to the company amounted to £44,000 (2004: £37,000).

Exceptional costs of £4,956,000 have been charged in the year relating to a restructuring programme to move from a functionally based organisation to a divisionalised structure.

## Notes to the accounts continued

### 4. Staff costs

Staff costs, including directors' emoluments, comprise:

	2005	2004
	£000	£000
Wages and salaries	147,257	143,845
Social security costs	11,047	10,386
Pension charge (see note 21)	12,389	2,752
	170,693	156,983
	Number	Number
Average number of employees	7,693	7,746

Staff costs including business restructuring exceptional items amount to £174,425,000 (2004: £156,983,000).

### 5. Directors

The aggregate emoluments of directors in the year ended 31 March 2005 representing salaries and fees, performance related bonuses and benefits in kind amounted to £2,112,000 (2004: £1,367,000). The emoluments of the highest paid director (T W Drury) in the year to 31 March 2005 amounted to £518,938 (2004: £424,445).

The executive section of the United Utilities Pension Scheme was closed from 1 April 2004. It provides pensions and other benefits to members within Inland Revenue limits. Six of the current executive directors are members of, and contribute to, the defined benefit section of the scheme (2004: eight directors). It provides a pension for them on normal retirement at age 60 equal to between 1/30th and 1/45th of pensionable earnings for each completed year of service. The maximum pension is two thirds of pensionable earnings. Early retirement is possible from age 50 if the company agrees.

The Finance Act 1989 restricts the pension benefits that can be paid by the Scheme to directors who joined the company after 1 June 1989 because the earnings cap limits pensionable earnings for calculating benefits. The company has put in place for one of the executive directors affected separate arrangements, the effect of which is to provide for him the same pension benefits as for those executives who are not limited by the cap. This arrangement is unfunded.

The aggregate value of company contributions paid to the company pension scheme in respect of directors' qualifying services in the year ended 31 March 2005 was £311,825 (2004: £204,646). The value of contributions relating to the highest paid director was £30,906 (2004: £29,997). The accrued pension at 31 March 2005 for T W Drury was £105,023 per annum (2004: £89,017 per annum).

Information relating to share options and shareholdings of the directors is contained in the directors' report on directors' interests.

## Notes to the accounts continued

### 6. Net interest receivable

	2005	2004
	£000	£000
<b>Interest payable:</b>		
On finance leases	-	(11)
Other interest payable	(100)	(147)
<b>Interest receivable:</b>		
Group undertakings	1,730	178
Other interest receivable	211	165
<b>Net interest receivable</b>	<b>1,841</b>	<b>185</b>

### 7. Taxation

	2005	2004
	£000	£000
Current tax:		
UK corporation tax at 30 per cent	2,747	6,582
Overseas tax	507	80
Adjustments in respect of prior periods:		
- UK Corporation tax	-	515
- Overseas tax	-	(623)
<b>Total current tax</b>	<b>3,254</b>	<b>6,554</b>
Deferred tax at 30 per cent	1,636	141
<b>Tax charge on ordinary activities</b>	<b>4,890</b>	<b>6,695</b>

## Notes to the accounts continued

### 7. Taxation continued

The table below reconciles the expected tax charge at the prevailing UK corporation tax rate to the actual current tax charge.

	2005	2004
	£000	£000
Profit on ordinary activities before tax	17,299	20,822
Expected tax charge	5,190	6,247
Depreciation in excess of capital allowances	2,121	1,367
Other timing differences	(4,702)	(1,728)
Goodwill amortisation	1,015	1,131
Overseas tax at lower rates than UK	(203)	(79)
Utilisation of tax losses	(734)	(417)
Adjustments to tax charge in respect of prior periods	-	(108)
Net costs not deductible for tax purposes	567	141
Current tax charge for the period	3,254	6,554

#### *Factors which may affect the future tax charge*

A potential deferred tax asset in respect of timing differences on losses carried forward has not been recognised, as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised in relation to these losses is £5.6 million. This potential asset may be recovered should sufficient profits be generated in the future.

### 8. Dividends

	2005	2004
	£000	£000
Final dividend of 7.31 pence recommended (2004: 2.83 pence)	12,149	4,700

## Notes to the accounts continued

### 9. Intangible fixed assets

	Group	Company
	£000	£000
<b>Goodwill</b>		
<b>Cost:</b>		
At 1 April 2004	63,182	47,113
Adjustment relating to contingent consideration	(1,554)	-
Exchange adjustment	(456)	-
<b>At 31 March 2005</b>	<b>61,172</b>	<b>47,113</b>
<b>Amortisation:</b>		
At 1 April 2004	(8,906)	(7,489)
Charge for the year	(4,829)	(2,713)
Exchange adjustment	26	-
<b>At 31 March 2005</b>	<b>(13,709)</b>	<b>(10,202)</b>
<b>Net book value:</b>		
<b>At 31 March 2005</b>	<b>47,463</b>	<b>36,911</b>
At 31 March 2004	54,276	39,624

#### *Adjustment relating to contingent consideration*

The goodwill arising on the acquisition of FRA, the US debt collection agency, in March 2004 included an estimated value of contingent consideration, dependent upon the achievement of agreed performance targets. This estimate has been revised during the year, with a consequent downward adjustment to the value of gross goodwill of US\$ 2,937,000 (£1,554,000). This reduces the gross goodwill arising on this acquisition to US\$ 16,567,000 (£8,766,000), which is being amortised over 10 years. The resultant decrease in the annual amortisation charge is US\$ 326,000 (£172,000).

## Notes to the accounts continued

### 10. Tangible fixed assets

#### Group

	Short leasehold land and buildings £000	Fixtures, fittings, tools and equipment £000	Assets in the course of construction £000	Total £000
<b>Cost:</b>				
At 1 April 2004	4,641	140,359	6,283	151,283
Additions	334	5,853	9,443	15,630
Disposals	(13)	(8,542)	-	(8,555)
Transfers	-	4,097	(4,097)	-
Exchange adjustment	(16)	(39)	-	(55)
<b>At 31 March 2005</b>	<b>4,946</b>	<b>141,728</b>	<b>11,629</b>	<b>158,303</b>
<b>Depreciation:</b>				
At 1 April 2004	(1,784)	(61,492)	-	(63,276)
Charge for the year	(473)	(26,554)	-	(27,027)
Disposals	-	8,338	-	8,338
Exchange adjustment	4	8	-	12
<b>At 31 March 2005</b>	<b>(2,253)</b>	<b>(79,700)</b>	<b>-</b>	<b>(81,953)</b>
<b>Net book value:</b>				
<b>At 31 March 2005</b>	<b>2,693</b>	<b>62,028</b>	<b>11,629</b>	<b>76,350</b>
At 31 March 2004	2,857	78,867	6,283	88,007

Capital commitments at 31 March 2005 were as follows:

	2005 £000	2004 £000
<b>Capital commitments :</b>		
Contracted but not provided for	1,841	1,805

## Notes to the accounts continued

### 10. Tangible fixed assets continued

#### Company

	Short leasehold land and buildings £000	Fixtures, fittings, tools and equipment £000	Assets in the course of construction £000	Total £000
<b>Cost:</b>				
At 1 April 2004	3,998	135,685	3,642	143,325
Additions	-	4,906	8,470	13,376
Disposals	(13)	(8,444)	-	(8,457)
Transfers		808	(808)	-
<b>At 31 March 2005</b>	<b>3,985</b>	<b>132,955</b>	<b>11,304</b>	<b>148,244</b>
<b>Depreciation:</b>				
At 1 April 2004	(1,616)	(59,776)	-	(61,392)
Charge for the year	(304)	(22,693)	-	(22,997)
Disposals	-	8,240	-	8,240
<b>At 31 March 2005</b>	<b>(1,920)</b>	<b>(74,229)</b>	<b>-</b>	<b>(76,149)</b>
<b>Net book value:</b>				
<b>At 31 March 2005</b>	<b>2,065</b>	<b>58,726</b>	<b>11,304</b>	<b>72,095</b>
At 31 March 2004	2,382	75,909	3,642	81,933

Capital commitments at 31 March 2005 were as follows:

	2005 £000	2004 £000
<b>Capital commitments :</b>		
Contracted but not provided for	1,728	1,785

## Notes to the accounts continued

### 11. Fixed asset investments

#### Group

	Shares in group undertakings £000
<b>Cost:</b>	
At 1 April 2004 and 31 March 2005	20

#### Company

	Shares in subsidiary undertakings £000
<b>Cost:</b>	
At 1 April 2004	4,727
Additions	646
Exchange adjustment	(63)
<b>At 31 March 2005</b>	<b>5,310</b>

The £20,000 investment in the group accounts represents an investment of 100 per cent of the floating rate preference 'C' share capital of United Utilities Financial Services Limited, a company registered in England and Wales. The holding is treated as a trade investment.

An increased investment of £646,000 (US\$ 1,200,000) has also been made in Vertex India Ltd, a subsidiary holding company, during the year.

Exchange rate movements relate to the US dollar denominated investment of US\$ 2,681,000 in Vertex Outsourcing Holdings LLC, another subsidiary holding company. These are equally offset by exchange movements on the related US dollar loan funding with United Utilities PLC as permitted under SSAP 20.

Details of principal operating subsidiary undertakings, all of which are unlisted and operate in the business process outsourcing sector, are set out below. These undertakings are included within the consolidated group financial statements.

Subsidiary undertakings:	Class of share capital held	Proportion of share capital owned
<b>Great Britain</b>		
Vertex Customer Management Limited	Ordinary	100%
<b>Canada</b>		
Vertex Customer Management (Canada) Limited	Ordinary	100%
<b>United States</b>		
First Revenue Assurance LLC	Ordinary	100%
<b>India</b>		
Vertex Customer Services India Private Limited	Ordinary	75%

A full listing of the company's subsidiaries is included in the annual return.

## Notes to the accounts continued

### 12. Debtors

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Trade debtors	<b>36,564</b>	32,462	<b>31,303</b>	23,053
Amounts owed by other United Utilities group undertakings	<b>42,330</b>	26,570	<b>21,574</b>	17,664
Amounts owed by subsidiary undertakings	-	-	<b>34,663</b>	31,793
Loan to United Utilities PLC	<b>100,000</b>	100,000	<b>100,000</b>	100,000
Other debtors	<b>1,386</b>	375	<b>120</b>	14
Prepayments and accrued income				
Due within one year	<b>49,304</b>	45,304	<b>46,835</b>	42,917
Due after more than one year	<b>46,640</b>	-	<b>46,640</b>	-
	<b>276,224</b>	204,711	<b>281,135</b>	215,441

Prepayments and accrued income include £58.3 million for the exceptional lump sum pensions contribution made in the year (note 21). Of this total payment, £46.6 million is due after more than one year.

### 13. Creditors: amounts falling due within one year

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Trade creditors	<b>1,544</b>	1,978	<b>590</b>	1,349
Amounts owed to other United Utilities group undertakings	<b>41,305</b>	14,392	<b>36,570</b>	7,282
Amounts owed to subsidiary undertakings	-	-	<b>2,533</b>	1,528
Other creditors	<b>1,644</b>	2,779	<b>1,216</b>	1,305
Taxation and social security costs	<b>7,279</b>	4,399	<b>6,495</b>	4,569
Accruals and deferred income	<b>116,269</b>	96,622	<b>108,204</b>	89,336
Obligations under finance leases	-	33	-	-
Proposed dividends	<b>12,149</b>	4,700	<b>12,149</b>	4,700
	<b>180,190</b>	124,903	<b>167,757</b>	110,069

## Notes to the accounts continued

### 14. Creditors: amounts falling after more than one year

	Group		Company	
	2005	2004	2005	2004
	£000	£000	£000	£000
Accruals and deferred income	3,263	12,972	2,588	12,723
Other creditors	2,321	2,982	-	-
	5,584	15,954	2,588	12,723

### 15. Provisions for liabilities and charges

#### Group

	Deferred taxation £000	Restructuring provisions £000	Total £000
At 1 April 2004	6,102	898	7,000
Charge for the year	1,636	-	1,636
Additions	-	4,956	4,956
Utilised during the year	-	(1,111)	(1,111)
Exchange adjustment	-	(8)	(8)
<b>At 31 March 2005</b>	<b>7,738</b>	<b>4,735</b>	<b>12,473</b>

#### Company

	Deferred taxation £000	Restructuring provisions £000	Total £000
At 1 April 2004	9,280	510	9,790
Charge for the year	1,505	-	1,505
Additions	-	4,956	4,956
Utilised during the year	-	(919)	(919)
<b>At 31 March 2005</b>	<b>10,785</b>	<b>4,547</b>	<b>15,332</b>

The restructuring provisions in the company relate to costs of £4,956,000 charged in the year ended 31 March 2005, relating to the restructuring programme from a functionally based organisation to a divisionalised structure, and £467,000 in respect of the acquisition of the UK contact centre operator 7C.

The group provisions also include £188,000 in respect of the acquisition of FRA.

The restructuring provisions are expected to be utilised within twelve months of the balance sheet date.

## Notes to the accounts continued

### 16. Deferred tax

	Group		Company	
	2005 £000	2004 £000	2005 £000	2004 £000
Difference between accumulated depreciation and capital allowances	5,239	6,975	5,239	6,975
Deferred tax asset	(3,047)	(3,178)	-	-
Other timing differences	5,546	2,305	5,546	2,305
	<b>7,738</b>	<b>6,102</b>	<b>10,785</b>	<b>9,280</b>

### 17. Share capital

	Group and company	
	2005 £000	2004 £000
<b>Authorised</b>		
200,000,000 ordinary shares of £ $\frac{21}{71}$ each	59,155	59,155
142,000,000 A shares of £ $\frac{50}{71}$ each	100,000	100,000
	<b>159,155</b>	<b>159,155</b>

A shares carry no rights to dividends. A shares carry no votes at meetings except on resolutions affecting the A shares rights or proposing a winding up, in which event each holder will be entitled to one vote.

On a winding up of the company A shares have a right to all proceeds from, all title and interest in, all benefits and rights arising from the £100 million loan to United Utilities PLC in proportion to the number of A shares held. There are no other rights to assets.

	Group and company	
	2005 £000	2004 £000
<b>Called up share capital</b>		
<b>Allotted and fully paid share capital</b>		
166,284,575 ordinary shares of £ $\frac{21}{71}$ each (2004: 166,284,575 shares)	49,183	49,183
142,000,000 A shares of £ $\frac{50}{71}$ each (2004: 142,000,000 shares)	100,000	100,000
	<b>149,183</b>	<b>149,183</b>

## Notes to the accounts continued

### 18. Share capital and reserves

#### Group

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total £000
As at 1 April 2004	149,183	39,521	21,202	209,906
Profit for the financial year	-	-	12,149	12,149
Exchange translation	-	-	37	37
Proposed dividends	-	-	(12,149)	(12,149)
<b>As at 31 March 2005</b>	<b>149,183</b>	<b>39,521</b>	<b>21,239</b>	<b>209,943</b>

#### Company

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total £000
As at 1 April 2004	149,183	39,521	20,439	209,143
Profit for the financial year	-	-	12,780	12,780
Proposed dividends	-	-	(12,149)	(12,149)
<b>As at 31 March 2005</b>	<b>149,183</b>	<b>39,521</b>	<b>21,070</b>	<b>209,774</b>

As permitted by section 230(4) of the Companies Act 1985, the company has not presented its own profit and loss account. The amount of group profit for the financial year dealt with in the company's profit and loss account is £12,780,000 (2004: £13,311,000).

## Notes to the accounts continued

### 19. Reconciliation of operating profit to net cash inflow from operating activities

	2005	2004
	£000	£000
<b>Group operating profit</b>	<b>15,458</b>	20,637
Depreciation	27,027	24,955
Goodwill amortisation	4,829	3,771
Loss (profit) on disposal of fixed assets	185	(13)
Stocks decrease	-	23
Debtors decrease (increase)	2,949	(17,180)
Creditors increase	15,081	16,125
Increase (decrease) in provisions	3,837	(2,703)
<b>Net cash inflow from operating activities before exceptional lump sum pensions contribution</b>	<b>69,366</b>	45,615
Exceptional lump sum pensions contribution	(58,300)	-
<b>Net cash inflow from operating activities</b>	<b>11,066</b>	45,615

### 20. Analysis of net funds

	As at 1 April 2004	Cash flows	Translation difference	As at 31 March 2005
	£000	£000	£000	£000
<b>Cash at bank and in hand</b>	11,628	(2,484)	324	9,468
<b>United Utilities group undertakings:</b>				
Group loans receivable	100,000	-	-	100,000
Short term group loans payable	(5,945)	-	250	(5,695)
Short term group cash pooling arrangement	8,134	(14,057)	-	(5,923)
<b>Finance leases:</b>				
Finance leases due within one year	(33)	33	-	-
<b>Net funds</b>	<b>113,784</b>	<b>(16,508)</b>	<b>574</b>	<b>97,850</b>

## Notes to the accounts continued

### 21. Pensions

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

For UUPS and ESPS, the pension cost and assets 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 pension 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' 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 actuarial 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 actuarial assumptions and methods from those described above.

During the year ended 31 March 2005, the group 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 group contributed to ESPS at a rate of 19.0 per cent of pensionable salaries.

On 31 March 2005, the group made lump sum payments of £45.4 million and £12.9 million to UUPS and ESPS respectively. The payments were in lieu of the estimated group contributions that would have been payable for defined benefit members over the 5 years from 1 April 2005. Subject to the results of the actuarial valuations at 31 March 2007, group contributions will resume from 1 April 2010. In the meantime, the group will continue to pay contributions in respect of the defined contribution members and insurance premiums. Other payments will be made by the group in accordance with the funding agreement between the Trustee and the group.

The group also participates in 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 £13.3 million, of which £0.9m is included within the business restructuring exceptional item (2004 - £2.8 million). A prepayment of £87.3 million is included in the balance sheet at 31 March 2005 (2004 - £28.6 million).

## Notes to the accounts continued

### 21. Pensions continued

#### *FRS 17 transitional disclosures*

The group is unable to identify its share of the scheme's assets and liabilities on a consistent and reasonable basis. As permitted by FRS 17 Retirement Benefits, these schemes will be accounted for by the group when the accounting standard is fully adopted, as if the scheme was a defined contribution scheme.

The latest full actuarial valuations were carried out at 31 March 2004 and were updated for FRS 17 purposes by Mercer Human Resource Consulting, a qualified independent actuary. These valuations showed a net deficit of £55.7 million after tax (2004: £264.4 million deficit after tax). This information is disclosed in the United Utilities PLC accounts.

### 22. Operating leases

#### Group

The group is committed to making the following payments under operating leases during the next 12 months:

	31 March 2005		31 March 2004	
	Land and buildings £000	Plant and equipment £000	Land and buildings £000	Plant and equipment £000
Leases which expire :				
- within one year	360	1	1,174	230
- between two and five years	1,776	36	1,039	30
- after five years	2,357	-	1,973	-
	<b>4,493</b>	<b>37</b>	<b>4,186</b>	<b>260</b>

#### Company

The company is committed to making the following payments under operating leases during the next 12 months:

	31 March 2005		31 March 2004	
	Land and buildings £000	Plant and equipment £000	Land and buildings £000	Plant and equipment £000
Leases which expire :				
- within one year	360	1	1,031	189
- between two and five years	1,349	-	724	7
- after five years	2,114	-	1,973	-
	<b>3,823</b>	<b>1</b>	<b>3,728</b>	<b>196</b>

## Notes to the accounts continued

### 23. Contingent liabilities

#### *Put options exercisable by minority shareholder*

Put options have been granted to GE Capital Equity Investments Limited in respect of their 25 per cent shareholding in 7C India Limited. This minority shareholder has also granted call options to the company over the same shareholding.

The put and call options are conditional and the financial impact will be dependent upon the fair market value of the shares at the time of exercise.

#### *Performance bonds*

The company has entered into performance bonds in the ordinary course of business.

### 24. Subsequent events

In May 2005, as noted in the directors' report, the company acquired Marlborough Stirling plc, a provider of software and services to the financial services sector.

The cash acquisition of 100 per cent of the existing share capital has been effected by means of a scheme of arrangement under section 425 of the Companies Act 1985 and has received approval from the Court and Marlborough Stirling shareholders.

The consideration paid by the company in May 2005 is £95.3 million (including cash balances).

For the year ended 31 December 2004, the Marlborough Stirling Group's turnover (including its share of turnover from joint ventures) was £98.8 million, on which it generated a loss before tax, amortisation of goodwill and exceptional items of £0.6 million.

### 25. Related party transactions

The company has taken advantage of the exemption under FRS 8, as a wholly owned subsidiary of United Utilities PLC, not to disclose related party transactions with other members of the group.

There were no other related party transactions that require disclosure in the year.

### 26. Ultimate parent company

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