

# **United Utilities Water Finance PLC**

## **Report and Financial Statements**

31 March 2016

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## **Directors, advisers and other information**

### **Directors**

PA Aspin  
SR Gardiner  
JR Houlden  
BF Murphy

### **Secretary**

UU Secretariat Limited

### **Auditor**

KPMG LLP  
St Peter's Square  
Manchester  
M2 3AE

### **Registered office**

Haweswater House  
Lingley Mere Business Park  
Lingley Green Avenue  
Great Sankey  
Warrington  
WA5 3LP

## Strategic report

### Business review

The company is a wholly owned subsidiary of United Utilities Water Limited.

### Principal activity and review of business

The principal activity of the company is the provision of long term finance for its immediate parent, United Utilities Water Limited. During the year the company commenced raising long term finance and in turn on-lending such finance to its immediate parent. A management fee of £50,000 (2015: £nil) has been charged in relation to the services provided.

The directors do not believe that further key performance indicators for the company are necessary to enhance the understanding of the development, performance or position of the business. The performance of this business is consolidated along with its parent and discussed in the annual report and financial statements of United Utilities Water Limited.

### Principal risks and uncertainties

The United Utilities group manages its treasury operations centrally. Financial risk management and the implementation of associated hedging is carried out by the United Utilities Group PLC's treasury department. The group's treasury management policies and operations are discussed in United Utilities Group PLC's Annual report and accounts.

The company raises debt finance for its immediate parent, United Utilities Water Limited. Amounts raised are passed on to United Utilities Water Limited on identical terms. United Utilities Water Limited guarantees the company's obligations under these arrangements. The principal risk of these arrangements is that United Utilities Water Limited is unable to meet its obligations to the company.

The Strategic report was approved by the board on 10 June 2016 and signed on its behalf by:

JR Houlden  
Director

## Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2016.

### Results and dividends

The company recorded a profit for the year of £40,534 (2015: £123). The directors have not recommended a final ordinary dividend for the year ended 31 March 2016 (2015: nil).

### Going concern

The directors' considerations in preparing these financial statements on a going concern basis are set out in note 1.

### Directors

The directors who held office during the year and to date are given below:

PA Aspin  
SR Gardiner  
JR Houlden  
BF Murphy

During the year, directors' and officers' liability insurance was in force.

### Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as he is aware, there is no relevant audit information of which the company's auditor is unaware; and
2. he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of section 418 of the Companies Act 2006.

### Auditor

The board has decided to recommend KPMG LLP to be reappointed as external auditor to the company at the forthcoming AGM and an authority for the directors to set the remuneration of the auditor will also be sought.

Approved by the board and signed on its behalf by:

JR Houlden  
Director  
10 June 2016

## **Statement of directors' responsibilities in respect of the strategic report, the directors' report and the financial statements**

The directors are responsible for preparing the Strategic Report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## **Independent auditor's report**

### **to the members of United Utilities Water Finance PLC**

We have audited the financial statements of United Utilities Water Finance PLC for the year ended 31 March 2016 set out on pages 7 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

**John Luke (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*

St Peter's Square, Manchester, M2 3AE.

10 June 2016

## Income statement

for the year ended 31 March

	Note	2016 £	2015 £
Operating income		50,000	-
<b>Operating profit</b>		<u>50,000</u>	<u>-</u>
Investment income	3	7,482,220	156
Finance expense	4	(7,481,552)	-
<b>Investment income and finance expense</b>		<u>668</u>	<u>156</u>
<b>Profit before tax</b>		50,668	156
Tax	5	(10,134)	(33)
<b>Profit after tax</b>		<u><u>40,534</u></u>	<u><u>123</u></u>

All of the results shown above relate to continuing operations.

The company had no comprehensive income other than the profit above. Accordingly, a separate statement of other comprehensive income has not been prepared.

## Statement of financial position

at 31 March

	Note	2016 £	2015 £
<b>ASSETS</b>			
<b>Non-current assets</b>			
Trade and other receivables	6	125,462,952	-
<b>Current assets</b>			
Trade and other receivables	6	773,041	50,156
<b>Total assets</b>		<u>126,235,993</u>	<u>50,156</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	8	(125,462,952)	-
<b>Current liabilities</b>			
Trade and other payables	7	(682,384)	(33)
<b>Total liabilities</b>		<u>(126,145,336)</u>	<u>(33)</u>
<b>Total net assets</b>		<u>90,657</u>	<u>50,123</u>
<b>Capital and reserves attributable to equity holders of the company</b>			
Called up share capital	9	50,000	50,000
Profit and loss account		40,657	123
<b>Shareholders' funds</b>		<u>90,657</u>	<u>50,123</u>

The financial statements of United Utilities Water Finance PLC, registered number 9227416, were approved by the board of directors and authorised for issue on 10 June 2016. They were signed on its behalf by:

JR Houlden  
Director

## Statement of changes in equity

for the year ended 31 March

	Share capital £	Profit and loss account £	Total £
At 19 September 2014	-	-	-
Share capital issued	50,000	-	50,000
Profit after tax	-	123	123
At 31 March 2015	<u>50,000</u>	<u>123</u>	<u>50,123</u>
Profit after tax	-	40,534	40,534
At 31 March 2016	<u>50,000</u>	<u>40,657</u>	<u>90,657</u>

## Notes to the financial statements

### 1. Accounting policies

#### **Basis of accounting**

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards and applicable company law.

The company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) and so the financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework'. As such the recognition and measurement requirements of EU-adopted IFRS have been applied, with amendments where necessary in order to comply with Companies Act 2006 and The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) as these are Companies Act 2006 accounts.

As permitted by FRS 101, the company has taken advantage of the disclosure exemptions available under that standard in relation to cash flow statements and related party transactions.

Where required, equivalent disclosures are given in the group accounts of United Utilities Group PLC. The group accounts of United Utilities Group PLC are available to the public and can be obtained as set out in note 12.

#### **Going concern**

In preparing these financial statements on the going concern basis, the directors have considered the company's net assets position. The net assets are deemed to be fully recoverable. In addition, United Utilities Water Limited acts as guarantor in relation to the company's borrowings, which are long term in nature. For these reasons, the directors have concluded that the going concern basis continues to be appropriate.

#### **Investment income**

Interest income is recognised in the profit and loss account in the period in which they are accrued.

#### **Finance expense**

Finance expense is recognised in the profit and loss account in the period in which they are accrued.

#### **Current tax**

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

Taxable profit differs from the net profit as reported in the profit and loss account 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.

#### **Financial instruments**

Financial assets and financial liabilities are recognised and derecognised on the group's statement of financial position on the trade date when the group becomes/ceases to be a party to the contractual provisions of the instrument.

#### **Loans and receivables**

Trade receivables, loans and other receivables that have fixed or determinable payments, and that are not quoted in an active market are classified as loans and receivables. Such assets are measured at fair value on initial recognition and are subsequently measured at amortised cost using the effective interest method less any impairment.

#### **Borrowings**

Bonds and loans are initially measured at fair value being the cash proceeds received net of any direct issue costs. They are subsequently measured at amortised cost applying the effective interest method. The difference between the net cash proceeds received at inception and the principal cash flows due at maturity is accrued over the term of the borrowing.

#### **Foreign exchange**

Foreign currency transactions arising during the period are translated into sterling at the rate of exchange ruling on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in

## Notes to the financial statements

foreign currencies are translated into sterling at the relevant rates of exchange applicable at that date. All profits and losses on translation arising during the period are included in the net profit and loss for the period.

### 2. Operating profit

A management fee of £50,000 (2015:£nil) has been charged in relation to services provided to United Utilities Water Limited, during the year.

There have been no employees of the company during the year other than the directors. The directors' emoluments are borne by other group companies and are not recharged. This is because a fair apportionment is not possible as services are provided to multiple entities.

The auditor's remuneration for the statutory audit of the company was borne by another group undertaking in the current year. The amount attributable but not recharged to United Utilities Water Finance PLC was £15,000 (2015: £1,000). There were no non audit services provided by the auditor to the company (2015: £nil).

### 3. Investment income

	2016 £	2015 £
Interest receivable on amounts owed by immediate parent undertaking	1,297,965	156
Foreign exchange gains on loans receivable from immediate parent undertaking	6,184,255	-
	<u>7,482,220</u>	<u>156</u>

### 4. Finance expense

	2016 £	2015 £
Interest payable on borrowings held at amortised cost	1,297,297	-
Foreign exchange losses on borrowings held at amortised cost	6,184,255	-
	<u>7,481,552</u>	<u>-</u>

### 5. Tax

#### (a) Analysis of the tax charge for the year

	2016 £	2015 £
<b>Current tax:</b>		
Total current tax charge: group relief payable	<u>10,134</u>	<u>33</u>

#### (b) Factors affecting the current tax charge for the year

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2016 £	2015 £
Profit before tax	<u>50,668</u>	<u>156</u>
Tax at the UK corporation tax rate of 20% (2015: 21%)	<u>10,134</u>	<u>33</u>
Actual current tax charge	<u>10,134</u>	<u>33</u>

## Notes to the financial statements

### 6. Trade and other receivables

	2016 £	2015 £
Amounts owed by immediate parent undertaking:		
Loans	125,462,952	-
Interest receivable	672,304	51
Other	100,737	50,105
	<u>126,235,993</u>	<u>50,156</u>

At 31 March 2016 the company had £773,041 (2015: £50,156) of trade and other receivables classified as current.

The amounts owed by immediate parent undertaking are classified as loans and receivables and are on identical terms to the external borrowings raised by the company (see note 8). The fair value of these instruments was £119,919,247 as at 31 March 2016 (2015: £nil). The fair values disclosed are all classified as level 2 under the IFRS 13 hierarchy, being derived from inputs other than quoted prices that are observable for the asset, either directly or indirectly.

### 7. Trade and other payables

	2016 £	2015 £
Accruals- interest payable on borrowings	672,217	-
Amounts owed to intermediate parent undertakings – group relief payable	10,167	33
	<u>682,384</u>	<u>33</u>

### 8. Borrowings

The principal economic terms and conditions of outstanding borrowings, along with fair value and carrying value, were as follows:

	Currency	Year of final repayment	Fair value £	2016 Carrying value £	Fair value £	2015 Carrying value £
<b>Borrowings measured at amortised cost</b>						
0.013%+RPI 25m bond	GBP	2025	24,172,931	25,221,718	-	-
1.129% 52m bond	EUR	2027	38,423,754	41,187,196	-	-
0.178%+RPI 35m bond	GBP	2030	33,578,081	35,293,475	-	-
2.058% 30m bond	EUR	2030	23,744,481	23,760,563	-	-
			<u>119,919,247</u>	<u>125,462,952</u>	<u>-</u>	<u>-</u>

#### Index-linked debt:

IL Index-linked debt – this debt is adjusted for movements in the Retail Prices Index with reference to a base RPI established at the trade date

RPI The UK general index of retail prices (for all items) as published by the Office of National Statistics (Jan 1987=100)

Each of these borrowings are unconditionally and irrevocably guaranteed by United Utilities Water Limited under the United Utilities PLC and United Utilities Water Finance PLC multi-issuer EUR 7 billion Euro Medium Term Note Programme. Amounts raised have been loaned to United Utilities Water Limited on identical terms to the borrowings detailed in the table above (see note 6). Borrowings are unsecured.

## Notes to the financial statements

The fair values disclosed are all classified as level 2 under the IFRS 13 hierarchy, being derived from inputs other than quoted prices that are observable for the liability, either directly or indirectly.

### 9. Called up share capital

	2016	2015
	£	£
<b>Allotted, called up and fully paid</b>		
50,000 ordinary shares of £1.00 each	50,000	50,000
	=====	=====

### 10. Financial risk management

The company is a financing subsidiary of United Utilities Water Limited (UUV) and its principal activity is raising listed debt on behalf of UUV, its immediate parent. All external borrowings are guaranteed by UUV and are on-lent to UUV on identical terms through inter-company loans.

The company's financial risks are not managed separately being integrated with the financial risks of the United Utilities Group PLC (UUG) group. The UUG group's financial risks, treasury management policies and operations are discussed in UUG's annual report and accounts.

#### *Credit risk:*

The company is exposed to credit risk on the debtor balances receivable from the immediate parent undertaking, UUV. At 31 March 2016, the maximum exposure to credit risk represent amounts owed by immediate parent undertaking of £126,235,993 (2015: £50,156). These balances are neither past due nor impaired.

#### *Liquidity risk:*

Principal and interest due on external borrowings is matched by principal and interest receivable from UUV, therefore the principal risk of the company's arrangements is that UUV is unable to meet its obligations to the company.

#### *Market risk:*

The company does not consider it is exposed to any significant concentrations of market risk. As the company on-lends all external borrowings to its immediate parent company on identical terms, any market risk exposure (foreign exchange, interest rate or inflation) on external borrowings is offset by an equal and opposite exposure on the company's loans receivable from its parent.

As such, movements in inflation, interest rates or movements in foreign currency rates will have no net impact on profit before taxation or equity, other than as stated below.

In addition to the borrowings loaned to its parent, the company has a short-term balance receivable from its parent on which interest accrues. A one per cent increase/decrease in interest rates will result in a £1,007 (2014: £502) decrease/increase in profit before taxation and equity. This is based on the position at the reporting date and is not indicative of the years then ended.

## Notes to the financial statements

### 11. Related party transactions

There have been no transactions with the directors of the company during the year.

In accordance with the exemption allowed under FRS 101, no disclosure is made of transactions with other wholly owned member companies which are consolidated into the United Utilities Group PLC group.

### 12. Ultimate parent undertaking

The company's immediate parent undertaking is United Utilities Water Limited, a company incorporated in England and Wales.

In the directors' opinion, the company's ultimate parent undertaking and controlling party is United Utilities Group PLC, a company incorporated in England and Wales.

The smallest group in which the results of the company are consolidated is that headed by United Utilities Water Limited. The consolidated accounts of this group are available to the public and may be obtained from: The Company Secretary, United Utilities Water Limited, Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP.

The largest group in which the results of the company are consolidated is that headed by United Utilities Group PLC. The consolidated accounts of this group are available to the public and may be obtained from: The Company Secretary, United Utilities Group PLC, Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP.