UNITED UTILITIES GROUP PLC

Annual Report and Financial Statements
for the year ended 31 March 2014

United Utilities
at a glance

United Utilities Group PLC is the UK's largest listed water company. Through its subsidiary, United Utilities Water PLC, it manages the regulated water and wastewater network in the North West of England, providing services to around seven million people and businesses. The vast majority of the group's assets and profit are derived from its regulated UK water business.

Key facts

- We look after >55,000 hectares of catchment land, helping to protect the quality of our water resources
- We manage around 120,000 km of water pipes and sewers to help our customers' lives flow smoothly
- Our 570 wastewater treatment works help to ensure that the water returned to the environment meets all UK and European legislation
- Our 93 water treatment works deliver around 1,700 million litres of water to 3.2 million customers every day
- We own 179 reservoirs, ensuring our customers can enjoy a resilient water supply
- We're investing >£3.5 billion in 2010–2015 which delivers significant customer and environmental benefits and grows the regulatory capital value

Reasons to invest

- We have a clear vision to be a leading North West service provider and one of the best UK water and wastewater companies
- Our revenue and asset base is linked to RPI inflation
- Our management team has extensive operational and regulatory experience
- We've made significant improvements in customer service and operational performance, with more to come
- Externally recognised responsible business credentials
- We're delivering customer and environmental benefits through substantial capital investment, which drives long-term growth in the regulatory capital value
- We're committed to transparency on regulatory outperformance and we're ahead of schedule in delivering our targets
- We have a robust capital structure: stable A3 credit rating
- Our dividend policy targets a real growth rate of RPI inflation +2 per cent per annum to at least 2015
- Total dividend per share of 36.04p for 2013/14

BBC documentary goes behind the scenes with our employees

Earlier this year, United Utilities was the focus of a six-part BBC2 documentary entitled 'Watermen: A Dirty Business'. Throughout this report, we feature photographs of some of the many dedicated employees who took part in this documentary - including wastewater customer service technicians Vicky Thorpe and Barbara McAuley, who are featured on the cover of this year's report. As well as giving viewers a better understanding of what goes on behind the scenes of our business, the programme has helped to raise awareness of some of the key issues being faced by the water industry.

Important Information

Cautionary statement:
The Annual Report and Financial Statements (the Annual Report) contains certain forward-looking statements with respect to the operations, performance and financial condition of the group. By their nature, these statements involve uncertainty since future events and circumstances can cause results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and the company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast. Certain regulatory performance data contained in this Annual Report is subject to regulatory audit.

Terms used in this report:
Unless expressly stated otherwise, the 'group', 'United Utilities', 'UU' or 'the company' means United Utilities Group PLC and its subsidiary undertakings; the 'regulated business', 'regulated activities' or 'UUW' means the licensed water and wastewater activities undertaken by United Utilities Water PLC in the North West of England.

Look out for these icons

Read more online at **corporate.unitedutilities.com**

Read more in **Strategic Report**

Read more in **Governance**

Read more in **Financial statements**

Strategic report

Detailing the past year's performance and how it has been achieved alongside our future vision and strategy, the Strategic Report gives a comprehensive picture of where the business is and where it is going.

PHOTOGRAPH: Water business analyst Andrew Bent, who helps to plan and oversee some of our water investment projects.

Chairman's and Chief Executive Officer's statement

Delivering benefits for customers and shareholders

Capital investment
2013-2014

£836m

Read more at
corporate.unitedutilities.com

Read more in our **Governance** section on pages 52–105

Read more about our **Performance** on pages 32–45

Dr John McAdam
Chairman

Steve Mogford
Chief Executive Officer

Performance

We are pleased to have delivered another year of good performance in what remains a difficult economic environment for customers in the North West of England. Underpinning all we do is our vision of becoming a leading North West service provider and one of the best UK water and wastewater companies and we have made progress against this objective on a broad front.

High levels of customer satisfaction remain our core objective. We have again delivered a year of improvement as measured by our regulator, Ofwat's, Service Incentive Mechanism (SIM). This places us as one of the most improved companies for customer satisfaction over the last three years.

Whilst comparison with other water and sewerage companies is an important benchmark for us, we recognise that customer expectations are often set by standards of service delivered by other companies operating in the North West. So we conduct a brand tracker survey and we are happy to find ourselves consistently ranked third out of ten leading companies, just behind the respected brands of John Lewis and Marks & Spencer.

Even so, we don't always get it right, and customer satisfaction will remain an area of focus for us – reducing service failure benefits both customers and shareholders.

Targeted investment in our people, assets and processes is delivering results and we are ahead of schedule in delivering our regulatory outperformance targets.

Asset serviceability has again been stable or improving over the last twelve months and we have met our leakage target for the eighth consecutive year. Water quality over the year reflects our best performance for many years. The Environment Agency assessed us as an upper quartile company in 2012/13, and we have made more progress over the last twelve months.

Much of our capital programme of over £3.5 billion for the period 2010–15 supports renewal and upgrade of our asset base to maintain serviceability but a significant proportion also delivers our capability to meet new environmental standards. We delivered our largest annual capital programme for a decade, investing £836 million – £49 million more than the previous year – in areas that included contributions to river and bathing water quality and inspecting the Haweswater aqueduct for the first time since it was built in the mid 1900s. We measure the effectiveness of our investment using our Time, Cost and Quality index, TCQi, and we scored 98 per cent for the year – ahead of our targets and a significant improvement on our performance of three years ago.

Our good performance in this five-year regulatory period, AMP5, has created the ability for us to re-invest. We are investing around £200 million of capital savings into projects which improve service to customers or benefit the environment.

Around £40 million of our financing outperformance is supporting our private sewer network and we have committed a £75 million cash tax refund from HMRC to assist customers struggling to return to regular payment. We believe that this reflects a responsible approach to sharing the benefits of outperformance between customers and shareholders.

The North West remains a region with the highest proportion of disadvantaged households in England and reducing customer indebtedness continues to be a major challenge for us. Our collection teams have worked hard in another difficult year to hold bad debt levels at 2.2 per cent of revenue, with over 30,000 customers taking advantage of our many assistance schemes. Containing bad debt at this level will remain a challenge as benefit reforms continue to roll out across our region.

> "Our good performance in this five-year regulatory period has created the ability for us to reinvest."

We were ranked
3rd
out of 10 leading North West service providers, behind only John Lewis and Marks & Spencer

PHOTOGRAPH: Thirlmere reservoir, Cumbria.

Chairman's and Chief Executive Officer's statement

We are grasping the opportunities presented by reform of water regulation. We welcome the opening of the competitive business retail market for water and United Utilities Scotland has rapidly secured a profitable position as the largest new-entrant business retailer in Scotland, second only to the incumbent, Business Stream. The lessons learned in Scotland will be applied in the English market, delivering better customer service in the run-up to market opening in 2017 and beyond. In mid 2013 we launched a range of on-site water and wastewater services to add value to non-household customers in our region.

Strategy

During the last year, we updated our Strategic Direction Statement, 'Playing our part to support the North West', and this document reflects extensive consultation with customers and other stakeholders to generate our best view of what the next 25 years holds for the region. This includes economic, social and environmental developments such as the increasing impact of climate change.

Our business plan, published in December 2013, sets out our plans for the 2015-20 period. We sought the views of over 27,000 customers, as well as consulting with our regulators, to deliver a plan which we believe strikes the right balance for all our stakeholders.

The North West is home to some of the most beautiful rural areas of the UK, supporting a diverse and productive agricultural sector. These areas of natural beauty, combined with a long coastline, mean that tourism is an important sector in the regional economy, contributing some £3.2 billion per annum. The EU's Water Framework and Bathing Water Directives target the protection and enhancement of this environment and our plans set an appropriate pace for implementation of new environmental legislation, balanced against the size of bill that customers are prepared to pay.

Our plans recognise that as a lone agent United Utilities could not deliver the scale of required environmental improvement at an acceptable level of cost. Instead, we are committing to partnering with others who can support the achievement of the required outcomes. This includes our 'Turning Tides' partnership with the Environment Agency, Local Authorities, the Marine Conservation Society and others to improve bathing waters in the North West.

Our updated Water Resources Management Plan describes the expected pattern of water resource availability in our region until 2040. The majority of the North West is in surplus, benefitting from an integrated network that supports movement of water across the region to accommodate its changing supply and demand balance. Our business plan focuses on maintaining existing levels of service across the region, whilst acting to improve the security of supply to West Cumbria by connecting it to our integrated network. This is necessary because the need to protect the local environment puts West Cumbria's future supply and demand balance at risk.

Dividend per share of
36.04p
2013 – 2014

"We are developing a new business operating model for our wholesale business area, embracing innovation in control technology and work processes."

Planning for the future
Read more about our plans for the next 25 years by visiting our website **unitedutilities.com/future**

A fair deal for customers

We have continued to invest heavily in schemes designed to mitigate the risk of flooding of our customers' homes. This includes incidence based targeting on areas more likely to experience flooding and more use of CCTV sewer surveys to identify issues. For 2015–20 we are targeting a further reduction in the risk of sewer flooding inside customers' properties, seeking opportunities to work in partnership with others to deliver cost-effective joint schemes and promoting the use of more sustainable drainage systems. Our wastewater network will continue to benefit from significant investment going forward as we adapt to weather patterns likely to result from climate change.

We are developing a new business operating model for our wholesale business area, embracing innovation in control technology and work processes. Delivery of this business model is critical to our future ability to offset the growth in bills arising from new environmental regulation whilst continuing to deliver our target return for shareholders. Our progress over the current regulatory period, combined with our plans for further improvements in the next five years, will mean average household bills will have grown by less than inflation in the decade to 2020.

Attractive deal for shareholders

Good underlying operational performance, effective capital programme delivery and improving levels of customer satisfaction are delivering value for our shareholders. Revenue increased by 4.2 per cent to £1.70 billion and underlying operating profit was up 6.1 per cent to £641 million in continued difficult economic conditions. Underlying earnings per share increased by 16 per cent to 44.7 pence. We remain on track to deliver operating expenditure outperformance and to meet Ofwat's allowance on our capital programme, after reinvesting our outperformance.

We plan to continue with high levels of investment for 2014/15. This includes bringing forward some of our scheduled 2015-20 spend to ensure a smoother investment profile. We have now invested over £2.9 billion in the first four years of the 2010–15 regulatory period, and we remain on track to deliver our planned five-year investment programme.

We intend to continue with our dividend policy of targeting growth of RPI+2 per cent per annum through to at least 2015 while delivering significant improvements for customers and the environment. In line with this policy, the board is proposing a final dividend of 24.03 pence per ordinary share making a total of 36.04 pence per share for the 2013/14 financial year. This represents an increase of 5.0 per cent compared with last year. The final dividend is expected to be paid to shareholders on 1 August 2014.

Responsible business

We continue to listen to the views of all our stakeholders and endeavour to develop, manage and operate in an environmentally sustainable, economically beneficial and socially responsible manner. In recognition of the company's continued focus on responsible business, we retained both our 'World Class' rating, as measured by the Dow Jones Sustainability Index and our 'Platinum Big Tick' ranking in Business in the Community Corporate Responsibility Index. We are proud that we are one of only seven FTSE 100 companies (and the only water company) to hold both accolades.

The communities where we operate are where our customers and employees live and work and are vital to our business. We have continued to support these North West communities both financially and in terms of employee time through volunteering. For example, our 'Beachcare' employee volunteering scheme, working in partnership with the Environment Agency and others, helps to keep our region's beaches tidy.

Through our role as a major employer, training provider and wealth creator, we help to keep the North West's economy turning. Between 2010 and 2015, our activities will generate an estimated £7 billion for the region's economy, supporting 9,000 jobs, and securing a legacy for the future.

Chairman's and Chief Executive Officer's statement

Our employees

The people in United Utilities are key to the delivery of the highest levels of service to our customers and we would like again to thank them for their dedication and continued hard work during the year. Notwithstanding the amount of change our business is undertaking, employee engagement sits at 79 per cent, well above the UK transitional norm and close to the norm for high performing companies in the UK.

We strive to continuously improve our safety culture and we have implemented a number of initiatives throughout the year. We launched a managers' guide for health and safety responsibilities and our transformation project, covering 13 key areas of focus across our business, is progressing well. These initiatives helped reduce the number of employee accidents in 2013/14 and this will remain a significant area of focus for us.

A committed, capable and motivated workforce is central to delivering our vision and we remain fully focused on maintaining high levels of employee development and engagement. We are always on the lookout for the best and brightest talent and we recruited a further 24 graduates and 32 apprentices in 2013/14 and we have plans to recruit a similar number in 2014/15.

Our board

As a board we are responsible to our shareholders, customers and other stakeholders for the performance and long-term success of our company. The way in which we operate, we believe, already reflects the highest standards of corporate governance. Our plc structure and governance standards ensure that our board and non-executive directors continue to provide sound and prudent governance in full compliance with the principles of the UK Corporate Governance Codes.

PHOTOGRAPH: Wastewater network asset engineers Chris Broughton (front) and Mark Moss.

On behalf of the board, we say thank you and farewell to Nick Salmon, who will stand down at this year's annual general meeting after over nine years as a non-executive director. We wish Nick all the best for the future. We are pleased to welcome Mark Clare to the board following his appointment last November as a non-executive director. Mark is a member of the audit committee and the nomination committee and will replace Nick as senior independent director. Mark is Group Chief Executive at Barratt Developments PLC and his expertise will be an asset to the board.

Outlook

We believe that our sustained focus on operational performance, combined with continued substantial investment in our assets, is delivering benefits for customers, shareholders and the environment. We are on track to exceed our regulatory outperformance targets, with substantial financing and operating outperformance already secured. Our capital structure remains robust and we intend to continue with our dividend policy of targeting real growth through to at least 2015.

Looking ahead, our focus remains centred on driving further customer satisfaction, alongside operational and environmental improvements and we believe there is still plenty of scope to achieve this. We have now submitted our business plan for the 2015–20 period, as we aim to strike the right balance between all our stakeholders. We will continue constructive engagement with our regulators, ahead of the draft and final determinations from Ofwat later this year.

Dr John McAdam
Chairman

Steve Mogford
Chief Executive Officer

"A committed, capable and motivated workforce is central to delivering our vision."

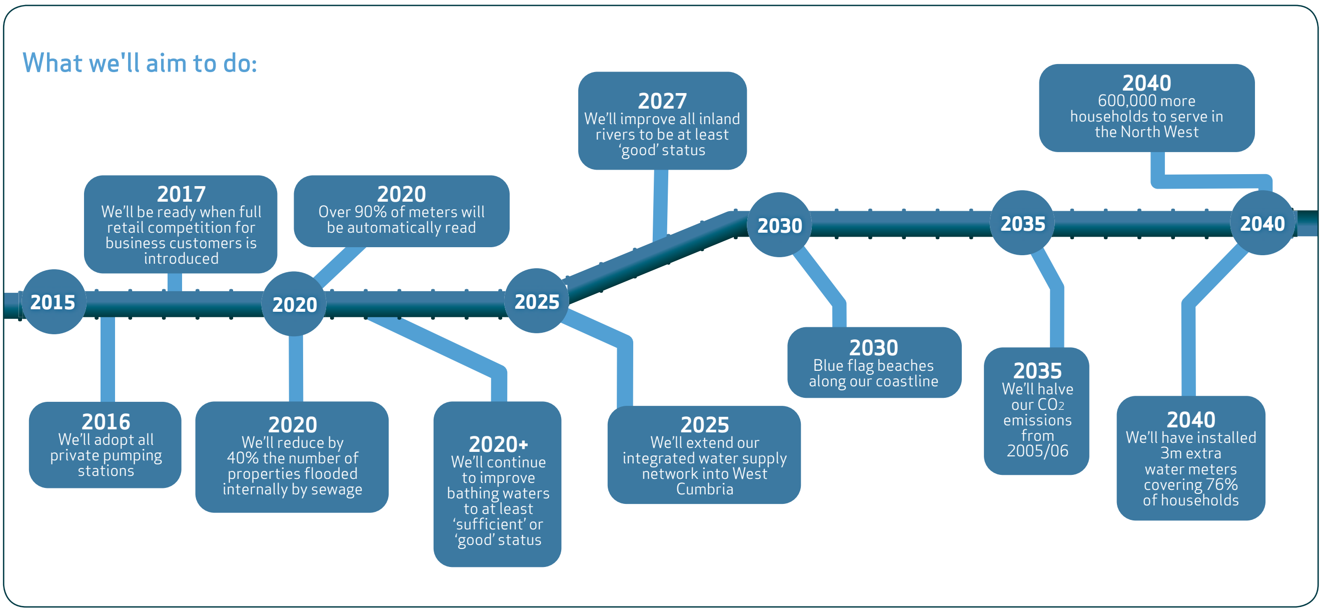
The Strategic Report on pages 2 to 51 was approved at a meeting of the board on 21 May 2014 and signed on its behalf by Steve Mogford, Chief Executive Officer.

Achieving our vision

Our vision is to become a leading North West service provider and one of the best UK water and wastewater companies

Our 25-year strategy

In order to maintain a reliable, high quality water service for our customers in the future, we have to look to the far horizon and anticipate those changes and core issues that are likely to impact on our activities.



The water industry is an important sector which makes a wide ranging contribution, from the health of the environment to the strength of the economy.

In the next 25 years, we will face many challenges and opportunities including:

- climate change and its implications for water resources and flooding;
- the emergence of a more open, competitive UK water market;
- more rigorous environmental regulations; and
- the ever-present need to combine affordable bills with a modern, responsive water and wastewater service.

By anticipating these changes and balancing them against our customers' priorities, we can meet the future with confidence.

How we will achieve our 25-year strategy

Our Strategic Direction Statement, 'Playing our part to support the North West' (you can download this at **corporate.unitedutilities.com/future**) sets out our long-term strategy for the next quarter century. It examines the challenges ahead and explains how we will focus our resources and talents in order to meet them. We consulted with thousands of customers and stakeholders to make sure what they expect of us in the future is reflected in our plans. Their feedback helped us to create our five customer promises which, together with the 11 outcomes, will guide the way we deliver our services, now and long into the future.

Our customer promises

Our approach to doing business

Our long-term strategy is underpinned by our approach to doing business responsibly, which is explained on pages 18 -19.

The customer outcomes

Provide great water
- Drinking water is safe and clean
- Customers have a reliable supply of water now and in the future

Dispose of wastewater
- Wastewater is removed and treated without customers ever noticing
- The risk of sewer flooding for homes and businesses is reduced

Give value for money
- Customer bills are fair
- We support those customers who are struggling to pay
- The North West's economy is supported by our activities and investment

Deliver a service customers can rely on
- Customers are highly satisfied with our service and find it easy to do business with us

Protect and enhance the environment
- The natural environment is protected and improved in the way we deliver our services
- The North West's bathing and shellfish waters are cleaner through our work
- Our services and assets are fit for a changing climate

Our vision and strategy

Strategic delivery 2010-2015

Our current five-year plan for 2010–2015 is designed to build a platform for us to be able effectively to deliver our long-term strategy.

Our five-year plan is focused on improving customer satisfaction, meeting our statutory obligations and delivering shareholder value. We aim to deliver high levels of service to customers at the lowest sustainable cost, all whilst acting responsibly.

The activities we undertake to outperform for our customers include striving to be a leading company in the areas our regulator benchmarks for the industry. Measures include customer satisfaction (both qualitative and quantitative) and how well we maintain our assets (serviceability). We also assess our performance against other leading organisations in the North West through an independent brand tracker survey.

Metrics for assessing lowest sustainable cost include our outperformance against opex, financing and capex levels set by Ofwat.

The degree to which our actions are viewed as responsible is taken from performance measures set by the industry regulator, the Environment Agency and those which measure global best practice, as defined by the Dow Jones Sustainability Index.

"Building solid foundations for the future."

Our strategy – to deliver value by providing:

The best service to customers

Delivering excellent services to our customers by anticipating and responding to their needs.

At the lowest sustainable cost

Providing the service as efficiently as possible on a cost basis that can be sustained over the long-term.

In a responsible manner

Managing responsibly our interaction with the environment, the communities where we operate and our employees.

Our areas of focus:

The best service to customers

- Improving customer service performance
- Investing to reduce the risk of sewer flooding
- Providing safe and clean drinking water
- Reliable supply of water now and in the future
- Maintaining the standards of our assets
- Building capability to compete in the expanding retail market

At the lowest sustainable cost

- Delivering capital commitments efficiently, on time and to a high quality
- Innovating to improve our use of technology and to improve our efficiency
- Generating energy from sludge to help power our assets
- Meeting our regulatory commitments
- Enhancing debt collection activities
- Providing support for customers struggling to pay

In a responsible manner

- Maintaining leakage at or below a sustainable economic level
- Improving the North West's river and bathing water quality
- Reducing our carbon footprint
- Improving environmental performance
- Ensuring we have a committed, capable and motivated workforce
- Continuing to support community groups
- Reducing pollution incidents

How we measure our performance – KPIs:

The best service to customers

- Serviceability
- SIM – qualitative
- SIM – quantitative

At the lowest sustainable cost

- Opex outperformance
- Financing outperformance
- Capex outperformance

In a responsible manner

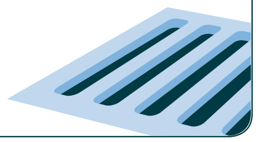
- Leakage
- EA performance assessment
- Dow Jones Sustainability Index

Our highlights 2013/14

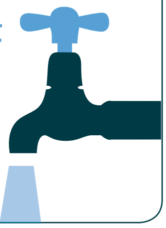
Operational highlights 2013/14

Customer service improvements - year-on-year progress on Ofwat's SIM measures

Met water and wastewater asset serviceability standards



Outperformed regulatory leakage target



Effective delivery of capital investment programme:

£836m

up 6%

Meeting outperformance targets benefitting customers and shareholders

Growth in business retail - now the 2nd largest water retailer in Scotland

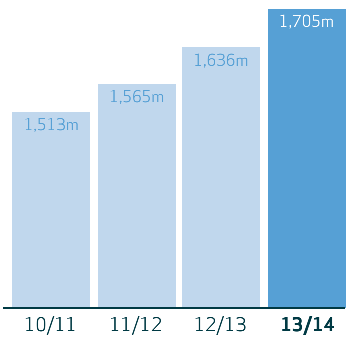
See how we performed against our operational KPIs on **page 31**. Read more about our operational performance on **pages 34-38**

Financial highlights 2013/14

Revenue

£1,705m

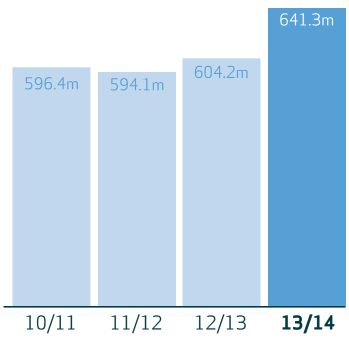
(2012/13: £1,636m)



Underlying operating profit*

£641.3m

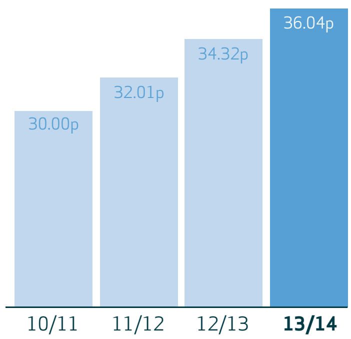
(2012/13: £604.2m)



Total dividend per share

36.04p

(2012/13: 34.32p)



See how we performed against our financial KPIs on **page 30**. Read more about our financial performance on **pages 39-45**

*A reconciliation between underlying operating profit and report operating profit is shown page 44.

A long-term approach is essential to creating value

Longer-term

Today we benefit from the strategic decisions and work delivered by our predecessors over the previous 150 years to provide the North West with good quality water and to reduce the environmental impact of the wastewater we treat. The work we do today will help to ensure customers of the North West continue to enjoy an effective, efficient service for many generations to come.

Employees

We can increase long-term value generation through the strategic direction and decisions we take and through the hard work of our employees. It is important that we create and retain an engaged and talented team in order to deliver this and we place a strong emphasis on providing comprehensive training and development opportunities. Management has a range of incentives which focus on performance over a number of years, rather than the current year in isolation, to encourage a longer-term approach.

Capital investment

Our fixed assets have a replacement cost of around £80 billion i.e. the estimated amount it would cost for another party to build competing assets and networks. This means that we are a natural regional monopoly. However, it is not the replacement cost of our assets upon which we are allowed to earn a return, through our revenues. We earn a return on our Regulatory Capital Value (RCV), which is currently close to £10 billion, so it is this asset value which is more important economically.

Many of our assets are long-term in nature: for example, our impounding reservoirs have a useful economic life of around 200 years with some sewers having a life of up to 300 years. By carefully reviewing our potential capital projects, considering the most efficient long-term solutions, we can save future operating costs, also helping to reduce future customer bills.

Since privatisation in 1989, total capital investment of over £13 billion has provided substantial benefits to our customers and our region's environment. Disciplined investment, along with RPI inflation, also grows our RCV, increasing future revenues.

We need to continue with a substantial investment programme for the foreseeable future in order to meet ever more stringent environmental standards and to maintain and improve the current standards of our assets and services.

However, in deciding on our investment strategy, we also have to be mindful of the impact on our customers' bills, and this is why, for example, we are spreading some of our currently required environmental spend over the next 15 years.

Regulatory Capital Value (RCV) close to

£10bn

Average life of our term-debt of around

25 years

Capital structure

It is important that we continue to attract equity investors to support a robust and responsible capital structure, which enables us to raise new debt. Capital investment is largely financed through a mix of debt and cash generated from our operations. The average life of our term-debt is around 25 years with our final maturity out as far as 2057. By efficiently raising debt at the best possible rates we can help keep our finance costs as low as possible and potentially outperform the industry allowed cost of debt, set by Ofwat every five years.

Regulatory environment

Over a long time frame the regulatory environment can change significantly. In the 25 years since the water industry was privatised we have seen substantial improvements in the regional standards of water quality and wastewater treatment and the cleanliness of rivers and bathing waters. We have also recently seen the progressive implementation of competition for business customers, with full market opening expected in 2017.

Maintaining a good reputation is important to enable positive participation in regulatory discussions. By positively engaging and utilising our industry knowledge, we can help influence future policy with the aim of achieving the best outcome for our customers, shareholders and other stakeholders. We can also help ensure we are well prepared for any changes to the regulatory landscape.

Natural environment

Our region's natural environment is also changing. Climate change is bringing more extreme weather patterns and we have a long-term strategy to help ensure we have sufficient water resources and are able to meet increased demand on our sewerage network. A phased, long-term approach ensures that the necessary work can be delivered and does not place too much pressure on customer bills.

Planning for future water demand

Read more about our Water Resource Management Plans by visiting our website: **corporate.unitedutilities.com/waterresourcesplan**

PHOTOGRAPH: Network customer technicians Wes Odel (left) and Adrian Booth, helping customers with issues on the wastewater network.

How we create value

Business Insight

PROVIDING DEBT SUPPORT AT GRASSROOTS LEVEL

Our region has one of the highest concentrations of economically-deprived households in the UK.

This is why we are committed to finding new ways to help our most disadvantaged customers. As well as continuing to financially support an independent trust fund to help those most in need, we link in with many organisations such as Citizens Advice Bureau, housing associations, carers groups, Age UK and credit unions to promote our range of support schemes to their own advisors. This helps to give us a better understanding of the issues being faced in local communities. It also ensures that people who turn to these organisations for advice around debt-related issues find out about the schemes we have available to help them pay their water bill. It's been an effective strategy to help us get the right support to the right people at a time when they most need it.

PHOTOGRAPH: Carole Quinn (right), outreach manager for United Utilities, meets with Andrea Ratcliffe from Nelson CAB.

Shorter-term (up to five years)

Ofwat, our economic regulator, determines the prices we can charge our customers to provide them with water and wastewater services.

Read more in **Regulatory environment** on page 23

Ofwat sets our regulatory contract following the receipt of our five-year plan proposals.

By submitting a robust, balanced plan, we can help ensure we receive a contract that allows for an optimal outcome for our customers, shareholders and the environment.

Once each five-year regulatory contract is set we create value principally by delivering or outperforming it, by providing the best service to customers, at the lowest sustainable cost and in a responsible manner. Some of the key ways we create value over this shorter time frame are by:

- improving customer service will, in turn, improve efficiency and reduce costs. It will also reduce potential penalties/increase rewards from Ofwat, under its SIM incentive mechanism, maximising future revenues;
- delivering our regulatory commitments helps ensure we meet high customer service and environmental standards and avoid potential financial penalties;
- embracing innovation in our use of technology and work processes helps to make our service better, faster or cheaper;
- raising low cost finance helps us outperform the finance costs allowed in our regulatory contract;

- implementing our **hedging strategies**, such as fixing medium-term interest rates and power costs, reduce the volatility of our costs, helping us to meet our regulatory contract;
- minimising **operating costs** on a sustainable basis, such as on power, materials and property rates, helps us to meet or outperform operating costs allowed in our regulatory contract;
- enhancing our **debt collection** activities will reduce our retail costs. Alongside this, we continue to provide support for customers struggling to pay;
- meeting our **economic leakage** target provides water resource and customer supply benefits and avoids any unfunded expenditure requirements from our regulators;
- increasing our production of **renewable energy** from waste helps protect us from rising energy costs and reduces our carbon footprint.

Over the current 2010–15 regulatory period, outperformance is generated mainly through efficiency savings on operating costs, capital expenditure and financing costs. Ofwat's SIM incentive mechanism also rewards companies who perform well on customer service, or penalises companies who perform badly, relative to other water companies. Our current KPIs are reflective of these potential areas for outperformance.

Read more in **Performance** on pages 32-45

Ofwat is evolving the regulatory framework so that, over the 2015–20 period, the way we can add value is changing. Operating costs and capital investment will no longer be separately assessed as they will be combined into a new 'Totex' methodology. There will be additional rewards or penalties based on performance as measured through a range of Outcome Delivery Incentives (ODIs). Ofwat is intending to continue with its SIM assessment for household customers and this is likely to provide a similar incentive and penalty framework. Companies will still be incentivised to outperform in the area of financing costs. The progressive opening up of the retail market for business customers will also provide additional opportunities to acquire further customers and earn higher returns. We will remain focused on improving our service to business customers to both help us win more out of area customers and, importantly, to retain our existing customers.

Economic environment

Changes in the economy, such as inflation, interest rates, or unemployment levels, can influence our ability to create value.

Read more in **The economic environment** on page 26

External risk factors

Given the complex legal and regulatory environment in which we operate there are also a range of risks to which we are exposed.

Read more in **Principal risks and uncertainties** on page 48-51

"We create value principally by delivering or outperforming our regulatory contract."

Our approach to doing business

We believe that responsible business should be embedded within everything we do and this should be evident across all of our activities.

We are committed to delivering our services in a responsible way and our approach to responsible business practice is set out in our Business Principles document. This states that for United Utilities, being a responsible business means:

- Providing a great service to our customers
- Working to protect and enhance our environment
- Actively supporting our local communities
- Supporting our employees to achieve their full potential in a safe workplace
- Delivering good value to our stakeholders and manage our supply chain fairly

We've explained these in more detail below:

Customers: Our aim is to protect public health and provide excellent services to our customers. This means removing the need for customers to contact us unnecessarily to taking ownership of queries, satisfactorily resolving them as quickly as possible and keeping our customers informed along the way. We aim to provide bills that represent good value for money.

Environment: Whether it's treating and delivering drinking water for our customers, or returning treated wastewater to rivers and the sea, we're acutely aware of our responsibility to the environment. We continue to invest to protect and, where appropriate, enhance the natural environment of the North West. We continue to consider the impacts of climate change on the services we deliver and adapt accordingly. Our greenhouse gas disclosures can be found on page 99.

Communities: The communities in which we operate are of great importance to our business – it is where our customers and employees live and work. We continue to invest in our local communities both financially and through employee volunteering. We recognise the effect that our operations can have on the community and invest in programmes that support affected areas or help tackle current social issues.

Employees: Health and safety is paramount and we strongly focus on our health and safety performance. High employee engagement is a key contributor to our performance and we place significant emphasis on maintaining and strengthening levels of engagement. Our policies on maternity, paternity, adoption, personal and special leave go beyond the minimum required by law. For disabled applicants and existing employees, we are committed to fulfilling our obligations in accordance with the relevant legislation. Applicants with disabilities are given equal consideration in the application process. Disabled colleagues have equipment and working practices modified for them as far as possible and wherever it is safe and practical to do so. We value diversity, providing equality of opportunity and recruiting and promoting on merit. A breakdown of male: female directors, senior managers and staff can be found in the table below.

Delivering good value: We are committed to honouring our responsibility to our shareholders, credit investors and those who provide us with goods and services. We aim to operate as effectively as possible at the lowest sustainable cost and to retain a robust and sustainable financial profile to provide enduring shareholder value. More detail on the regulatory environment in which we operate is provided on pages 23 to 24. This annual report provides a comprehensive financial and operational review to help inform our investors of our performance. We work with suppliers whose business principles, conduct, and standards align with our own. Our key suppliers have committed to our Sustainable Supply Chain Charter, supporting us in the delivery of wider social, economic and environmental benefits.

The table below shows the male: female ratio of people at United Utilities.

	Male 2014	Female 2014
Group board	6 (75%)	2 (25%)
Senior managers		
– Executive team*	5 (50%)	5 (50%)
– Other senior managers	38 (81%)	9 (19%)
Wider employees	3469 (63%)	2009 (37%)

* Figures exclude CEO and CFO who are included in group board figures.

We also have 14 (78%) male and 4 (22%) female employees who are appointed as statutory directors of subsidiary group companies but who do not fulfil the Companies Act 2006 definition of 'senior managers'.

Running our business with integrity

We have procedures and policies in place to ensure we act in accordance with the Universal Declaration of Human Rights.

Given the long life of our infrastructure, we take a long-term view of our operations and key to the group's strategic objectives is the goal to operate in a more sustainable manner. Sustainability is fundamental to the manner in which we undertake our business and the group has, for many years, included corporate responsibility (CR) factors as a strategic consideration in its decision making. Our board-level CR committee (see page 76) develops and oversees our CR strategy and this continuing focus helped the group retain our Dow Jones Sustainability Index 'World Class' rating and our 'Platinum Plus' ranking in the Business in the Community CR Index.

Details of our responsible business performance for the year can be found on pages 37 to 38, with further detailed information in our Business Principles document and in our CR Report on our website at **corporate.unitedutilities.com**

Business Insight

BUSINESS FIT FOR A CHANGING CLIMATE

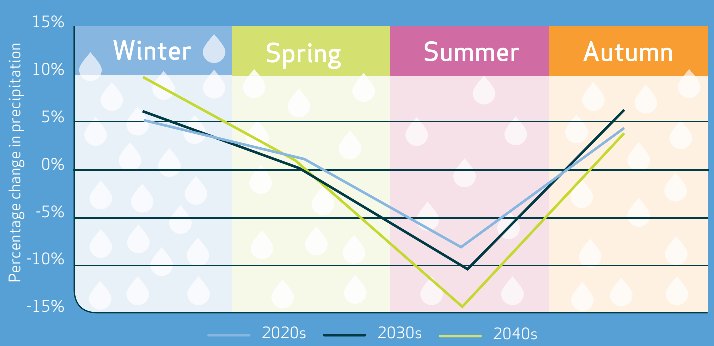
In order to ensure our services and assets are fit for a changing climate we need to take action now.

As the UK climate continues to change, with severe dry periods becoming increasingly common, we must ensure we continue to have resilient water resources and an infrastructure capable of moving water efficiently around the region. This will enable taps to keep flowing and businesses running. The potential effect of climate change on our future water resources is included in our 25-year Water Resource Management Plan.

We must also seek to tackle flooding incidents caused by the intensive bursts of rainfall, which are becoming more frequent due to changing weather patterns. We will work with local authorities and developers throughout local planning processes to ensure we can meet future demand on our sewerage network.

Rainfall in the years to come

We expect the rainfall to change over the next 25 years with wetter winters and drier summers with more intense storm events.



Source: UK Climate Projections (UKCP09) seasonal precipitation change

Our operating environment

Investing for our customers

Capital investment
2010–2015

>£3.5bn

Read more at
corporate.unitedutilities.com

Read more about our **Vision and strategy** on pages 10–12

Read more about our **Performance** on pages 32–45

Our industry and market

Every day, over 50 million household and business consumers in England and Wales receive water and wastewater services. There are currently 10 licensed companies which provide both water and wastewater services to consumers in their respective regions.

Additionally, there are licensed companies which provide water-only services and tend to be smaller in size. As each company in the water sector operates as a regional monopoly for its services, they are subject to regulation in terms of both price and performance.

The privatisation of the industry over two decades ago has been widely perceived as a success, making a significant contribution to public health. It has led to improvements in the quality of services provided to customers, higher environmental standards and superior quality drinking water at lower estimated costs to customers than if the water sector was still owned by the UK Government. The water industry currently invests around £80 million a week in maintaining and improving assets and services.

Our customers

United Utilities Water holds licences to provide water and wastewater services to a population of approximately seven million people in the North West of England. We provide services to approximately three million households in our region and this generates around two thirds of our total revenues. We also serve approximately 200,000 businesses, ranging in size from large manufacturing companies down to small shops. Our focus over recent years has been on improving customer satisfaction.

PHOTOGRAPH: John Butcher, regional water supplies manager.

For our business customers we have been extending the range of value-added services we offer, including our on-site engineering solutions and water efficiency advice. By offering value for money, as well as the increased range of services, we have also been winning customers out of area. More details on how we are winning customers in the Scottish market, which offers attractive margins, can be seen in the business insight on page 26.

Our households pay just over £1 per day on average for the combined water and wastewater services we provide. Our business plan for the 2015–20 period also means that customers would benefit from below inflation increases to average household bills for the decade to 2020. Our objective is to continue to provide our customers with high quality drinking water to meet all their daily needs and environmentally responsible wastewater collection and treatment at a price to customers that represents good value for money.

We are continuing to invest heavily for our customers. During the five-year period to 2015, we have a capital investment programme of over £3.5 billion as we continue to improve our asset base, delivering further benefits for customers.

Capital investment is expected to be around this level again for the 2015–20 period and to remain high beyond 2020 as we continue to:

- upgrade our region's water and wastewater networks;
- maintain our ageing assets;
- deliver a cleaner environment;
- provide high quality water to our customers; and
- improve our customers' experience.

Our household customers pay just over

£1

per day for the services we provide

We serve approximately

200,000

businesses in the North West

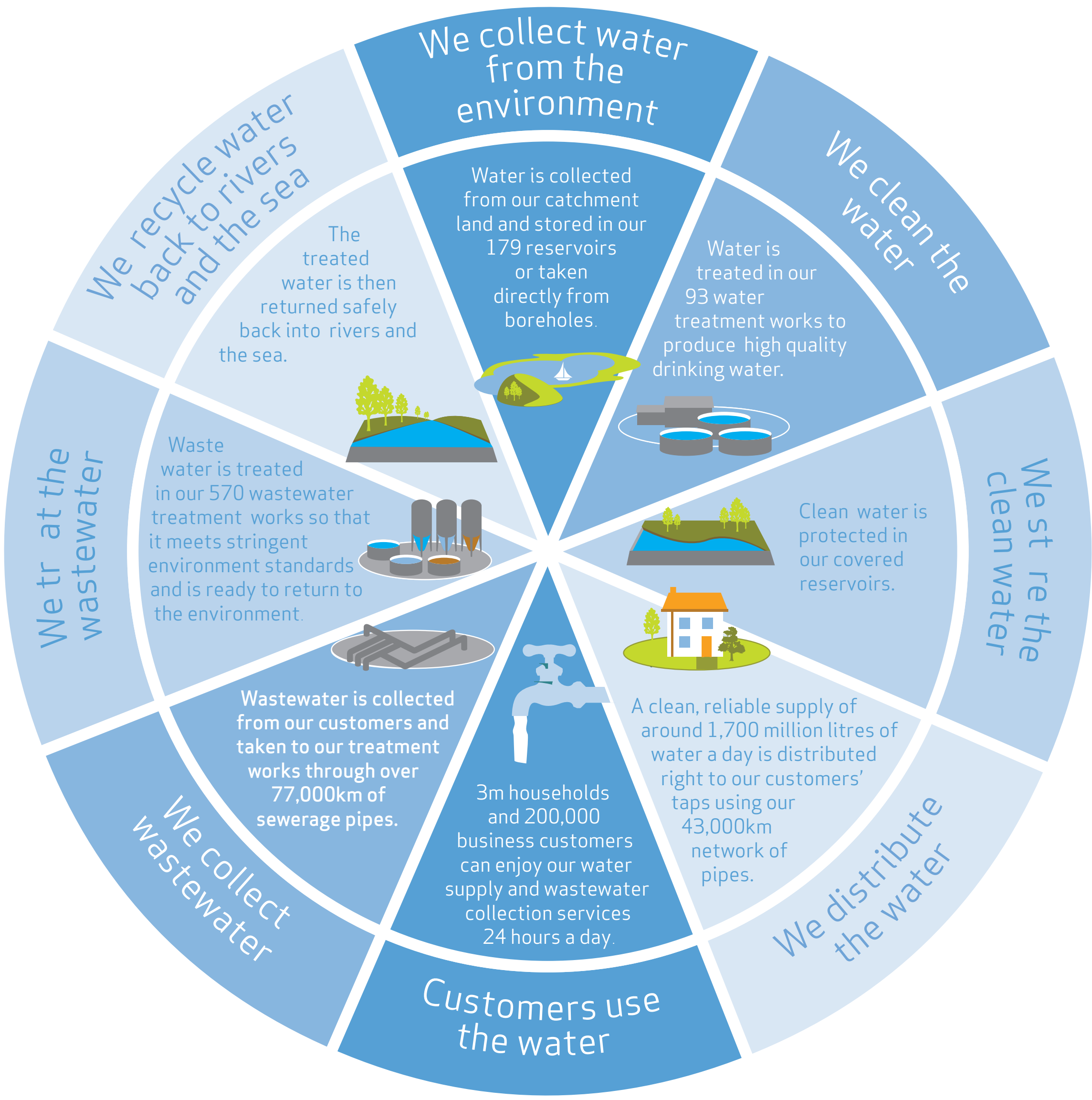
Investing to reduce sewer flooding

Flooding of homes and gardens with sewage is one of the most serious incidents that our customers can experience. Across the 2010-15 period, we will spend over £200 million to halve the number of properties that are affected. However, we do recognise that our performance at that point will still need to improve further. Therefore, over the next five years to 2019/20, we will continue to invest, spending almost £160 million to reduce flooding of homes by around 40 per cent.

Our operating environment

Our water cycle

Our business uses a combination of technology and the natural environment to become part of the water cycle. We collect water from the environment, purify and distribute it to our customers before collecting it, treating it, and then returning it back to the environment.



Read more in **Performance** on page 32

Read more at **corporate.unitedutilities.com**

Our regulatory environment

Economic regulation

The water industry currently operates within five-year planning cycles known as Asset Management Plan (AMP) periods. Prior to the start of each five-year period, companies submit their business plans which include their projected capital expenditure costs to enhance and maintain their network and operating costs to maintain or improve their services. Following review of these plans, Ofwat sets the prices each company can charge their customers across the period. Price limits for the current 2010–15 (AMP5) period were set in November 2009, when Ofwat published their Final Determination.

Ofwat assesses companies' performance across a wide range of measures, including some of our key performance indicators such as Service Incentive Mechanism (SIM), Serviceability and Leakage (see page 31). Where performance falls short of expectations, Ofwat can take actions, such as enforcement actions or fines, in order to protect customers' interests.

Ofwat (The Water Services Regulation Authority) is the economic regulator of the water and sewerage sectors in England and Wales, responsible for ensuring the companies provide customers with a good-quality, efficient service at a fair price.

www.ofwat.gov.uk

Our current price limits (published in November 2009)

UUW's profile of price limits for the current five-year period 1 April 2010 to 31 March 2015 is set out below:

Year	2010/11	2011/12	2012/13	2013/14	**2014/15**
K factor*	-4.3%	-0.2%	+0.6%	+1.0%	+1.2%**

* Added to annual RPI inflation to determine average price change.
** We are applying a one-off special discount so that, on average, customer bills will rise by no more than RPI inflation for 2014/15.

Ofwat review 2015–20

Ofwat is introducing a number of important changes for the 2015–20 (AMP6) price review, with the aim of evolving the sector in order to meet future challenges and placing greater focus on customers' needs.

Moving away from one single price control, there will be four separate price controls:

- wholesale water, covering the physical supply of water;
- wholesale wastewater, covering the removal and treatment of wastewater;
- household retail, covering customer-facing activities (principally customer contact, billing, meter reading and cash collection) for household customers; and
- non-household retail, covering customer-facing activities for business customers.

Separate retail price controls should provide retail businesses with greater incentives and focus on delivering more efficient service to business customers as competition expands, and also to household customers under a new average cost to serve approach.

This proposed retail household model allows water companies only to charge its customers an amount based on the average costs of the industry plus any allowed company-specific adjustments.

- The way companies' operating and capital costs are assessed is being modified to encourage companies to utilise the most efficient, sustainable solutions under a new 'totex' model.
- There is a move to a more outcomes-based approach, with greater emphasis being placed on customer engagement to agree the outcomes.

We submitted our business plan to Ofwat on 2 December 2013 and the key features of this plan are set out on pages 46 -47.

Ofwat provided an initial view on our plan through its pre qualification decisions publication in March 2014 and subsequently shared detailed feedback with the company, which we are currently assessing. In line with our expectations and consistent with the company specific adjustments we highlighted when we submitted our initial business plan in December, two key areas we are focusing on are wastewater total expenditure (totex) and retail average cost to serve. Ofwat's initial view on wastewater totex indicated a £1.1 billion difference, compared with our business plan submission. In our submission, we asked for around £1 billion of wastewater totex to be given specific consideration. We are in detailed dialogue with Ofwat to understand this difference and provide any further evidence required to support our submission. We are also revising our outcome delivery incentives to include more symmetrical reward/penalty mechanisms. In addition, we are focusing on a number of adjustments relating to the 2010-15 period. These adjustments include a range of economic, performance and scope differences, compared with the assumptions made at the 2009 price review.

The next steps in the price review process are shown on page 47.

Our operating environment

Environmental and quality regulation

The water and wastewater industry in the UK is subject to substantial domestic and European Union regulation, placing significant statutory obligations on water and wastewater companies with regard to, amongst other factors, the quality of drinking water supplied, wastewater treatment and the effects of their activities on the natural environment.

The Environment Agency controls how much water can be drawn from the environment and the quality of water returned to rivers and the sea. The EA produces an assessment of water and wastewater companies' annual performance, and we include this as one of our KPIs, see page 31. **www.gov.uk/government/organisations/environment-agency**

The Drinking Water Inspectorate is responsible for ensuring compliance with the drinking water quality regulations.
www.dwi.gov.uk

The Consumer Council for Water represents customers' interests relating to price, service and value for money. It also investigates customer complaints about water quality.
www.ccwater.org.uk

Natural England is responsible for the protection of designated sites for nature conservation, e.g. Sites of Specific Scientific Interest. Companies are required to manage these sites and to protect and enhance biodiversity.
www.naturalengland.org.uk

Defra is the UK Government department responsible for water policy and regulations in England and Wales; it also sets drinking water quality and environmental standards (many based on European law) which water companies must meet.
www.gov.uk/defra

Regulatory risks

Given the complex legal and regulatory environment within which we operate, there is a range of risks to which we are exposed. Risks can be in the form of possible non-compliance with existing laws or regulations or failure to meet the terms of our current 2010–15 regulatory contract. We also face risks in relation to potential future changes in legislation or regulation, particularly with regard to the 2015–20 price review period. See pages 48 - 51 for more details in respect of these risks.

Impact of environmental legislation

European Union environmental legislation will require us and other UK water companies to incur additional capital investment to ensure compliance with more stringent standards. We do, however, recognise that in our region we cannot achieve this alone and we are committing to partnering with others who also have a role to play, such as the Environment Agency and Local Authorities and local interest groups.

- The revised Bathing Water Directive, effective from 2015, sets higher standards for bathing waters. Under the current standards North West beaches achieve over 90 per cent bathing water compliance. The new standards are likely to prove very challenging to meet. As one of many contributors to bathing water quality we have included investment in our AMP6 business plan to help ensure compliance with the higher standards. We will work in partnership with other organisations to ensure investment is as efficient as possible.
- The Water Framework Directive sets an objective that European member states should achieve 'good' status for all surface water beyond 2027. Considerable capital investment is required to meet this and we are spreading this investment over the next three regulatory periods, balancing the needs of current and future customers.
- The Habitats Directive requires member states to maintain biodiversity by protecting natural habitats and certain wild species. To protect England's largest population of fresh water mussels in West Cumbria, in future we will have to extract less water, raising long-term supply and demand balance issues for the local population. To address this we are proposing work over AMP6 to connect our West Cumbrian supply network to our main integrated supply zone, which has surplus capacity. This proposed project is subject to the outcome of an independent Planning Inspectorate decision.

Our competitive environment

Comparative competition

Our main competitors to benchmark our performance against are the other nine water and wastewater companies (WaSCs) across England and Wales. We are the second largest WaSC based on the size of our asset base, as measured by Regulatory Capital Value (RCV). We, along with these other nine companies, comprise the vast majority of the total water and wastewater sector, as depicted on the pie chart on the right.

Although their relative sizes are generally far smaller than the water and wastewater companies, the remaining water-only companies are also important competitors as their relative performances are also included in Ofwat's published comparative information.

Away from the water sector, in line with our vision to be a leading North West service provider, we also benchmark our customer service performance against other leading service providers in our region. In addition, as a publicly listed FTSE 100 company, the other UK and worldwide listed utilities are competitors from an investment perspective.

Direct competition

Water supply competition was opened up in December 2005, when very large business customers (those with an annual consumption of over 50 megalitres per year at each site) were allowed to choose their water supplier. Under this arrangement, the new water supplier would buy water directly from the regional water company and be allowed to use their network for this water supply.

In December 2011, this market was opened up further, with the threshold being reduced to five megalitres a year. To date very few customers have switched supplier in England and Wales.

Looking ahead, under the new Water Act, introduced in May 2014, the water supply threshold will be reduced further to zero for non-household customers and also be expanded to include sewerage as well as water services, with a target date of 2017 at the earliest. This will effectively open up retail competition for all business customers. The UK Government has not expressed any intention to expand competition to include household customers.

We are exploiting the opportunity presented by the expansion of retail competition for business customers. Despite only obtaining a licence to trade in Scotland, a market that already offers full business retail competition, as recently as October 2012, we have quickly become the second largest water retailer there, behind only the incumbent provider. As well as winning new business, this is also helping us to learn about what we need to offer to win out of area customers and this is important in the run-up to the English market opening in 2017.

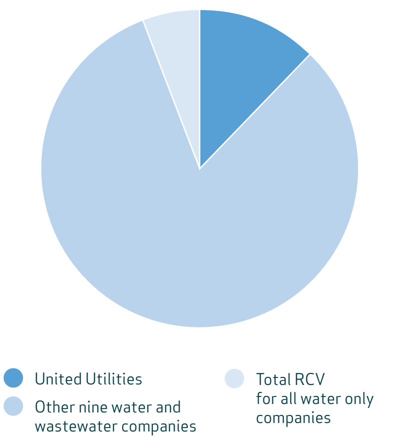
The Water Act also paves the way for the future introduction of competition for certain parts of the wholesale, or upstream, business (for example the input of raw or treated water into a water company's network or the removal of wastewater for treatment), although any upstream reforms are not expected until 2020 at the earliest.

United Utilities is now the

2nd

largest water retailer in Scotland

Water sector RCV



Our operating environment

Business Insight

WINNING BUSINESS IN SCOTLAND

We were granted a Scottish licence in October 2012, following a successful application. Since then, we have focused on developing a range of value-added services and improving levels of customer satisfaction, combined with competitive pricing, in order to win business customers.

Working in partnership with customers, we can help them to save money by providing water efficiency advice and through consumption monitoring. Our on-site surveys can identify unnecessary waste across a range of areas including the production process, plumbing systems and heating networks. Smart metering enables customers to monitor their water usage by providing regular, detailed consumption data. This can demonstrate unusual or unexpected water consumption which can help identify leaks on their premises or changes in practices on-site.

We tailor our services to the needs of each customer. For example, we offer flexible billing options, so customers can choose the frequency and timing of bills and we also offer consolidated billing options for multi-site customers.

In addition, we offer and are continuing to develop a broad range of value-added services for business customers. These include waste to energy consultancy, engineering advice on the design, build and operation of on-site treatment plants and advice on rainwater harvesting and greywater recycling.

Our strategy in Scotland is working and we have already won customers covering around 2,000 sites; including some well-known nationals. We are now the second largest water retailer in Scotland as well as having a healthy pipeline of potential new deals. Competing in the Scottish market is also helping to build our knowledge ahead of the full opening of the English business market in 2017.

The economic environment

UK gross domestic product has picked up over the last year as developed world economies look finally to recover from the 2008/09 global financial crisis, although UK output has still not recovered to its 2008 level.

The North West of England continues to face a particularly tough economic environment. The North West unemployment rate has not recovered as quickly as the national rate and remains well above the national average, at 7.7 per cent for the quarter ending March 2014, compared to 6.8 per cent nationally. A report 'Department for Communities and Local Government, Indices of Deprivation 2010', published in March 2011, highlighted that the North West had more of the most deprived areas in England than any other region.

Commercial volumes have shown a downward trend over recent years, impacted by the tough economic climate, and although volumes stabilised across 2013/14 it is too early to conclude that this is part of a sustained recovery. Bad debt remains a risk to which we are exposed, although Ofwat currently recognises this through a special factor allowance. Debt management continues to be a significant area of focus for us as we seek to use best practice in the recovery of debt and in helping customers back into making regular payment through use of manageable payment plans.

Whilst interest rates have increased somewhat during the year, they still remain below the long-term trend and our recently agreed £500 million loan should benefit from this as we draw it down. Comparatively low interest rates have also been beneficial to our future cost of debt as we continue with our interest rate hedging strategy.

United Utilities' contribution to the regional economy over 2010–2015 is estimated at

£7bn

RPI inflation has fallen away from the very high levels seen over 2011 and 2012 (around five per cent), ending 2013/14 at 2.5 per cent). The prices we charge our customers (and therefore revenues), as well as our asset base, are linked to RPI inflation, so lower RPI will mean slightly lower growth on these measures. However, we also have a large quantity of index-linked debt which means our finance costs decrease as inflation falls, providing a partial economic offset to revenue (although not a perfect hedge as changes to revenue and index-linked finance costs are based on differing lagged measures of inflation). Our pension liabilities are also linked to inflation, which also provides an additional economic offset against our asset base.

United Utilities' total contribution to the regional economy over 2010-15 is estimated at £7 billion. Direct economic contributions from our activities include the purchase of goods and services and providing extensive employment. There is also an indirect economic contribution, for example when our suppliers, in turn, make purchases from their suppliers and when people whose jobs are supported by United Utilities spend their personal incomes.

PHOTOGRAPH: Wastewater customer technicians Andy Bromley (left) and Terry Keenan.

Significant progress so far, but with more still to do

"We have developed new services and introduced a 'right first time' culture across the business."

Our focus on improving customer service

Great customer service relies on understanding what our customers need, anticipating problems, resolving complaints quickly and courteously and developing new, innovative services that fit into people's busy lifestyles. We want our customers to trust us and have confidence in our service.

Since completing the disposal of our non-regulated businesses and establishing a new management team at the beginning of 2011, we have demonstrated significant progress against our customer-centric strategy.

We have developed new services and introduced a 'right first time' culture across our business. Improvements have included:

- the return of all contact centres back to the North West and a system that allows customers to speak to an advisor promptly, rather than navigating lengthy automated menus;
- a more sophisticated online service to allow customers to manage their water accounts;
- clearer, plain English bills;
- a welcome pack for home movers; and
- a specialist Careline team which supports customers who may need extra help, for example those suffering ill health, a bereavement, or with mental health issues.

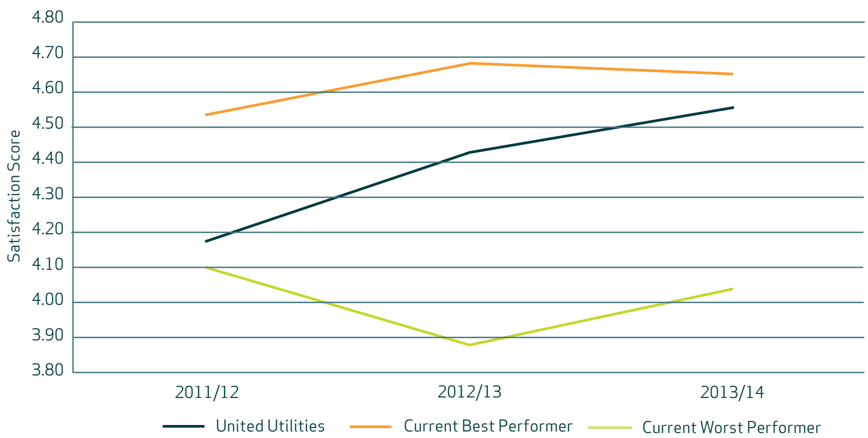
The introduction of the Service Incentive Mechanism (SIM) as a measure of customer satisfaction over this regulatory period has provided us with a strong benchmark of water industry comparative performance. SIM results sit alongside our other, ongoing, research on customer expectations and satisfaction.

Key achievements to date include:

- The most improved water and wastewater company as measured under SIM in each of 2011/12 and 2012/13
- 42 per cent reduction in customer complaints to the Consumer Council for Water (CCW) from 2010/11 to 2013/14
- Complaints warranting CCW investigation reduced from 63 in 2010/11 to zero in 2012/13 and 2013/14
- Consistently third behind only John Lewis and Marks & Spencer on the customer service brand tracker measure out of ten leading service providers in the North West
- Awarded 'Best Utility' in the Top 50 Contact Centre Awards 2013
- Becoming the second largest water retailer in Scotland within one year of entering the market

The chart below shows our significant improvement in customer satisfaction over the last three years, as measured by SIM, moving towards the best performing water company in the sector.

Customer satisfaction improvement over three years



Other operational improvements

We have been working hard to improve our performance in achieving statutory compliance and on-time delivery of schemes contributing to water quality and environmental improvement. In May 2014, however, we were fined £200,000 for each of two breaches of environmental permit conditions following an escape of 50,000 cubic metres of biogas at Stockport Waste Water Treatment Works in October 2011. The judge acknowledged our cooperation regarding this regrettable incident and we have since replaced the gas holder, retrained staff and put in new measures.

Highlights include:

- Delivered stable asset serviceability performance or better on all four water and wastewater measures for 2012/13 and 2013/14
- Upper quartile sector performance on Ofwat's annual Key Performance Indicators and on the Environment Agency's assessment of water and wastewater companies 2012/13
- Met or outperformed annual leakage targets in each of the last eight years
- Efficiency improvements in delivering capital programme allowing us to reinvest £200 million of savings into projects which improve services to customers or benefit the environment

Although we are pleased with our achievements over recent years, we know that we have more to do.

PHOTOGRAPH: Rachael Gerrard, who works within our operational contact centre in Warrington.

Read more about our **Performance** in 2013/14 on pages 32-45

Key performance indicators

Our key performance indicators (KPIs)

We focus on a range of financial and operational KPIs to help assess our performance.

We believe that the KPIs defined below provide a rounded view as to how we are performing against our primary objectives, helping us on our path to reaching our long-term strategic vision. These KPIs encompass the important areas of customer service and environmental performance, as well as financial indicators, taking consideration of the interests of all our stakeholders.

Financial KPIs

In respect of our financial KPIs, we use underlying profit measures as these enable more meaningful comparisons of the year-on-year performance of our business.

KPI	Performance
Revenue A definition of revenue is included in the accounting policies note on page 119.	£1,705m +4.2% 2013/14 £1,705m 2012/13 £1,636m 2011/12 £1,565m 2010/11 £1,513m
Regulatory capital expenditure Total regulatory capital expenditure during the year (including infrastructure renewals expenditure).	£836m +6.2% 2013/14 £836m 2012/13 £787m 2011/12 £680m 2010/11 £608m
Underlying operating profit The underlying operating profit measure excludes from the reported operating profit any restructuring costs and other significant non-recurring items. A reconciliation is shown on page 44.	£641m +6.1% 2013/14 £641m 2012/13 £604m 2011/12 £594m 2010/11 £596m
Underlying earnings per share This measure deducts underlying net finance expense and underlying taxation from underlying operating profit to calculate underlying profit after tax and then divides this by the average number of shares in issuance during the year. Underlying net finance expense makes adjustments to the reported net finance expense, including the stripping out of fair value movements. Underlying taxation strips out any prior year adjustments, exceptional tax or any deferred tax credits or debits arising from changes in the tax rate from reported taxation. Reconciliations to the underlying measures above are shown on page 44.	44.7p +15.5% 2013/14 44.7p 2012/13 38.7p 2011/12 35.3p 2010/11 35.1p
Dividend per share This measure divides total dividends declared by the average number of shares in issuance during the year.	36.04p +5.0% 2013/14 36.04p 2012/13 34.32p 2011/12 32.01p 2010/11 30.00p
Gearing: net debt to regulatory capital value Group net debt (including derivatives) divided by UUW's regulatory capital value (Ofwat's published RCV in outturn prices adjusted for actual capital expenditure to date). Ofwat's assumed range for 2010–15 is 55% to 65%.	58% -2% 2013/14 58% 2012/13 60% 2011/12 59% 2010/11 59%

Operational KPIs

These operational KPIs feed through from all of our company objectives: the best service to customers; at the lowest sustainable cost; and in a responsible manner.

Company objective	KPI	Performance	Target
Best service to customers			
Serviceability	Ofwat rates each company's assets as 'improving', 'stable', 'marginal' or 'deteriorating' across four categories covering water and wastewater infrastructure and non-infrastructure	**2013/14: 1 x improving, 3 x stable** 2012/13: 1 x improving, 3 x stable 2011/12: 1 x improving, 2 x stable 1 x marginal 2010/11: 3 x stable, 1 x marginal	To hold at least a stable rating for all four asset classes, which is consistent with Ofwat's target
Service incentive mechanism – qualitative	Ofwat derived index based on quarterly customer satisfaction surveys, measuring the absolute and relative performance of the 19 water companies (previously 21 up to 2012/13). Each company receives a score in the range of zero to five, with five being the highest attainable score	Continuing improvements 2013/14 7th 2012/13 14th 2011/12 16th 2010/11 21st	To move to the first quartile in the medium term
Service incentive mechanism – quantitative	Ofwat derived composite index based on the number of customer contacts, assessed by type, measuring the absolute and relative performance of the 19 water companies (previously 21 up to 2012/13). Each company receives a SIM point total, where the lowest score represents the best performance	25 per cent further improvement in score for 2013/14 2013/14 135 2012/13 179 2011/12 273 2010/11 539	To move to the first quartile in the medium-term
Lowest sustainable cost			
Opex outperformance	Progress to date on cumulative operating expenditure outperformance versus Ofwat's allowed operating costs over the 2010–15 period	**2013/14: On track to meet £50m+ target** 2012/13: On track to meet £50m+ target 2011/12: On track to meet £50m+ target 2010/11: On track to meet £50m+ target	Total opex outperformance over the 2010–15 period of at least £50m
Financing outperformance	Progress to date on financing expenditure outperformance secured versus Ofwat's allowed cost of debt of 3.6% real over the 2010–15 period	**2013/14: On track to meet £300m+ target** 2012/13: On track to meet £300m+ target 2011/12: On track to meet £300m+ target 2010/11: On track to meet £300m+ target	Total financing outperformance over the 2010–15 period of at least £300m
Capex outperformance	Capital expenditure progress to date against Ofwat's capital expenditure allowance for the 2010–15 period, after adjusting, through the regulatory methodology, for the impact of construction output prices	**2013/14: On track to meet capex allowance** 2012/13: On track to meet capex allowance 2011/12: On track to meet capex allowance 2010/11: On track to meet capex allowance	To meet Ofwat's revised capital expenditure allowance for the 2010-15 period (after reinvesting around £200m of outperformance)
Responsible manner			
Leakage – rolling average annual leakage	Average annual water leakage from our network quantified in megalitres per day	**2013/14: 452Ml/d – Met target** 2012/13: 457Ml/d – Met target 2011/12: 453Ml/d – Met target 2010/11: 464Ml/d - Met target	To meet our regulatory leakage target, as set by Ofwat, each year
Environment Agency performance assessment	Composite assessment produced by the Environment Agency, measuring the absolute and relative performance of the ten water and wastewater companies across a broad range of areas, including pollution.	Improved to second under latest available assessment (2012/13 draft report) 2012/13 2nd 2011/12 3rd 2010/11 7th 2009/10 6th	To move to the first quartile in the medium-term
Dow Jones Sustainability Index rating	Rating awarded to company by Dow Jones using sustainability metrics covering economic, environmental, social and governance performance	**2013/14: 'World Class'** 2012/13: 'World Class' 2011/12: 'World Class' 2010/11: 'World Class'	To retain 'World Class' rating each year

Our performance and the progress we have made against our objectives and their associated KPIs are included within the business performance section on pages 32 - 45.

Our performance

Customer satisfaction continues to improve, underpinned by strong operational and environmental performance

Strong underlying operating profit, up 6% to

£641m

Read more at **corporate.unitedutilities.com**

Read more about our **Vision and strategy** on pages 10–12

Read more about our **Key performance indicators** on pages 30–31

Full year results for the year ended 31 March 2014

Continuing operations	31 March 2014	Year ended 31 March 2013 (Restated[1])
Revenue	£1,704.5m	£1,636.0m
Underlying operating profit[2]	£641.3m	£604.2m
Operating profit	£636.9m	£601.6m
Total dividends per ordinary share (pence)	36.04p	34.32p
Regulatory capital expenditure[3]	£836m	£787m
RCV gearing[4]	58%	60%

Notes:
(1) In accordance with the revised accounting standard IAS 19 'Employee Benefits' which applies retrospectively, the prior year has been restated.
(2) Underlying profit measures have been provided to give a more representative view of business performance and are defined in the underlying profit measure tables on page 44.
(3) Regulatory capex represents fixed asset additions and infrastructure renewals expenditure using regulatory accounting guidelines; there is no equivalent GAAP measure.
(4) Regulatory capital value or RCV gearing calculated as group net debt divided by United Utilities Water's RCV adjusted for actual capex (outturn prices).

Delivering for our customers
- further improvements in customer satisfaction as measured through Ofwat's SIM mechanism
- strong performance on Ofwat and Environment Agency KPI assessments
- reinvesting c£280 million of outperformance for customer and environmental benefits
- below inflation growth in average household bills for the ten-year period 2010–20

Effective delivery of capital investment programme
- further improvement on capex delivery; Time: Cost: Quality index (TCQi) up to 98 per cent
- accelerated capital investment programme with a £49 million increase to £836 million in 2013/14
- initiated c£40 million of transitional investment to aid a smoother and more effective start to AMP6

Strong financials
- underlying operating profit up £37 million to £641 million
- RCV gearing 2 per cent lower at 58 per cent, well within Ofwat's assumed range
- final dividend of 24.03 pence per share (total for the year of 36.04 pence), in line with policy

Growth in Business Retail
- continuing to offer and develop a range of value-added services
- largest new entrant and second largest water retailer in Scotland

PHOTOGRAPH: Mick Barton (left) and Shaun Dullaghan, helping to keep Manchester's sewer network blockage-free.

Our performance

Operational performance

United Utilities (UU) aims to deliver long-term shareholder value by providing:

The best service to customers

At the lowest sustainable cost

In a responsible manner

Best service to customers

Customer service – our continuing strong focus on dealing effectively with customer enquiries has helped us deliver further improvements in our performance, as measured by Ofwat's service incentive mechanism (SIM). This is also reflected in a reduction in the number of customer complaints received, which has contributed to improvements in opex efficiency. In addition, the number of customer complaints made to the Consumer Council for Water (CCW) in 2013/14 has reduced by a further 11 per cent, compared with 2012/13. We are pleased to report that the total number of escalated complaints assessed by the CCW was again zero in 2013/14. This has helped us improve our SIM performance further, as detailed in the KPIs section to the right. We were particularly encouraged with our qualitative SIM performance for the fourth quarter of 2013/14, where we achieved fourth position out of the 19 water companies. We believe that our improvements should move the company to a neutral position on the SIM incentive mechanism, the outcome of which will be assessed by Ofwat based on performance across the 2011/12 to 2013/14 period.

Leading North West service provider – we were pleased to have been consistently ranked third out of ten leading organisations in the North West, through an independent brand tracker survey which is undertaken quarterly. We are behind only Marks & Spencer and John Lewis, but ahead of seven other major organisations covering utilities, telecoms, media and banking services.

Robust water supply – our customers continue to benefit from our robust water supply and demand balance, along with high levels of water supply reliability. In addition, we continue to supply a high level of water quality, with mean zonal compliance continuing to be over 99.9 per cent.

Mitigating sewer flooding – we have continued to invest heavily in schemes designed to mitigate the risk of flooding of our customers' homes, including incidence based targeting on areas more likely to experience flooding and defect identification through CCTV sewer surveys. Our wastewater network will continue to benefit from significant investment going forward as we adapt to weather patterns likely to result from climate change.

Asset serviceability – we have a range of actions to help support the serviceability of our assets. We are improving the robustness of our water treatment processes, refurbishing service reservoir assets, continuing with our comprehensive mains cleaning programme and optimising water treatment to reduce discoloured water events.

Extending our presence in the retail water market for business customers – we have been building our capability and experience over the last two years to help ensure we are in a strong position as the competitive business retail market evolves and are very active in this expanding market. After obtaining a Scottish water supply licence in 2012 we have already won around 150 customers, covering around 2,000 sites and representing annual revenue in 2014/15 of around £10 million. We are the largest new entrant and have now established a position as the second largest water retailer in Scotland. We also have a significant pipeline of opportunities and are continuing to offer and develop our range of value-added services.

Improving customer service remains a significant area of management focus and we see opportunities to deliver further benefits for our customers.

Key performance indicators:

Serviceability – Long-term stewardship of assets is critical and Ofwat measures this through its serviceability assessment (Ofwat defines serviceability as the capability of a system of assets to deliver a reference level of service to customers and to the environment now and in the future). We are currently assessed as 'improving' for our wastewater non-infrastructure assets and 'stable' for our water infrastructure, water non-infrastructure and wastewater infrastructure assets. The aim is to continue to hold at least a 'stable' rating for all four asset classes, which aligns with Ofwat's target.

Service incentive mechanism (SIM) – UU continued its progress on Ofwat's combined (qualitative and quantitative) SIM assessment for 2012/13, moving up a further three places to joint 13th of the 21 water companies, compared with 2011/12. Further progress has continued in 2013/14, with a quantitative SIM score (which measures customer contacts) of 135 points, representing a further 25 per cent improvement compared with 2012/13. On the qualitative measure (which measures customers' satisfaction in respect of how their enquiries were handled), UU has improved its 2013/14 average score by 0.13 points to 4.56 points, significantly closing the gap to the top performers. From 2013/14, Ofwat assesses SIM out of 19 water companies and UU's qualitative SIM improvement moves it to joint seventh position. Our continued progress is encouraging.

Business Insight

MISSION IMPOSSIBLE? NOT FOR OUR AQUANAUTS

Construction commenced on the Haweswater aqueduct in 1933. This huge 90km pipe is driven by gravity and is capable of delivering 570 million litres of fresh, clean drinking water per day and is hundreds of feet below ground in places.

Since the first water from Haweswater arrived in Manchester in 1955, this amazing feat of engineering has stood the test of time and still supplies water to around two million of our customers. To make sure it continues to serve a key role in supplying water long into the future, a challenging structural analysis was required.

Sending a team of specialist engineers dubbed 'aquanauts' into the aqueduct to carry out the survey required many years of careful planning. The 80 carefully selected aquanauts went through a series of fitness and psychological training to ensure they could cope underground for long periods. To transport the aquanauts through this pipeline, we used 16 specialist vehicles, dubbed 'pipe-mobiles.' Our international research led us to a specially designed vehicle, built in Canada, which was ideally suited to the job.

A 120 metre plastic replica version of the tunnel was constructed to ensure all team members were fully trained to operate effectively and safely in this environment.

We built 22 access points along the route, all manned with 24-hour security and paramedics during the shutdown, just in case the team got into difficulty. In support, there were also 200 special tunnel units equipped with specialist equipment and materials in case we found any areas along the aqueduct in need of structural help.

To ensure that we kept the water flowing despite shutting down our biggest supply of water for over three weeks whilst inspections were carried out, the flow at 39 water treatment works was temporarily increased, through a carefully planned, co-ordinated operation. On 27 September 2013, the drain down of the aqueduct commenced, which itself took around three days to complete. We then had only two weeks for our army of specially trained staff to complete the inspections and all internal work. The aqueduct was then recharged and flushed along its length, before services were gradually returned to normal from 20 to 30 October.

During this entire operation there were zero accidents and incidents and there were no customer complaints. The fact that this project was completed successfully, without affecting our customers' water supply, was testament to the meticulous planning as well as the innovative approach we adopted.

PHOTOGRAPH: Construction of the Haweswater aqueduct started in 1933 and took more than 20 years to complete.

PHOTOGRAPH TOP: A team of specialist engineers dubbed 'aquanauts.'

Our performance

Lowest sustainable cost

Power and chemicals – our asset optimisation programme continues to provide the benefits of increased and more effective use of operational site management to optimise power and chemical use and the development of more combined heat and power assets to generate renewable energy. We have substantially locked in the cost of our power requirements through to 2015, via hedging, securing outperformance across the 2010–15 period.

Proactive network management – we are implementing a more proactive approach to asset and network management, with the aim of improving our modelling and forecasting to enable us to address more asset and network problems before they affect customers, thereby reducing the level of reactive work and improving efficiency.

Debt collection – we are continuing to enhance our proactive approach to debt collection and are implementing a detailed action plan. We recognise the financial difficulties facing many of our customers and provide a range of options to help those who are struggling to pay their bills, including our charitable trust, which have helped many customers back onto manageable payment plans. We have again delivered a good performance and have sustained bad debts at 2.2 per cent of regulated revenue for 2013/14, consistent with the 2012/13 full year position, mitigating the impact of recent benefit changes on customers' ability to pay.

Pensions – UU placed its pension provision on a more sustainable footing in 2010 and has subsequently taken additional steps to de-risk the pension scheme further. Further details on the group's pension provision are provided in the pensions section on page 43.

Capital delivery and regulatory commitments – the business is strongly focused on delivering its commitments efficiently and on time and has a robust commercial capital delivery framework in place. Regulatory capital investment in the year, including £165 million of infrastructure renewals expenditure, was £836 million. Including transitional spend of around £40 million, we would expect to deliver a similar level of investment for 2014/15. Following our rapid increase in our internal Time: Cost: Quality index (TCQi) score from around 50 per cent in 2010/11 to approximately 90 per cent in 2012/13, we have further improved our score to 98 per cent for 2013/14. This has already exceeded our internal target of 95 per cent, which we were aiming to achive by the end of this regulatory period in 2015. We received a shortfalling revenue penalty of over £80 million at the last price review in 2009 but, with our improved TCQi performance, we expect to significantly reduce the penalty risk at the 2014 price review. We remain on track to deliver the five-year programme within the regulatory allowance of around £3.6 billion (excluding costs associated with private sewers, transitional and non-regulated investment) and we are reinvesting capex outperformance to deliver further customer benefits.

Private sewers – in 2013/14, private sewers opex was £8 million, IRE was £15 million and enhancement capex was £16 million. This brings cumulative private sewers spend since they were transferred in October 2011 to £22 million for opex, £35 million for IRE and £37 million for enhancement capex, at the lower end of our estimates. As such, our total spend is now expected to be moderately below our 2011–15 total cost estimate of £160 million.

Key performance indicators:

Financing outperformance – UU has secured over £300 million of financing outperformance across the 2010–15 period, when compared with Ofwat's allowed cost of debt of 3.6 per cent real, based on an average RPI inflation rate of 2.5 per cent per annum. As outlined previously, we expect to reinvest around £40 million of our financing outperformance in private sewers costs which were not reflected in price limits for the current period.

Operating expenditure outperformance – The business is targeting total operating expenditure outperformance over the 2010–15 period of at least £50 million, or approximately two per cent, compared with the regulatory allowance. This is in addition to the base operating expenditure efficiency targets set by Ofwat, which equate to a total of approximately £150 million over the five years. We are ahead of schedule and expect to deliver cumulative operating expenditure outperformance of over £50 million across the 2010–15 period.

Capital expenditure outperformance – UU is continuing to deliver significant efficiencies in the area of capital expenditure and expects to meet Ofwat's allowance after adjusting, through the regulatory methodology, for the impact of lower construction output prices. As outlined previously, we expect to reinvest around £200 million of capital expenditure outperformance for the benefit of our customers and the environment.

Responsible manner

Acting responsibly is fundamental to the manner in which we undertake our business and the group has for many years included corporate responsibility factors in its strategic decision making.

Leakage – our strong, year round, operational focus on leakage and the implementation of a range of initiatives, such as active pressure management, enabled us to again beat our leakage target for 2013/14. Our leakage performance, alongside the network resilience improvements we are making, is helping us to maintain a robust water supply and demand balance and deliver high levels of reliability for our customers.

Environmental performance – this is a high priority for UU and we are pleased to be an upper quartile company in the Environment Agency's 2012/13 performance metrics (the latest available), as described in the KPIs section below.

Carbon footprint – we are committed to reducing our carbon footprint and increasing our generation of renewable energy. In 2013/14, our carbon footprint totalled 449,042 tonnes of carbon dioxide equivalent, a reduction of 11 per cent compared with the previous year. We set a target of achieving at least a 21 per cent reduction in carbon emissions by 2015, measured from a 2005/06 baseline, and we were encouraged with our performance in 2013/14 which was 23 per cent below the baseline. A detailed breakdown of our emissions can be found in the Directors' report on page 99.

Business Insight

INNOVATIVE RECYCLING CENTRE AT DAYHULME UP AND RUNNING

We recently completed a new sludge recycling centre at our 100-year old Davyhulme wastewater treatment works. This site, near Manchester, is one of the largest wastewater treatment works in Europe.

We have employed a ground-breaking configuration of thermal hydrolysis to maximise energy generation from sludge by advanced digestion. We were pleased that this project recently won the Annual Institution of Chemical Engineers award for innovation.

This year, we generated over 50GWhs of renewable energy at this site, contributing to our highest ever renewable energy production.

Energy represents a significant cost for UU and such projects provide benefits not only for customers and shareholders, but also the environment.

PHOTOGRAPH: Davyhulme wastewater treatment works.

The recently completed Davyhulme wastewater site (see business insight above) has contributed to our highest ever renewable energy production in 2013/14 of 133 GWh. This represents c17 per cent of our total electricity consumption, up from c13 per cent last year, and has helped us avoid energy purchase costs of around £10 million, as well as attracting renewable incentives of around £5 million. In addition, we have plans in place to further increase renewable energy production over the next few years.

Our performance

Employees – a committed, capable and motivated workforce is central to delivering our vision and we remain strongly focused on high levels of employee development and engagement. In our most recent employee opinion survey, we achieved an engagement score of 79 per cent, which is close to the UK high performing norm even at a time of significant change. We continue to be successful in attracting and retaining people and have continued to expand our apprentice and graduate programmes, having recruited a further 24 graduates and 32 apprentices in 2013/14 and with plans to add a similar number in 2014/15. As part of our health and safety improvement programme, we implemented a number of initiatives throughout the year. We launched a managers' guide for health and safety responsibilities and our transformation project, covering 13 key areas of focus across the business, is progressing well. These initiatives helped reduce the employee accident frequency rate to 0.137 accidents per 100,000 hours, compared with a rate of 0.188 last year. However, we recognise we have more to do and health and safety will continue to be a significant area of focus, as we strive for continuous improvement.

Communities – we continue to support partnerships, both financially and in terms of employee time through volunteering, with other organisations across the North West that share our objectives. This year we set up Catchment Wise, our new approach to tackling water quality issues in lakes, rivers and coastal waters across the North West. As a first step, we have provided matched funding to all of the Defra Catchment partnerships in our region and a further £500,000 has been made available as part of a competitive improvement fund to make a difference on the catchments. Our 'Beachcare' employee volunteering scheme, working in partnership with the Environment Agency, Keep Britain Tidy and the Local Authority, helps to keep our region's beaches tidy and this is just one example of over 26,000 hours of volunteering time. We also contributed approximately £2 million, to support local communities through schemes such as providing debt advisory services and our Community Fund, offering grants to local groups impacted by our capital investment programme.

Sharing benefits with customers and shareholders

- Reinvesting c£200 million of capex outperformance for customer and environmental benefits, which will earn a return through the regulated asset base
- Reinvesting c£40 million of financing outperformance in private sewers
- c£20 million special customer discount; offsetting allowed real price increase for 2014/15
- c£17 million of further support for customers struggling to pay
- Customer bills in 2015-2020 to benefit from c£90 million of tax savings

Key performance indicators:

Leakage – UU met its economic level of leakage rolling target for the eighth consecutive year in 2013/14, with a performance of 452 megalitres per day versus the regulatory target of 463 megalitres per day. The aim is to meet our regulatory leakage target each year.

Environmental performance – On the Environment Agency's latest assessment (2012/13 draft report), which covers a broad range of operational metrics, UU is an upper quartile company. Based on our performance across the range of metrics, this would indicate joint second position among the ten water and sewerage companies. This represents another step up on the previous year when UU was in third position and aligns with our medium-term goal of being a first quartile company on a consistent basis.

Corporate responsibility – UU has a strong focus on operating in a responsible manner and is the only UK water company to have a 'World Class' rating as measured by the Dow Jones Sustainability Index. The group has retained its 'World Class' rating and aims to retain this rating each year.

Financial performance

Revenue
UU has delivered a good set of financial results for the year ended 31 March 2014. Revenue increased by £69 million to £1,705 million, principally reflecting a 4.0 per cent nominal (1.0 per cent real price increase plus 3.0 per cent RPI inflation) allowed regulated price increase.

Operating profit
Underlying operating profit increased by 6 per cent to £641 million, primarily as a result of an increase in revenue and benefitting from tight cost control with operating costs up at a lower rate than revenue. Reported operating profit similarly increased by 6 per cent to £637 million.

Investment income and finance expense
The underlying net finance expense of £252 million was broadly in line with the prior year. The indexation of the principal on our index-linked debt amounted to a net charge in the income statement of £83 million, compared with a net charge of £86 million last year. The group had approximately £2.9 billion of index-linked debt as at 31 March 2014. The lower RPI inflation charge contributed to the group's average underlying interest rate of 4.6 per cent being lower than the rate of 4.9 per cent for the prior year.

Reported investment income and finance expense of £92 million was significantly lower than the £290 million expense in 2012/13. This £198 million reduction principally reflects a change in the fair value gains and losses on debt and derivative instruments, from a £42 million loss last year to a £129 million gain in 2013/14. The £129 million fair value gain in 2013/14 is largely due to gains on the regulatory swap portfolio, resulting from a significant increase in medium-term sterling interest rates during the period and the unwinding of the opening liability position. The group uses these swaps to fix interest rates on a substantial proportion of its debt to better match the financing cash flows allowed by the regulator at each price review. The group fixed the majority of its non index-linked debt for the 2010–15 financial period, providing a net effective nominal interest rate of approximately five per cent.

Profit before tax
Underlying profit before tax was £390 million, £38 million higher than last year, due to the £37 million increase in underlying operating profit and the £1 million decrease in underlying net finance expense. This underlying measure adjusts for the impact of one-off items, principally from restructuring within the business, and other items such as fair value movements in respect of debt and derivative instruments. Reported profit before tax increased by £233 million to £545 million.

Taxation
Consistent with our wider business objectives, we are committed to acting in a responsible manner in relation to our tax affairs.

Our tax policies and objectives, which are approved by the board on a regular basis, ensure that we:

- only engage in reasonable tax planning aligned with our commercial activities and we always comply with what we believe to be both the letter and the spirit of the law;
- do not engage in aggressive or abusive tax avoidance;
- are committed to an open, transparent and professional relationship with HMRC based on mutual trust and collaborative working.

Under the regulatory framework the company operates within, the majority of any benefit from reduced tax payments will typically not be retained by the company but will pass to customers via reduced bills. For 2013/14, the company has agreed, over and above the normal regulatory rules, to voluntarily share with customers the one-off net cash benefit of £75 million due to the company, following the industry-wide agreement with HMRC in relation to the abolition of industrial buildings allowances in 2008.

In any given year, the company's effective cash tax rate may fluctuate from the standard UK rate due to the available tax deductions on pension contributions and capital investment. These deductions are achieved as a result of utilising tax incentives, which have been explicitly put in place by successive governments precisely to encourage such investment. This reflects responsible corporate behaviour in relation to taxation.

The company's effective cash tax rate may also fluctuate from the standard UK rate due to unrealised profits or losses in relation to treasury derivatives where the corresponding profits or losses are only taxed when realised. These movements are purely timing differences and HMRC are now reviewing the relevant tax rules with the stated aim of achieving greater accounting and tax alignment. However, any changes are not expected to affect the UU group before year ended 31 March 2017.

The group's principal subsidiary, United Utilities Water, operates solely in the UK and its customers are based here. All of the group's profits are taxable in the UK (other than around £1 million Estonian tax paid in relation to the group's 35 per cent holding in Tallinn Water).

Our performance

For 2013/14, we paid corporation tax of £65 million which represents an effective cash tax rate of 12 per cent, 11 per cent lower than the mainstream rate of corporation tax of 23 per cent. For 2012/13, we paid corporation tax of £55 million (18 per cent), six per cent lower than the mainstream rate for that year. For both years, the key reconciling items to the respective mainstream rates were tax deductions on capital investment and pension contributions and timing differences in relation to certain unrealised profits/losses on treasury derivatives, where the corresponding profits or losses are only taxed when realised.

For 2013/14, the company also received an exceptional cash tax refund of £96 million in relation to prior years' tax matters, covering a period of over ten years in total. The amount principally related to tax deductions on capital expenditure and included the revised tax treatment for capital expenditure at water and sewage treatment works agreed between the Industry and HMRC, following the abolition of industrial buildings allowances. Taking account of this one-off repayment, the net effective cash tax rate for 2013/14 reduced to a credit of six per cent.

The current tax charge was £77 million in the year, compared with £81 million in the previous year. In addition, there was a current tax credit of £141 million relating to matters agreed with HMRC in respect of prior years. On top of the £96 million cash refund, the £141 million current tax credit also includes the release of an accounting accrual, which is a non-cash item.

For 2013/14, the group recognised a deferred tax charge of £41 million, compared with a credit of £3 million in 2012/13. In addition, the group has recognised a deferred tax credit of £157 million relating to the three per cent staged reduction in the mainstream rate of corporation tax, substantively enacted on 2 July 2013, to reduce the rate to 20 per cent by 2015/16. A deferred tax credit of £53 million relating to a similar one per cent reduction in the mainstream rate of corporation tax was included in 2012/13. The group also recognised a deferred tax credit of £13 million relating to prior years' matters.

An overall tax credit of £194 million has been recognised for 2013/14. Excluding the deferred tax impact of the future reduction in the corporation tax rate and the adjustments relating to recently agreed matters in relation to prior years, the total tax charge would have been £117 million or 22 per cent compared with a £78 million charge or 25 per cent in the previous year. This reduction in total tax rate is due to the decrease in the mainstream rate of corporation tax from 24 per cent for 2012/13 to the current rate of 23 per cent, together with the year-on-year movement in tax disallowable items.

In addition to corporation tax, the group pays and bears further annual economic contributions, typically of around £140 million per annum, in the form of business rates, employer's national insurance contributions, green taxes and other regulatory service fees such as water abstraction charges.

Profit after tax

Underlying profit after tax of £305 million was £41 million higher than the previous year, principally reflecting the increase in underlying profit before tax. Reported profit after tax was £739 million, compared with £288 million last year, impacted by the £171 million improvement in fair value gains on debt and derivative instruments and the £218 million increase in the net tax credit between the two periods.

Earnings per share

Underlying earnings per share increased from 38.7 pence to 44.7 pence. This underlying measure is derived from underlying profit after tax. This includes the adjustments for the deferred tax credits in both 2013/14 and 2012/13, associated with the reductions in the corporation tax rate and an adjustment for the tax credit arising from agreement of prior years' tax matters in 2013/14. Basic earnings per share increased from 42.2 pence to 108.3 pence.

Dividend per share

The board has proposed a final dividend of 24.03 pence per ordinary share in respect of the year ended 31 March 2014. Taken together with the interim dividend of 12.01 pence per ordinary share, paid in February, this produces a total dividend per ordinary share for 2013/14 of 36.04 pence. This is an increase of 5.0 per cent, compared with the dividend relating to the previous year, in line with group's dividend policy of targeting a growth rate of RPI+2 per cent per annum through to at least 2015. The inflationary increase of 3.0 per cent is based on the RPI element included within the allowed regulated price increase for the 2013/14 financial year (i.e. the movement in RPI between November 2011 and November 2012).

The final dividend is expected to be paid on 1 August 2014 to shareholders on the register at the close of business on 20 June 2014. The ex-dividend date is 18 June 2014.

Cash flow

Net cash generated from continuing operating activities for the year ended 31 March 2014 was £805 million, compared with £631 million last year. This mainly reflects the receipt of the exceptional tax refund, an improvement in working capital cash flows, impacted by the reduction in the total pension contribution payments between the two periods, and an increase in operating profit. The group's net capital expenditure was £683 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under International Financial Reporting Standards (IFRS).

Net debt including derivatives at 31 March 2014 was £5,532 million, compared with £5,451 million at 31 March 2013. This slight increase reflects expenditure on the regulatory capital expenditure programmes and payments of dividends, interest and tax, alongside an increase in the principal of our index-linked debt, largely offset by operating cash flows, fair value gains on our debt and derivative instruments and the one-off tax refund.

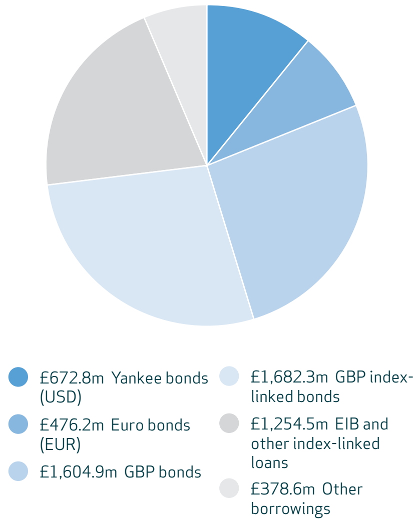
Debt financing and interest rate management

Gearing (measured as group net debt divided by United Utilities Water's (UUW's) regulatory capital value adjusted for actual capital expenditure) decreased to 58 per cent at 31 March 2014, compared with 60 per cent at 31 March 2013, remaining well within Ofwat's 55 per cent to 65 per cent assumed gearing range. The group's pension accounting position has moved to a deficit of £177 million at 31 March 2014, on an IFRS basis, compared with a small pension surplus of £15 million as at 31 March 2013. Taking account of the group's pension deficit, and treating it as debt, gearing would be 60 per cent.

UUW has long-term credit ratings of A3/BBB+ and United Utilities PLC had long-term credit ratings of Baa1/BBB- from Moody's Investors Service and Standard & Poor's Ratings Services respectively. The split rating reflects differing methodologies used by the credit rating agencies. Standard & Poor's currently have the group's ratings on positive outlook, citing improving financial metrics and operational performance.

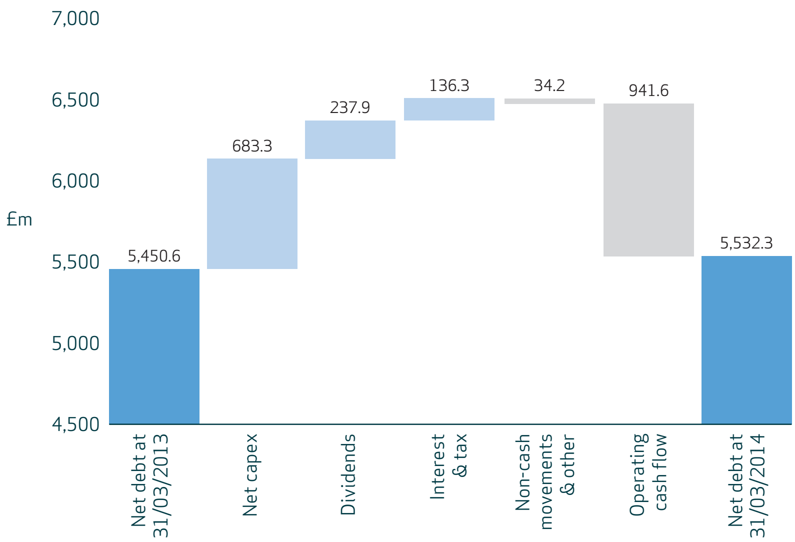
Cash and short-term deposits at 31 March 2014 amounted to £127 million. In December 2013, UUW agreed a new £500 million term loan facility with the European Investment Bank (EIB). As at 31 March 2014, UUW had drawn down £100 million on this facility as a floating rate amortising term loan with semi-annual repayments, a final maturity in 18 years and an initial capital repayment holiday of two and a half years. The remaining £400 million is expected to be drawn down in tranches over the next year or so. The group also renewed £100 million of committed bank facilities prior to 31 March 2014 and a further £50 million since the year end. The group has headroom to cover its projected financing needs into 2016.

Gross debt



A detailed debt listing is shown within the notes to the financial statements on page 134-135.

Summary of net debt movement



Our performance

The group has access to the international debt capital markets through its €7 billion euro medium-term note programme which provides for the periodic issuance by United Utilities PLC and UUW of debt instruments on terms and conditions determined at the time the instruments are issued. The programme does not represent a funding commitment, with funding dependent on the successful issue of the debt securities.

Long-term borrowings are structured or hedged to match assets and earnings, which are largely in sterling, indexed to UK retail price inflation and subject to regulatory price reviews every five years.

Long-term sterling inflation index-linked debt provides a natural hedge to assets and earnings. At 31 March 2014, approximately 53 per cent of the group's net debt was in index-linked form, representing around 31 per cent of UUW's regulatory capital value, with an average real interest rate of 1.7 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term-debt maturity, which is approximately 25 years.

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, to manage exposure to long-term interest rates, the debt is generally swapped to create a floating rate sterling liability for the term of the liability. To manage exposure to medium-term interest rates, the group fixes underlying interest costs on nominal debt out to ten years on a reducing balance basis. This is supplemented by fixing substantially all remaining floating rate exposure across the forthcoming regulatory period around the time of the price control determination.

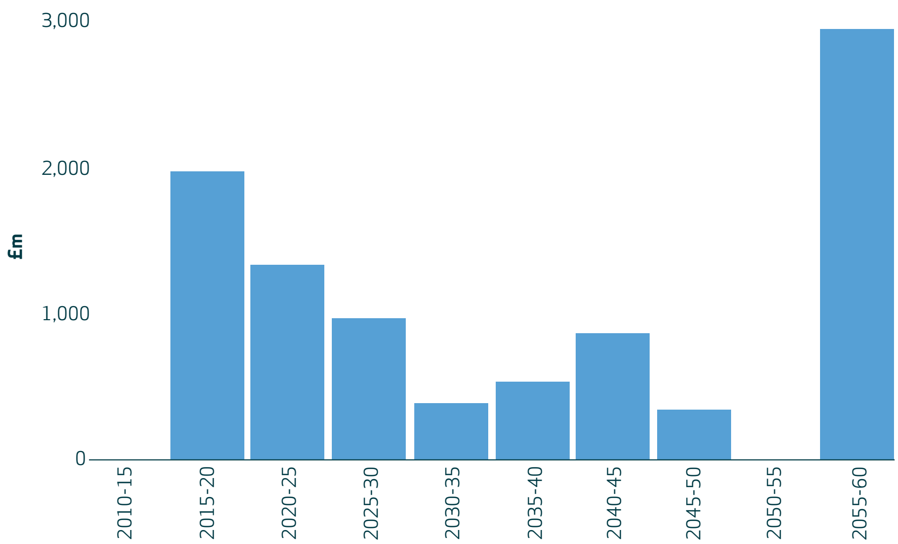
In line with this, the group fixed interest costs for a substantial proportion of the group's debt for the duration of the 2010–15 regulatory period around the time of the 2009 price review. In addition, we have already fixed just over half of our floating rate exposure over the 2015–20 period. Following Ofwat's 2015–20 cost of debt guidance, which was published as part of its risk and reward guidance in January, we intend to fix underlying interest rates on substantially all of the group's projected nominal debt for the duration of the 2015–20 regulatory period, during 2014/15.

Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits and supported by committed but undrawn credit facilities. In addition to its €7 billion euro medium-term note programme, the group has a €2 billion euro-commercial paper programme, both of which do not represent funding commitments.

In line with the board's treasury policy, UU aims to maintain a robust liquidity position. Available headroom at 31 March 2014 was £864 million based on cash, short-term deposits, medium-term committed bank facilities, along with the undrawn portion of the EIB term loan facility, net of short-term debt.

Term debt maturity per regulatory period



UU believes that it operates a prudent approach to managing banking counterparty risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. UU's cash is held in the form of short-term money market deposits with either prime commercial banks or with triple A rated money market funds.

UU operates a bilateral, rather than a syndicated, approach to its core relationship banking facilities. This approach spreads maturities more evenly over a longer time period, thereby reducing refinancing risk and providing the benefit of several renewal points rather than a large single refinancing requirement.

Pensions

As at 31 March 2014, the group had an IAS 19 net retirement benefit, or pension, deficit of £177 million, compared with a net pension surplus of £15 million at 31 March 2013. This £192 million adverse movement principally reflects the movement of long-term market rates during the period, particularly influenced by the significant reduction in corporate credit spreads. In contrast, the scheme specific funding basis does not suffer from volatility due to credit spread movements as it uses a prudent, fixed credit spread assumption. Therefore, the recent credit spread movements have not had a material impact on the deficit calculated on a scheme specific funding basis or the level of deficit repair contributions.

The triennial actuarial valuations of the group's defined benefit pension schemes were carried out as at 31 March 2013 and the overall funding position has improved since March 2010. Following the de-risking measures we have implemented over recent years, our pension funding position remains well placed and in line with our expectations. There has been no material change to the scheduled cash contributions as assessed at the previous valuations in 2010. The group has already completed early all scheduled deficit repair payments through to March 2015.

Further detail is provided in note 19 ('Retirement benefit (obligations)/ surplus') of these consolidated financial statements.

Statutory audit

KPMG LLP have issued an unqualified opinion on the financial statements of United Utilities Group PLC for the year ended 31 March 2014 (the independent auditor's report can be found on page 108).

Our performance

Underlying profit

In considering the underlying results for the period, the directors have adjusted for the items outlined in the table below to provide a more representative view of business performance. Reported operating profit and profit before tax from continuing operations are reconciled to underlying operating profit, underlying profit before tax and underlying profit after tax (non-GAAP measures) as follows:

Continuing operations Operating profit	Year ended 31 March 2014 £m	Restated[1] Year ended 31 March 2013 £m
Operating profit per published results	636.9	601.6
One-off items[2]	4.4	2.6
Underlying operating profit	641.3	604.2
Net finance expense	**£m**	**£m**
Finance expense	(99.2)	(292.1)
Investment income	7.0	2.3
Net finance expense per published results	(92.2)	(289.8)
Net fair value (gains)/losses on debt and derivative instruments	(129.2)	41.5
Adjustment for interest on swaps and debt under fair value option	8.1	8.3
Adjustment for net pension interest (income)/expense	(1.3)	1.5
Adjustment for capitalised borrowing costs	(19.4)	(14.3)
Adjustment for release of tax interest accrual	(13.3)	–
Adjustment for interest receivable on tax settlement	(4.5)	–
Underlying net finance expense	(251.8)	(252.8)
Profit before tax	**£m**	**£m**
Profit before tax per published results	544.7	311.8
One-off items[2]	4.4	2.6
Net fair value (gains)/losses on debt and derivative instruments	(129.2)	41.5
Adjustment for interest on swaps and debt under fair value option	8.1	8.3
Adjustment for net pension interest (income)/expense	(1.3)	1.5
Adjustment for capitalised borrowing costs	(19.4)	(14.3)
Adjustment for release of tax interest accrual	(13.3)	–
Adjustment for interest receivable on tax settlement	(4.5)	–
Underlying profit before tax	389.5	351.4
Profit after tax	**£m**	**£m**
Underlying profit before tax	389.5	351.4
Reported tax credit/(charge)	193.9	(24.0)
Deferred tax credit – change in tax rate	(156.8)	(53.0)
Agreement of prior years' UK tax matters	(154.3)	(0.7)
Tax in respect of adjustments to underlying profit before tax	32.6	(9.5)
Underlying profit after tax	304.9	264.2
Earnings per share	**£m**	**£m**
Profit after tax per published results (a)	738.6	287.8
Underlying profit after tax (b)	304.9	264.2
Weighted average number of shares in issue, in millions (c)	681.9m	681.9m
Earnings per share per published results, in pence (a/c)	108.3p	42.2p
Underlying earnings per share, in pence (b/c)	44.7p	38.7p

Notes:
(1) In accordance with the revised accounting standard IAS 19 'Employee Benefits' which applies retrospectively, 2012/13 has been restated.
(2) Principally relates to restructuring costs within the business.

Underlying operating profit reconciliation

The table below provides a reconciliation between group underlying operating profit and United Utilities Water PLC historical cost regulatory underlying operating profit (non-GAAP measures) as follows:

Continuing operations Underlying operating profit	Year ended 31 March 2014 £m	Restated[1] Year ended 31 March 2013 £m
Group underlying operating profit	641.3	604.2
Underlying operating profit not relating to United Utilities Water	(7.1)	(0.8)
Infrastructure renewals accounting	46.8	32.6
Other differences	2.1	1.9
United Utilities Water statutory underlying operating profit	683.1	637.9
Revenue recognition	(0.2)	1.7
Infrastructure renewals accounting	6.1	5.1
Non-appointed business	(7.4)	(6.2)
United Utilities Water regulatory underlying operating profit	681.6	638.5

Note:
(1) In accordance with the revised accounting standard IAS 19 'Employee Benefits' which applies retrospectively, 2012/13 has been restated.

Our business plan 2015-20

On 2 December 2013, we submitted our business plan, covering the 2015–20 period (AMP6), to Ofwat. In building our plan we have taken account of the views of over 27,000 customers and other stakeholders to understand their priorities.

Our Customer Challenge Group has also been extensively involved in formulating research and challenging resulting plans in detail. The result is a plan that we believe strikes the right balance between customer service, the environment and customer bills.

The key features of the delivery plans for each of the four price controls are set out below.

Wholesale water

The North West benefits from one of the youngest water networks in the country, with over 50 per cent of our network constructed or renewed in the last 30 years. This is a consequence of significant investment over previous regulatory cycles to improve water quality. We also benefit from historic investment in the integration of our networks to create a core 'integrated supply zone.' The most recent addition to this was the West–East pipeline running approximately 50 kilometres between Liverpool and Manchester. As a consequence we are able to provide one of the most efficient and flexible water services in the sector.

Customers told us that they wanted to retain their current level of water services, but do not want to pay for water service improvements. This has driven our proposals for AMP6, where our core focus is to continue ongoing maintenance of the existing service to keep it working reliably now and in the future, managing costs carefully and reducing the number of customer contacts.

At Ennerdale Lake in West Cumbria, the Environment Agency's planned withdrawal of our abstraction rights for environmental reasons raises supply and demand balance issues for the local population. After careful evaluation of a number of alternative options in conjunction with the Environment Agency and other stakeholders, we are proposing a preferred solution which has broad support. This will see the development of a new treatment works near Thirlmere and connection of the West Cumbrian supply network to our integrated supply zone. This project is the main capital scheme for our water network.

Key features of our plan include that we will:

- maintain existing high levels of reliability in the delivery of day-to-day water services, making better use of technology to remotely monitor and control more of our source-to-tap assets;
- maintain existing high levels of water quality as measured at customers' taps and our water treatment works;
- reduce the number of contacts from customers regarding water quality;
- maintain leakage levels at 2014/15 target levels, which are at or below the sustainable economic level;
- limit the impact to customers of increases in operating costs such as power, chemicals and rates, by making cost savings elsewhere through the continuous improvement in the efficiency of our operations; and
- commence work to link 150,000 customers in West Cumbria to Thirlmere reservoir to ensure a long-term, reliable supply of drinking water and providing benefits to the environment at Ennerdale.

Wholesale wastewater

The region's geography, the legacy of the Industrial Revolution, population growth and long-term underinvestment in the region's wastewater infrastructure mean that new European environmental legislation has a significant impact on our plans for the next regulatory cycle and beyond. Furthermore, the North West has one of the country's largest combined waste and surface water infrastructures and this has significant implications for river and bathing water quality in the heavy rainfall events anticipated under climate change. These are significant new challenges for our wastewater service and will drive high levels of capital expenditure in meeting statutory obligations.

Against this backdrop, customers told us that for the most part they wanted their wastewater services to remain stable. Whilst they want to see progress in reducing sewer flooding and in improving the environment, they are concerned about the impact that service improvements will have on their bills. We have responded to this by devising a balanced programme of work over AMP6 and beyond that will progressively deliver UK Government compliance with European legislation.

This also takes account of customers' views on the acceptable level of future bill increases.

In AMP6 we will:

- build on the customer satisfaction improvements we have already delivered. We will continue to improve the way we operate our wastewater business, making better use of technology, automation and control to drive better customer service at reduced cost;
- reduce the risk of sewer flooding inside customers' properties by 40 per cent, seeking opportunities to work in partnership with others to deliver schemes cost-effectively and promote the use of more sustainable drainage systems;
- enhance the region's bathing waters and work with other organisations to support them in delivering improvements to our region's beaches;
- improve the water quality in the North West's rivers and lakes through investment in our treatment works and at overflows, reducing pollution. We are engaging with stakeholders to explore innovative catchment management techniques to control diffuse pollution in our catchments;
- increase our production of renewable energy from waste to help protect customers from rising energy costs and reduce our carbon footprint;
- absorb significant additional costs for taking responsibility for all private sewers and private pumping stations across the region. Costs will be constrained through improvements to our operating model and efficient delivery of our programme.

Household retail

Our focus for the current regulatory period has been and continues to be to improve the customer experience. This involves being more proactive with customers, anticipating problems before they materialise and improving our communication channels so that we are easier to do business with. We aim to further reduce the number of complaints and to resolve them whenever we can, avoiding the need for complaints to be referred to the CCW.

We look to reduce the debt burden on the company and its customers by engaging with those who are struggling to pay, helping them to return to sustained payment behaviour. We are extending our options for assistance to hard-pressed customers by developing a social tariff that secures a high level of acceptability from customers. We remain committed to contribute annually to the United Utilities Trust fund, which has proven effective in helping customers in difficulty return to regular payment.

Our domestic retail plan also sees us continuing our efforts to reduce the cost to serve our customers through systems and process improvement. This is particularly important under the new price control methodology which uses an industry average retail cost to serve to determine part of customer bills.

Non-household retail

We welcome the opportunity offered through the opening of the English non-household retail market to competition. Over the last two years we have recruited a management team with other sector experience to lead our business retail area, and separated this team from our domestic retail and wholesale business areas. This team has embarked on a transformation programme focused on getting the basics right against core customer needs, creating the culture of a business-to-business retailer.

Our early progress has been encouraging and our success in growing our United Utilities Scotland business has allowed us to learn about the propositions, processes and systems required to win, serve and retain non-household customers. Research has highlighted a need for a broader range of services targeted to different segments. We are developing these in our non-appointed business ensuring that they are only paid for by customers who want these services.

Non-household customers tell us that the three most important things they look to their water supplier to deliver are: value for money; a reliable supply; and great customer service. With this in mind, through the course of AMP6 we will:

- install meters in all business customer premises that give automated meter reads (AMR) to facilitate billing for actual consumption;
- build stronger relationships with customers to develop tailored plans to meet their needs;
- give customers greater choice in how they contact and transact with us; and
- increase first point resolution and case ownership, reducing cost to serve and improving customer satisfaction.

Next steps

In line with the price review process we are scheduled to submit revisions to our business plan on 27 June. Ofwat is scheduled to publish a draft determination on 29 August and a final determination on 12 December 2014.

Planning for 2015-20

Read more about our 2015-20 business plan by visiting our website:
corporate.unitedutilities.com/ourbusinessplan

Principal risks and uncertainties

Risk is managed through the individual responsibility of each business area, supported by our Corporate Risk Framework, which aims for continuous improvement. With an overarching mandate and commitment by the board, the framework consists of four key areas:

- Governance;
- Approach;
- Process; and
- Guidance.

The application of the framework involves the regular assessment of the internal and external risk environment by the business. We focus on the factors that could limit or prevent the achievement of our company objectives and involves the prioritised implementation of controls to mitigate exposure and build resilience and sustainability.

The most significant risks and the group's risk profile summary are reported to the executive and the board twice a year. This supports the determination of the nature and extent of those risks we are willing to take in pursuing our objectives in line with good corporate governance practice. In addition, the audit committee regularly reviews the framework's effectiveness, and the group's compliance with it (see page 68), reporting its findings to the board.

Key features and developments over the last year

Key features for 2013/14 relate to the ongoing dominance of regulatory risks and the uncertainty which these continue to pose.

There continues to be two ongoing pieces of material litigation worthy of note but, based on the facts currently known to us and the provisions in our statement of financial position, our directors remain of the opinion that the likelihood of these having a material adverse impact on the group's financial position is remote.

Corporate Risk Framework – Governance and reporting structure

- In 2009, United Utilities International Limited (UUIL) was served with notice of a 'class action' in Argentina. The action relates to allegations about a US$230 million bond relating to Inversora Electrica de Buenos Aires S.A. (IEBA) that UUIL had a 45 per cent shareholding in (but sold in 2005). IEBA owned an Argentine electricity distribution network. The amount of the claim remains unspecified and UUIL continues to defend the matter vigorously.
- In March 2010, Manchester Ship Canal Company (MSCC) issued proceedings against United Utilities Water PLC (UUW) alleging that UUW was trespassing as a result of it discharging into the canal. MSCC is seeking damages and other relief. UUW won a 'summary judgment' application regarding a significant element of the claim but an appeal of that judgment was considered by the Supreme Court at the beginning of May. We await the court's decision.

Also notable was the extent of mitigating activity across the business in response to the changing regulatory environment and our commitment to be a leading water and wastewater company and service provider. This included significant progress in customer satisfaction, operational service performance and environmental assessments carried out by the Environment Agency. In addition, there was a step forward following activities tied to our ongoing commitment to a continuous and secure supply of water with a successful inspection of the largest aqueduct in Europe, detecting no urgent structural maintenance required. Ongoing business change and transformation programmes also featured heavily during the year in both the wholesale and business retail businesses preparing for the opening of the English market in 2017. This included the successful acquisition of customers in Scotland which provides not only a source of income for the group, but also a platform to learn and develop expertise. Ongoing innovative initiatives also played a key part in business transformation with a focus on reducing operating cost and the cost to serve.

Looking ahead

Following the price determination, we expect our risk profile to return to one based on operational performance, compliance and delivery risk. The ongoing development of the non-household market, including the extent of competitor activity and customer switching rates, will continue to be a focus as will the uncertainty surrounding the form of upstream competition for water and sewerage services.

Determination of the principal risks

The five principal risks summarised on pages 50 and 51 have been determined by considering our entire risk profile relative to the five principal risk categories contained within our Corporate Risk Framework (Strategic, Financial, Operational, Compliance and Hazard), drawing out key circumstances where there is a potential for material effect. In each case the summary illustrates a list of current issues and uncertainties along with the extent of control/mitigation and the commitment to manage these areas by illustrating the link to our company objectives and the company business plan through relevant performance indicators.

PHOTOGRAPH: Caroline Brameld and Ian Clydesdale, part of our team managing commercial debt.

Principal risks and uncertainties

	Risk	Potential impact
Strategic Risk	**1.The regulatory environment** Current issues or areas of uncertainty include: i) The PR14 price determination will reflect a lower assumed weighted average cost of capital (WACC) and may reflect lower cost allowances than incorporated in our proposed business plan. Regulatory penalties relating to the current regulatory period are also possible ii) Market reform (see 2 below) iii) Compliance with regulations (see 4 below)	Our proposed business plans are subject to final determination from Ofwat which may reflect a different view of the appropriate scope and /or cost of delivering customer benefits. Longer-term and less frequent changes to the mechanism may also cause increased costs of administration and also reduce income and margin. The water and wastewater sectors in England and Wales have benefitted from a stable and transparent regulatory regime based on a regulatory capital value. The evolution of regulation in the sector may involve incremental changes to this model, more variations in returns and, consequently, changes to the risk and return profile of companies operating in the sector.
	2. Competition in the market Current issues or areas of uncertainty include: i) Market reform including competition in the non-household retail sector ii) Competitor positioning in the market iii) Upstream reform iv) Compliance with regulations (see 4 below)	The opening of the market for retail services to non-household customers in England generates both opportunities to gain market share and scale and risks of losing market share and margin erosion. Longer term, upstream competition has the potential to generate issues relating to underutilisation or stranding of assets, although there is much uncertainty surrounding the development of upstream competition.
Financial Risk	**3. The economy** Current issues or areas of uncertainty include: i) Stability of the world economy ii) Speed of economic recovery iii) Stability of financial institutions iv) Socio-economic deprivation in the North West v) Welfare Reform and the impact on domestic bad debt	Adverse market conditions can impact the group's profitability and financial condition in a number of ways. These range from price rises for goods and services affecting profit and cash flow to the availability and /or cost of funding and hedging. It may also lead to increased customer bad debt with the North West suffering a higher level of socio-economic deprivation than any other region of the UK. Differentials to predicted financial instrument yields can also affect the economic return on the RCV and on our pension schemes with a requirement for the group to make additional contributions. In extreme but remote cases adverse conditions can affect our debt obligations and credit rating and the ability of our financial counterparties to meet their debt obligations to us.
Compliance Risk	**4. Failure to comply with applicable law or regulations** Current issues or areas of uncertainty include: i) Ongoing legal, economic, environmental and regulatory requirements associated with operating in a highly regulated business ii) Market reform (see 2 above) iii) Material litigation (see page 48)	In addition to general UK and international laws, our activities are subject to significant additional obligations. In the context of changes in the regulatory environment there is a risk that we fail to adopt policies/processes to ensure compliance with emerging requirements. It is also difficult to predict the impact of future changes to laws or regulations or the introduction of new law or regulations that affect us and, from time to time, interpretation of existing laws or regulations may also change or the approach to enforcement may become more rigorous. We could face a range of impacts from this. These include financial payments, penalties (of up to ten per cent of relevant regulated turnover), the imposition of an enforcement order requiring additional capital/operating expenditure or compensation following litigation. It could also lead to high levels of scrutiny by regulators, enforcement agencies or authorities with associated increase in operational costs. In more extreme but remote circumstances, impacts could ultimately include licence revocation or the appointment of a special administrator.
Operational and Hazard Risk	**5. Operational and Hazardous Events** Current issues or areas of uncertainty include: i) Future abstraction licencing ii) Supply demand balance in West Cumbria iii) Weather conditions iv) Population growth v) Investment requirements in wastewater infrastructure vi) Excavation, tunnelling and construction work	Caused by both internal and external factors, operational impacts can range from performance related issues, such as leakage or discharge consent breaches to service related issues such as operational/asset failures and the effect on quality, supply or flooding. In exceptional and extremely remote circumstances which may include human error or malicious intervention, the impact could be more significant ranging from environmental damage, economic and social disruption to loss of life. Depending on the circumstances the company could be exposed to increased regulatory scrutiny, regulatory penalties and/or additional operating or capital expenditure. In the more extreme situations the group could also be fined for breaches of statutory obligations, be held liable to third parties and sustain reputational damage.

Control mitigation	Strategic relevance	Performance indicators
Our business plan has been prepared based on extensive research and consultation from a wide range of stakeholders including customers, environmental and quality regulators and others in order to ensure that it is both affordable and sustainable, meets statutory and legal obligations, strikes an appropriate balance between the needs of customers and the environment, whilst still being financeable by investors. We engage in relevant government and regulatory consultations and initiatives which may affect the future strategic decisions made about policy and regulation in the sectors where we operate. In addition, we proactively consider all the opportunities and threats associated with any potential change, exploiting opportunities and mitigating risks where appropriate.	Lowest Sustainable Cost	• Revenue • Underlying operating profit • Underlying profit after taxation • Gearing: net debt to RCV • Financing outperformance • Opex outperformance • Capex outperformance
We look to retain existing and acquire new customers by striving to meet their needs more effectively. We monitor competitor activity and target a reduction in operating costs. We continue to engage with government and regulators on the shape of future competition and are actively engaged in the Open Water programme.	Best Service to Customers	• Satisfied customers • Revenue • Margin • Operating costs
Refinancing is long-term with staggered maturity dates to minimise the effect of short-term downturns. Counterparty credit, exposure and settlement limits exist to reduce any potential future impacts. These are based on a number of factors, including the credit rating and the size of the asset base of the individual counterparty. The group also employs hedging strategies to stabilise market fluctuation for inflation, interest rates and commodities (notably energy prices). Sensitivity analysis is carried out as part of the business planning process, influencing the various financial limits employed. Continuous monitoring of the markets takes place including equity movements. Within our operations, contract and category management covers supplier price and price volatility of goods and services and the effect of the economy on our customers is monitored. We adopt best practice collection techniques including the segmentation of customers based on their credit risk profile.	Lowest Sustainable Cost	• Financing outperformance • Gearing: net debt to RCV • Pension scheme funding • Value at Risk (VaR) • Cash collection • Bad debt
The group has robust processes in place to identify risks to its compliance with legal and regulatory obligations and seeks to take appropriate action to ensure compliance. This includes continually monitoring legislative and regulatory developments, the training of employees in new developments and the participation in consultations to influence their outcome, either directly or through industry trade associations for wider issues. Funding for any additional compliance costs in the regulated business is sought as part of the price determination process. The group also robustly defends litigation where appropriate and seeks to minimise its exposure by establishing provision and seeking recovery wherever possible.	Responsible Manner	• Environmental Agency performance assessment • Accident frequency rates • Near miss • RIDDOR • Dow Jones sustainability • Regulatory reporting process • Company risk and compliance statement
Controls and mitigation relate to our core business processes, focusing on preventing negative impacts in order to support high levels of customer service and operation in a reasonable manner. Forecasting and monitoring is a fundamental element of our operational activity, with robust quality assurance procedures, risk assessments and rigorous sampling /testing regimes in place. Ongoing network maintenance and capital programmes aim to enhance standards and integration across the water and wastewater networks for both service and resilience. We also undertake major education programmes in both water usage and appropriate disposal into the sewer network in an attempt to minimise operational issues. In support of this, physical and technological security measures to protect the operational capability from malicious or accidental activity and governance and inspection regimes exist for key infrastructure assets (including aqueducts, dams, reservoirs and treatment works). We have also developed a strong health and safety and environmental culture throughout the organisation supported by health and safety management (HSMS) and environmental management systems (EMS) which are certified to OHSAS18001 and ISO14001 respectively. Recognising that events can materialise, we operate long-standing responsive controls. These include well tested and appropriately resourced incident response, business continuity, disaster recovery and escalation procedures which continue to be refined. We also maintain insurance cover in relation to losses and liabilities likely to be associated with significant risks, although potential liabilities arising from catastrophic events could exceed the maximum level of cover that can be obtained cost-effectively. The licence of the regulated business also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse to Ofwat/customers (by way of an interim determination) in the event of a catastrophic incident.	Best Service to Customers	• Service Incentive Mechanism (SIM) • Serviceability • Mean zonal compliance • Supply demand index • Leakage target • Time cost quality index • Opex, Capex and Financing outperformance • Environmental Agency performance assessment • Pollution incidents • Sewage treatment works compliance • Accident frequency rates • Near miss • RIDDOR

Corporate governance

The corporate governance report presents information on the board of United Utilities and its activities, and those of the various committees and sets out how the board demonstrates leadership, effectiveness and accountability to the company's stakeholders.

PHOTOGRAPH: Project controller Tessa Smith, who coordinates our investment projects to clean up rivers and tackle sewer flooding.

Strong governance is business as usual at United Utilities

Dr John McAdam
Chairman

"We have aimed to adopt a more transparent approach to this year's annual report."

Dear Shareholder

UK Corporate Governance Code

This is our first annual report whereby we are reporting in line with the 2012 version of the UK Corporate Governance Code (which incorporates the UK Corporate Governance Code 2010 with which we are required to comply under the FRC Listing Rules) and is referred to in this report as 'the Code'. I can confirm that the company has complied fully with the principles and spirit of the Code during the year. As a board, we aspire to apply the highest standards of governance to our conduct around the board table and we strive to ensure that these standards are applied by the executive team and cascaded throughout the group. Strong governance is business as usual at United Utilities.

As last year, we have used the key principles of the Code - of leadership, effectiveness, accountability, remuneration and relations with shareholders to provide the structure for this report.

Over the past year, there has been considerable change in the areas of governance and narrative reporting, and as a board we have been monitoring these developments. We have aimed to adopt a more transparent approach to this year's annual report and would welcome feedback as to whether you, as a reader, feel that this has been achieved.

Quick facts

- The Chairman met the independence criteria as set out in the Code when he was appointed to the board
- The Code requires that half of the board is made up of independent non-executive directors (the test excludes the Chairman). At United Utilities, five out of seven directors (which excludes the Chairman) are independent non-executive directors
- The company secretary attends all board and committee meetings and advises the Chairman on governance matters. The company secretariat team provides administrative support
- All directors are subject to annual election at the AGM held in July. Following the completion of the annual evaluation process all the non-executive directors were considered by the board to be independent and making a valuable and effective contribution to the board. As a result, the board recommends that shareholders vote those wishing to stand for a further term back into office at the forthcoming AGM

Schedule of matters reserved for the board -
corporate.unitedutilities.com/corporate-governance

FRC 2012 UK Corporate Governance Code -
frc.co.uk/corporate-governance

On the board's agenda

One of the board's most important roles is to provide strategic leadership and direction throughout the development of the five-year business plan for 2015–20 which was submitted to Ofwat in December 2013. The plan will be finalised and agreed later in the year. The December plan sought to meet the needs of all our stakeholders by balancing affordability, customers' preferences and priorities, while ensuring we meet our statutory obligations. Discussions continue with Ofwat and through the process we will agree a plan that strikes the right balance between customer service, the environment and customer bills. We will work with the regulator and our Customer Challenge Group to achieve the right balance of risks and rewards against delivery of the outcomes that customers value most.

The emerging challenges for the board to address during the year included the risks posed by cyber crime and shale gas extraction and hydraulic fracturing ('fracking'), two very different but topical challenges. Cyber crime is high on the agenda for the UK Government, and our strategy to protect our business will be aligned with the government's plan. We have been working to understand the impact of fracking on our business and the services we provide to our customers. A statement on fracking can be found on our website at **corporate.unitedutilities.com/documents/uu-shale-gas-statement.pdf**

Board changes and succession

During the year we welcomed Mark Clare to the board as an independent non-executive director. Mark's biographical details can be found on page 56, his considerable experience in finance and his time spent in the regulated environment of the energy industry, and more latterly as CEO of a FTSE house building/construction company, are directly relevant to our business.

Nick Salmon is due to stand down at the AGM in July, after around nine years serving on the board and, since 2007, as the company's senior independent director. We wish him well for the future and thank him for his extensive contribution to the board and the group. Mark Clare will be appointed as the senior independent director on Nick Salmon leaving the board.

Since 2011, the boards of UUG and UUW (our principal operating subsidiary which provides water and wastewater services to our customers) have had the same serving directors on the board, which we feel increases the efficiency and effectiveness of our corporate governance structure. The only exception is Steven Fraser, who was appointed as a director of UUW on 1 April 2013. Steven is the managing director of UUW's wholesale business, and is responsible for the day-to-day operational activities of UUW. His appointment provides the UUW board with additional insight into the operational challenges the company faces.

United Utilities has a simple corporate structure and its governance processes address Ofwat's published principles on board leadership, transparency and governance. Our statement can be found on our website at **corporate.unitedutilities.com/corporate-governance**

As Chairman, and leader of the board, it is my responsibility to ensure we have effective governance, and to do this we need to have the right atmosphere of openness and trust around the board table in order that queries and concerns can be raised and addressed in a constructive way. In our annual board evaluation, I am pleased to report that the views of my fellow directors reflected that we do indeed have a positive atmosphere around our board table and that issues are freely raised and addressed.

We have a comprehensive programme of events where our CEO, CFO and investor relations manager meet with investors and Sara Weller, the chair of our remuneration committee, has been keen to engage with shareholders to gain their views on our executive remuneration framework. As the board, we have an 'open door' policy and would encourage shareholders and investors to contact us if we can help in any way – please email us at **secretariat@uuplc.co.uk**.

Dr John McAdam
Chairman

Current board members:
Board split

- John McAdam (Chairman)
- Steve Mogford
- Russ Houlden
- Catherine Bell
- Mark Clare
- Brian May
- Nick Salmon
- Sara Weller

Biographies of the **directors** are on pages 56 and 57

Corporate governance report

Board of directors

Dr John McAdam (66)
Chairman

Responsibilities: Is responsible for the leadership of the board, setting its agenda and ensuring its effectiveness on all aspects of its role.

Qualifications: BSc (Hons) Chemical Physics, Diploma Advanced Studies in Science, PhD.

Appointment to the board: Appointed as a non-executive director in February 2008 and as Chairman in July 2008.

Committee membership: Nomination (chair).

Current directorships/business interests: Chairman of Rentokil Initial plc, senior independent director of J Sainsbury plc and a non-executive director of Rolls-Royce Holdings plc. He is also Chairman and a director of United Utilities Water PLC.

Career experience: Appointed to the board of ICI plc in 1999 and became chief executive in 2003, a position held until ICI's takeover by Akzo Nobel. There have been no changes to John's directorships during the year ended 31 March 2014.

Skills and experience: With over 15 years' service as a board director in a wide range of companies, and as a current non-executive director serving on a number of other boards, John has a wealth of experience on which to draw in his role as Chairman and leader of the board.

Independence: John met the Code's independence criteria at the time of his initial appointment to the board in February 2008.

Steve Mogford (57)
Chief Executive Officer

Responsibilities: To manage the group's business and to implement the strategy and policy approved by the board.

Qualifications: BSc (Hons) Astrophysics/Maths/Physics.

Appointment to the board: January 2011.

Committee membership: Corporate responsibility.

Current directorships/business interests: Senior independent director of Carillion PLC, vice-president of Liverpool School of Tropical Medicine. He is also Chief Executive Officer and a director of United Utilities Water PLC.

Career experience: Previously chief executive of SELEX Galileo, the defence electronics company owned by Italian aerospace and defence organisation Finmeccanica. Previously chief operating officer at BAE Systems PLC, and a member of its PLC board, he spent his earlier career with British Aerospace PLC.

Skills and experience: Steve's experience of the highly competitive defence market and complex design, manufacturing and support programmes has brought renewed focus to customer service and operational performance at United Utilities, and his perspective of the construction and infrastructure sector provides valuable experience relating to United Utilities' capital investment programme.

Dr Catherine Bell (63)
Independent non-executive director

Qualifications: MA Geography, PhD Economic History.

Appointment to the board: March 2007.

Committee membership: Nomination, audit, remuneration and corporate responsibility (chair).

Current directorships/business interests: Non-executive director and executive board member of the Department of Health and a non-executive director of National Grid Gas plc and National Grid Electricity Transmission plc. She is also an independent non-executive director of United Utilities Water PLC.

Career experience: Formerly a non-executive director of the Civil Aviation Authority and prior to that a former civil servant and acting permanent secretary at the Department for Trade and Industry. Previously a non-executive director of Ensus Limited and Swiss Re GB Plc.

Skills and experience: Catherine's civil service background and understanding of the operation of government departments and utility regulation is particularly valued given the regulated framework within which the business operates.

Mark Clare (56)
Independent non-executive director

Qualifications: Chartered Management Accountant (FCMA).

Appointment to the board: November 2013.

Committee membership: Nomination, audit.

Current directorships/business interests: Group chief executive at Barratt Developments plc. He is also an independent non-executive director of United Utilities Water PLC.

Career experience: Mark has been group chief executive at Barratt Developments plc since October 2006 and is also a trustee of the Building Research Establishment and the UK Green Building Council. Prior to joining Barratt, he was an executive director of Centrica plc and held a number of senior roles both within Centrica plc and British Gas. Mark has also been a non-executive director of BAA plc, the airports operator.

Skills and experience: As the CEO of a listed company, Mark brings additional current operational experience to the board. His time at British Gas and BAA means he has a strong background operating in a regulated environment which will be invaluable as will his extensive knowledge of customer facing businesses which is particularly valuable as the industry prepares for increased competition and pursues its continuous drive to improve customer service. Lastly, his financial background is of great value as a member of the audit committee.

Russ Houlden (55)

Chief Financial Officer

Responsibilities: To manage the group's financial affairs and to contribute to the management of the group's business.

Qualifications: BSc (Hons) Management Sciences, Fellow of the Chartered Institute of Management Accountants, Chartered Global Management Accountant and a Fellow of the Association of Corporate Treasurers.

Appointment to the board: October 2010.

Committee membership: Treasury.

Current directorships/business interests: Russ is a Member of the Supervisory Board and Chairman of the Audit Committee of Orange Polska SA, a fixed and mobile telecommunications company listed on the Warsaw and London stock exchanges. He is a Member of the Main Committee and Chairman of the Financial Reporting Committee of the 100 Group. He is also chief financial officer and a director of United Utilities Water PLC.

Career experience: Chief financial officer at Telecom New Zealand. Previously finance director of Lovells, BT Wholesale, BT Networks and Information Services, ICI Polyurethanes and ICI Japan.

Skills and experience: Russ's experience in accounting, finance and treasury management in other competitive and regulated companies, along with his extensive experience of driving performance improvement and managing large capital expenditure programmes, provides the group with valuable expertise with regard to its drive for improvements in customer service, operations, capital expenditure and financing.

Brian May (50)

Independent non-executive director

Qualifications: BSc (Hons) Actuarial Science, Chartered Accountant ACA.

Appointment to the board: September 2012.

Committee membership: Audit (chair), nomination, treasury (chair).

Current directorships/business interests: Finance director at Bunzl plc. He is also an independent non-executive director of United Utilities Water PLC.

Career experience: Brian has been finance director at Bunzl plc since 2006 and prior to that held a number of senior finance roles within the company. Prior to joining Bunzl, Brian qualified as a chartered accountant with KPMG.

Skills and experience: Brian joined Bunzl in 1993 as head of internal audit before becoming group treasurer, then finance director, Europe and Australasia, and is currently group finance director. Brian's background and the various finance roles that he has held are major assets to the board in chairing both the audit committee and the treasury committee.

Nick Salmon (61)

Senior independent non-executive director

Qualifications: BSc (Hons) Mechanical Engineering.

Appointment to the board: April 2005.

Committee membership: Audit, nomination, remuneration and corporate responsibility.

Current directorships/business interests: Senior independent director of Asia Resource Minerals plc. He is also an independent non-executive director of United Utilities Water PLC.

Career experience: Chief executive of Cookson Group plc until December 2012 when Cookson demerged to create two new listed companies, Vesuvius plc and Alent plc. Formerly executive vice-president of Alstom S.A. and of ABB Alstom Power and chief executive of Babcock International Group plc. Previous senior management positions held at GEC and GEC Alsthom in the UK and France and the China Light and Power Company, Hong Kong.

Skills and experience: As an experienced former CEO of two FTSE listed companies, Nick brings extensive executive experience to the board table. In addition, his considerable experience in the management of large capital construction projects supports the board's oversight of the capital investment programme.

Sara Weller (52)

Independent non-executive director

Qualifications: MA Chemistry.

Appointment to the board: March 2012.

Committee membership: Nomination and remuneration (chair).

Current directorships/business interests: Non-executive director of Lloyds Banking Group plc and lead non-executive director for the Department for Communities and Local Government. Sara is also a board member at the Higher Education Funding Council for England (HEFCE). She is also an independent non-executive director of United Utilities Water PLC.

Career experience: Sara has wide-ranging business experience having worked for Mars, Abbey National and Sainsbury's and most recently as managing director of Argos from 2004 to 2011. She served as the senior independent director at Mitchells and Butlers from 2003 to 2006 and also chaired its remuneration committee from 2003 to 2010.

Skills and experience: Sara's experience of customer facing businesses, together with her knowledge of operating within a regulated environment, will be major assets to the board as the water industry prepares for the opening up of the sector to more competition and in improving customer service.

Paul Heiden retired from the board on 26 July 2013.

Corporate governance report

Code principle: Leadership

Overview of the board's responsibilities

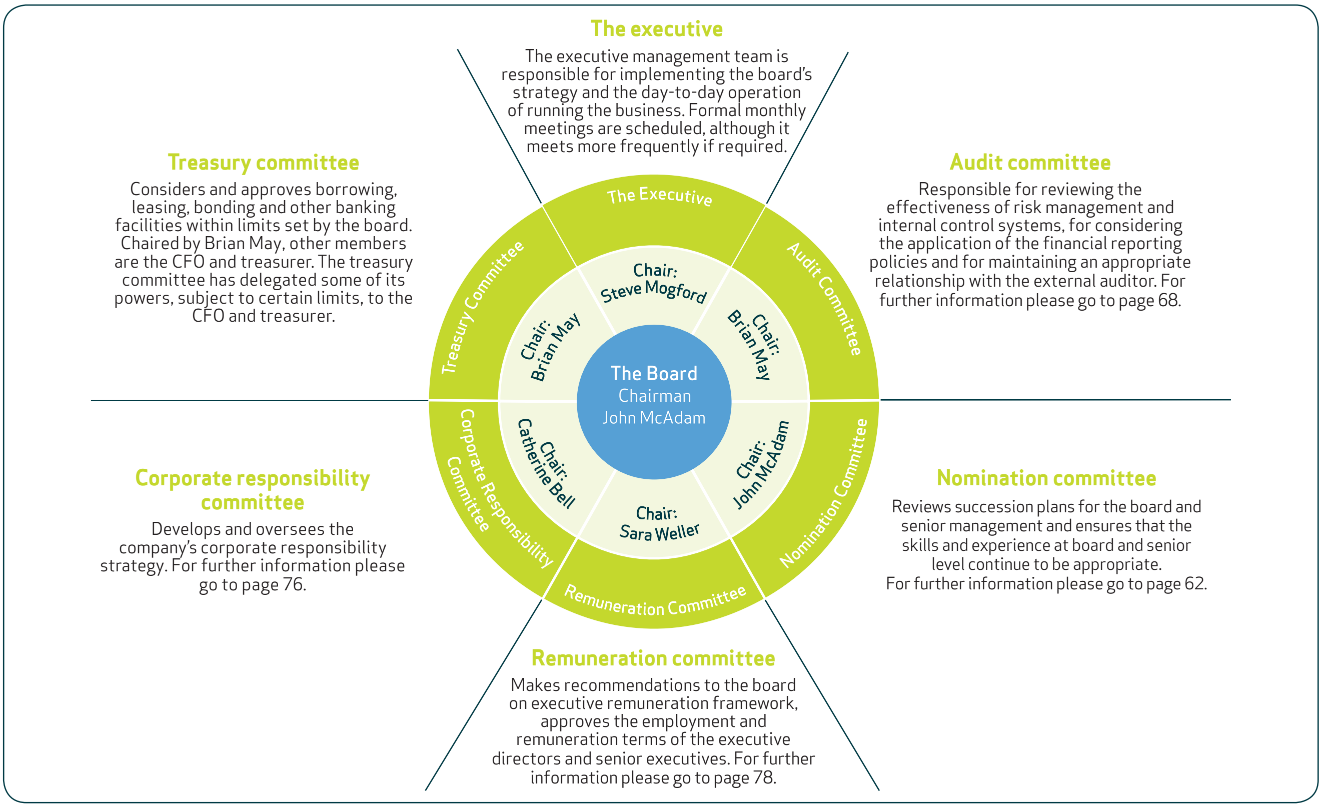
- Our board is responsible for setting the strategy of the group and ensuring the long-term success of the group for customers, investors and wider stakeholders; and in creating shareholder value;
- It is responsible for challenging and encouraging the management team in its interpretation and implementation of how it manages the business, and that it is doing so in accordance with the strategic goals the board has set. Collectively, the directors have many years of experience gained across a variety of areas and industries. Some have spent part of their careers overseas, and whilst there is a huge diversity in their skills and experience, they have predominantly worked in regulated industries, as is appropriate to our business. Diversity in skills and experience helps the board to be proactive in its view of the business, and in its guidance and challenge to the management team;
- The board is responsible for ensuring the company's internal control systems (including financial, operational and compliance) and processes are sound and fit for purpose. See the 'Accountability' section of this report on page 67 for more detail;
- The board has responsibility to ensure that the company has the necessary financial resources and people with the necessary skills to achieve its objectives; it also reviews managerial performance annually;
- Full details of the matters that the board has reserved for its own decision making due to their importance to the business or the working of the board, can be found on our website **corporate.unitedutilities.com/corporate-governance**; and
- The UUG board has oversight of capital expenditure projects which exceed £50 million, and any project which materially increases the group's risk profile or is not in the ordinary course of the group's business.

Governance structure for our board and our committees

In line with the Code, the board delegates certain roles and responsibilities to various sub-committees, as shown in the diagram below. Whilst the board retains overall responsibility, a sub-committee structure allows these committees to probe the subject matter more deeply and gain a greater understanding of the detail, and then report back to the board on the matters discussed.

The reports of the principal board committees required by the Code can be found on the subsequent pages. The executive management team is chaired by the CEO, and its members are the senior managers who have a direct reporting line to the CEO. Short biographies of the executive team can be found on our website at **corporate.unitedutilities.com/united-utilities-executive-team**

The board received reports from the CEO and CFO at every scheduled board meeting, providing the board with an updated overview of the business and its financial position. Minutes of board and committee meetings (with the exception of the remuneration committee) are tabled and the chairs of each of the board committees verbally report on their activities.



Board activity in 2013/14	Cross reference	Link to strategic objectives
Shareholder relations		
• Received and discussed a presentation by Makinson Cowell on shareholders' views of United Utilities	See page 74	
Leadership and employees		
• Considered and approved executive share plans including the Long Term Plan (which received shareholder approval at the 2013 AGM) and Deferred Bonus Plan	See page 79	
• Considered board succession planning and the appointment of Mark Clare as a new non-executive director	See page 63	
• Reviewed and discussed executive succession plans and an update on the activities to develop talented employees	See page 66	
• Discussed the results of the annual employee engagement survey	See page 8	
• Organisational capability review		
Strategy		
• Debated and discussed fracking and the implications for our service provision to our customers and approved the company's policy statement	See page 55	
• Reviewed and discussed energy strategy, in particular energy use and energy production at treatment works	See page 37	
• Held a strategy session dealing with forthcoming regulatory changes and a number of further updates	See page 25	
Governance		
• Reviewed and debated the risk profile of the group and in particular the principal risks	See page 49	
• Discussed and debated the threat of cyber crime and the implications and actions required	See page 55	
• Approved revised terms of reference for the audit committee	See page 68	
• Bi-annual updates on changes and developments in corporate governance		
• Reviewed and discussed the evaluation of the board, its committees and individual directors and conflicts of interest	See page 60	
• Reviewed and debated compliance with the Ofwat requirements regarding holding companies	See page 55	
• Reviewed the performance of the external auditor and recommendation for reappointment	See page 70	
• Reviewed internal controls and risk management processes	See page 67	
Regulation (UUW business)		
• Met on two occasions with representatives of the 'Customer Challenge group' to discuss and debate the impact on customers of the company's plans for the next five-year period	See page 46	
• Regular debate on progress with the 2015-20 business plan submission		
Financial		
• Reviewed and challenged the business plan, budget and dividend policy		
• Reviewed and approved the half and full year results and associated announcements		
• Reviewed and approved the company's tax strategy	See page 39	
• Reviewed and approved the company's treasury policy		
• Reviewed progress with material cases of litigation involving the group	See page 48	

Key to strategic objectives (more detail on strategy can be found on page 12).

Best service to customers

In a responsible manner

Lowest sustainable cost

Corporate governance report

Attendance at board meetings

Eight scheduled board meetings were planned and held during the year (2013: eight). A number of other board meetings and telephone conferences were also held during the year, as the need arose. The table below shows the actual number of scheduled meetings attended and the figures in brackets are the maximum number of scheduled meetings which the directors could have attended.

	Board	Audit committee	Remuneration committee	Nomination committee	Corporate responsibility committee	Treasury committee
Steve Mogford	8 (8)	n/a	n/a	3 (3)	2 (2)	n/a
Russ Houlden	8 (8)	n/a	n/a	n/a	n/a	4 (4)
Catherine Bell	8 (8)	4 (4)	5 (5)	4 (4)	2 (2)	n/a
Mark Clare	2 (2)	2 (2)	n/a	1 (1)	n/a	n/a
Paul Heiden	4 (4)	1 (1)	n/a	2 (2)	n/a	1 (1)
Brian May	8 (8)	4 (4)	n/a	4 (4)	n/a	3 (3)
John McAdam	8 (8)	n/a	n/a	4 (4)	n/a	n/a
Nick Salmon	8 (8)	3 (3)	5 (5)	4 (4)	2 (2)	n/a
Sara Weller	8 (8)	n/a	5 (5)	4 (4)	n/a	n/a

Notes:
Paul Heiden retired from the board at the AGM on 26 July 2013. Paul stepped down as treasury committee chair prior to the meeting held in June 2013, when Brian May took over as the committee chair.

Mark Clare was appointed to the board and the audit and nomination committees on 1 November 2013.

Nick Salmon was appointed to the audit committee on 26 July 2013 when Paul Heiden stepped down to ensure the committee membership remained at three independent non-executive directors.

Steve Mogford stepped down from the nomination committee on 25 February 2014 prior to the February 2014 committee meeting.

As directors, our intention is always to attend all scheduled board and committee meetings, as you can see from the table above. Only in exceptional circumstances would we not do so. Similarly, every effort is made to attend ad hoc meetings either in person or via the use of video or telephone conferencing facilities if needs be. None of our non-executive directors have raised concerns over the time commitment required of them to fulfil their duties. The need for succinct board and committee packs is an enduring challenge. Board paper templates have been used for a number of years in order to provide a common structure for both the reader of the report and the author and promote a more consistent quality.

We, the non-executive directors, regularly meet the evening before a scheduled board meeting along with the CEO, which allows us to share our thoughts on current issues and the business of the meeting. This time together is well spent, allowing us extra time to share views and cross check our understanding of certain issues ahead of the meeting.

Conflicts of interest

The company's articles of association contain provisions which permit unconflicted directors to authorise conflict situations. Each director is required to notify the Chairman and/or company secretary of any potential conflict, and the board reviews the position of each director annually. No changes were recorded which would impact the independence of any of the directors who fulfilled the independence criteria on appointment.

Board evaluation

We have again completed our internal board evaluation; we are due to engage an external facilitator for the 2015 evaluation.

The process is facilitated and evaluated by the company secretary and is based on the completion of questionnaires by board members seeking their views on the operation and effectiveness of the board; the balance of skills, experience, knowledge and diversity (including gender) of board members.

Questionnaires specifically related to the operation and effectiveness of the various board committees are also completed. Views were also sought on the administrative support for the board and the different committees, and whether there was sufficient information and time devoted to key activities such as strategic planning. The process we followed was that used by Lintstock (who undertook our external evaluation in 2012). In addition to board members, other senior managers who regularly attend and support committee meetings were asked to complete the same questionnaires. The results were then analysed by the company secretary. The findings, which are kept anonymous, were discussed with the Chairman or the chair of the specific committee as appropriate and tabled at a meeting of the relevant committee and then presented to the board.

Directors also complete individual questionnaires assessing their own performance, contribution and perceptions of being a director at United Utilities. The Chairman also conducts one-to-one interviews with each of the non-executive directors, with particular focus on challenging the independence credentials of those who have served a six-year term or longer. The senior independent director, supported by the other non-executive directors, leads the performance evaluation of the Chairman. Specific training has been provided to the directors during the year on a number of areas including regulatory matters and changes in reporting and governance requirements. On the appointment as a director to both UUG and/or the UUW board, directors receive information on the key duties of being a director of a regulated water company including the role of the regulated company's holding company (known as 'Condition P' of the regulatory licence). This information is kept continually under review.

Actions arising from the 2012/13 evaluation	What we have done in response
Build further on improving the standard of presentations given to the board	These were felt to have improved considerably. Refinements and improvements will continue to be made, with presenters encouraged to take into account their audience and maintain a sharp focus on the key issues and be as succinct as possible.
Maintain the opportunities for the board to meet with members of the executive and wider senior management team	A variety of executive members and senior managers present to the board on a variety of issues. Due to the predominance of the price review process, the board has not had the opportunity to see the full range of senior executives that it would like, but steps will be taken to rectify this in 2014/15. Additionally, there are a number of events held during the year, including the management conference held in the North West, board meetings and the AGM when the board has the opportunity to meet with executives and other senior managers.
Further develop the focus of executive succession planning	In response to a letter sent to chairmen of FTSE100 companies from the Secretary of State for Business Innovation and Skills and Lord Davies of Abersoch regarding the recruitment of women board members, the Chairman and two female members of the executive team attended an event organised by the Department of Business Innovation and Skills where potential candidates for non-executive positions had the opportunity to meet chairmen of FTSE100 companies.
Given the evolving regulatory agenda, ensure the board continues to have opportunities to broaden its understanding and knowledge, with particular focus on market reform	Regulatory issues and updates have been given at every board meeting and the board has had the opportunity to meet with chair and deputy chair of the customer challenge group (CCG) on two occasions. The CCG is made up of representatives from our independent stakeholders who contributed to the price review process. More information can be found at **corporate.unitedutilities.com/ccg**

The directors confirmed that they felt the action points coming out of last year's evaluation had been satisfactorily addressed.

The following actions came out of the 2013/14 evaluation:

- There was the need to further improve the visibility and engagement of the executive team and a wide range of senior managers with the board and provide more opportunities for such engagement; and
- Maintain the strong focus on succession planning for executives and those in critical posts in the talent pipeline.

Looking forward - what is on the board's agenda for 2014/15

- The regulatory price review process will continue to dominate the board's discussions for the first half of 2014/15.

John McAdam
Chair of nomination committee

"The refreshing of the board is being maintained for the third consecutive year."

NOMINATION COMMITTEE

Dear Shareholder

We currently have a relatively small sized board with eight directors in total, two of whom are executive directors and the remaining six are non-executive directors. We feel the size of our board is appropriate to our business and that the skills and experience of our board members match its needs. In line with our succession plans, Mark Clare was appointed during the year and Nick Salmon will be stepping down at the forthcoming AGM in July after over nine years' service. As a result, the refreshing of the board is being maintained for the third consecutive year arising as a result of natural turnover, due to the directors having reached around their ninth year of service on the board.

We are aware that the European Parliament voted in favour of draft rules aimed at increasing female representation on the boards of listed companies to ensure that there is a quota of at least 40 per cent of female non-executive directors. We will keep this matter under review.

For the moment, we have maintained the 25 per cent gender diversity ratio recommended by Lord Davies. Our gender diversity policy is taken into account during every candidate selection process – ultimately we will strive to appoint the person we believe is best matched to the role.

We have a talent management programme which aims to identify and develop leaders for our future resourcing needs who may, in the fullness of time, develop into non-executive directors of the future.

Over the coming year, we will be looking at the resourcing needs of our company in the new regulatory period (2015-2020) and ensuring that our succession plans at board and executive and senior manager level complement the needs of our business.

Dr John McAdam
Chair of the nomination committee

Current committee members

- John McAdam (chair)
- Catherine Bell
- Mark Clare
- Brian May
- Nick Salmon
- Sara Weller

Biographies of the **directors** are on pages 56 and 57

Quick facts

- The Code requires that 'a majority of members of the nomination committee should be independent non-executive directors'
- The role of the committee is to make recommendations to the board on its composition, balance and membership and on refreshing the membership of the board committees
- The company secretary attends all meetings of the committee
- The business services director, who has responsibility for human resources, regularly attends meetings and is responsible for engaging with executive search recruitment advisors
- Terms of reference - **corporate.unitedutilities.com/corporate-governance**

What has been on the committee's agenda during the year

Board succession

Board succession planning has been a key topic of discussion. To support the committee in the search process, which resulted in the appointment of Mark Clare, we engaged Russell Reynolds Associates, an executive search consultant. The committee prepared a brief of the skills and experience that were needed by a candidate, which identified the fact that the successful candidate would, when Nick Salmon stepped down, be his successor as senior independent director. The process thereafter was for the committee to consider a number of suitable candidates, which were narrowed down after discussion by the committee. A number were then invited to attend initial meetings with the Chairman and the CEO and business services director. Thereafter, a small number of candidates were invited to meet the other non-executive directors and the CFO. The committee met again and after discussion agreed that the role should be offered to Mark Clare. Russell Reynolds Associates is a signatory to the voluntary code of conduct on gender diversity for executive search firms; it has no other relationship with the group other than being used on previous occasions for executive search purposes.

Question & Answer:
MARK CLARE

"There is a real pride in what has been achieved over the last few years."

Mark Clare
Independent non-executive director

What, so far, have you done as part of your induction process?

"So far, I spent an intensive two days at the group's head office in Warrington, meeting on a one-to-one basis with members of the executive team and other senior managers, covering a number of areas of the business including the wholesale activities, domestic retail/customer services and regulation. I also spent the afternoon at Davyhulme wastewater treatment works in Manchester. It was great to get an understanding from the team at Davyhulme about what goes on, and what the opportunities for energy generation are at one of the country's largest wastewater treatment works." (Davyhulme is the group's largest wastewater treatment plant serving a population equivalent of 1.2 million in and around Manchester; it is set to become a centre of excellence for sludge treatment and energy generation. Such is the scale of recovery of energy from wastewater at Davyhulme, the site generated over 50GWhs of energy during the year - see page 37.)

What are your initial impressions of United Utilities?

"As a customer, in the UK we take our water services pretty much for granted. There has been considerable progress in improving customer service over the last few years and the challenge for United Utilities is to continue to move faster than its peers to get to a leadership position.

"While United Utilities is a big business delivering critical services to its customers, it's also one that has had to embrace considerable change whilst continuing to invest in major infrastructure."

From your induction process so far, what has left you with a lasting impression?

"It's the people that make great businesses and the enthusiasm, experience and willingness to deliver the change programmes came through very strongly for me. There is real pride in what has been achieved over the last few years and quite rightly so."

Corporate governance report

In February 2014, Steve Mogford stepped down from the committee. It is common practice across many FTSE companies for the CEO not to serve as a member of the nomination committee. Neither the Chairman nor the CEO will participate in the reappointment of their own successor when the time comes. It is envisaged that Steve will be consulted by the committee from time to time and attend meetings at their request in relation to other board and senior management appointments as they arise.

Board diversity

We have retained the 25 per cent female representation on our board, in line with the recommendations of Lord Davies of Abersoch and in accordance with our board diversity policy. We are mindful in our board succession planning of the wish by Lord Davies and the Secretary of State for Business Innovation and Skills (BIS) for further female appointments to our board. We are keen to develop our female senior managers so that, over time, they can be considered for board appointments at United Utilities or as potential candidates for non-executive directorships in other companies. In March 2014, the Chairman and two female members of the executive team attended the BIS 'Women on Boards Conference'; the aim of the conference was to increase the number of female candidates in the pipeline for non-executive posts. At United Utilities we are keen to support this ambition, believing that non-executive positions for its executive team provide excellent opportunities for both personal and career development.

As is the case in many UK companies, certain activities remain more widely populated by males (e.g. in operational and engineering activities) or females (e.g. customer contact centre roles and support services). United Utilities is no exception, but we are continuing our activities to try and address gender imbalances at all levels and in all areas of our business. During the year, we appointed Helen Samuels to a new role as our director of engineering (see page 66).

The ratio of male:female employees at United Utilities can be found on page 18.

PHOTOGRAPH: Lorne Large, principal project manager, pictured at Liverpool Wastewater Treatment Works.

Summary of board diversity policy

- Ensure the selection process for board candidates provides access to a range of candidates, although any appointments will be made on the basis of equal merit, but with due regard for the benefits of diversity on the board, including gender diversity
- Ensure that the policies adopted by the group will, over time, promote gender diversity among senior managers who will in turn aspire to a board position
- In selecting candidates for board positions, only use the services of executive search firms who have signed up to the voluntary code of conduct for executive search firms as recommended by Lord Davies
- Adopt measurable objectives from time to time for achieving gender diversity at board level – which shall currently be to maintain at least 25 per cent female representation

BOARD COMPOSITION

Executive
25%

Non-executive
75%

Male
75%

Female
25%

BOARD TENURE

0-2 years
25%

2-4 years
37.5%

4-6 years
0%

6-9 years
37.5%

AGE PROFILE

50-55
37.5%

55-60
25%

60-65
25%

65-70
12.5%

Case Study

HELEN SAMUELS
DIRECTOR OF ENGINEERING

Helen joined United Utilities in February 2014, from CH2MHill where she was managing director of its European water business.

Helen says: "This is an exciting time for the UK water industry. There's still a lot of work to complete in the current asset management programme and companies are eagerly awaiting the outcome of the ongoing price review to see what their investment plans will look like for the rest of the decade. We're going to be busy."

As well as bringing a wealth of engineering experience to United Utilities, Helen is a keen coach and mentor, encouraging young people to choose a career in engineering and she is taking an active interest in United Utilities' apprenticeship and graduate programmes.

Wider succession and talent management

In 2013/14 we have continued to focus on developing our female talent. We celebrated International Women's day throughout March with our female talent shadowing executive and senior leaders. Cate Cartledge, street works strategy and compliance manager, commented on her experience:

"I had the opportunity to work shadow with Sue Amies-King, our Retail Director. I found my experience very insightful and interesting, and I got a lot from the session. In particular, I now have much clearer and more focused ideas for my personal development which will help me reach my future goals within United Utilities."

We have also been delivering bespoke sessions for female employees around personal impact and networking, and later in 2014, we are partnering with the Army who will be working with us to develop leadership skills for our future female leaders.

Broader talent development also remains a focus for us. We have continued to recruit graduates and apprentices to feed our future resourcing needs. Analysis of our attraction rate for female graduates and apprentices has enabled us to proactively target key schools and universities in our advertising campaign. This year we have seen an increase in the number of female graduates being offered a role at United Utilities to 35 per cent, an increase from last year when 24 per cent of roles were offered to females. We are at the beginning of our apprentice recruitment programme, from the applications received by March 2014, 16 per cent were from females, an increase from last year's figure of ten per cent.

Outcome of the nomination committee evaluation

No issues of concern were raised. It was felt that the recent non-executive recruitment process had been well organised and effective resulting in the successful appointment of Mark Clare.

Code principle: Accountability

Board's approach to risk management and internal control

It is the board that is responsible for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives and for ensuring that risk management and internal control systems are effectively managed across the business and receive an appropriate level of scrutiny and board time.

The risks that we must manage are predominantly those of any water and wastewater company and one of our most important risks is that of fulfilling our regulated activities and obligations. We adopt a prudent approach to the way we manage our business and the risks impacting it as is appropriate for an organisation such as ours that provides a vital service to its customers. This approach is reflected in the culture of our organisation. That being said, we are a commercial organisation operating within a regulated system, and accepting some level of risk is a normal consequence of doing business.

It is the role of the board to ensure that the management team fully understand the risks associated with each activity of the business and that they undertake appropriate mitigating actions, ensuring that the activities of the group do not negatively impact UUW in accordance with the regulatory licence.

We regularly review the principal risks and uncertainties which could impact our business, these can be found on pages 48 to 51. We believe that the risk management process and internal control systems and processes are well embedded as business as usual activities. The audit committee, supported by the internal audit team, has an initial overview of these processes and provides information to the board on the assessment of the suitability and effectiveness of these systems and processes throughout the business. Thereafter, the board conducts an annual review of the effectiveness of the company's risk management and internal control systems, including those relating to the financial reporting process, in accordance with the Turnball Guidance on Internal Control. No significant failings or weaknesses were identified in this review. Further information can be found in the audit committee report on page 73.

Going concern reporting

The board has decided to await the publication of final guidance by the Financial Reporting Council (FRC), following the outcome of the November 2013 consultation on 'Risk Management, Internal Control and the Going Concern Basis of Accounting', prior to making any changes to its 'going concern' statement (set out below) and the consultation the FRC announced in April 2014 on the 'Proposed Revisions to the UK Corporate Governance Code' . The board expects that there will be clarification on whether the Code will continue to require a 'going concern' statement in the annual report in addition to what is required under accounting standards (see page 118), as a result our review of going concern and our related disclosure is unchanged from our 2013 accounts.

Going concern statement

As part of its review of the financial report and accounts the board considered whether the group had adequate financial resources to continue trading as a going concern. FRC guidance requires that in order to be considered to be a going concern, the group should have adequate financial resources for at least 12 months from the date of approval of the financial statements.

We, the directors, have a reasonable expectation that the group has adequate resources available to it to continue its operational existence for the foreseeable future and have therefore continued to adopt the going concern policy in preparing the financial statements.

This conclusion is based upon, amongst other matters, a review of the group's financial projections together with a review of the cash and committed borrowing facilities available to the group as well as consideration of the group's capital adequacy. In addition, the directors also considered, amongst other matters, the primary legal duty of United Utilities Water PLC's economic regulator to ensure that companies can finance their functions. The directors also took into account potential contingent liabilities and other risk factors as interpreted by the guidance given in 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009'.

Brian May
Chair of the audit committee

"These are changing times for audit committees."

AUDIT COMMITTEE

Dear Shareholder

This is my first report as chair of the audit committee ('the committee'), having taken over the role from Paul Heiden in July last year. On Paul's retirement, Nick Salmon was reappointed as a member of the committee (thereby ensuring at all times there were at least three independent non-executives directors on the committee). I am also pleased to welcome Mark Clare, who joined the board as an independent non-executive director on 1 November 2013, as a member of the committee.

Much of the committee's work, in addition to its role in reviewing the group's financial statements, is necessarily targeted at the regulated activities of UUW, which represents over 98 per cent of group revenues. This reflects our commitment to safeguarding the interests of our stakeholders and all the members of the committee are also independent non-executive directors of UUW, which reinforces this. Details of our activities over the past year are set out below.

During the year, the committee was renamed as the 'audit committee' to help clarify the committee's role in relation to risk, which is to review internal control and risk management processes and systems, but it does not advise the board on current risk exposures and the strategies to manage these risks, which is a matter for the board itself.

These are changing times for audit committees and this report reflects the new requirements placed on audit committees by recent changes to the Code. We are committed in this report to providing a meaningful insight into our activities and this report contains sections on: the committee's main duties; the activities on its agenda during the year; the new Code requirements placed on audit committees; and the group's risk management systems, internal audit function and internal controls.

I trust you will find this useful and informative.

Brian May
Chair of the audit committee

Audit committee members

- Brian May (chair)
- Mark Clare
- Nick Salmon
- Catherine Bell

Biographies of the **directors** are on pages 56 and 57

Quick facts

- Brian May was appointed as chair of the committee following the retirement of Paul Heiden, in July 2013
- The chair of the committee is a serving finance director of a FTSE100 company and chartered accountant and is considered by the board to have recent and relevant financial experience
- The Code requires that the audit committee should consist of three independent non-executive directors
- Other regular attendees at meetings include the Chairman of the board, the chief executive officer, the chief financial officer, the head of audit and risk, the group controller, and representatives from the external auditor KPMG LLP (KPMG)
- KPMG, and the head of audit and risk, both have time with the committee to freely raise any concerns they may have without the presence of management
- Terms of reference - **corporate.unitedutilities.com/corporate-governance**

Main duties of the committee

The main duties of the committee are:

- to make a recommendation to the board for the appointment or reappointment of the auditor and establish policies for the provision of any non-audit services by the auditor;
- to review the scope and the results of the annual audit and report to the board on the effectiveness of the audit process and how the independence and objectivity of the auditor has been safeguarded;
- to review the half year and annual financial statements and any announcements relating to financial performance, including reporting to the board on the significant issues considered by the committee in relation to the financial statements and how these were addressed;
- to review the scope, remit and effectiveness of the internal audit function and the group's internal control and risk management systems;
- to review the group's procedures for whistleblowing, reporting fraud and other inappropriate behaviour and to receive reports relating thereto; and
- to report to the board on how it has discharged its responsibilities.

What has been on the committee's agenda during the year

In addition to fulfilling its ongoing duties, the committee has an extensive agenda of items addressing issues relating to the day-to-day activities of the business which it deals with in conjunction with senior management, the auditor, the internal audit function and the financial reporting team.

Activities undertaken during 2013/14 included:

- considering the issues and findings brought to the committee's attention by the internal audit team and satisfying itself that management has resolved or are in the process of resolving any outstanding issues or concerns;
- reviewing the reports from the financial reporting team on the financial statements and considering matters such as the accounting judgements and policies being applied by management;
- reviewing the going concern assumption prior to making a recommendation to the board;
- reviewing the audit reports from KPMG on the financial statements and tasking management to resolve any issues relating to internal controls and risk management systems;
- overseeing the introduction of updated processes for whistleblowing and reporting fraud;
- bi-annual oversight and monitoring of the group's compliance with the Bribery Act which the board reviews annually; and
- reviewing the committee's terms of reference and the conclusions of the committee's annual evaluation.

How we assessed whether the annual report and accounts, taken as a whole, is 'fair, balanced and understandable'

The committee, further to the board's request, has reviewed the annual report and financial statements with the intention of providing advice to the board on whether, as required by the Code, 'the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy'.

To make this assessment, the committee reviewed the KPIs included in the Strategic Report (see pages 30-31) and concluded that, in light of the five-year regulatory cycles that our business operates within, they continued to be appropriate for our shareholders' understanding of the development, performance, position or future prospects of the business. For consistency and comparative purposes, the committee judged that KPIs should be retained unamended (other than to reflect regulatory reporting changes) up until and including the 2015 financial year end. In addition, the committee is satisfied that all the key events and issues which have been reported to the board in the CEO's monthly report during the year, both good and bad, have been adequately referenced or reflected within the annual report.

Corporate governance report

How we assessed the effectiveness of the external audit process

All members of the committee, as well as key members of the senior management team, received a questionnaire seeking their views on how well KPMG had performed the audit in 2012/13. The feedback was collated and discussed at the committee's meetings in May and November 2013 and at the meeting in May 2014, when the conclusions were discussed and approved. As a result, the committee was satisfied that the overall external audit process and services provided by KPMG were effective.

How we assessed the independence of our external auditor

There are two aspects to the auditor independence test that the committee monitors.

First, in accordance with the Auditing Practices Board Ethical Standards, KPMG has to implement rules and requirements which include that none of their employees working on our audit can hold any shares in United Utilities Group PLC. KPMG is also required to tell us about any significant facts and matters that may reasonably be thought to bear on their independence or on the objectivity of the lead partner and the audit team. The lead partner in the audit team must change every five years, the quality review partner who reviews the judgements of the audit team actually doing the audit rotates every seven years along with the key audit partner.

Secondly, the committee considers and approves all the fees that it pays for audit, audit-related and non-audit services from KPMG. KPMG is prohibited from providing certain services to the group, such as operational consulting, internal audit services and strategic planning support, as it is felt that these types of services could impede their independence.

The policy in relation to non-audit fees is that non-audit fees paid to the statutory auditor shall not, ordinarily exceed 100 per cent of the audit fee. The committee has discretion in exceptional circumstances for this cap on fees to be exceeded. The CFO has pre-approval to authorise certain non-audit services, such as tax compliance work up to £100,000. Thereafter, any non-audit fees up to the 100 per cent cap can be approved by the committee chair. These are then ratified by the committee.

For a number of years, the group has engaged the consultancy firm Makinson Cowell to provide it with investment research and advice. In June 2013, Makinson Cowell was acquired by KPMG, thereby increasing the level of non-audit fees paid to KPMG. Given the board's satisfaction with Makinson Cowell's services and a desire to retain them going forward, the committee decided that it was in the best interests of the group to retain Makinson Cowell's services for the year ended 31 March 2014. These services will be reviewed annually.

As part of UUW's licence conditions it is required to prepare audited regulatory accounts. Given the audit of the statutory accounts is already undertaken by KPMG, there are efficiencies and cost savings if KPMG also audits the regulatory accounts.

Table of fees paid to KPMG

	2014 £'000s	2013 £'000s
Statutory audit – group and company	39	38
Statutory audit – subsidiaries	216	207
Regulatory Reporting	30	30
	285	275
Audit related services	45	45
Other non-audit services	203	84
	533	404

Note:
Included in the above statutory audit fee for the year ended 31 March 2014 is £26,000, in relation to the company (year ended 31 March 2013: £25,000).

Taking into account our findings in relation to the effectiveness of the audit process and in relation to the independence of KPMG, the committee is satisfied that KPMG continues to be independent, and free from any conflicting interest with the group. As a result, the committee has recommended to the board that KPMG be proposed for reappointment at the forthcoming AGM in July 2014.

Audit tender

In 2010 the group completed the disposal of its non-regulated businesses to concentrate on its core regulated water and wastewater business and, as a consequence, it was felt that this was an appropriate time to tender the audit. This took place in March 2011 at the end of which process KPMG was appointed in place of Deloitte. In accordance with the Code, the committee will tender the audit at least every ten years and more frequently if thought beneficial to the needs of the business or in accordance with any new audit tender requirements.

Significant issues considered by the committee in relation to the financial statements and how these issues were addressed

In relation to the group's financial statements, the committee reviewed the following principal areas of judgement (as noted in the accounting policies):

Capitalisation of fixed assets

Fixed assets represent a subjective area, particularly in relation to costs permitted for capitalisation and depreciation policy.

- The committee assessed the appropriateness of the group's approach to capitalising costs. Management demonstrated how expenditure was only capitalised where it was directly attributable to the eventual construction of assets under the group's capital programme. Following challenge of management's rationale and considering KPMG's technical advice, the committee concluded that the approach was appropriate.
- The committee also considered expenditure on infrastructure assets and the split between what is charged to the income statement as 'maintenance' (see page 112 for infrastructure renewal expenditure) and capitalised as an 'enhancement'. Management confirmed that capital projects are subject to regular stage gate approvals and monthly project control reviews, which includes project by project assessment of expenditure split between infrastructure renewals expenditure (IRE) and enhancements. After further questioning of management and KPMG, the committee was satisfied that processes were in place to ensure that IRE was appropriately charged to the income statement.

Revenue recognition and allowance for doubtful receivables

Due to the nature of the group's business, the extent to which revenue is recognised and doubtful customer debts are provided against is an area of considerable judgement and estimation.

- The committee considered the appropriateness of the existing revenue recognition policy which derecognises revenue for certain household customers who have not paid their bills within a particular period of time. After reviewing cash collection history and practice, the committee concluded the revenue recognition policy was appropriate.
- The committee also questioned the current levels of doubtful debt and credit note provisioning (see note 16 for more detail). Management explained that the increase in the provision for doubtful debt was largely due to the allowed annual increase in customer bills and that the bad debt charge as a percentage of turnover was in line with the prior year. The committee determined that the levels of provisioning made were reasonable.

Provisions and contingencies

The group makes provisions for contractual and legal claims which by their nature are subjective and require management to arrive at a best estimate as to the probable outcomes and costs associated with each individual case.

- The committee received regular updates on new and existing claims being made against the group and the extent to which these have been provided for (see note 21 for details). The committee focused their attention on the more significant items and discussed the judgements made by management in arriving at appropriate provisions in relation to these matters.
- Based upon the facts behind each provision and taking account of any relevant legal advice that may have been received as well as the past experience of management in making such provisions and challenging where necessary the views taken by management and through the assurance provided by KPMG who cover these as part of their audit, the committee concluded that the provisions management had made were appropriate.

Corporate governance report

Retirement benefit obligations

The group's defined benefit retirement schemes is an area of considerable judgement and the performance and position of which is sensitive to the assumptions made.

- The committee sought from management an understanding as to the factors which led to the significant deterioration in the IAS19 net retirement benefit position during the period and noted that the scheme specific funding basis had not been impacted by this volatility. Management presented an explanatory note (see page 149) in order to communicate most effectively what is a complex area for the benefit of the group's stakeholders. The committee was satisfied with the explanations provided by management and following a review of the explanatory note approved its inclusion in the financial statements.
- The committee reviewed the methodology and assumptions used in calculating the defined benefit scheme positions (see note A2 for more details). The committee employs the services of an external actuary to perform these calculations and determine the appropriate assumptions to make. In addition, KPMG audit these assumptions and report how the assumptions applied compare against other companies. After considering the above, the committee concluded that the approach taken and assumptions made were appropriate and fairly balanced in determining the net retirement benefit obligation.

Derivative financial instruments

The group has a significant value of swap instruments, the valuation of which is based upon models which require certain judgements and assumptions to be made. The committee requires management to perform periodic checks to ensure that the model derived valuations agree back to third party valuations and that KPMG check a sample against their own valuation models. It was confirmed to the committee that such testing had been undertaken during the year and there were no significant issues identified.

Taxation

The committee considered the tax risks that the group faces and the key judgements made by management underpinning the provisions for potential tax liabilities and deferred tax assets.

The committee was informed of the settlement reached with HMRC, primarily in relation to industrial business allowances, and the significant impact this would have on the group results (see page 39 for more details).

PHOTOGRAPH: Liz McAndrew, who heads a team of scientists at our laboratories in Warrington.

Internal audit function

The internal audit function, led by the head of audit and risk, is a key element of the group's corporate governance framework, supporting the organisation's vision and objectives by evaluating and recommending improvements to risk management systems, business processes and internal controls. Internal audit covers the whole of the group's activities and reports to the committee and functionally to the CFO.

In addition to reviewing the effectiveness of these areas and reporting on aspects of the group's compliance with them, internal audit makes recommendations to address any key issues and improve processes. Once any recommendations are agreed with management, it monitors their implementation and reports to the committee on progress at every meeting.

It produces an annual audit plan, endorsed by management, which the committee approves formally. The plan is risk-based and includes risk assessments, issues raised by management, prior audit findings and a cyclical review programme to provide assurance coverage over time across the whole business.

Risk management systems

The committee receives updates and reports from the head of audit and risk on activities relating to the company's risk management systems and processes at every meeting. These are then reported to the board, as appropriate. The group designs its risk management activities in order to manage rather than eliminate the risk of failure to achieve its strategic objectives.

The CFO has executive responsibility for risk management processes and systems and is supported in this role by the head of audit and risk and the corporate risk manager and his team. The group audit and risk board (GARB) is a sub-committee of the executive team. The GARB meets quarterly and reviews the governance processes and the effectiveness and performance of these processes along with the identification of emerging trends and themes within and across the business. The work of the GARB then feeds into the information and assurance processes of the audit committee and into the board's assessment of risk exposures and the strategies to manage these risks.

The annual business unit risk assessment process (BURA) seeks to identify how well risk management is embedded across the different teams in the business. The BURA involves a review of the effectiveness of the controls that each business unit has in place to mitigate risks relating to activities in their area of the business, to encourage the identification of new and emerging risks and generally to facilitate improvements in the way risks are managed. The outcome of the BURA process is communicated to the board and the executive team. This then forms the basis of the determination of the most significant risks that the company faces which are then reviewed by the board.

Internal controls

The committee reviews the group's internal control systems and receives updates on the findings of internal audit's investigations at every meeting, prior to reporting any significant matters to the board. Internal control systems are part of our 'business as usual' activities and are documented in the company's internal control manual which covers financial, operational and compliance controls and processes. Implementation of internal control systems are the responsibility of the executive team, with the support of the GARB, the internal audit team and the financial control team, although the head of audit and risk and his team are directly accountable to the audit committee.

Confirmation that the controls and processes are being adhered to throughout the business is the responsibility of managers, but is continually tested by the work of the internal audit team as part of its annual plan of work which the committee approves each year. Compliance with the internal control system is tested annually by the completion of a self-assessment checklist by senior managers in consultation with their teams. The results are then reviewed and audited by the internal audit team and reported to the committee.

> The internal audit function, led by the head of audit and risk, is a key element of the group's corporate governance framework.

> The annual business unit risk assessment process (BURA) seeks to identify how well risk management is embedded across the different teams in the business.

Corporate governance report

Code principle: Relations with shareholders

The board as a whole accepts its responsibility for engaging with shareholders and is kept fully informed about information in the market place including:

- Makinson Cowell produce an annual survey of shareholders, the results of which are presented and discussed by the board;
- the board receives regular updates and feedback on activities within investor relations and reports from sector analysts to ensure that the board maintains an understanding of investors' priorities; and
- the board welcomes engagement with institutional investors - both executive and non-executive directors are available to meet with major shareholders, this is also one of the specific roles of the senior independent director.

Institutional investors

We are always keen to hear the views of and engage with our shareholders and investors. We have an active investor relations programme, the activities include:

- the CEO and CFO have a regular programme of meetings with representatives from major shareholders and met with around 100 institutions over the course of the year. This is supplemented with meetings hosted by our investor relations team. The programme covers institutions based in the UK, Europe, North America and Asia/Pacific region;
- the CEO and CFO undertake presentations to groups of institutional shareholders and investors, both on an ad hoc basis and linked to our half and full-year results announcements;
- the board receives regular feedback on the views of its institutional investors following on from the CEO and CFO's meetings;
- close contact is also maintained between the investor relations team and a range of City analysts that research United Utilities; and
- in total, we met or offered to meet with 43 per cent by value of the overall shareholder base, which represents 79 per cent of the targetable institutional shareholder base (when adjusting for shareholders who do not typically meet with companies, such as indexed funds).

In meetings with investors, frequent areas of common interest include operational and environmental performance, customer service, capital investment, efficiency initiatives and regulatory outperformance. Investors are always keen to observe financial stability, and investors are interested in the level of gearing versus regulatory assumptions, cost of finance, debt portfolio and maturity profile, future financing requirements and dividends. The price review process and submission of our regulatory business plan is a key area of interest for them.

Retail shareholders

Despite the privatisation process being around 25 years ago, we have retained a large number of shareholders with registered addresses in the North West of England - in fact over 59 per cent. We have historically always held our AGM in Manchester, which enables our more local shareholders to attend the meeting. These shareholders are also our customers.

There is a considerable amount of information on our website; we produce an online report which provides information on our key social and environmental impacts and performance during the year. Together with the annual and half yearly results announcements, our annual report and interim management statements, all of which are available on our website for shareholders to access, these are the principal ways in which we communicate with our shareholders. Our secretariat and investor relations teams, along with our registrar, Equiniti, are also on hand to help our retail shareholders with any queries they may have.

Relations with other providers of capital

Running a water and wastewater business, by its very nature, requires a long-term outlook. Our regulatory cycle is based on five-year periods, and we raise associated funding in order to build and improve our water and wastewater treatment works and associated network of pipes for each five-year cycle. We are, as a group, heavily reliant on successfully acquiring long-term funding from banks and debt capital markets to fund the improvements we need to fund our capital investment programme.

This requires a long-term commitment and involvement from our credit investors who lend us the funds with the company paying them a return for doing so. We arrange term debt finance in the bond markets (with maturities typically ranging from seven years to up to 50 years at issue). Debt finance is raised via the group's London listed multi-issuer Euro Medium Term Note Programme, which gives us access to the sterling and euro public bond markets. Committed credit facilities are also arranged with various relationship banks on a bilateral basis. Additionally, the European Investment Bank (EIB), which is the financing arm of the European Union, is our single biggest lender, currently providing circa £1.5 billion of term funding (of which circa £1.1million has been advanced and £400 million remains available to draw down) used to support our capital investment programme. The group currently has gross borrowings of £6,069.3 million.

Given the importance of debt funding to our group, we have an active credit investor programme co-ordinated by our group treasury team, who provide a first point of contact for credit investors' queries. One-to-one meetings are held with credit investors through a programme aimed at the major European fund managers known to invest in corporate bonds, that may be existing holders of the group's debt or be potential holders. Regular mailings of company information are sent in order to keep credit investors informed of significant events. The treasury team has regular dialogue with the group's relationship banks and the EIB.

Code principle: Remuneration

Addressing the new remuneration policy requirements has been a key topic for our remuneration committee during the year. The board's intention is to ensure that our remuneration policy reflects our shareholders' expectations and current market practice in order that we can attract, motivate and retain the right individuals with the right skills and experience to contribute to, and ensure, our strategic objectives are implemented efficiently and effectively.

Sara Weller's report as chair of the committee can be found on pages 78-98.

Outcome of the remuneration committee evaluation

The responses reported that the committee was working efficiently with a well-structured work programme, and good support from the HR reward team and external advisors. The committee demonstrated close regard to the views of shareholders and investors. The new reporting requirements had been addressed.

Over **59%** of our shareholders have registered addresses in the North West

Running a water and wastewater business, by its very nature, requires a long-term outlook

CORPORATE RESPONSIBILITY COMMITTEE

Dr Catherine Bell
Chair of the corporate responsibility committee

"We have retained world class status in the Dow Jones Sustainability index for the 6th consecutive year."

Dear Shareholder

I am pleased to report on the work of the corporate responsibility committee (CRC) over the past 12 months.

To see how we are performing as a responsible business, we measure ourselves against national and international benchmarks, independently and externally assessed. This year we retained world class status in the Dow Jones Sustainability index for the 6th consecutive year and for the last five years have achieved the highest 'platinum big tick' ranking in Business in the Community's Corporate Responsibility index.

One of the challenges is how we continue to deliver stretching business objectives in a responsible way over the next five years and beyond, recognising that the external political, regulatory, physical and social environment in which we operate is constantly evolving. In considering this, the CRC has recommended and the board has endorsed re-balancing our approach to responsible business to focus on:

- effective implementation of UU's five Business Principles commitments, using a set of performance scorecards to highlight achievements and identify risks and mitigating actions relating to both performance and reputation;
- scrutiny of the impact of our investment programme viewed through the corporate responsibility lens; and
- how responsible activities best support the reputation of the company.

We are also considering how techniques such as social impact assessment can help measure the return on investment from community projects. These techniques can help us set consistent criteria for choosing future projects to support.

As we look to the next five-year investment period, the CRC will seek to ensure the Business Principles are aligned with the business plan outcomes customers expect to see.

Dr Catherine Bell
Chair of the corporate responsibility committee

Corporate responsibility committee members

- Catherine Bell (chair)
- Nick Salmon
- Steve Mogford

Biographies of the **directors** are on pages 56 and 57

Quick facts

- The committee comprises three directors appointed by the board, two of whom are independent non-executive directors
- The company secretary attends all meetings of the committee
- The corporate affairs director, who has responsibility for company reputation, and the business services director, who has responsibility for human resources, regularly attend meetings
- Senior operational managers report on the environmental and social impact of major investment programmes and projects
- The corporate responsibility committee has existed for over six years
- Terms of reference – **corporate.unitedutilities.com/corporate-governance**

Main duties of the CRC

The board approved a revised set of terms of reference for the CRC in April 2014, with the main duties to:

- consider and recommend to the board the broad corporate responsibility (CR) policy taking into account the company's desired CR positioning;
- keep under review the group's approach to CR and ensure it is in alignment with the group strategy;
- review CR issues and objectives material to the group's stakeholders and identify and monitor the extent to which they are reflected in group strategies, plans and policies;
- monitor and review compliance with the board's CR policy and scrutinise the effectiveness of the delivery of the CR policy requirements;
- develop and recommend to the board CR targets and key performance indicators and receive and review reports on progress towards the achievement of such targets and indicators;
- review all approved specific giving where the aggregate financial contribution exceeds £100,000 over the period of the proposed funding and to review all community giving expenditure annually;
- review the profile of the charitable donations directed by the United Utilities Trust Fund; and
- agree and approve the annual CR report.

What has been on the committee's agenda during the year

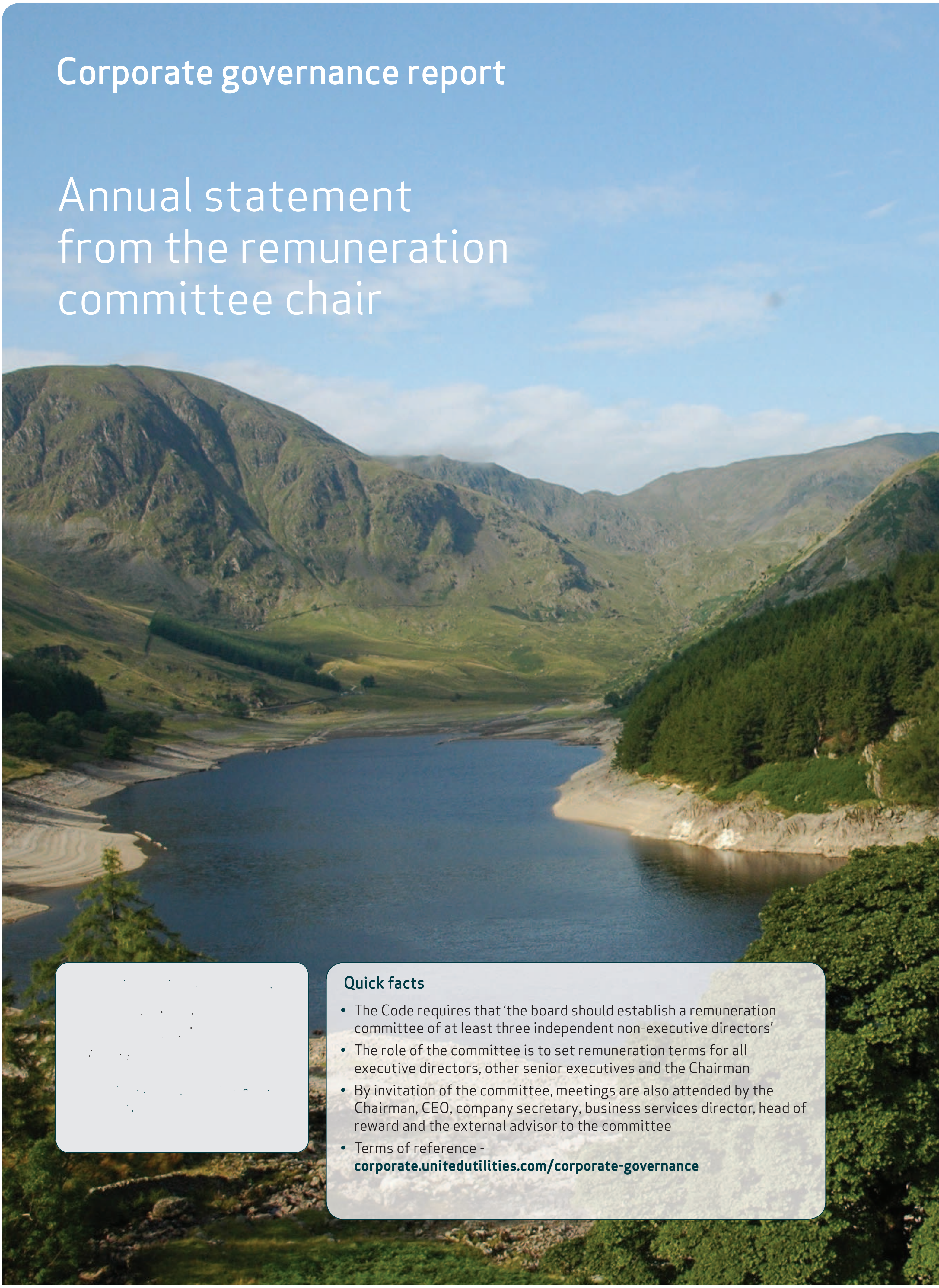
In carrying out its duties, in the past twelve months the CRC has paid particular attention to the following:

- governance – the CRC recommended changes to its terms of reference, subsequently approved by the board, and the flow of information between the CRC and the CR panel, the leadership body for CR on behalf of UU's executive, was improved.
- measuring CR performance – the CRC endorsed a set of measures and targets that will evidence the progress the group is making in meeting its responsible business commitments, as set out in its Business Principles.
- Specific topics including:
  - PR14 – the CRC examined the price review process through a responsibility lens, seeking reassurance that responsible business themes were woven into the group's five-year business plan;
  - affordability – with around half of the most socially and economically deprived areas of England in the North West, the CRC examined the positive impact the group's charitable Trust Fund and support for debt advice services have on customers struggling to pay their water bills; and
  - bathing water quality – more stringent EU bathing water standards from 2015 are likely to result in an increase in the number of North West beaches failing to comply. The CRC reviewed plans to bring key stakeholder together to tackle this complex issue.
- Specific trends in CR, including:
  - trends in corporate reporting – the CRC debated the merits of bringing together the annual and CR reports into a single document, in response to an emerging trend known as integrated reporting;
  - diversity – the CRC reviewed initiatives focused on improving the diversity of the group's workforce; and
  - the relationship between CR, communications and reputation. Following discussions at the CRC, the group has enhanced how and what it reports on as a responsible business. This is especially important at a time when public trust in business needs to be renewed.

Looking to the next year, as the water industry prepares for its next five-year investment programme, the CRC will:

- approve an updated set of Business Principles and related measures and targets, aligned with the group's 2015-2020 business plan;
- review the next iteration of the group's carbon strategy and targets, updated for the 2015-2020 period;
- continue to examine how a better understanding of the social benefit of our programmes can shape which community projects we choose to support;
- consider the sustainability benefits that flagship investment and innovation programmes like the new Wholesale Operating Model will bring;
- examine the group's approach to sustainable supply chain and the benefits that can be achieved; and
- continue its focus on the interaction between CR, communications and reputation.

Annual statement from the remuneration committee chair



Quick facts

- The Code requires that 'the board should establish a remuneration committee of at least three independent non-executive directors'
- The role of the committee is to set remuneration terms for all executive directors, other senior executives and the Chairman
- By invitation of the committee, meetings are also attended by the Chairman, CEO, company secretary, business services director, head of reward and the external advisor to the committee
- Terms of reference - **corporate.unitedutilities.com/corporate-governance**

Sara Weller
Chair of the remuneration committee

Dear Shareholder,

I am pleased to introduce the Directors' Remuneration Report for the year ended 31 March 2014, which includes my statement, the directors' remuneration policy which is intended to take effect from the date of our 2014 AGM (subject to shareholder approval), and the annual report on remuneration for the year ended 31 March 2014.

As outlined in last year's report, during 2012/13 the committee undertook an extensive review of executive incentives and consulted widely with shareholders on the changes introduced. We were encouraged that our remuneration report and new Long Term Plan received strong support from shareholders at the 2013 AGM.

Remuneration for the year ended 31 March 2014 reflects strong business performance

We remain committed to ensuring that executive pay is aligned to the company's strategy of delivering long-term shareholder value by providing the best service to customers, at the lowest sustainable cost and in a responsible manner. As a committee we seek to achieve this by strongly linking pay with performance, at both an individual and a company level.

As you will have seen throughout the annual report, the company has had a very successful year. The strong financial and operational performance, and particularly the successful delivery of our capital programme and achievement of key sustainability targets (including achieving 'World Class' status in the Dow Jones Sustainability Index), has resulted in annual bonus payments of around 78 per cent of maximum for the executive directors. As the same bonus measures are used throughout the company, employees at all levels have also benefited from this success, receiving bonuses totalling £16 million for the 2013/14 year.

In March 2014 the company's share price reached a 15-year high, and, together with the dividend policy to grow dividends each year by RPI plus two per cent, this resulted in a Total Shareholder Return over the preceding three years of around 50 per cent. The company also delivered excellent results against its operational and capital expenditure targets over the same period. These measures together form the basis of the long-term incentive plan awards that were granted in 2011 and were measured over the three years ending 31 March 2014, and as a result 93.5 per cent of the awards vested.

> "Strongly linking pay with performance, at both an individual and a company level."

This will be the first year in which Steve Mogford is eligible for a payout under a long-term incentive plan since he joined the company as CEO in 2011.

Committed to shareholder engagement

Following the introduction of the new regulations on remuneration reporting, during the year the committee consulted further with shareholders on the directors' remuneration policy.

Whilst no substantial changes were made to executive remuneration in 2013/14 or are expected to be made in 2014/15, we continue to welcome feedback from shareholders.

I hope we can continue to receive your support on the remuneration-related votes at the 2014 AGM.

Sara Weller
Chair of the remuneration committee

At a glance summary

Executive directors:

- Salary increase of 2.5 per cent from 1 September 2013
- 2013/14 annual bonus outcome of 78.2 per cent of maximum
- 50 per cent of 2013/14 annual bonus deferred in shares for three years
- Long-term incentive payout of 93.5 per cent, supported by TSR of 50 per cent over the period 2011/12 to 2013/14
- Personal shareholdings remain significantly above the 100 per cent of salary minimum guideline
- No significant changes planned in 2014/15

PHOTOGRAPH: Haweswater reservoir

Directors' remuneration policy

This part of the Directors' Remuneration Report sets out the remuneration policy for the company and has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The policy in this report will be put to a binding shareholder vote at the 2014 AGM on 25 July 2014 and will take formal effect from that date, subject to shareholder approval. It is intended that the policy will formally apply for the three years beginning on the date of approval.

The committee considers the remuneration policy annually to ensure that it remains aligned with business strategy and is appropriately positioned relative to the market. However, we do not anticipate that the policy will be revised more frequently than once every three years.

Overview of remuneration policy

The company's remuneration arrangements are designed so that the overall level of remuneration (including salary and benefits, together with the short and long-term incentive opportunities) is sufficient to attract, retain and motivate executives of the quality required to run the company successfully. The company does not pay more than is necessary for this purpose. The committee recognises that the company operates in the North West of England in a regulated environment and therefore needs to ensure that the structure of executive remuneration reflects both the practices of the markets in which its executives operate, and stakeholder expectations of how the company should be run.

A significant proportion of senior executives' remuneration is performance related. Senior executives are incentivised to achieve stretching results which are delivered with an acceptable level of risk. There is a strong direct link between incentives and the company's strategy and if the strategy is delivered, senior executives will be rewarded through the annual bonus and long-term incentives. If it is not delivered, then a significant part of their potential remuneration will not be paid.

Future policy table for directors

Base salary

Purpose and link to strategy: To attract and retain executives of the experience and quality required to deliver the company's strategy.

Operation	Maximum opportunity
Reviewed annually, effective 1 September. Significant increases in salary should only take place infrequently, for example where there has been a material increase in: • the size of the individual's role; • the size of the company (through mergers and acquisitions); or • the pay market for directly comparable companies (for example, companies of a similar size and complexity). On recruitment or promotion to executive director, the committee will take into account previous remuneration and pay levels for comparable companies when setting salary levels. This may lead to salary being set at a lower or higher level than for the previous incumbent.	Current salary levels are shown in the annual report on remuneration. Executive directors will normally receive a salary increase broadly in line with the increase awarded to the general workforce, unless one or more of the conditions outlined under 'operation' is met. Where the committee has set the salary of a new hire at a discount to the market level initially, a series of planned increases can be implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance. **Performance measures** None.

Future policy table for directors continued

Benefits

Purpose and link to strategy: To provide market competitive benefits to help recruit and retain high calibre executives.

Operation	Maximum opportunity
Provision of benefits such as: • Health benefits • Car or car allowance • Relocation assistance • Life assurance • Group income protection • All employee share schemes (e.g. opportunity to join the ShareBuy scheme) • Travel • Communication costs Additional benefits might be provided from time to time if the committee decides payment of such benefits is appropriate and in line with emerging market practice.	As it is not possible to calculate in advance the cost of all benefits, a maximum is not pre-determined. **Performance measures** None.

Pension

Purpose and link to strategy: To provide a broadly mid-market level of retirement benefits.

Operation	Maximum opportunity
Executive directors are offered the choice of: • a company contribution into a defined contribution pension scheme; or • a cash allowance in lieu of pension; or • a combination of a company contribution into a defined contribution pension scheme and a cash allowance. External hires will not be eligible to join a defined benefit pension scheme. Internal promotees who are active members of a United Utilities defined benefit scheme will be offered the choice of staying in that scheme or of choosing one of the above options [1].	25 per cent of salary into a defined contribution scheme; or cash allowance of 22 per cent of base salary; or a combination of both such that the cost to the company is broadly the same. Under the defined benefit schemes, a maximum future accrual of 1/80th pension plus 3/80ths lump sum of final pensionable salary for each year of service[1]. **Performance measures** None.

Annual bonus

Purpose and link to strategy: To incentivise performance against personal objectives and selected financial and operational KPIs which are directly linked to business strategy. Deferral of part of bonus into shares aligns the interests of executive directors and shareholders.

Operation	Maximum opportunity
50 per cent paid as cash. 50 per cent deferred into company shares under the Deferred Bonus Plan (DBP) for three years. DBP shares accrue dividend equivalents. Not pensionable. Bonuses are subject to clawback or malus in the event of a material overstatement in the financial statements of the company because of fraud or error. Deferred shares under the DBP are subject to malus in such negative circumstances as the committee considers is appropriate. For example: material misstatement of audited financial results, serious failure of risk management or serious reputational damage.	Maximum 130 per cent of salary bonus potential, for the achievement of stretching performance objectives. **Performance measures** Payments predominantly based on financial and operational performance, with a minority based on achievement of personal objectives. Targets set by reference to the company's financial and operating plans. Target bonus of 50 per cent of maximum bonus potential and bonus of 25 per cent of maximum for threshold performance.

Note:
(1) In 2010 the company made a number of changes to defined benefit pension provision including a restriction on salary increases which count for pension purposes. Since that time salary increases above inflation (RPI), including those relating to any promotions, are no longer pensionable.

Directors' remuneration policy

Long Term Plan (LTP)	
Purpose and link to strategy: To incentivise long-term value creation and alignment with longer-term returns to shareholders.	
Operation	**Maximum opportunity**
Awards under the Long Term Plan are rights to receive company shares, subject to certain performance conditions. Each award is measured over a three-year performance period starting at the beginning of the financial year in which awards are granted. An additional two-year holding period applies after the end of the three-year performance period. Vested shares accrue dividend equivalents. Shares under the LTP are subject to malus in such negative circumstances as the committee considers are appropriate. For example: material misstatement of audited financial results, serious failure of risk management or serious reputational damage.	130 per cent of salary per annum. In exceptional circumstances the committee retains the discretion to grant awards up to plan limits of 200 per cent of salary. **Performance measures** One-third of awards vest based on relative Total Shareholder Return (TSR), one-third based on customer service excellence and one–third based on a sustainable dividends performance condition. Any vesting is also subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance. 100 per cent of awards vest for stretch performance, 25 per cent of an award vests for threshold performance and no awards vest for below threshold performance.

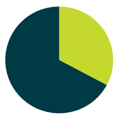
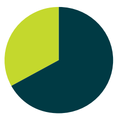
Non-executive directors' fees and benefits	
Purpose and link to strategy: To attract non-executive directors with a broad range of experience and skills to oversee the development and implementation of our strategy.	
Operation	**Maximum opportunity**
The remuneration policy for the non-executive directors (with the exception of the Chairman) is set by a separate committee of the board. The policy for the Chairman is determined by the remuneration committee (of which the Chairman is not a member). Fees are reviewed annually taking into account the levels of fees paid by companies of a similar size and complexity. Any changes are effective from 1 September. Additional fees are paid to the chairs of certain board sub-committees and for the senior independent non-executive director. No eligibility for bonuses, long-term incentive plans, pension schemes, healthcare arrangements or employee share schemes. The company repays any reasonable expenses that a non-executive director incurs in carrying out their duties as a director. In addition, travel, hospitality-related and other modest benefits will be payable on occasion.	Current fee levels are shown in the annual report on remuneration. The value of benefits may vary from year to year according to the cost to the company. **Performance measures** Non-executive directors are not eligible to participate in any performance-related arrangements.

Notes to the policy table

Selection of performance measures and targets

Performance measures for the annual bonus are selected annually to align with the company's key strategic goals for the year and reflect financial, operational and personal objectives. 'Target' performance is typically set in line with the business plan for the year, following rigorous debate and approval of the plan by the board. Threshold to Stretch targets are then set based on a sliding scale on the basis of relevant commercial factors. Only modest rewards are available for delivering Threshold performance levels, with rewards at Stretch requiring substantial outperformance of the business plan. Details of the measures used for the annual bonus are given in the annual report on remuneration.

The Long Term Plan (LTP) measures were selected by the committee following an extensive review and shareholder consultation in 2012/13. The performance measures are aligned with the company's key strategic goals and linked to the creation of long-term shareholder value as follows:

Measure	Weighting	Why selected
Relative Total Shareholder Return	One-third 	Direct measure of delivery of shareholder returns, rewarding management for outperformance of a comparator group of companies.
Sustainable dividends	One-third 	Direct measure of return to shareholders through dividend payments, whilst focusing on the creation of strong earnings that ensure the sustainability of dividends.
Customer service excellence	One-third 	It is a key strategic objective to provide the best service to customers. This is fundamental to delivering our vision of becoming a leading North West service provider and one of the UK's best water and wastewater companies. This measure has a direct financial impact on the company as our regulator can apply financial incentives or penalties depending on our customer service performance.

LTP targets are set taking into account a number of factors, including reference to market practice, the company business plan and analysts' forecasts where relevant. The LTP will only vest in full if stretching business performance is achieved.

Annual bonus and long-term incentives - flexibility, discretion and judgement

The committee will operate the company's incentive plans according to their respective rules and consistent with normal market practice, the Listing Rules and HMRC rules where relevant, including flexibility in a number of regards. These include making awards and setting performance criteria each year, dealing with leavers, and adjustments to awards and performance criteria following acquisitions, disposals, changes in share capital and to take account of the impact of other merger and acquisition activity.

The committee also retains discretion within the policy to adjust the targets, set different measures and/or alter weightings for the annual bonus plan, pay dividend equivalents on vested shares up to the date those shares can first reasonably be exercised and, in exceptional circumstances, under the rules of the long-term incentive plans to adjust targets to ensure that the awards fulfill their original purposes (for example, if an external benchmark or measure is no longer available). All assessments of performance are ultimately subject to the committee's judgement.

Any discretion exercised (and the rationale) will be disclosed in the annual remuneration report.

Historic awards

All historic awards that were granted under any current or previous share schemes operated by the company and remain outstanding, remain eligible to vest based on their original award terms.

Differences in policy for executive directors compared to other employees

The remuneration approach is consistently applied at levels below the executive directors. Key features include:

- market competitive levels of remuneration, incentives and benefits to attract and retain employees;
- employees at all levels participate in a bonus scheme with the same corporate performance measures as for executive directors; and
- all employees have the opportunity to participate in the HMRC approved share incentive plan, 'ShareBuy'.

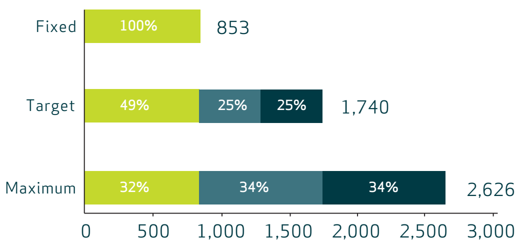
At senior levels, remuneration is increasingly long-term, with an increased emphasis on performance related pay and share based remuneration.

Directors' remuneration policy

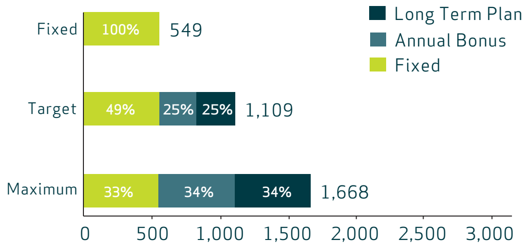
Illustrations of application of the executive directors' remuneration policy

The charts below show the payout under the remuneration policy for each executive director under three different scenarios:

CEO
£'000s



CFO
£'000s



In developing the scenarios the following assumptions have been made:

Fixed	Consists of base salary, benefits and pension (£'000)				
	Base salary is latest known salary				
	Benefits measured at benefits figure shown in single figure table on page 87				
	Pension measured by applying cash in lieu rate against latest known salary				
		Base salary	Benefits	Pension	Total fixed
	CEO	682	21	150	853
	CFO	431	23	95	549
Target	Annual bonus element pays out at 50% of maximum				
	Long Term Plan element vests at 50% of maximum				
Maximum	Based on what a director would receive if the maximum level of performance was achieved:				
	Annual bonus element pays out in full (at 100% of maximum)				
	Long Term Plan element vests in full (at 100% of maximum)				

Annual bonus includes amounts compulsorily deferred into shares.

Long Term Plan is measured at face value i.e. no assumption for changes in share price or dividends.

Service contracts and letters of appointment

Executive directors' service contracts are subject to up to one year's notice period when terminated by the company and at least six months' notice when terminated by the director. A company notice period longer than one year may be provided if necessary for recruitment, but reducing to a rolling one-year period after the initial period has expired.

The policy on payments for loss of office is set out in the next section.

The Chairman and other non-executive directors have letters of appointment rather than service contracts. Their appointments may be terminated without compensation at any time. All non-executive directors are subject to re-election at the AGM.

Copies of executive directors' service contracts and non-executive directors' letters of appointment are available for inspection at the company's registered office during normal hours of business and will be available at the company's AGM. Copies of non-executive directors' letters of appointment can also be viewed on the company's website.

Shareholding guidelines

The committee believes that it is important for a significant investment to be made by each executive director in the shares of the company to provide alignment with shareholder interests. Executive directors are encouraged to build up and retain a targeted shareholding of at least 100 per cent of base salary, normally within five years of appointment. There is an expectation that executive directors will continue to build a shareholding throughout their period of employment with the company, after the target shareholding is reached.

Approach to recruitment remuneration

The remuneration package for a new executive director would be set in accordance with the terms of the company's approved remuneration policy in force at the time of appointment.

Buy-out awards

In addition, the committee may offer additional cash and/or share-based elements (on a one-time basis or ongoing) when it considers these to be in the best interests of the company (and therefore shareholders). Any such payments would be limited to a reasonable estimate of value of remuneration lost when leaving the former employer and would reflect the delivery mechanism (i.e. cash and/or share-based), time horizons and whether performance requirements are attached to that remuneration. Shareholders will be informed of any such payments at the time of appointment.

Maximum level of variable pay

The maximum initial level of long-term incentives which may be awarded to a new executive director will be limited to the maximum Long Term Plan limit of 200 per cent of salary. Therefore the maximum initial level of overall variable pay that may be offered will be 330 per cent of salary (i.e. 130 per cent annual bonus plus 200 per cent Long Term Plan). These limits are in addition to the value of any buy-out arrangements which are governed by the policy above.

In the case of an internal appointment, any variable pay element awarded in respect of the prior role would be allowed to pay out according to its terms, adjusted as relevant to take into account the appointment. In addition, any other previously awarded entitlements would continue, and be disclosed in the next annual report on remuneration.

Base salary and relocation expenses

The committee has the flexibility to set the salary of a new appointment at a discount to the market level initially, with a series of planned increases implemented over the following few years to bring the salary to the appropriate market position, subject to individual performance in the role.

For external and internal appointments, the committee may agree that the company will meet certain relocation expenses as appropriate.

Appointment of non-executive directors

For the appointment of a new Chairman or non-executive director, the fee arrangement would be set in accordance with the approved remuneration policy in force at that time. Non-executive directors' fees are set by a separate committee of the board; the Chairman's fees are set by the remuneration committee.

Payment for loss of office

The circumstances of the termination (taking into account the individual's performance) and an individual's duty and opportunity to mitigate losses are taken into account in every case. Our policy is to stop or reduce compensatory payments to former executive directors to the extent that they receive remuneration from other employment during the compensation period. A robust line on reducing compensation is applied and payments to departing employees may be phased in order to mitigate loss. Our policy is shown in the table on the following page.

Directors' remuneration policy

Payment for loss of office continued

Provision	Summary terms
Compensation for loss of office	• An executive director's service contract may be terminated without notice and without any further payment or compensation, except for sums earned up to the date of termination, on the occurrence of certain contractually specified events such as gross misconduct. • No termination payment if full notice is worked. • Otherwise, a payment in respect of the period of notice not worked of basic salary, plus pension and car allowance for that period. • Half of the termination payment will be paid within 14 days of date of termination. • The other half will be paid in monthly instalments between the 7th and 12th month anniversary from date of termination of employment. This will be reduced by the value of any salary, pension contribution and car allowance earned in new paid employment in that period.
Treatment of annual bonus on termination	• A time pro-rated bonus may be payable for the period of active service, however there is no automatic entitlement to payments under the bonus scheme. Any payment is at the discretion of the committee and is subject to clawback as detailed in the policy table. • Performance targets would apply in all circumstances.
Treatment of deferred bonus on termination	• Determined on the basis of the relevant plan rules. Full details can be found on the company's website. • Deferred bonuses are subject to both clawback and malus provisions as detailed in the policy table. • The default treatment is that any outstanding awards will vest in full on the normal vesting date with no time pro-rating applying. • On a change of control, awards will generally vest on the date of a change of control, unless the committee permits (or requires) awards to roll-over into equivalent shares in the acquirer.
Treatment of unvested long-term incentives on termination	• Determined on the basis of the relevant plan rules. Full details can be found on the company's website. • Normally, any outstanding awards will lapse on date of cessation of employment (if that occurs during the performance period). • However, under the rules of the plans, in certain prescribed circumstances, such as death, disability, mutually agreed retirement or other circumstances at the discretion of the committee, 'good leaver' status can be applied. In these circumstances, a participant's awards vest on a time pro-rated basis subject to the satisfaction of relevant performance criteria, with the balance of awards lapsing. The committee retains the discretion not to time pro-rate if it is inappropriate to do so in particular circumstances. The committee will take into account the individual's performance and the reasons for their departure when determining whether 'good leaver' status can be applied. • On a change of control, awards will generally vest on the date of a change of control taking in to account the extent to which any performance condition has been satisfied at that point. Time pro-rating will normally apply unless the committee determines otherwise.
Treatment of pensions on termination	• On redundancy, an augmentation may apply to active members of a United Utilities defined benefit pension scheme in line with the trust deed and rules of the appropriate section.

Statement of consideration of employment conditions elsewhere in the company

The committee takes into account the general base salary increase and remuneration arrangements for the wider employee population when determining remuneration policy for the executive directors. Although employees are not consulted directly on executive remuneration policy, employee engagement surveys are carried out twice a year and regular discussion takes place with union representatives on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements.

Statement of consideration of stakeholder views

The committee understands that listening to the views of the company's key stakeholders plays a vital role in formulating and implementing a successful remuneration policy over the long-term. The committee thus actively seeks the views of shareholders and other key stakeholders to inform the development of the remuneration policy, particularly where any changes to policy are envisaged.

Annual report on remuneration

Implementation of the remuneration policy in the year ended 31 March 2014

Single total figure of remuneration (audited information)

	Salary/ fees £'000		Taxable benefits[1] £'000		Bonus[2] £'000		Long-term incentives £'000		Pension[5] £'000		ShareBuy[6] £'000		Total £'000	
For the year ended 31 March	2014	2013	2014	2013	2014	2013	2014[3]	2013[4]	2014	2013	2014	2013	2014	2013
Executive directors														
Steve Mogford[7]	**675**	659	**21**	21	**687**	723	**843**	n/a	**149**	145	**0**	1	**2,375**	1,549
Russ Houlden[7]	**426**	416	**23**	26	**433**	456	**621**	154	**94**	92	**0**	1	**1,597**	1,145
Non-executive directors														
Dr John McAdam	**274**	267	**1**	1	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**275**	268
Dr Catherine Bell	**66**	63	**1**	1	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**67**	64
Mark Clare[8]	**25**	n/a	**1**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**26**	n/a
Paul Heiden[9]	**24**	73	**1**	0	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**25**	73
Brian May	**69**	34	**1**	1	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**70**	35
Nick Salmon	**69**	68	**0**	1	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**69**	69
Sara Weller	**69**	65	**0**	0	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**n/a**	n/a	**69**	65

Notes:

(1) For executive directors taxable benefits include: a car allowance of £14,000; health, life and income protection insurance; travel costs and communication costs.

(2) 50 per cent of bonus was deferred into shares for three years under the Deferred Bonus Plan (DBP). Malus and clawback provisions apply - see Directors' Remuneration Policy section.

(3) The performance period for the 2011 Performance Share Plan (PSP) and Matching Share Award Plan (MSAP) awards ended on 31 March 2014. The final vesting of those awards was 93.5 per cent. See the section 'Additional requirements in respect of the single total figure table' below for further information.

(4) The performance period for the 2010 PSP and MSAP awards ended on 31 March 2013 and the awards vested on 21 May 2013. The final vesting of those awards was 35.3 per cent. Russ Houlden received 19,581 vested shares (including dividend equivalents) and the value of these shares shown in the table above has been calculated using the closing share price on date of vesting, which was 787 pence per share. Steve Mogford joined the company in January 2011 and so did not participate in the 2010 PSP and MSAP awards.

(5) Cash allowance of 22 per cent of base salary paid in lieu of pension.

(6) The company offers a one-for-five match on partnership shares bought by employees under ShareBuy. These matching shares cease to become forfeitable one year after they are awarded. The figures shown in the ShareBuy column are the value of matching shares which vested in the year, valued using the closing share price on the day they vested.

(7) The company recognises that its executive directors may be invited to become non-executive directors of companies outside the company and exposure to such non-executive duties can broaden experience and knowledge, which would be of benefit to the company. Any external appointments are subject to board approval (which would not be given if the proposed appointment was with a competing company, would lead to a material conflict of interest or could have a detrimental effect on a director's performance). Steve Mogford is the senior independent director of Carillion PLC for which he receives and retains an annual fee of £60,200. Russ Houlden has been appointed as an independent member of the supervisory board, and audit committee chairman, of Orange Polska SA for which he receives and retains fees estimated annually at 320,000 Polish Zloty (around £63,000).

(8) Mark Clare joined the board on 1 November 2013.

(9) Paul Heiden retired from the board on 26 July 2013.

Annual report on remuneration

Additional requirements in respect of the single total figure table (audited information)

Executive director base salaries and non-executive directors' fees

Executive director salaries were increased by 2.5 per cent with effect from 1 September 2013 as shown below:

Executive director	Base salary £'000	
	1 Sept 2013	1 Sept 2012
Steve Mogford	682.0	665.5
Russ Houlden	430.5	420.0

This was in line with the headline increase applied across the wider workforce.

Non-executive director annual fees were increased with effect from 1 September 2013 as shown below:

Role	Fees £'000	
	1 Sept 2013	1 Sept 2012
Base fees: Chairman	277.0	270.0
Base fees: other non-executive directors	59.85	58.40
Senior independent non-executive director	10.0	10.0
Chair of audit committee	15.0	15.0
Chair of remuneration committee	10.0	10.0
Chair of corporate responsibility committee	8.0	5.0

Performance against performance targets for 2013/14 annual bonus

Annual bonus payments were determined with reference to performance over the financial year ended 31 March 2014. The performance measures, targets and outcomes are set out below:

				Steve Mogford		Russ Houlden	
Measure	Targets Threshold-Stretch	Outcome	% of maximum achieved[1]	Max %	Actual %	Max %	Actual %
Underlying operating profit[2]	£757.9m–£807.9m	£802.9m	90	30.0	27.0	30.0	27.0
Customer service in year							
Service Incentive Mechanism - Qualitative	4.58–4.69	4.56	0	10.0	0.0	10.0	0.0
Service Incentive Mechanism - Quantitative	141–111	135	57	10.0	5.7	10.0	5.7
Maintaining and enhancing services for customers							
Regulatory capital expenditure[3]	£814m +/- 6% to £814m +/- 2%	£814m +1.6%	100	8.0	8.0	8.0	8.0
Time, cost and quality of capital programme (TCQi)[4]	85%-95%	98%	100	8.0	8.0	8.0	8.0
Sustainability of service and corporate responsibility							
Serviceability (four measures) Requirement: Stable or Improving Dow Jones Sustainability Index rating (one measure) Requirement: World Class	Threshold: 3 out of 5 Stretch: 5 out of 5	5 out of 5	100	20.0	20.0	20.0	20.0
Bad debt recovery	2.2%-2.0%	2.2%	25	4.0	1.0	4.0	1.0
Personal objectives				10.0	8.5	10.0	8.5
Total as % bonus maximum				100.0	78.2	100.0	78.2
Total as % base salary				130.0	101.7	130.0	101.7
Total £'000[5]					687		433

Notes:

(1) 25 per cent for Threshold performance; 50 per cent for Target performance; 100 per cent for Stretch performance. Straight-line vesting applies between these points.

(2) Underlying operating profit is subject to a number of adjustments, principally in regard to infrastructure renewal expenditure.

(3) Regulatory capital expenditure in UUW is subject to adjustment in relation to transitional investment in AMP5 for AMP6. The committee increased the regulatory capex spend targets in June 2013 to align them to the accelerated capital programme which was announced to shareholders in May 2013.

(4) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required standard. It is expressed as a percentage, with a higher percentage representing better performance.

(5) Under the Deferred Bonus Plan, 50 per cent of the bonus was deferred in shares for three years.

Performance for long-term incentives vesting by reference to performance in 2013/14

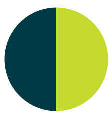
The long-term incentive amount included in the 2013/14 single total figure of remuneration is in respect of the Performance Share Plan (PSP) and Matching Share Award Plan (MSAP) awards granted in 2011. Vesting was dependent on performance over the period 1 April 2011 to 31 March 2014 and continued employment to 31 March 2014. The overall vesting outcome was 93.5 per cent of maximum, as shown below:

Relative Total Shareholder Return (TSR)

- Company's comparative TSR against a TSR index over the performance period.
- Index is a weighted average of TSR for the following companies (weights in brackets): Severn Trent (100), Pennon Group (75), National Grid (25), Scottish & Southern (25), Northumbrian Water (75)[(1)].
- For the purpose of calculating TSR, the TSR index is averaged over the three months prior to the start and end of the performance period.
- TSR is independently calculated by New Bridge Street.

Weighting

50%



Target

Stretch: 100% vesting for outperforming the index by 6.3% or more (on a multiplicative basis)

Threshold: 25% vesting for TSR performance equal to the index

0% vesting if company's TSR is below the index

Straight-line vesting between threshold and stretch performance

Achievement

48.0% out of 50.0%.

Between threshold and stretch. Company TSR of 50.0%, compared to index TSR of 41.5% and stretch target of 50.4%.

Opex outperformance

- Cumulative operating expenditure outperformance versus Ofwat's allowed operating costs over the 2011–14 period.

Weighting

37.5%

Target

100% vesting if stretch outperformance over the performance period is achieved

50% vesting if intermediate outperformance over the performance period is achieved

25% vesting if Ofwat's allowed operating costs over the performance period ('threshold') are achieved

0% vesting if threshold is not achieved

Straight-line vesting between threshold and intermediate, and intermediate and stretch performance

Achievement

33.0% out of 37.5%.

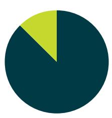
Between intermediate and stretch.

Capex outperformance

- Cumulative capital expenditure outperformance versus Ofwat's capital expenditure allowance over the 2011–14 period.

Weighting

12.5%



Target

100% vesting if stretch outperformance is achieved

50% vesting if Ofwat's capital expenditure allowance over the performance period is achieved ('intermediate')

25% vesting for threshold performance

0% vesting if threshold is not achieved

Straight-line vesting between threshold and intermediate, and intermediate and stretch performance

Achievement

12.5% out of 12.5%.

Stretch.

Note:

(1) Following its delisting in 2011, Northumbrian Water Group was replaced in the index by Centrica with a weighting of 25.

Annual report on remuneration

The directors consider it commercially sensitive to disclose the opex and capex outperformance targets at this stage of the Asset Management Period (AMP). We will disclose the targets in next year's annual report and accounts, after the end of the AMP.

The awards that vested in respect of each executive director were as follows:

Performance Share Plan - 2011 awards

Director	Number of shares awarded	Number of dividend equivalent shares	Number of shares before performance conditions applied	Number of shares vesting	Value of shares vesting £'000[1]
Steve Mogford	75,020	11,678	86,698	81,062	692
Russ Houlden	46,166	7,185	53,351	49,883	426

Note:
(1) Calculated using closing share price on 20 May 2014 (date of vesting) of 854 pence per share.

Matching Share Award Plan - 2011 awards

Director	Number of shares awarded[1]	Number of dividend equivalent shares	Number of shares before performance conditions applied	Number of shares vesting	Value of shares vesting £'000[2]
Steve Mogford	16,313	2,537	18,850	17,624	151
Russ Houlden	21,140	3,289	24,429	22,841	195

Notes:
(1) These awards related to the 2010/11 bonus payments and reflect their respective part-year earnings. Steve Mogford joined the company in January 2011 and Russ Houlden joined in October 2010.
(2) Calculated using closing share price on 20 May 2014 (date of vesting) of 854 pence per share.

Scheme interests awarded during the year ended 31 March 2014 (audited information)

During the year ended 31 March 2014 awards were made to executive directors under the DBP and LTP. Details of these awards are provided below.

Deferred Bonus Plan - 2013 awards

Executive directors were required to defer 50 per cent of their 2012/13 bonus into shares for three years under the DBP in June 2013. There were no service or performance conditions attached, however deferred bonuses are subject to malus provisions. See directors' remuneration policy for further information.

Director	Basis of award	Face value £'000[1]	Number of shares granted	End of deferral period
Steve Mogford	50% of 2012/13 bonus	362	49,573	17.6.16
Russ Houlden	50% of 2012/13 bonus	228	31,278	17.6.16

Note:
(1) The face value has been calculated using the closing share price on 14 June 2013 (the dealing day prior to date of grant) which was 730 pence per share.

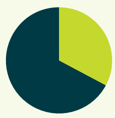
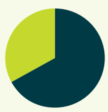
Long Term Plan - 2013 awards

Long Term Plan awards were granted in July 2013. The awards are conditional shares with a three-year performance period and an additional two year holding period for executive directors. Malus provisions apply. See the directors' remuneration policy for further information.

Director	Basis of award	Face value £'000[1]	% vesting at threshold	Number of shares granted	Performance period
Steve Mogford	130% of salary	865.2	25	120,746	1.4.13 to 31.3.16
Russ Houlden	130% of salary	546.0	25	76,203	1.4.13 to 31.3.16

Note:
(1) The face value has been calculated using the closing share price on 26 July 2013 (the day prior to date of grant) which was 717 pence per share.

The performance conditions for the 2013 LTP awards were selected following an extensive review and shareholder consultation process. Summary details about the 2013 LTP performance measures are shown in the following table:

Performance measure (weighting)	Key features
Relative Total Shareholder Return **(one-third)** 	• TSR measured over a three-year performance period • Relative to the FTSE 100 (excluding Financial Services, Oil & Gas and Mining companies) • No payment for below median performance • Threshold vesting (25%) at median performance • Stretch vesting (100%) at 1.15x median (or greater) • 'Straight-line' vesting between Threshold and Stretch • For the purpose of calculating TSR, the TSR index is averaged over the three months prior to the start and end of the performance period
Sustainable dividends **(one-third)** 	• Comprises two elements – dividend growth and dividend cover • For 2013 where the performance period straddles two regulatory periods, dividend cover will operate as an underpin, with dividend growth (over the three-year period) providing the payout range based on Threshold (25% vesting) to Stretch (100% vesting) targets • Given the commercial and shareholder sensitivity of forecasting the outcome of the ongoing regulatory price review process, the committee strongly believe that disclosing precise targets for this measure in advance could be seriously prejudicial to shareholder interests. Actual targets, performance achieved and awards made will be published retrospectively so shareholders can fully understand the basis for any payouts.
Customer service excellence **(one-third)** 	• Based on Ofwat's customer service measure (currently the Service Incentive Mechanism) • Vesting based on ranking position in final year compared to the other water and wastewater companies (currently 19 companies including United Utilities) • No payment for below median performance • Threshold vesting (25%) for median position • Intermediate vesting (80%) for upper quartile position • Stretch vesting (100%) for upper decile position • 'Straight-line' vesting between these points

The committee will have the flexibility to make appropriate adjustments to the performance targets in exceptional circumstances, to ensure that the award achieves its original purpose.

Any vesting is also subject to the committee being satisfied that the company's performance on these measures is consistent with underlying business performance.

ShareBuy - 2013/14 awards

Both executive directors are participants in the company's all-employee share scheme, ShareBuy. During the year:

- Steve Mogford purchased 209 partnership shares and was awarded 42 matching shares (at an average share price of 718 pence per share).
- Russ Houlden purchased 209 partnership shares and was awarded 41 matching shares (at an average share price of 718 pence per share).

Annual report on remuneration

Statement of directors' shareholding and share interests (audited information)

Executive directors are expected to build up and maintain a shareholding in the company of at least 100 per cent base salary within five years of appointment. There is also an expectation that they will continue to build a shareholding throughout their period of employment with the company, after the guideline is reached.

Details of beneficial interests in the company's ordinary shares as at 31 March 2014 held by each of the directors and their connected persons are set out in the table below along with progress against the targeted shareholding guideline level. The table shows that both Steve Mogford and Russ Houlden have already exceeded the target shareholding.

Director	Number of shares required to meet share-holding guideline[1]	Shares counting towards shareholding guidelines at 31 March 2014			Share-holding as % of base salary at 31 March 2014[1]	Share-holding guideline met at 31 March 2014	Unvested shares subject to performance conditions[4]
		Number of shares owned outright (including connected persons)	Unvested shares not subject to performance conditions[2]	Total shares counting towards shareholding guidelines [3]			
Executive directors							
Steve Mogford[5]	91,667	118,811	152,273	199,535	218%	Yes	358,479
Russ Houlden[5]	57,863	72,597	76,035	112,915	195%	Yes	236,603
Non-executive directors							
Dr John McAdam	n/a	1,837	n/a	n/a	n/a	n/a	n/a
Dr Catherine Bell	n/a	7,000	n/a	n/a	n/a	n/a	n/a
Mark Clare	n/a	7,628	n/a	n/a	n/a	n/a	n/a
Brian May	n/a	3,000	n/a	n/a	n/a	n/a	n/a
Nick Salmon	n/a	1,004	n/a	n/a	n/a	n/a	n/a
Sara Weller	n/a	10,531	n/a	n/a	n/a	n/a	n/a

Notes:

(1) Share price used is the average share price over the three months from 1 January 2014 to 31 March 2014 (744 pence per share).

(2) Unvested shares subject to no further performance conditions such as matching shares under the 'ShareBuy' scheme and the matched share incentive schemes. Includes shares only subject to malus provisions such as the DBP shares in the three-year deferral period and LTP shares in the two-year holding period.

(3) Includes unvested shares not subject to performance conditions (on a net of tax and national insurance basis), plus the number of shares owned outright.

(4) Includes unvested shares under the PSP, MSAP and LTP.

(5) In the period 1 April 2014 to 21 May 2014, additional shares were acquired by Steve Mogford (34 ordinary shares) and Russ Houlden (34 ordinary shares) in respect of their regular monthly contributions to the 'ShareBuy' scheme. These will be matched by the company on a one-for-five basis. Under the scheme, matching shares vest provided the employee remains employed by the company one year after grant.

Details of share awards under the 2011 PSP and MSAP are given on page 90. Further details of the executive directors' other unvested share awards at 31 March 2014 are shown in the table below.

	Award date	Performance period/vesting date	Performance conditions	Number of unvested shares as at 31 March 2014[1]
Steve Mogford				
PSP	15.6.12	1.4.12 to 31.3.15 (capex measured over the period 1.4.10 to 31.3.15)	50% relative TSR 37.5% opex outperformance 12.5% capex	73,427
MSAP	15.6.12	1.4.12 to 31.3.15 (capex measured over the period 1.4.10 to 31.3.15)	50% relative TSR 37.5% opex outperformance 12.5% capex	52,878
MSIS[2]	27.5.11	Vests 5.1.16	None	100,244
DBP[3]	17.6.13	Vests 17.6.16	None	51,987
LTP[4]	29.7.13	1.4.2013 to 31.3.16 (plus additional two-year holding period)	$^1/_3$ relative TSR $^1/_3$ sustainable dividends $^1/_3$ customer service excellence	126,626
ShareBuy matching shares[5]	1.4.13 to 31.3.14	Vests 1.4.14 to 31.3.15	None	42
Russ Houlden				
PSP	15.6.12	1.4.12 to 31.3.15 (capex measured over the period 1.4.10 to 31.3.15)	50% relative TSR 37.5% opex outperformance 12.5% capex	46,314
MSAP	15.6.12	1.4.12 to 31.3.15 (capex measured over the period 1.4.10 to 31.3.15)	50% relative TSR 37.5% opex outperformance 12.5% capex	32,596
MSIS[6]	1.10.10	Vests 1.10.15	None	43,193
DBP[3]	17.6.13	Vests 17.6.16	None	32,801
LTP[4]	29.7.13	1.4.2013 to 31.3.16 (plus additional two-year holding period)	$^1/_3$ relative TSR $^1/_3$ sustainable dividends $^1/_3$ customer service excellence	79,913
ShareBuy matching shares[5]	1.4.13 to 31.3.14	Vests 1.4.14 to 31.3.15	None	41

Notes:

(1) Includes dividend equivalents. All awards are increased by the notional reinvestment of dividends paid over the course of the retention or performance period. Note that these are also subject to performance conditions where applicable.

(2) Full details of the one-off matched share investment award for Steve Mogford, introduced as a necessary part of his terms of appointment, were disclosed in the 2010/11 report. Shares under this scheme will be transferred to him on 5 January 2016, subject to him still being employed by the group at that date.

(3) DBP shares are not forfeitable if an executive director leaves. However, the director will typically have to wait three years from the date of grant to receive the shares, and the shares remain subject to malus provisions over the deferral period.

(4) LTP shares are not forfeitable if an executive director leaves in the two-year holding period. However, the director will typically have to wait until the end of the holding period to receive the shares, and the shares remain subject to malus provisions over the holding period.

(5) Under ShareBuy, matching shares vest provided the employee remains employed by the company one year after grant.

(6) Full details of the one-off matched share investment award for Russ Houlden, introduced as a necessary part of his terms of appointment, were disclosed in the 2010/11 report. Shares under this scheme will be transferred to him on 1 October 2015, subject to him still being employed by the group at that date.

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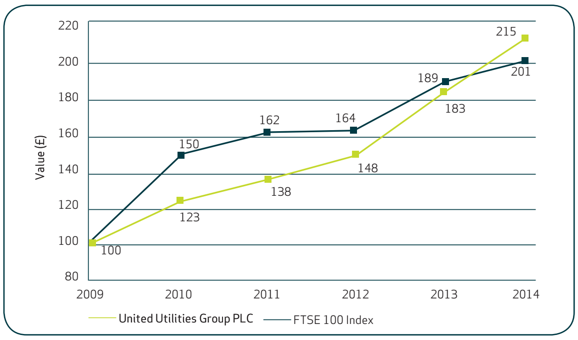
Performance graph

The chart to the right shows the company's five-year TSR performance against the FTSE100 index. The index was selected because the company is a member of the FTSE100 and it is considered to be the most suitable widely published benchmark for this purpose. The table below the chart shows the CEO's pay over the same five-year period.



Five-year history of CEO's pay

Year ended 31 March	2010	2011		2012	2013	2014
CEO	Philip Green	Philip Green	Steve Mogford	Steve Mogford	Steve Mogford	Steve Mogford
CEO single figure of total remuneration (£'000)	1,992	3,073	377	1,421	1,549	2,375
Annual bonus as % of maximum	89.2	90.8	90.6	72.0	84.4	78.2
Long-term incentive vesting as % of maximum	0[(1)] 12.5[(2)]	28.1[(3)] 100.0[(4)]	n/a[(5)]	n/a[(5)]	n/a[(5)]	93.5[(6)]

Notes:

(1) The performance period applicable to the 2007 Performance Share Plan (PSP) ended on 31 March 2010.
(2) The performance period applicable to the 2007 Matching Share Award Plan (MSAP) ended on 31 March 2010.
(3) The performance period applicable to the 2008 PSP and the 2008 MSAP ended on 31 March 2011.
(4) The retention period applicable to Philip Green's matched share investment scheme ended on 12 February 2011.
(5) Steve Mogford was not a participant in any long-term incentive plans that had performance periods ending during 2011 to 2013. For those who did participate in those plans, the vesting as a percentage of maximum was 37.5 per cent for those vesting in 2012 and 35.3 per cent for those vesting in 2013.
(6) The performance period applicable to the 2011 PSP and the 2011 MSAP ended on 31 March 2014.

Percentage change in CEO's remuneration versus the wider workforce

The table below shows how the percentage change in the CEO's salary, benefits and bonus earned in 2012/13 and 2013/14 compares with the percentage change in the average of each of those components for a group of employees.

Item	Year-on-year change CEO (%)[(1)]	Year-on-year change employees (%)[(2)]
Base salary[(3)(4)]	2.4	4.1
Taxable benefits	4.4	7.2
Bonus	-5.1	4.2

Notes:

(1) See single total figure of remuneration table on page 87 for more information.
(2) To aid comparison, the group of employees selected by the committee are those who were employed over the complete two-year period.
(3) On 1 September 2013 Steve Mogford received a base salary increase of 2.5 per cent.
(4) Includes promotional increases, and increases associated with a review of pay structures for collectively bargained employees.

Relative importance of spend on pay

The chart shows the relative importance of spend on pay compared to distributions to shareholders.

	2013/2014	2012/13	% change
Employee costs £m[(1)]	254	245	3.7
Dividends paid to shareholders £m	238	224	6.4

Note:

(1) Employee costs includes wages and salaries, social security costs, and post-employment benefits.

Dates of service contracts and first appointment to board

Executive directors	Date of service contract
Steve Mogford	5.1.11
Russ Houlden	1.10.10
Non-executive directors	**Date first appointed to the board**
Dr John McAdam	4.2.08
Dr Catherine Bell	19.3.07
Mark Clare	1.11.13
Brian May	1.9.12
Nick Salmon	4.4.05
Sara Weller	1.3.12

Implementation of the remuneration policy for the year commencing 1 April 2014

Subject to shareholder approval, the remuneration policy will be implemented with effect from the 2014 AGM on the basis set out in the directors' remuneration policy report.

Fixed pay

Any base salary increases in 2014/15 will be in line with policy and there are no changes expected to benefits or pensions.

Annual bonus measures

The measures and weightings for the executive directors' 2014/15 annual bonus are the same as for the 2013/14 bonus. The performance measures and targets are set out in the table below. Please note that certain targets are considered commercially sensitive, and consequently these will only be disclosed after the end of the financial year in the 2014/15 annual report on remuneration.

Measure	Targets 2014/15	Weighting (%)
Underlying operating profit[1]	Commercially sensitive	30
Customer service in year		
Service Incentive Mechanism - Qualitative	Commercially sensitive	10
Service Incentive Mechanism - Quantitative	Commercially sensitive	10
Maintaining and enhancing services for customers		
Regulatory capital expenditure	Commercially sensitive	8
Time, cost and quality of capital programme (TCQi)[2]	95%-99%	8
Sustainability of service and corporate responsibility		
Serviceability (four measures) Requirement: Stable or Improving	Threshold: 3 x Stable or Improving Stretch: 5 out of 5	20
Dow Jones Sustainability Index rating (one measure) Requirement: World Class		
Bad debt recovery	Commercially sensitive	4
Personal objectives	Commercially sensitive	10
Total as % bonus maximum		100
Maximum bonus as % base salary		130

Notes:
(1) Underlying operating profit is subject to a number of adjustments, principally in regard to infrastructure renewal expenditure.
(2) TCQi is an internal measure which measures the extent to which we deliver our capital projects on time, to budget and to the required standard. It is expressed as a percentage, with a higher percentage representing better performance.

Annual report on remuneration

Long Term Plan awards
It is anticipated that LTP awards of 130 per cent of salary will be made to the executive directors in 2014. The three-year performance period will start on 1 April 2014 and end on 31 March 2017. Executive directors will have a further two-year holding period before they receive the shares.

The performance measures and targets are expected to be as outlined on page 91.

How executive directors' incentives align to business strategy

	Our aim is to deliver long-term shareholder value	The best service to customers	At the lowest sustainable cost	In a responsible manner
Long Term Plan				
Relative TSR	✓			
Sustainable dividends	✓		✓	✓
Customer service excellence	✓	✓		✓
Additional two-year holding period	✓			✓
Annual bonus				
Operating profit	✓		✓	
Customer service in year[1]	✓	✓		
Maintaining and enhancing services for customers[2]	✓	✓	✓	✓
Sustainability of service and corporate responsibility[3]	✓	✓		✓
Bad debt recovery	✓		✓	
Personal	✓	✓	✓	✓
Compulsory deferral of bonus	✓			✓
Shareholding guidelines	✓			

Focusing on customer service and corporate responsibility

(1) Customer service in year
This measures our customer service performance over the bonus year, as reported by Ofwat through their measure of customer service.

(2) Maintaining and enhancing services for customers
This measures how effectively and efficiently we deliver projects to improve our region's water and wastewater network. Our capital programme ensures we can provide a reliable service for our customers now and in the future and helps to provide a cleaner environment.

(3) Sustainability of service and corporate responsibility
This measure is made up of two components: serviceability and the Dow Jones Sustainability Index. Serviceability relates to the overall reliability of our assets such as treatment works, water pipes and pumping stations – ensuring that they deliver a stable and dependable level of service to our customers. The Dow Jones Sustainability Index is an assessment of our responsible business practice, measuring economic, social and governance performance.

Consideration by the directors of matters relating to directors' remuneration

Summary terms of reference

The committee's terms of reference were last updated in February 2014 and are available on our website: corporate.unitedutilities.com.

The committee's main responsibilities include:

- making recommendations to the board on the company's framework of executive remuneration and its cost;
- approving the individual employment and remuneration terms for executive directors and other senior executives, including: recruitment and severance terms, bonus plans and targets, and the achievement of performance against targets;
- approving the general employment and remuneration terms for selected senior employees;
- approving the remuneration of the Chairman;
- proposing all new long-term incentive schemes for approval of the board, and for recommendation by the board to shareholders; and
- assisting the board in reporting to shareholders and undertaking appropriate discussions as necessary with institutional investors on aspects of executive remuneration.

Composition of the remuneration committee

Member	Member since	Member to
Sara Weller (chair since 27.7.12)	1.3.12	To date
Nick Salmon	4.4.05	To date
Dr Catherine Bell	1.3.11	To date

The committee's members have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors.

Advisors to the remuneration committee

By invitation of the committee, meetings are also attended by the Chairman of the company (John McAdam), the CEO (Steve Mogford), the company secretary (Simon Gardiner, who acts as secretary to the committee), the business services director (Sally Cabrini) and the head of reward (Ruth Henshaw) who are consulted on matters discussed by the committee, unless those matters relate to their own remuneration. Advice or information is also sought directly from other employees where the committee feels that such additional contributions will assist the decision making process.

The committee is authorised to take such internal and external advice as it considers appropriate in connection with carrying out its duties, including the appointment of its own external remuneration advisors.

During the year, the committee was assisted in its work by the following external advisors:

Advisor	Appointed by	How appointed	Services provided to the committee in year ended 31 March 2014	Fees paid by company for these services in respect of year and basis of charge
New Bridge Street	Committee	Re-appointed following committee review in 2013	General advice on remuneration matters	£95,000 Time/cost basis
Other services provided to the company • Benchmarking of roles not under the committee's remit				
Deloitte LLP	Committee	Competitive tender process	Executive incentive review	£0 Capped fee (cap reached in prior financial year)
Other services provided to the company • Financial Reporting support • VAT and corporate tax advisory services • Domestic Retail strategy review support				

Annual report on remuneration

The independent consultants New Bridge Street (a trading name of Aon Hewitt Limited, an Aon PLC company) and Deloitte LLP are members of the Remuneration Consultants Group and, as such, voluntarily operate under the Code of Conduct in relation to executive remuneration consulting in the UK. The committee is satisfied that the advice they received from external advisors is objective and independent.

In addition, the law firms Eversheds and Addleshaw Goddard provide advice on the company's share schemes to the company.

Key activities of the remuneration committee over the past year

The committee met five times in the year ended 31 March 2014.

Regular activities

- Approved the 2012/13 directors' remuneration report.
- Reviewed the base salaries of executive directors and other members of the executive team.
- Reviewed the base fee for the Chairman.
- Assessed the achievement of targets for the 2012/13 annual bonus scheme, reviewed progress against the targets for the 2013/14 annual bonus scheme, and set the targets for the 2014/15 annual bonus scheme.
- Assessed the measurement of performance conditions for the long-term incentive awards vesting in 2013 including both Performance Share Plan (PSP) awards and matching shares vesting under the Matching Share Award Plan (MSAP) and set the targets for Long Term Plan (LTP) awards made in 2013.
- Reviewed and approved awards made under the annual bonus scheme, Deferred Bonus Plan (DBP) and LTP.
- Monitored progress against shareholding guidelines for executive directors and other members of the executive team.
- Reviewed the committee's performance during the period.
- Reviewed the committee's terms of reference.
- Considered market trends in executive remuneration, including in the wider utilities sector.

Other activities

- Completed a review of the executive incentive arrangements.
- Consulted with shareholders on proposed remuneration policy.
- Reviewed the pay comparator group.
- Reviewed the new-style remuneration report.
- Reviewed the executive shareholding guidelines.

Statement of shareholder voting

At the last Annual General Meeting on 26 July 2013 votes on the remuneration report were cast as follows:

Resolution	For		Against		Abstain
	%	Number	%	Number	Number
Approval of 2012/13 directors' remuneration report	99.04	366,171,179	0.96	3,563,781	5,561,260
Approval of 2013 LTP	98.33	367,836,662	1.67	6,253,466	1,212,434

The directors' remuneration report was approved by the board of directors on 21 May 2014 and signed on its behalf by:

Sara Weller
Chair of the remuneration committee

Directors' report - other statutory information

Our directors present their management report and the audited financial statements of United Utilities Group PLC (the company) and its subsidiaries (together referred to as the group) for the year ended 31 March 2014.

Principal activities and business review

A description of the company's principal activities and business review together with the company's business model can be found within the Strategic Report earlier on within this annual report.

Greenhouse gas emissions

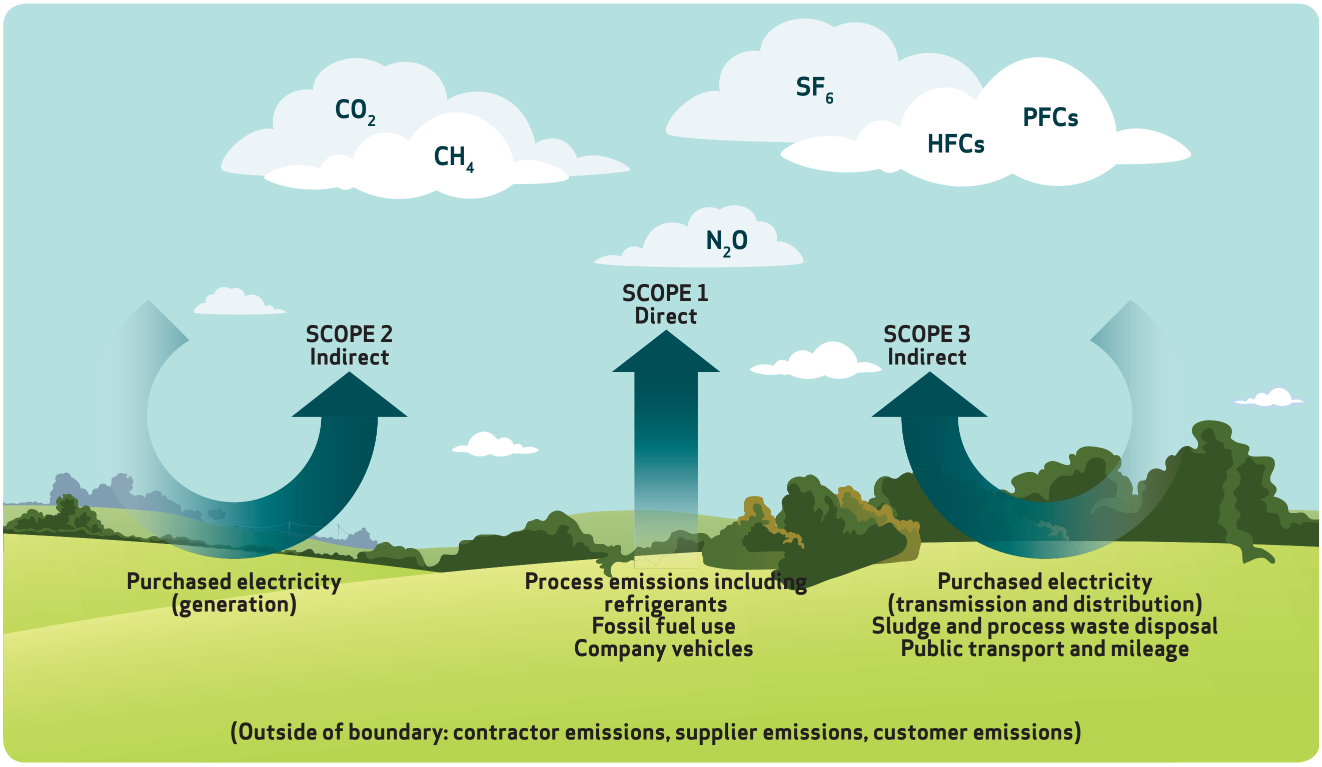
We measure our emissions over the financial reporting year against a footprint covering the operational activities of the water and property services businesses in the UK. All figures stated are in line with the latest UK Government carbon reporting guidance. Our reporting is compliant with the international carbon reporting standard ISO14064, Part 1 and verified by the Certified Emissions Measurement and Reduction Scheme certification.

As stated in the performance report on page 37 our carbon emissions for the year 2013/14 were 449,042 tonnes of carbon dioxide equivalent (tCO_2e), a reduction of 23 per cent against our 2005/06 baseline of 586,017 tCO_2e. Our carbon target is a 21 per cent reduction by 2015.

Our carbon footprint

The boundary of our carbon footprint includes both direct and indirect emissions as a result of our operations. Direct emissions include emissions from our treatment processes, company vehicles and burning of fossil fuels for heating or incineration of sewage sludge. Indirect emissions include those from the electricity we use to power our treatment plants, emissions from travel on company business and sludge and treatment waste disposal emissions. Our emissions account for all of the Kyoto Protocol gases – converted to carbon dioxide equivalents. There are no material omissions.

Boundary of our carbon footprint

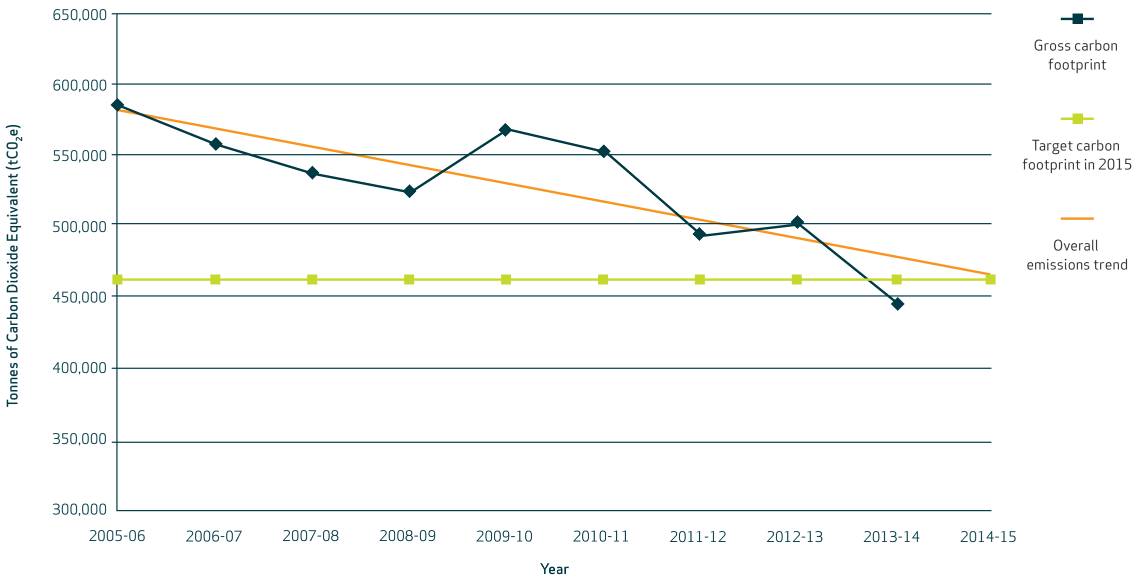


Boundary of our carbon footprint

In 2010 we stated our short-term target to reduce our emissions by 21 per cent by 2015, against our 2005/06 baseline. The trend in our overall emissions continues to be downwards even though they have fluctuated over the past few years – as they can be affected by weather and operational conditions. Last year our emissions were 23 per cent below our 2005/06 baseline and our aim is to remain at or above 21 per cent next year.

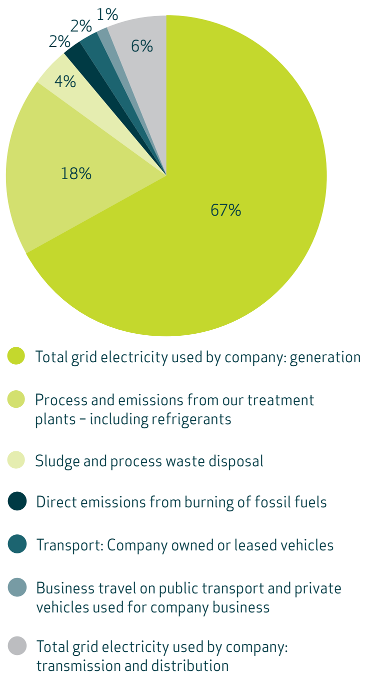
Directors' report – other statutory information

Our carbon footprint over the last 9 years



The following table gives a breakdown of our carbon emissions by scope and source.

CHG Scope	Source	2012 - 2013 (tCO_2e)		2013 - 2014 (tCO_2e)	
Scope 1 emissions	Direct emissions from burning of fossil fuels	14,435	115,250	9,525	101,992
	Process emissions from our treatment plants - including refrigerants	90,509		82,421	
	Transport: Company owned or leased vehicles	10,306		10,046	
Scope 2 emissions	Total grid electricity used by company: generation	333,774	333,774	298,768	298,768
Scope 3 emissions	Total grid electricity used by company: transmission and distribution	26,367	54,203	25,546	48,281
	Business travel on public transport and private vehicles used for company business	2,613		2,860	
	Emissions from sludge and process waste disposal	25,223		19,875	
	Gross carbon footprint total	503,226		449,042	
	Emissions per £million turnover	307.60		263.44	
	Emission reductions from exported renewable electricity	(3,993)		(6,676)	
	Net carbon footprint total	499,233		442,366	



The majority of our emissions are as a result of our use of grid electricity. It remains a focus of the group to reduce our electricity use and generate more renewable energy to further reduce our carbon emissions.

Dividends

Our directors are recommending a final dividend of 24.03 pence per ordinary share for the year ended 31 March 2014, which, together with the interim dividend of 12.01 pence, gives a total dividend for the year of 36.04 pence per ordinary share (the interim and final dividends we paid in respect of the 2012/13 financial year were 11.44 pence and 22.88 pence per ordinary share respectively). Subject to approval by our shareholders at our AGM, our final dividend will be paid on 1 August 2014 to shareholders on the register at the close of business on 20 June 2014.

Directors

The summary biographical details, together with the skills and experience of our directors who served during the financial year ended 31 March 2014, can be found on pages 56–57. During the year, Paul Heiden retired from the board at our AGM on 26 July 2013 and we appointed Mark Clare to the board on 1 November 2013.

Reappointment

Our articles of association provide that our directors must retire at the third annual general meeting following their last election or reappointment by our shareholders. However, our board, being mindful of the recommendation contained within the UK Corporate Governance Code published in 2012 that all directors should be subject to annual election by shareholders, has decided that all of our directors will retire at the 2014 AGM and offer themselves for election/reappointment, as happened at the AGMs in 2011, 2012 and 2013. Information regarding the appointment of our directors is included in our corporate governance report on pages 62–67.

Interests

Details of the interests in the company's shares held by our directors and persons connected with them are set out in our directors' remuneration report on pages 78–98.

Corporate governance statement

Further details of our compliance with the code as published by the Financial Reporting Council in 2012 are given on pages 52–98. Our statement includes a description of the main features of our internal control and risk management systems in relation to the financial reporting process and forms part of this directors' report. A copy of the code published in 2012, as applicable to the company for the year ended 31 March 2014, can be found at the Financial Reporting Council's website frc.org.uk. Copies of the matters reserved to the board and the terms of reference for each of the main board committees can be found on our website: corporate. unitedutilities.com.

Our corporate governance statement also includes the consideration given by our directors to the factors relevant to the adoption of the going concern basis.

We can confirm that during the financial year 2013/2014 there have been no breaches of our Anti Bribery and Competition policies and no investigations or enforcement activity against us in respect of these matters.

Our 2014 annual general meeting (AGM) will be held on 25 July 2014 at the Lowry Hotel, 50 Dearmans Place, Chapel Wharf, Manchester, M3 5LH.

Full details of the resolutions to be proposed to our shareholders, and explanatory notes in respect of these resolutions, can be found in our notice of AGM. A copy can be found on our website.

At our 2014 AGM, resolutions will be proposed, amongst other matters:

- to receive the annual report and financial statements; to approve the directors' remuneration report and the directors' remuneration policy; to declare a final dividend; and to reappoint KPMG LLP as auditor.
- In addition, resolutions will be proposed: to approve our directors' general authority to allot shares; to grant the authority to issue shares without first applying statutory rights of pre-emption; to authorise the company to make market purchases of its own shares; to authorise the making of limited political donations by the company and its subsidiaries; and to enable the company to continue to hold general meetings on not less than 14 clear days' notice.

Total dividend per share of

36.04p

for 2013/14

(2012/13 34.32p per share)

2014 AGM

25 July 2014

at the Lowry Hotel, 50 Dearmans Place, Chapel Wharf, Manchester M3 5LH

Directors' report - other statutory information

Share capital

At 31 March 2014, the issued share capital of the company was £499,819,926 divided into 681,888,418 ordinary shares of five pence each and 273,956,180 deferred shares of 170 pence each. Details of our share capital and movements in our issued share capital are shown in note 24 to the financial statements on page 139. The ordinary shares represented 71.3 per cent and the deferred shares represented 28.7 per cent respectively of the shares in issue as at 31 March 2014.

All our ordinary shares have the same rights, including the rights to one vote at any of our general meetings, to an equal proportion of any dividends we declare and pay, and to an equal amount of any surplus assets which are distributed in the event of a winding-up.

Our deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding-up. The rights attaching to our shares in the company are provided by our articles of association, which may be amended or replaced by means of a special resolution of the company in general meeting. The company renews annually its power to issue and buy back shares at our AGM and such resolutions will be proposed at our 2014 AGM. Our directors' powers are conferred on them by UK legislation and by the company's articles. At the AGM of the company on 26 July 2013, the directors were authorised to issue relevant securities up to an aggregate nominal amount of £11,364,806 and were empowered to allot equity securities for cash on a non pre-emptive basis to an aggregate nominal amount of £1,704,721.

Voting

Electronic and paper proxy appointment and voting instructions must be received by our registrars (Equiniti) not less than 48 hours before a general meeting and when calculating this period, the directors can decide not to take account of any part of a day that is not a working day.

Transfers

There are no restrictions on the transfer of our ordinary shares in the company, nor any limitations on the holding of our shares in the company, save (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (ii) where their holder is precluded from exercising voting rights by the Financial Conduct Authority's Listing Rules or the City Code on Takeovers and Mergers.

There are no agreements known to us between holders of securities that may result in restrictions on the transfer of securities or on voting rights. All our issued shares are fully paid.

Major shareholdings

At 21 May 2014, our directors had been notified of the following interests in the company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority:

	Per cent of issued share capital	Direct or indirect nature of holding
AXA S.A.	4.933	direct and indirect
BlackRock Inc	5.13	indirect
Legal & General Group PLC	3.94	direct
Pictet Asset Management S.A.	4.995	indirect

Purchase of own shares

At our last AGM held on 26 July 2013, our shareholders authorised the company to purchase, in the market, up to 68,188,841 of our ordinary shares of 5 pence each. We did not purchase any shares under this authority during the year. We normally seek such an authority from our shareholders annually. At our 2014 AGM, we will seek authority from our shareholders to purchase up to 68,188,841 of our ordinary shares of 5 pence each with such authority expiring at the end of our AGM held in 2015.

Change of control

As at 31 March 2014, Equiniti Trust (Jersey) Limited was the trustee that administered our executive share plans and had the ability to exercise voting rights at its discretion which related to shares that it held under the trust deed constituting the trust. In the event of a takeover offer which could lead to a change of control of the company, the trustee must consult with the company before accepting the offer or voting in favour of the offer. Subject to that requirement, the trustee may take into account a prescribed list of interests and considerations prior to making a decision in relation to the offer, including the interests of the beneficiaries under the trust.

In the event of a change of control, the participants in our share incentive plan (ShareBuy) would be able to direct the trustee of the share incentive plan, Equiniti Share Plan Trustees Limited, how to act on their behalf.

Directors' indemnities and insurance

We have in place contractual entitlements for the directors of the company and of its subsidiaries to claim indemnification by the company in respect of certain liabilities which might be incurred by them in the course of their duties as directors. These arrangements, which constitute qualifying third party indemnity provision and qualifying pension scheme indemnity provision, have been established in compliance with the relevant provisions of the Companies Act 2006. They include provision for the company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the company or its subsidiaries. The company also maintains an appropriate level of directors' and officers' liability insurance.

Political donations

We do not support any political party and do not make what are commonly regarded as donations to any political party or other political organisations. However, the wide definition of donations in the Political Parties, Elections and Referendums Act 2000 covers activities which form part of the necessary relationship between the group and our political stakeholders. This includes promoting United Utilities' activities at the main political parties' annual conferences, and occasional stakeholder engagement in Westminster.

The period 2013/14 saw us engage with our stakeholders along a number of policy themes as the Water Bill made its way through Parliament and Market Reform planning continued. The group incurred expenditure of £12,235 (2013: £16,211) as part of this process. At the 2013 AGM, an authority was taken to cover such expenditure. A similar resolution will be put to our shareholders at the 2014 AGM to authorise the company and its subsidiaries to make such expenditure.

Employees

Our policies on employee consultation and on equal opportunities for our disabled employees can be found in the 'Our approach to doing business' section on page 18. The company's business principles make clear how it and all our employees must seek to act with integrity and fairness and observe legal requirements. Anyone with serious concerns that the company may not be adhering to these principles is encouraged to speak up via their line manager or through a confidential telephone line.

Importance is placed on strengthening employees' engagement, measuring their views annually, then by taking action to improve how they feel about the company and understand its direction.

For further information on our average number of employees during the year, go to page 122.

Environmental, social and community matters

Details of our approach to corporate responsibility, relating to the environment and social and community issues, can be found in the 'Our approach to doing business' section on page 18.

Essential contractual relationships

Certain suppliers we use contribute key goods or services, the loss of which could cause disruption to our services. However, none are so vital that their loss would affect our viability as a group as a whole nor are we overly dependent on any one individual customer.

Approach to technology development

We are committed to using innovative, cost-effective and practical solutions for providing high quality services and we recognise the importance of ensuring that we focus properly our investment in the development of technology and that we have the right skills to apply technology to achieve sustainable competitive advantage and also that we continue to be alert to emerging technological opportunities.

Directors' report - other statutory information

Financial instruments

Our risk management objectives and policies in relation to the use of financial instruments can be found in note A1 to the financial statements.

Property, plant and equipment

The group holds significant land assets; however, the vast majority of these are water catchment assets which are an integral and essential part of the operation of the group's regulated business. The nature of these assets, which are primarily moorland areas and which could not be sold by the group, means that it is impracticable to obtain meaningful market values for the land. Other land owned by the group, the majority of which relates to operational sites, does not have a market value materially different from historic cost.

Events occurring after the reporting period

Details of events after the reporting period are included in note 28 to the consolidated financial statements on page 140.

Information given to the auditor

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

- so far as he or she is aware, there is no relevant audit information of which the company's auditor is unaware; and he or she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself 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 s418 of the Companies Act 2006.

Reappointment of the auditor

Our board is proposing that our shareholders reappoint KPMG LLP as our auditor at the forthcoming AGM and authorise our directors to fix the auditor's remuneration.

Approved by the board on 21 May 2014 and signed on its behalf by:

Simon Gardiner
Company Secretary

Statement of directors' responsibilities in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the group and parent company financial statements in accordance with applicable laws and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and applicable law and have elected to prepare the parent company financial statements on the same basis.

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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company 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 they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that complies with that law and those regulations.

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.

Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report (contained on pages 2 to 51) includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the directors consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Approved by the board on 21 May 2014 and signed on its behalf by:

Dr John McAdam
Chairman

Russ Houlden
Chief Financial Officer

Financial statements

The full audited financial results for the year are presented here.

Independent auditor's report to the members of United Utilities Group PLC only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of United Utilities Group PLC for the year ended 31 March 2014 set out on pages 112 to 160. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2014 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Capitalisation of costs relating to the capital programme (£695.4 million)

Refer to page 71 Audit committee report, page 119 accounting policy and notes11 financial disclosures.

The risk	Our response
The group has a substantial capital programme which has been agreed with the regulator ('Ofwat') and therefore incurs significant expenditure in relation to the development and maintenance of both infrastructure and non-infrastructure assets. Expenditure in relation to increasing the capacity or enhancing the network is treated as capital expenditure. Expenditure incurred in maintaining the operating capability of the network is expensed in the year in which it is incurred. Capital projects often contain a combination of enhancement and maintenance activity which are not distinct and therefore the allocation of costs between capital and operating expenditure is inherently judgemental. Within the costs of the capital programme is an allocation of overhead relating to the proportion of time that the group's support functions spend which relates directly to the capital programme. This allocation is also inherently judgemental. For these reasons there is a risk that capital and operating expenditure may be significantly misstated and so the group's capital programme is an area of focus for our work.	In this area our principal audit procedures included, but were not limited to, the following: we assessed the group's capitalisation policy to assess compliance with relevant accounting standards; we tested controls over the application of the policy to spend incurred on projects within the capital programme in the period including attending capital approval meetings to observe the judgements made; for a sample of capital projects we assessed the appropriate application of the capitalisation policy to actual spend incurred; we assessed, also for a sample of projects, variances in actual expenditure to budgeted capital and operating expenditure and where significant variances were identified we tested whether the proportionate allocation of costs between capital and operating expenditure was revised; we agreed overhead costs incurred to supporting documentation on a sample basis and performed comparative analysis of overheads absorbed into capital projects by category to assess consistency with the policy and absorption in previous years; we tested a sample of capital accruals to verify the existence and accuracy of the costs being capitalised. We also assessed the adequacy of the group's disclosures of its capitalisation policy and other related disclosures.

Revenue recognition (£1,704.5 million) and provision for customer debts (£97.9 million)
Refer to page 71 Audit committee report, page 119 accounting policy, and note 16 financial disclosures.

The risk	Our response
Revenue recognition is one of the key judgemental areas for the audit, particularly in relation to: • the estimate of the revenue value of water supplied to metered customers between the last meter reading and the period end; • supplies to properties where there is little prospect of revenue being realised through the occupier not being able to be identified or due to a past history of non-payment of bills relating to that property. A proportion of the group's customers do not or cannot pay their bills which results in the need for provisions to be made for non-payment of the customer balance. Due to the level of judgement and the complexity of the calculation which could lead to revenue being overstated, this is considered a key audit risk.	In this area our principal audit procedures included, but were not limited to, the following: we assessed whether appropriate revenue recognition policies are applied through comparison with relevant accounting standards and industry practice, including the policy of not recognising revenue where there is little prospect of revenue being realised; we tested the group's controls over revenue recognition including reconciliations between sales and cash receipts systems and the general ledger; we recalculated the metered accrued income calculation with the support of our own modelling specialists; we assessed the appropriateness of the customer debt provisioning policy based on historical cash collections, credits, re-bills and write-off information which we verified through testing the data in the billing system and analysed by comparing the data to that which we collect independently across the industry; we compared the policy to the customer debt provision calculation to assess the extent to which historical trends are taken into account and applied; we remodelled the customer debt provision calculation to verify the mathematical accuracy with the support of our own modelling specialists. We also assessed the adequacy of the group's disclosures of its revenue recognition, customer debt provisioning policy, disclosures in relation to the estimation uncertainty involved in calculating the provision and other related disclosures.

Retirement benefit obligations (£177.4 million)
Refer to page 72 Audit committee report], page 119 accounting policy and notes 19 and A2 financial disclosures.

The risk	Our response
Significant estimates are made in valuing the group's retirement benefit obligations. Small changes in assumptions and estimates used to value the group's net pension deficit would have a significant effect on the group's financial position.	Our principal audit procedures included, but were not limited to, the following: we tested the controls over the maintenance of the schemes' membership data; we challenged the key assumptions supporting the group's retirement benefit obligations valuation with input from our own actuarial specialists comparing the discount rate, inflation rate, salary, pension increase rates and life expectancy assumptions used against externally derived data; we obtained custodian asset valuation reports and reperformed the valuations using externally available data with input from our own valuation specialists; we verified contributions paid to the scheme; we verified changes in active members; we verified benefits paid to pensioners. We also assessed the group's disclosure in respect of the sensitivity of the deficit to changes in the key assumptions.

Independent auditor's report to the members of the United Utilities Group only

Derivative financial instrument valuations (£409.8 million)
Refer to page 72 Audit committee report, page 119 accounting policy, and note A1 financial disclosures.

The risk	Our response
The group has significant derivative financial instruments, the valuation of which is determined through the application of valuation techniques which often involve the exercise of judgement and the use of assumptions and estimates. Due to the significance of financial instruments and the related estimation uncertainty, this is considered a key audit risk.	Our audit procedures included, but were not limited to, the following: we assessed controls over the identification, measurement and management of derivative financial instruments and assessed the methodologies, inputs and assumptions used by the group in determining fair values; we compared observable inputs into valuation models such as quoted prices to externally available market data and we recalculated valuations utilising our own valuation specialists. Additionally, we assessed whether the financial statement disclosures of fair value risks and sensitivities appropriately reflect the group's exposure to valuation risk.

3. Our application of materiality and an overview of the scope of our audit
In establishing the overall audit strategy and performing the audit, materiality for the group financial statements as a whole was set at £25.0 million. This has been determined with reference to a benchmark of group profit before taxation and net fair value gains and losses on debt and derivative instruments (of which it represents 6.0 per cent).

We agreed with the Audit committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.5 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Audits for group reporting purposes were performed at the key reporting components based at the group's head office in the UK. These entities covered 99 per cent of group revenues, 99 per cent of group profit before tax and 98 per cent of group total assets

4. Our opinion on the other matter prescribed by the Companies Act 2006 is unmodified
In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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; and
- information given in the Corporate governance statement set out on pages 54–98 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception
Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' remuneration report to be audited 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; or
- a Corporate governance statement has not been prepared by the company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 67, in relation to going concern; and
- the part of the Corporate governance statement on pages 54–98 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code 2010 specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' responsibilities statement set out on page 105, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2013a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6DS
21 May 2014

Consolidated income statement
for the year ended 31 March

	Note	2014 £m	Restated* 2013 £m
Continuing operations			
Revenue	1, 2	1,704.5	1,636.0
Employee benefits expense:			
excluding restructuring costs	3	(131.7)	(130.4)
restructuring costs	3	(4.4)	(2.6)
Total employee benefits expense	3	(136.1)	(133.0)
Other operating costs	4	(430.7)	(414.1)
Other income	4	3.5	3.1
Depreciation and amortisation expense	4	(339.2)	(329.2)
Infrastructure renewals expenditure		(165.1)	(161.2)
Total operating expenses		(1,067.6)	(1,034.4)
Operating profit	4	636.9	601.6
Investment income	5	7.0	2.3
Finance expense	6	(99.2)	(292.1)
Investment income and finance expense		(92.2)	(289.8)
Profit before taxation		544.7	311.8
Current taxation charge		(76.7)	(80.7)
Current taxation credit – adjustments in respect of prior years		141.0	6.5
Deferred taxation (charge)/credit		(40.5)	3.0
Deferred taxation credit/(charge) – adjustments in respect of prior years		13.3	(5.8)
Deferred taxation credit – change in taxation rate		156.8	53.0
Taxation	7	193.9	(24.0)
Profit after taxation from continuing operations		738.6	287.8
Discontinued operations			
Profit after taxation from discontinued operations	8	0.8	14.6
Profit after taxation		739.4	302.4
Earnings per share			
from continuing and discontinued operations			
Basic	9	108.4p	44.3p
Diluted	9	108.2p	44.3p
Earnings per share			
from continuing operations			
Basic	9	108.3p	42.2p
Diluted	9	108.1p	42.2p
Dividend per ordinary share	10	36.04p	34.32p

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Consolidated statement of comprehensive income

for the year ended 31 March

	Note	2014 £m	Restated* 2013 £m
Profit after taxation		**739.4**	302.4
Other comprehensive income			
Remeasurement (losses)/gains on defined benefit pension schemes	19	**(200.8)**	35.0
Taxation on items taken directly to equity	7	**40.9**	(8.4)
Foreign exchange adjustments		**(1.2)**	0.6
Total comprehensive income		**578.3**	329.6

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

With the exception of foreign exchange adjustments, none of the items in the table above will be prospectively reclassified to profit or loss.

Consolidated and company statements of financial position

at 31 March

		Group		Company	
	Note	2014 £m	2013 £m	2014 £m	2013 £m
ASSETS					
Non-current assets					
Property, plant and equipment	11	**9,361.7**	8,990.7	**–**	–
Goodwill	12	**4.9**	5.0	**–**	–
Other intangible assets	13	**115.2**	99.9	**–**	–
Investments	14	**6.9**	5.7	**5,600.0**	5,600.0
Trade and other receivables	16	**1.3**	2.2	**–**	–
Retirement benefit surplus	19	**–**	15.1	**–**	–
Derivative financial instruments	A1	**456.0**	659.2	**–**	–
		9,946.0	9,777.8	**5,600.0**	5,600.0
Current assets					
Inventories	15	**42.5**	39.6	**–**	–
Trade and other receivables	16	**335.5**	326.9	**56.3**	41.4
Cash and short-term deposits	17	**127.2**	201.7	**–**	0.6
Derivative financial instruments	A1	**56.9**	62.0	**–**	–
		562.1	630.2	**56.3**	42.0
Total assets		**10,508.1**	10,408.0	**5,656.3**	5,642.0
LIABILITIES					
Non-current liabilities					
Trade and other payables	22	**(452.2)**	(419.8)	**–**	–
Borrowings	18	**(5,956.4)**	(6,007.4)	**–**	–
Retirement benefit obligations	19	**(177.4)**	–	**–**	–
Deferred tax liabilities	20	**(1,050.4)**	(1,219.0)	**–**	–
Provisions	21	**–**	(3.4)	**–**	–
Derivative financial instruments	A1	**(52.3)**	(196.2)	**–**	–
		(7,688.7)	(7,845.8)	**–**	–
Current liabilities					
Trade and other payables	22	**(388.1)**	(440.1)	**(10.1)**	(10.9)
Borrowings	18	**(112.9)**	(166.1)	**(1,584.3)**	(1,558.2)
Current tax liabilities		**(35.4)**	(71.5)	**–**	–
Provisions	21	**(16.3)**	(8.8)	**–**	–
Derivative financial instruments	A1	**(50.8)**	(3.8)	**–**	–
		(603.5)	(690.3)	**(1,594.4)**	(1,569.1)
Total liabilities		**(8,292.2)**	(8,536.1)	**(1,594.4)**	(1,569.1)
Total net assets		**2,215.9**	1,871.9	**4,061.9**	4,072.9
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	23, 24	**499.8**	499.8	**499.8**	499.8
Share premium account	23	**2.9**	2.9	**2.9**	2.9
Revaluation reserve	23	**158.8**	158.8	**–**	–
Cumulative exchange reserve	23	**(5.6)**	(4.4)	**–**	–
Capital redemption reserve	23	**–**	–	**1,033.3**	1,033.3
Merger reserve	23	**329.7**	329.7	**–**	–
Retained earnings	23	**1,230.3**	885.1	**2,525.9**	2,536.9
Shareholders' equity		**2,215.9**	1,871.9	**4,061.9**	4,072.9

These financial statements for the group and United Utilities Group PLC (company number: 6559020) were approved by the board of directors on 21 May 2014 and signed on its behalf by:

Steve Mogford
Chief Executive Officer

Russ Houlden
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 March

Group	Share capital £m	Share premium account £m	Revaluation reserve £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2013	499.8	2.9	158.8	(4.4)	329.7	885.1	1,871.9
Profit after taxation	–	–	–	–	–	739.4	739.4
Other comprehensive income							
Remeasurement losses on defined benefit pension schemes (see note 19)	–	–	–	–	–	(200.8)	(200.8)
Taxation on items taken directly to equity (see note 7)	–	–	–	–	–	40.9	40.9
Foreign exchange adjustments	–	–	–	(1.2)	–	–	(1.2)
Total comprehensive (expense)/income	–	–	–	(1.2)	–	579.5	578.3
Transactions with owners							
Dividends (see note 10)	–	–	–	–	–	(237.9)	(237.9)
Equity-settled share-based payments (see note A3)	–	–	–	–	–	4.4	4.4
Exercise of share options – purchase of shares	–	–	–	–	–	(0.8)	(0.8)
At 31 March 2014	499.8	2.9	158.8	(5.6)	329.7	1,230.3	2,215.9

Restated*	Share capital £m	Share premium account £m	Revaluation reserve £m	Cumulative exchange reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 April 2012	499.8	2.4	158.8	(5.0)	329.7	778.9	1,764.6
Profit after taxation	–	–	–	–	–	302.4	302.4
Other comprehensive income							
Remeasurement gains on defined benefit pension schemes (see note 19)	–	–	–	–	–	35.0	35.0
Taxation on items taken directly to equity (see note 7)	–	–	–	–	–	(8.4)	(8.4)
Foreign exchange adjustments	–	–	–	0.6	–	–	0.6
Total comprehensive income	–	–	–	0.6	–	329.0	329.6
Transactions with owners							
Dividends (see note 10)	–	–	–	–	–	(223.5)	(223.5)
New share capital issued	–	0.5	–	–	–	–	0.5
Equity-settled share-based payments (see note A3)	–	–	–	–	–	1.7	1.7
Exercise of share options – purchase of shares	–	–	–	–	–	(1.0)	(1.0)
At 31 March 2013	499.8	2.9	158.8	(4.4)	329.7	885.1	1,871.9

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Company statement of changes in equity

for the year ended 31 March

Company	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 April 2013	499.8	2.9	1,033.3	2,536.9	4,072.9
Profit after taxation (see note 23)	–	–	–	223.3	223.3
Total comprehensive income	–	–	–	223.3	223.3
Transactions with owners					
Dividends (see note 10)	–	–	–	(237.9)	(237.9)
Equity-settled share-based payments (see note A3)	–	–	–	4.4	4.4
Exercise of share options – purchase of shares	–	–	–	(0.8)	(0.8)
At 31 March 2014	499.8	2.9	1,033.3	2,525.9	4,061.9

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 April 2012	499.8	2.4	1,033.3	2,360.5	3,896.0
Profit after taxation (see note 23)	–	–	–	399.2	399.2
Total comprehensive income	–	–	–	399.2	399.2
Transactions with owners					
Dividends (see note 10)	–	–	–	(223.5)	(223.5)
New share capital issued	–	0.5	–	–	0.5
Equity-settled share-based payments (see note A3)	–	–	–	1.7	1.7
Exercise of share options – purchase of shares	–	–	–	(1.0)	(1.0)
At 31 March 2013	499.8	2.9	1,033.3	2,536.9	4,072.9

Consolidated and company statements of cash flows

for the year ended 31 March

	Note	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
Operating activities					
Cash generated from continuing operations	26	**941.6**	852.2	**237.7**	433.8
Interest paid		**(169.1)**	(168.3)	**(25.6)**	(36.3)
Interest received and similar income		**2.7**	2.4	**–**	–
Tax paid		**(65.4)**	(55.2)	**–**	–
Tax received		**95.5**	–	**11.8**	–
Net cash generated from operating activities (continuing operations)		**805.3**	631.1	**223.9**	397.5
Net cash used in operating activities (discontinued operations)		**(0.8)**	(1.4)	**–**	–
Investing activities					
Purchase of property, plant and equipment		**(663.1)**	(625.6)	**–**	–
Purchase of other intangible assets		**(39.4)**	(35.3)	**–**	–
Proceeds from sale of property, plant and equipment		**2.8**	2.9	**–**	–
Grants and contributions received	22	**16.4**	16.3	**–**	–
Purchase of investments		**(1.9)**	(3.0)	**–**	–
Proceeds from sale of investments		**0.1**	0.9	**–**	–
Net cash used in investing activities (continuing operations)		**(685.1)**	(643.8)	**–**	–
Financing activities					
Proceeds from issue of ordinary shares		**–**	0.5	**–**	0.5
Proceeds from borrowings		**372.0**	147.9	**13.6**	36.7
Repayment of borrowings		**(344.8)**	(39.4)	**–**	(209.1)
Dividends paid to equity holders of the company	10	**(237.9)**	(223.5)	**(237.9)**	(223.5)
Exercise of share options – purchase of shares		**(0.8)**	(1.0)	**(0.8)**	(1.0)
Net cash used in financing activities (continuing operations)		**(211.5)**	(115.5)	**(225.1)**	(396.4)
Effects of exchange rate changes (continuing operations)		**(0.1)**	–	**–**	–
Net (decrease)/increase in cash and cash equivalents (continuing operations)		**(91.4)**	(128.2)	**(1.2)**	1.1
Net decrease in cash and cash equivalents (discontinued operations)		**(0.8)**	(1.4)	**–**	–
Cash and cash equivalents at beginning of the year		**182.5**	312.1	**0.6**	(0.5)
Cash and cash equivalents at end of the year	17	**90.3**	182.5	**(0.6)**	0.6

Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU), including International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, accounting for the transfer of assets from customers and the revaluation of infrastructure assets to fair value on transition to IFRS.

The preparation of financial statements, in conformity with generally accepted accounting principles (GAAP) 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 periods presented. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

The adoption of the following standards and interpretations, at 1 April 2013, has had no material impact on the group's financial statements. Had the standards not been applied in the current year, basic earnings per share from continuing and discontinued operations would have been 108.7p (2013: 43.5p) and diluted earnings per share from continuing and discontinued operations would have been 108.5p (2013: 43.5p).

IAS 19 (Revised) 'Employee Benefits'

The impact of the changes in this standard is to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit (obligations)/surplus. In addition, the standard clarifies that administration costs relating to the administration of benefits should be recognised as an employee benefits expense through the income statement, rather than as a deduction from the return on plan assets which was previously recognised through other comprehensive income. The application of the standard is retrospective and, hence, requires the restatement of the year ended 31 March 2013.

The impact in the year ended 31 March 2014 has been an increase in employee benefit expense of £2.2 million (2013: £2.9 million), a decrease in finance expense of £nil (2013: £10.0 million) and an offsetting gain to remeasurement gains and losses within other comprehensive income of £2.2 million (2013: £7.1 million loss). These amendments have had no overall impact on the retirement benefit (obligations)/surplus in the statement of financial position.

The impact on taxation in the year ended 31 March 2014 has been a deferred taxation credit of £0.4 million (2013: £1.6 million charge) and an offsetting charge to other comprehensive income of £0.4 million (2013: £1.6 million credit).

IFRS 13 'Fair Value Measurement'

The standard provides guidance on the measurement of fair value where required by existing accounting standards. The application of the standard is prospective and, hence, impacts the year ended 31 March 2014 only. The impact in the year ended 31 March 2014 has been a £0.3 million credit to finance expense and a corresponding reduction in derivative liabilities, due to the inclusion of the group's own credit risk in measuring the fair value of its liabilities.

Amendments to IAS 1 'Presentation of items of Other Comprehensive Income'

The impact of the amendments is that items, which may be reclassified to profit or loss in the future, are presented separately in the statement of other comprehensive income from those that would never be reclassified to profit and loss.

Improvements to IFRS (2011)

This is a collection of amendments to five standards as part of the International Accounting Standards Board's (IASB) programme of annual improvements. The improvements were issued May 2012 and are effective for periods commencing on or after 1 January 2013.

Going concern

The financial statements have been prepared on the going concern basis. The directors have set out factors considered in concluding the appropriateness of this presentation in the corporate governance report on page 67.

Critical accounting judgements and key sources of estimation uncertainty

In the process of applying its accounting policies, the group is required to make certain estimates, judgements and assumptions that it believes are reasonable based on the information available. These judgements, estimates and assumptions affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented.

On an ongoing basis, the group 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 group believes to have the most significant impact on the annual results under IFRS.

Property, plant and equipment

The group recognises property, plant and equipment (PPE) on its water and wastewater infrastructure assets where such expenditure enhances or increases the capacity of the network, whereas any expenditure classed as maintenance is expensed in the period it is incurred. Determining enhancement from maintenance expenditure is a subjective area, particularly when projects have both elements within them. In addition, management charge to PPE in relation to the time and resources incurred by the group's support functions on capital programmes.

The estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful economic lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of PPE investment to the group, variations between actual and estimated useful economic lives could impact operating results both positively and negatively, although historically few changes to estimated useful economic lives have been required.

The group is required to evaluate the carrying values of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Revenue recognition and allowance for doubtful receivables

The group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. When the group considers that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as collectability is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred income.

United Utilities Water PLC raises bills in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes. For water and wastewater customers with water meters, the receivable billed is dependent on the volume supplied including the sales value of an estimate of the units supplied between the date of the last meter reading and the billing date. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based on estimated usage from the last billing through to each reporting date. The estimated usage is based on historical data, judgement and assumptions; actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined. For customers who do not have a meter, the receivable billed is dependent on the rateable value of the property, as assessed by an independent rating officer.

At each reporting date, the company and each of its subsidiaries evaluate the recoverability of trade receivables and record allowances for doubtful receivables based on experience. These allowances are based on, amongst other things, a consideration of actual collection history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

Provisions and contingencies

The group 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 group routinely assesses the likelihood of any 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 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 as contingent liabilities in note 27, unless the possibility of transferring economic benefits is remote.

Retirement benefits

The group operates two defined benefit schemes which are independent of the group'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 'Employee Benefits' 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. The assumptions are disclosed in note A2. Profit before taxation and net assets are affected by the actuarial assumptions used. The key assumptions include, discount rates, pay growth, mortality 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.

Derivative financial instruments

The model used to fair value the group's derivative financial instruments requires management to estimate future cash flows based on applicable interest rate curves. Projected cash flows are then discounted back using discount factors which are derived from the applicable interest rate curves adjusted for management's estimate of counterparty and own credit risk, where appropriate.

Accounting policies

Taxation

Assessing the outcome of uncertain tax positions requires judgements to be made regarding the application of tax law and the result of negotiations with, and enquiries from, tax authorities in a number of jurisdictions.

For further information on accounting policies see note A5.

Recently issued accounting pronouncements

International Financial Reporting Standards

At the date of authorisation of these financial statements, the following relevant standards and interpretations were in issue but not yet effective. All of the standards in issue but not yet effective have been endorsed by the EU except where noted. The directors anticipate that the group will adopt these standards and interpretations on their effective dates.

The directors anticipate that the adoption of the following standards and interpretations may have a material impact on the group's financial statements:

- IFRS 9 'Financial Instruments' is effective for periods commencing on or after 1 January 2018 but will not be considered for endorsement by the EU until the remaining elements of the project have been completed. Under the provisions of this standard, where the group has chosen to measure borrowings at fair value through profit or loss, the portion of the change in fair value due to changes in the group's own credit risk will be recognised in other comprehensive income rather than within profit or loss. If this standard had been adopted in the current year, £11.1 million of losses would have been recognised in other comprehensive income rather than within the income statement. The standard also broadens the scope of what can be included within a hedge relationship which may have an impact on profit or loss, subject to the extent which the group's regulatory swaps can be designated within a cash flow hedge relationship.
- IFRS 11 'Joint Arrangements' is effective for periods commencing on or after 1 January 2014 and replaces IAS 31 'Interests in Joint Ventures'. IFRS 11 removes the option currently taken by the group to proportionately consolidate its joint ventures and requires equity accounting. The impact on the income statement and statement of financial position for the year ended 31 March 2014 would be that the group's interests in its joint ventures' assets, liabilities, income and expenses, as summarised in note 14, and the value of goodwill arising on acquisition of the joint ventures, as shown in note 12, would be presented on an aggregated basis as one line in the statement of financial position and income statement. There would be no impact on net assets.

The directors anticipate that the adoption of the following standards and interpretations will have no material impact on the group's financial statements:

- IFRS 10 'Consolidated Financial Statements' is effective for periods commencing on or after 1 January 2014 and builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated accounts of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- IFRS 12 'Disclosures of Interests in Other Entities' is effective for periods commencing on or after 1 January 2014 and includes the disclosure requirements for all forms of interest in other entities, including subsidiaries, associates, joint arrangements and unconsolidated structured entities.
- IAS 32 'Financial Instruments: Presentation' amendment relating to offsetting financial assets and financial liabilities is effective for periods commencing on or after 1 January 2014. This amendment provides clarification on the application of the offsetting rules affecting financial assets and financial liabilities and will impact the group only if it enters into any relevant offsetting transactions in the future.
- IFRIC 21 'Levies' is effective for periods commencing on or after 1 January 2014, but has not yet been endorsed by the EU. This interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
- Improvements to IFRS (2012) and IFRS (2013) is a collection of amendments to eleven standards as part of the International Accounting Standards Board (IASB) programme of annual improvements. The improvements, issued in December 2013, are yet to be endorsed by the EU and are effective for periods commencing on or after 1 July 2014.

All other standards and interpretations, which are in issue but not yet effective, are not considered relevant to the activities of the group.

Notes to the financial statements

1 TOTAL REVENUE

Total revenue, disclosed as required by IAS 18 'Revenue', recognised in the consolidated income statement is analysed as follows:

	2014 £m	2013 £m
Provision of goods and services	**1,704.5**	1,636.0
Revenue	**1,704.5**	1,636.0
Investment income (see note 5)	**7.0**	2.3
Total revenue	**1,711.5**	1,638.3

During the year ended 31 March 2014, £2.1 million of revenue was derived from exchanges of goods or services in relation to IFRIC 18 'Transfers of Assets from Customers' (2013: £1.8 million) (see note 22).

2 SEGMENT REPORTING

The board of directors of United Utilities Group PLC (the board) is provided with information on a single segment basis for the purposes of assessing performance and allocating resources. The board reviews revenue, underlying operating profit (see page 44), operating profit, assets and liabilities, regulatory capital expenditure and regulatory capital value (RCV) gearing at a consolidated level. In light of this, the group has a single segment for financial reporting purposes and therefore no further detailed segmental information is provided in this note.

The group's revenue predominantly arises from the provision of services within the United Kingdom, with less than one per cent of external revenue and non-current assets being overseas.

The group has a large and diverse customer base and there is no significant reliance on any single customer.

3 DIRECTORS AND EMPLOYEES

Directors' remuneration

	2014 £m	Re-presented* 2013 £m
Fees to non-executive directors	**0.6**	0.6
Salaries	**1.1**	1.1
Benefits	**0.3**	0.3
Bonus	**0.6**	0.6
Share-based payment charge	**1.4**	1.4
	4.0	4.0

* The comparatives have been re-presented to include the Deferred Bonus Plan (DBP) share-based payment charge in share-based payments charge, rather than within bonus as previously presented, as this better reflects the nature of the expenditure. See note A3 for further details of the DBP.

Further information about the remuneration of individual directors and details of their pension arrangements are provided in the directors' remuneration report on pages 78 to 98.

3 DIRECTORS AND EMPLOYEES continued

Remuneration of key management personnel

	2014 £m	Re-presented* 2013 £m
Salaries and short-term employee benefits	**5.6**	5.8
Post-employment benefits	**0.3**	0.2
Share-based payment charge	**2.5**	2.3
	8.4	8.3

* The comparatives have been re-presented to include the DBP share-based payment charge in share-based payments charge, rather than within salaries and short-term employee benefits as previously presented, as this better reflects the nature of the expenditure. The prior year equity has not been restated for share-based payments as it is not considered material in that context. See note A3 for further details of the DBP.

Key management personnel comprises all directors and certain senior managers who are members of the executive committee.

Employee benefits expense (including directors)

Group	2014 £m	Restated* 2013 £m
Continuing operations		
Wages and salaries	**206.5**	204.2
Social security costs	**18.6**	16.1
Post-employment benefits	**29.2**	24.9
Charged to regulatory capital schemes	**(122.6)**	(114.8)
Employee benefits expense excluding restructuring costs	**131.7**	130.4
Restructuring costs	**4.4**	2.6
Employee benefits expense attributable to continuing operations	**136.1**	133.0
Less: employee benefits expense attributable to joint ventures	**(2.4)**	(2.1)
Total employee benefits expense excluding joint ventures	**133.7**	130.9

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

The table below shows the nature of post-employment benefits:

	2014 £m	Restated* 2013 £m
Defined benefit pension expense (see note 19)	**21.1**	19.4
Defined contribution pension costs (see note 19)	**8.1**	5.5
	29.2	24.9

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Average number of employees during the year (full-time equivalent including directors)

	2014 number	2013 number
Continuing operations	**5,329**	5,301

Company

The company has no employees.

4 OPERATING PROFIT

The following items have been charged/(credited) to the income statement in arriving at the group's operating profit from continuing operations:

	2014 £m	Re-presented* 2013 £m
Other operating costs		
Property rates	86.2	81.3
Hired and contracted services	87.3	84.1
Power	64.6	62.1
Materials	51.0	54.9
Charge for bad and doubtful receivables (see note 16)	37.1	35.5
Regulatory fees	36.2	34.3
Movement in other provisions (see note 21)	10.9	4.9
Accommodation costs	6.7	7.6
Loss on disposal of property, plant and equipment	6.4	6.6
Legal and professional expenses	5.7	5.8
Cost of properties disposed	3.9	10.7
Operating leases payable:		
Property	3.6	2.9
Plant and equipment	0.8	0.9
Research and development expenses	2.4	1.3
Amortisation of deferred grants and contributions (see note 22)	(7.4)	(7.1)
Loss on disposal of other intangible assets	–	3.2
Other	35.3	25.1
	430.7	414.1
Other income		
Other income	(3.5)	(3.1)
	(3.5)	(3.1)
Depreciation and amortisation expense		
Depreciation of property, plant and equipment: owned assets (see note 11)	314.4	305.9
Amortisation of other intangible assets (see note 13)	24.8	23.3
	339.2	329.2

* The comparatives have been re-presented to include regulatory fees of £34.3 million as a separate category, rather than within hired and contracted services and other as previously presented.

During the year, the group obtained the following services from its auditor, at the costs detailed below:

	2014 £'000	2013 £'000
Audit services		
Statutory audit – group and company	39	38
Statutory audit – subsidiaries	216	207
Regulatory reporting	30	30
	285	275
Audit related services	45	45
Other non-audit services	203	84
	533	404

5 INVESTMENT INCOME

	2014 £m	2013 £m
Interest receivable on short-term bank deposits held at amortised cost	1.2	2.3
Interest receivable on taxation settlement	4.5	–
Net pension interest income (see note 19)	1.3	–
	7.0	2.3

6 FINANCE EXPENSE

	2014 £m	Restated* 2013 £m
Interest payable		
Interest payable on borrowings held at amortised cost	241.7	249.1
Release of taxation interest accrual	(13.3)	–
	228.4	249.1
Fair value (gains)/losses on debt and derivative instruments[1]		
Fair value hedge relationships:		
Borrowings	(193.4)	99.0
Designated swaps	177.3	(93.5)
	(16.1)	5.5
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss[2]	(32.6)	17.6
Held for trading derivatives – economic hedge	53.6	(13.5)
	21.0	4.1
Held for trading derivatives – 2010–15 regulatory hedges	(61.5)	(16.1)
Held for trading derivatives – 2015+ regulatory hedges	(67.6)	52.6
Held for trading derivatives – electricity hedges	4.2	1.5
Net receipts on swaps and debt under fair value option	(8.7)	(7.6)
Held for trading derivatives – other[3]	6.4	4.0
Other	(6.9)	(2.5)
	(134.1)	31.9
Net fair value (gains)/losses on debt and derivative instruments[4]	(129.2)	41.5
Net pension interest expense (see note 19)	–	1.5
	99.2	292.1

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Notes:

(1) Fair value (gains)/losses on debt and derivative instruments includes foreign exchange gains of £60.3 million (2013: £14.6 million losses), excluding those on instruments measured at fair value through profit or loss. These gains/losses are largely offset by fair value losses/gains on derivatives.

(2) Includes £11.1 million losses (2013: £1.5 million losses) on the valuation of debt reported at fair value through profit or loss due to changes in credit spread assumptions.

(3) Includes fair value movements in relation to other economic hedge derivatives relating to debt held at amortised cost.

(4) Includes £8.1 million income (2013: £8.3 million) due to interest on swaps and debt under fair value option.

Interest payable for the year ended 31 March 2014 is stated net of £19.4 million (2013: £14.3 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment and other intangible assets during the year. This has been calculated by applying a capitalisation rate of 3.8 per cent (2013: 4.3 per cent) to expenditure on such assets as prescribed by IAS 23 'Borrowing Costs'.

7 TAXATION

	2014 £m	Restated* 2013 £m
Continuing operations		
Current taxation		
UK corporation tax	**75.3**	79.4
Foreign tax	**1.4**	1.3
Adjustments in respect of prior years	**(141.0)**	(6.5)
Total current taxation (credit)/charge for the year	**(64.3)**	74.2
Deferred taxation		
Current year	**40.5**	(3.0)
Adjustments in respect of prior years	**(13.3)**	5.8
	27.2	2.8
Change in taxation rate	**(156.8)**	(53.0)
Total deferred taxation credit for the year	**(129.6)**	(50.2)
Total taxation (credit)/charge for the year	**(193.9)**	24.0

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

The tables below reconcile the notional tax charge at the UK corporation tax rate to the effective tax rate for the year:

	2014 £m	2014 %
Profit before taxation	**544.7**	
Taxation at the UK corporation tax rate of 23 per cent	**125.3**	**23.0**
Adjustments in respect of prior years	**(154.3)**	**(28.3)**
Change in taxation rate	**(156.8)**	**(28.8)**
Net income not taxable/other	**(8.1)**	**(1.5)**
Total taxation credit and effective tax rate for the year	**(193.9)**	**(35.6)**

	Restated* 2013 £m	Restated* 2013 %
Profit before taxation	311.8	
Taxation at the UK corporation tax rate of 24 per cent	74.8	24.0
Adjustments in respect of prior years	(0.7)	(0.2)
Change in taxation rate	(53.0)	(17.0)
Net expenses not taxable/other	2.9	0.9
Total taxation charge and effective tax rate for the year	24.0	7.7

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

The current taxation charge of £76.7 million for the year ended 31 March 2014 represents a current taxation effective rate of 14 per cent compared with 26 per cent for the year ended 31 March 2013. The reduction is principally due to fair value movements, which give rise to a corresponding current year deferred taxation charge. In addition, there is a current taxation credit of £141.0 million (see page 39–40 for further information), and an associated deferred taxation credit of £13.3 million relating to recently agreed matters in relation to prior years.

The deferred taxation credit for the year ended 31 March 2014 includes a credit of £156.8 million to reflect the staged reductions in the mainstream rate of corporation tax from 23 per cent in the year ended 31 March 2014 to 20 per cent effective from 1 April 2015. A related deferred taxation credit of £0.5 million is included within items taken directly to equity.

7 TAXATION continued

The deferred taxation credit for the year ended 31 March 2013 includes a credit of £53.0 million to reflect the change enacted on 3 July 2012 to reduce the mainstream rate of corporation tax from 24 per cent to 23 per cent effective from 1 April 2013. A related deferred taxation charge of £0.9 million is included within items taken directly to equity.

Taxation on items taken directly to equity

Continuing operations	2014 £m	Restated* 2013 £m
Current taxation		
Relating to other pension movements	(1.9)	(15.6)
Deferred taxation (see note 20)		
On remeasurement (losses)/gains on defined benefit pension schemes	(40.2)	8.1
Relating to other pension movements	1.7	15.0
Change in taxation rate	(0.5)	0.9
	(39.0)	24.0
Total taxation (credit)/charge on items taken directly to equity	(40.9)	8.4

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

8 DISCONTINUED OPERATIONS

Discontinued operations represent the retained obligations of businesses sold in prior years. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the post-tax results of discontinued operations are disclosed separately in the consolidated income statement and consolidated statement of cash flows.

During the year ended 31 March 2014, the profit after taxation from discontinued operations was £0.8 million (2013: £14.6 million) relating primarily to the release of accrued costs of disposal in respect of certain elements of the group's non-regulated disposal programme.

9 EARNINGS PER SHARE

	2014 £m	Restated* 2013 £m
Profit after taxation attributable to equity holders of the company – continuing and discontinued operations	739.4	302.4
Adjustment for profit after taxation from discontinued operations (see note 8)	(0.8)	(14.6)
Profit after taxation attributable to equity holders of the company – continuing operations	738.6	287.8

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

9 EARNINGS PER SHARE continued

	2014 pence	Restated* 2013 pence
Earnings per share from continuing and discontinued operations		
Basic	108.4	44.3
Diluted	108.2	44.3
Earnings per share from continuing operations		
Basic	108.3	42.2
Diluted	108.1	42.2
Earnings per share from discontinued operations		
Basic	0.1	2.1
Diluted	0.1	2.1

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Basic earnings per share is calculated by dividing profit for the financial year attributable to equity holders of the company by 681.9 million, being the weighted average number of shares in issue during the year (2013: 681.9 million). Diluted earnings per share is calculated by dividing profit for the financial year attributable to equity holders of the company by 683.2 million, being the weighted average number of shares in issue during the year including dilutive shares (2013: 682.8 million).

The difference between the weighted average number of shares used in the basic and the diluted earnings per share calculations represents those ordinary shares deemed to have been issued for no consideration on the conversion of all potential dilutive ordinary shares in accordance with IAS 33 'Earnings per Share'.

The weighted average number of shares can be reconciled to the weighted average number of shares including dilutive shares as follows:

	2014 million	2013 million
Average number of ordinary shares – basic	681.9	681.9
Effect of potential dilutive ordinary shares – share options	1.3	0.9
Average number of ordinary shares – diluted	683.2	682.8

10 DIVIDENDS

	2014 £m	2013 £m
Amounts recognised as distributions to equity holders of the company in the year comprise:		
Ordinary shares		
Final dividend for the year ended 31 March 2013 at 22.88 pence per share (2012: 21.34 pence)	156.0	145.5
Interim dividend for the year ended 31 March 2014 at 12.01 pence per share (2013: 11.44 pence)	81.9	78.0
	237.9	223.5
Proposed final dividend for the year ended 31 March 2014 at 24.03 pence per share (2013: 22.88 pence)	163.9	156.0

The proposed final dividends for the years ended 31 March 2014 and 31 March 2013 were subject to approval by equity holders of United Utilities Group PLC and hence have not been included as liabilities in the consolidated financial statements at 31 March 2014 and 31 March 2013 respectively.

Notes to the financial statements

11 PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2012	236.1	4,146.4	5,296.0	448.9	883.4	11,010.8
Additions	6.5	75.8	67.0	27.9	484.0	661.2
Transfers	11.9	164.4	172.3	8.2	(356.8)	–
Disposals	(4.6)	(0.6)	(38.2)	(33.2)	(1.3)	(77.9)
Currency translation differences	0.1	0.3	–	–	–	0.4
At 31 March 2013	**250.0**	**4,386.3**	**5,497.1**	**451.8**	**1,009.3**	**11,594.5**
Additions	**11.8**	**88.7**	**127.6**	**34.1**	**433.2**	**695.4**
Transfers	**20.2**	**140.8**	**333.8**	**20.1**	**(514.9)**	**–**
Disposals	**(2.4)**	**(1.4)**	**(31.3)**	**(23.4)**	**(0.5)**	**(59.0)**
Currency translation differences	**(0.1)**	**(1.1)**	**–**	**–**	**–**	**(1.2)**
At 31 March 2014	**279.5**	**4,613.3**	**5,927.2**	**482.6**	**927.1**	**12,229.7**
Accumulated depreciation						
At 1 April 2012	71.2	197.0	1,834.7	263.4	–	2,366.3
Charge for the year	9.9	28.9	226.6	40.5	–	305.9
Disposals	(4.6)	(0.1)	(31.9)	(31.8)	–	(68.4)
At 31 March 2013	**76.5**	**225.8**	**2,029.4**	**272.1**	**–**	**2,603.8**
Charge for the year	**10.2**	**36.2**	**227.5**	**40.5**	**–**	**314.4**
Transfers	**–**	**–**	**(0.5)**	**0.5**	**–**	**–**
Disposals	**(2.0)**	**(0.6)**	**(25.6)**	**(21.6)**	**–**	**(49.8)**
Currency translation differences	**–**	**(0.4)**	**–**	**–**	**–**	**(0.4)**
At 31 March 2014	**84.7**	**261.0**	**2,230.8**	**291.5**	**–**	**2,868.0**
Net book value at 31 March 2014	**194.8**	**4,352.3**	**3,696.4**	**191.1**	**927.1**	**9,361.7**
Net book value at 31 March 2013	173.5	4,160.5	3,467.7	179.7	1,009.3	8,990.7

At 31 March 2014, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £333.9 million (2013: £358.3 million).

In addition to these commitments, the group has long-term expenditure plans which include investments to achieve improvements in performance required by regulators and to provide for future growth.

Company
The company had no property, plant and equipment or contractual commitments for the acquisition of property, plant and equipment at 31 March 2014 or 31 March 2013.

12 GOODWILL

Group
At 31 March 2014, goodwill of £4.9 million (2013: £5.0 million) relates to the group's shareholding in AS Tallinna Vesi, the reduction of which relates to foreign currency translation at the reporting date.

Company
The company has no goodwill.

13 OTHER INTANGIBLE ASSETS

Group	Computer software £m	Other £m	Total £m
Cost			
At 1 April 2012	212.1	9.6	221.7
Additions	36.1	0.8	36.9
Disposals	(41.9)	–	(41.9)
Currency translation differences	–	0.1	0.1
At 31 March 2013	**206.3**	**10.5**	**216.8**
Additions	**40.1**	**0.1**	**40.2**
Disposals	**(17.6)**	**–**	**(17.6)**
Currency translation differences	**–**	**(0.1)**	**(0.1)**
At 31 March 2014	**228.8**	**10.5**	**239.3**
Amortisation			
At 1 April 2012	129.0	3.2	132.2
Charge for the year	22.5	0.8	23.3
Disposals	(38.6)	–	(38.6)
At 31 March 2013	**112.9**	**4.0**	**116.9**
Charge for the year	**24.0**	**0.8**	**24.8**
Disposals	**(17.6)**	**–**	**(17.6)**
At 31 March 2014	**119.3**	**4.8**	**124.1**
Net book value at 31 March 2014	**109.5**	**5.7**	**115.2**
Net book value at 31 March 2013	93.4	6.5	99.9

The 'other' intangible assets category relates mainly to customer contracts, customer lists and capitalised development expenditure.

At 31 March 2014, the group had entered into contractual commitments for the acquisition of other intangible assets amounting to £29.4 million (2013: £13.2 million).

Company

The company has no other intangible assets. The company had no contractual commitments for the acquisition of other intangible assets at 31 March 2014 or 31 March 2013.

14 INVESTMENTS

Group	£m
At 1 April 2012	3.3
Additions	3.0
Disposals	(0.9)
Currency translation differences	0.3
At 31 March 2013	**5.7**
Additions	**1.9**
Disposals	**(0.1)**
Currency translation differences	**(0.6)**
At 31 March 2014	**6.9**

During the year, the group increased its investment in Muharraq Holding Company 1 Limited by £1.9 million and disposed of its loan stock investment in WRc Plc for consideration of £0.1 million.

At 31 March 2014, the group's investments mainly comprised its investment in Muharraq Holding Company 1 Limited. These investments are held at fair value.

14 INVESTMENTS continued

Details of principal operating subsidiary undertakings and joint ventures are set out below. These undertakings are included within the consolidated financial statements. A full list of the group's subsidiary undertakings is included in the company's annual return.

	Class of share capital held	Proportion of share capital owned/voting rights %*	Nature of business
Subsidiary undertaking			
Great Britain			
United Utilities Water PLC	Ordinary	100.0	Water and wastewater services and network management
United Utilities Property Services Limited	Ordinary	100.0	Property management
Joint ventures			
Estonia			
AS Tallinna Vesi	Ordinary	35.3	Contract operations and maintenance services

* Shares are held by subsidiary undertakings rather than directly by United Utilities Group PLC.

Joint management of AS Tallinna Vesi (Tallinn Water) is based on a shareholders' agreement. Tallinn Water's financial year end is not coterminous with that of the group. The most recent financial year ended on 31 December 2013.

In relation to the group's interests in joint ventures, the assets, liabilities, gross income and expenses are summarised below:

Group share of joint ventures	2014 £m	2013 £m
Non-current assets	**44.8**	46.8
Current assets	**19.3**	17.5
Non-current liabilities	**(28.3)**	(28.2)
Current liabilities	**(7.5)**	(8.0)
	28.3	28.1

Group share of joint ventures	2014 £m	2013 £m
Gross income	**15.6**	15.1
Expenses	**(8.3)**	(7.4)
Taxation	**(1.4)**	(1.3)
Profit after taxation	**5.9**	6.4

The joint ventures have no significant contingent liabilities to which the group is exposed. The group has issued guarantees of £5.2 million in support of its joint ventures (2013: £5.2 million) which are included in the contingent liabilities total disclosed in note 27.

14 INVESTMENTS continued

Company	Shares in subsidiary undertakings £m
Cost	
At 1 April 2012, 31 March 2013 and 31 March 2014	6,326.8
Impairment	
At 1 April 2012, 31 March 2013 and 31 March 2014	(726.8)
Net book value at 31 March 2013 and 31 March 2014	**5,600.0**

During the year ended 31 March 2014, a review has been performed supporting the carrying value of the £5,600.0 million investment in United Utilities PLC. As in the prior year, the review considered a 'fair value less costs to sell' valuation and whether there were any indications that the value of the underlying business may have changed. No indications of impairment or impairment reversal were identified.

15 INVENTORIES

Group	2014 £m	2013 £m
Properties held for resale	**33.0**	33.8
Other inventories	**9.5**	5.8
	42.5	39.6

Company

The company had no inventories at 31 March 2014 or 31 March 2013.

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Trade receivables	**190.8**	190.1	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**56.3**	41.4
Amounts owed by related parties (see note A4)	**1.4**	1.0	**–**	–
Other debtors	**18.1**	19.5	**–**	–
Prepayments and accrued income	**126.5**	118.5	**–**	–
	336.8	329.1	**56.3**	41.4

At 31 March 2014, the group had £1.3 million (2013: £2.2 million) of trade and other receivables classified as non-current.

The carrying amounts of trade and other receivables approximate their fair value.

Amounts owed by subsidiary undertakings are a sum of all subsidiary balances where the total of debt and interest is in a net receivable position. No allowance has been made for doubtful receivables in respect of amounts owed by subsidiary undertakings (2013: £nil).

16 TRADE AND OTHER RECEIVABLES continued

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables, an analysis of which is as follows:

Group	2014 £m	2013 £m
At the start of the year	87.5	78.4
Amounts charged to operating expenses	37.1	35.5
Trade receivables written off	(26.7)	(26.4)
At the end of the year	97.9	87.5

At each reporting date, the group evaluates the recoverability of trade receivables and records allowances for doubtful receivables based on experience.

At 31 March 2014 and 31 March 2013, the group had no trade receivables that were past due and not individually impaired.

The following table provides information regarding the ageing of net trade receivables that were past due and individually impaired:

At 31 March 2014	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Trade receivables	112.1	40.0	31.1	183.2

At 31 March 2013	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Trade receivables	114.3	37.9	32.6	184.8

At 31 March 2014, the group had £7.6 million (2013: £5.3 million) of trade receivables that were not past due.

Company

At 31 March 2014 and 31 March 2013, the company had no trade receivables that were past due.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value at 31 March 2014 and 31 March 2013.

17 CASH AND CASH EQUIVALENTS

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Cash at bank and in hand	17.0	14.6	–	0.6
Short-term bank deposits	110.2	187.1	–	–
Cash and short-term deposits	127.2	201.7	–	0.6
Bank overdrafts (included in borrowings, see note 18)	(36.9)	(19.2)	(0.6)	–
Cash and cash equivalents in the statement of cash flows	90.3	182.5	(0.6)	0.6

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 and have a maturity of three months or less. The carrying amounts of cash and cash equivalents approximate their fair value.

18 BORROWINGS

Group

The following analysis provides information about the contractual terms of the group's borrowings:

	2014 £m	2013 £m
Non-current liabilities		
Bonds	4,465.9	4,633.7
Bank and other term borrowings	1,490.5	1,373.7
	5,956.4	6,007.4
Current liabilities		
Bonds	–	21.0
Bank and other term borrowings	76.0	125.9
Bank overdrafts (see note 17)	36.9	19.2
	112.9	166.1
	6,069.3	6,173.5

18 BORROWINGS continued

Terms and debt repayment schedule

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 2014 £m	Carrying value 2014 £m	Fair value 2013 £m	Carrying value 2013 £m
Borrowings in fair value hedge relationships			**2,100.4**	**2,137.6**	2,209.3	2,329.3
5.375% 150m bond	GBP	2018	**173.7**	**167.7**	179.9	178.6
4.55% 250m bond	USD	2018	**161.2**	**164.9**	178.1	189.7
5.375% 350m bond	USD	2019	**231.1**	**239.2**	256.4	277.8
4.25% 500m bond	EUR	2020	**473.6**	**476.2**	485.3	495.0
5.75% 375m bond	GBP	2022	**432.4**	**409.2**	451.5	441.0
5.625% 300m bond	GBP	2027	**347.4**	**363.3**	362.4	394.6
5.02% JPY 10bn dual currency loan	JPY/USD	2029	**68.1**	**79.7**	80.1	96.6
5% 200m bond	GBP	2035	**212.9**	**237.4**	215.6	256.0
Borrowings designated at fair value through profit or loss			**268.7**	**268.7**	323.4	323.4
1.135% 3bn bond	JPY	2013	**–**	**–**	21.0	21.0
6.875% 400m bond	USD	2028	**268.7**	**268.7**	302.4	302.4
Borrowings measured at amortised cost			**3,967.3**	**3,663.0**	3,937.3	3,520.8
Short-term bank borrowings – fixed	GBP	2014	**75.0**	**75.0**	125.6	125.6
6.125% 425m bond	GBP	2015	**466.2**	**427.3**	483.7	428.6
1.97%+RPI 200m IL loan	GBP	2016	**265.1**	**257.1**	270.2	248.7
1.30%+LIBOR 5bn (floating) bond	JPY	2017	**30.0**	**29.7**	37.3	35.4
2.46%+RPI 50m IL loan	GBP	2020	**68.7**	**57.9**	72.4	56.3
2.10%+RPI 50m IL loan	GBP	2020	**67.2**	**57.8**	70.6	56.3
1.93%+RPI 50m IL loan	GBP	2020	**66.7**	**58.0**	70.0	56.4
1.90%+RPI 50m IL loan	GBP	2020	**66.6**	**58.1**	69.9	56.5
1.88%+RPI 50m IL loan	GBP	2020	**66.4**	**57.9**	69.7	56.3
1.84%RPI 50m IL loan	GBP	2020	**66.5**	**58.1**	69.7	56.6
1.73%+RPI 50m IL loan	GBP	2020	**66.1**	**58.2**	69.2	56.6
1.61%+RPI 50m IL loan	GBP	2020	**65.7**	**58.3**	68.7	56.7
0.47%+RPI 100m IL loan	GBP	2023	**95.8**	**102.6**	97.5	99.9
1.29%+RPI 50m IL loan	GBP	2029	**55.4**	**54.8**	58.3	53.4
1.23%+RPI 50m IL loan	GBP	2029	**55.0**	**55.2**	57.9	53.7
1.12%+RPI 50m IL loan	GBP	2029	**53.6**	**54.4**	56.4	52.9
1.10%+RPI 50m IL loan	GBP	2029	**53.4**	**54.3**	56.1	52.9
0.75%+RPI 50m IL loan	GBP	2029	**49.5**	**53.1**	52.1	51.7
1.15%+RPI 50m IL loan	GBP	2030	**52.0**	**52.8**	54.9	51.4
1.11%+RPI 50m IL loan	GBP	2030	**50.8**	**52.9**	54.2	51.5
0.76%+RPI 50m IL loan	GBP	2030	**49.3**	**53.0**	51.9	51.5
0.709%+LIBOR 100m (floating) loan	GBP	2032	**89.2**	**100.0**	–	–
3.375%+RPI 50m IL bond	GBP	2032	**97.2**	**70.2**	95.9	68.0
1.9799%+RPI 100m IL bond	GBP	2035	**148.8**	**131.7**	148.4	127.7
1.66%+RPI 35m IL bond	GBP	2037	**45.5**	**42.6**	45.3	41.4
2.40%+RPI 70m IL bond	GBP	2039	**102.3**	**82.9**	102.4	80.6
1.7829%+RPI 100m IL bond	GBP	2040	**142.9**	**130.3**	143.9	126.4
1.3258%+RPI 50m IL bond	GBP	2041	**65.6**	**65.0**	64.7	63.0
1.5802%+RPI 100m IL bond	GBP	2042	**137.0**	**129.9**	137.0	126.0
1.5366%+RPI 50m IL bond	GBP	2043	**68.4**	**64.8**	68.4	62.9
1.397%+RPI 50m IL bond	GBP	2046	**66.0**	**65.0**	66.1	63.0
1.7937%+RPI 50m IL bond	GBP	2049	**73.8**	**64.7**	69.9	62.7
Commission for New Towns loan – fixed	GBP	2053	**51.9**	**29.5**	55.9	29.9

18 BORROWINGS continued

	Currency	Year of final repayment	Fair value 2014 £m	Carrying value 2014 £m	Fair value 2013 £m	Carrying value 2013 £m
Borrowings measured at amortised cost continued						
1.847%+RPI 100m IL bond	GBP	2056	**150.8**	**128.4**	142.3	125.0
1.815%+RPI 100m IL bond	GBP	2056	**148.7**	**127.9**	140.3	124.4
1.662%+RPI 100m IL bond	GBP	2056	**142.0**	**127.6**	133.8	124.2
1.591%+RPI 25m IL bond	GBP	2056	**34.6**	**31.8**	32.6	31.0
1.5865%+RPI 50m IL bond	GBP	2056	**69.5**	**63.8**	65.3	62.1
1.556%+RPI 50m IL bond	GBP	2056	**68.4**	**63.5**	64.7	61.8
1.435%+RPI 50m IL bond	GBP	2056	**65.9**	**63.2**	62.0	61.5
1.3805%+RPI 35m IL bond	GBP	2056	**45.3**	**44.3**	42.6	43.1
1.702%+RPI 50m IL bond	GBP	2057	**69.9**	**61.9**	66.1	60.3
1.585%+RPI 100m IL bond	GBP	2057	**133.9**	**122.8**	126.0	119.5
Other debt issued by joint ventures	EUR	Various	**27.8**	**27.8**	28.2	28.2
Bank overdrafts	GBP	2014	**36.9**	**36.9**	19.2	19.2
			6,336.4	**6,069.3**	6,470.0	6,173.5

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

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

Borrowings are unsecured. Funding raised in currencies other than sterling is swapped to sterling to match funding costs to income and assets.

Company

The following analysis provides information about the contractual terms of the company's borrowings:

	2014 £m	2013 £m
Current liabilities		
Bank overdrafts (see note 17)	**0.6**	–
Amounts owed to subsidiary undertakings	**1,583.7**	1,558.2
	1,584.3	1,558.2

Borrowings are unsecured and are measured at amortised cost. The carrying amounts of borrowings approximate their fair value.

On 11 April 2014, the company renewed its £1,583.7 million loan with United Utilities PLC.

19 RETIREMENT BENEFIT (OBLIGATIONS)/SURPLUS

Defined benefit schemes

The net pension expense before taxation recognised in the income statement in respect of the defined benefit schemes is summarised as follows:

Continuing operations	2014 £m	Restated* 2013 £m
Current service cost	(17.2)	(15.9)
Curtailments/settlements arising on reorganisation	(1.7)	(0.6)
Administrative expenses	(2.2)	(2.9)
Pension expense charged to operating profit	(21.1)	(19.4)
Net pension interest income/(expense) credited/(charged) to investment income/finance expense (see notes 5 and 6)	1.3	(1.5)
Net pension expense charged before taxation	(19.8)	(20.9)

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Defined benefit pension costs excluding curtailments/settlements arising on reorganisation included within employee benefit expense were £19.4 million (2013: £18.8 million) comprising current service costs and administrative expenses. Total post-employment benefits expense excluding curtailments/settlements arising on reorganisation charged to operating profit of £27.5 million (2013: £24.3 million) comprise the defined benefit costs described above of £19.4 million (2013: £18.8 million) and defined contribution pension costs of £8.1 million (2013: £5.5 million) (see note 3).

The reconciliation of the opening and closing net pension (obligations)/surplus included in the statement of financial position is as follows:

Group	2014 £m	Restated* 2013 £m
At the start of the year	15.1	(92.0)
Expense recognised in the income statement	(19.8)	(20.9)
Contributions paid	28.1	93.0
Actuarial (losses)/gains gross of taxation	(200.8)	35.0
At the end of the year	(177.4)	15.1

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Included in the contributions paid of £28.1 million (2013: £93.0 million) were accelerated deficit repair contributions of £nil (2013: £65.0 million) and an inflation funding mechanism payment of £9.9 million (2013: £10.0 million).

Remeasurement gains and losses are recognised directly in the statement of comprehensive income.

	2014 £m	Restated* 2013 £m
The (loss)/return on plan assets, excluding amounts included in interest	(125.1)	205.6
Actuarial losses arising from changes in financial assumptions	(108.3)	(176.9)
Actuarial gains arising from changes in demographic assumptions[1]	34.4	–
Actuarial (losses)/gains arising from experience	(1.8)	6.3
Remeasurement (losses)/gains on defined benefit pension schemes	(200.8)	35.0

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Note:

(1) Following investigations carried out as part of the last triennial scheme funding valuation performed in March 2013.

For more information in relation to the group's defined benefit pension schemes see note A2.

Defined contribution schemes

The schemes also include a defined contribution section which constitutes around two per cent of the total asset value.

During the year, the group made £8.1 million (2013: £5.5 million) of contributions (see note 3) to defined contribution schemes relating to continuing operations, which are included in arriving at operating profit.

Company

The company did not participate in any of the group's pension schemes at 31 March 2014 or 31 March 2013.

20 DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities and assets recognised by the group, and the movements thereon, during the current and prior year:

Restated* Group	Accelerated taxation depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2012	1,289.9	(22.1)	(22.6)	1,245.2
(Credited)/charged to the income statement	(47.9)	1.5	(3.8)	(50.2)
Charged to equity (see note 7)	–	24.0	–	24.0
At 31 March 2013	1,242.0	3.4	(26.4)	1,219.0
(Credited)/charged to the income statement	(158.0)	0.1	28.3	(129.6)
Credited to equity (see note 7)	–	(39.0)	–	(39.0)
At 31 March 2014	1,084.0	(35.5)	1.9	1,050.4

* The 2013 table has been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Certain deferred tax assets and liabilities have been offset in accordance with IAS 12 'Income Taxes'.

Company

The company had no deferred tax assets or liabilities at 31 March 2014 or 31 March 2013.

21 PROVISIONS

Group	Restructuring £m	Other £m	Total £m
At 1 April 2012	0.6	9.7	10.3
Charged to the income statement	2.6	4.9	7.5
Utilised in the year	(1.6)	(4.0)	(5.6)
At 31 March 2013	1.6	10.6	12.2
Charged to the income statement	4.4	10.9	15.3
Utilised in the year	(3.6)	(7.6)	(11.2)
At 31 March 2014	2.4	13.9	16.3

At 31 March 2014, the group had £nil (2013: £3.4 million) other provisions classed as non-current.

The restructuring provision as at 31 March 2014 and 31 March 2013 relates to severance costs as a result of group reorganisation.

Other provisions principally relate to contractual and legal claims against the group and represent management's best estimate of the value of settlement and costs; the timing is dependent on the resolution of the relevant legal claims.

Company

The company had no provisions at 31 March 2014 or 31 March 2013.

22 TRADE AND OTHER PAYABLES

	Group		Company	
Non-current	2014 £m	2013 £m	2014 £m	2013 £m
Deferred grants and contributions	441.8	410.0	–	–
Other creditors	10.4	9.8	–	–
	452.2	419.8	–	–

	Group		Company	
Current	2014 £m	2013 £m	2014 £m	2013 £
Trade payables	45.7	52.7	–	–
Amounts owed to subsidiary undertakings	–	–	8.6	8.8
Other taxation and social security	4.9	4.7	–	–
Deferred grants and contributions	8.9	9.0	–	–
Other creditors	3.8	4.8	1.5	2.1
Accruals and deferred income	324.8	368.9	–	–
	388.1	440.1	10.1	10.9

The average credit period taken for trade purchases is 30 days (2013: 36 days).

The carrying amounts of trade and other payables approximate their fair value.

Deferred grants and contributions

Group	2014 £m	2013 £m
At the start of the year	419.0	373.4
Cash received during the year	16.4	16.3
Transfers of assets from customers	24.8	38.2
Credited to the income statement – revenue (see note 1)	(2.1)	(1.8)
Credited to the income statement – other operating expenses (see note 4)	(7.4)	(7.1)
At the end of the year	450.7	419.0

23 SHAREHOLDERS' EQUITY

Group	2014 £m	2013 £m
Share capital	**499.8**	499.8
Share premium account	**2.9**	2.9
Revaluation reserve	**158.8**	158.8
Cumulative exchange reserve	**(5.6)**	(4.4)
Merger reserve	**329.7**	329.7
Retained earnings	**1,230.3**	885.1
	2,215.9	1,871.9

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS.

The merger reserve arose in 2008/09 on consolidation and represents the capital adjustment to reserves required to effect the reverse acquisition of United Utilities PLC by United Utilities Group PLC.

Company	2014 £m	2013 £m
Share capital	**499.8**	499.8
Share premium account	**2.9**	2.9
Capital redemption reserve	**1,033.3**	1,033.3
Retained earnings	**2,525.9**	2,536.9
	4,061.9	4,072.9

No ordinary shares were allotted during the year ended 31 March 2014 (2013: 79,619 ordinary shares) for the exercise of options in accordance with the rules of the employee ShareSave scheme and the executive share option scheme for a total consideration of £nil (2013: £0.5 million).

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement. The results of the company for the financial year was a profit after taxation of £223.3 million (2013: £399.2 million) after accounting for dividends received from subsidiary undertakings of £237.9 million (2013: £432.6 million).

24 SHARE CAPITAL

Group and company	2014 million	2014 £m	2013 million	2013 £m
Issued, called up and fully paid				
Ordinary shares of 5.0 pence each	**681.9**	**34.1**	681.9	34.1
Deferred shares of 170.0 pence each	**274.0**	**465.7**	274.0	465.7
	955.9	**499.8**	955.9	499.8

Refer to the directors' report for details of the voting rights of each category of shares.

Notes to the financial statements

25 OPERATING LEASE COMMITMENTS

Group	Property 2014 £m	Plant and equipment 2014 £m	Property 2013 £m	Plant and equipment 2013 £m
Commitments under non-cancellable operating leases due				
Within one year	**3.3**	**0.8**	2.9	0.8
In the second to fifth years inclusive	**11.4**	**0.5**	9.2	0.6
After five years	**258.2**	**–**	255.6	–
	272.9	**1.3**	267.7	1.4

In respect of the group's commitment to significant property leases, there are no contingent rentals payable, or restrictions on dividends, debt or further leasing imposed by these lease arrangements. Wherever possible, the group ensures that it has the benefit of security of tenure where this is required by operational and accommodation strategies. Escalation of rents is via rent reviews at agreed intervals.

The company had no operating lease commitments at 31 March 2014 or 31 March 2013.

26 CASH GENERATED FROM OPERATIONS

		Restated/ re-presented* Group		Company
Continuing operations	**2014 £m**	2013 £m	**2014 £m**	2013 £m
Profit before taxation	**544.7**	311.8	**212.6**	400.0
Adjustment for investment income and finance expense	**92.2**	289.8	**25.3**	32.4
Operating profit	**636.9**	601.6	**237.9**	432.4
Adjustments for:				
Depreciation of property, plant and equipment	**314.4**	305.9	**–**	–
Amortisation of other intangible assets	**24.8**	23.3	**–**	–
Loss on disposal of property, plant and equipment	**6.4**	6.6	**–**	–
Loss on disposal of other intangible assets	**–**	3.2	**–**	–
Amortisation of deferred grants and contributions (see note 22)	**(7.4)**	(7.1)	**–**	–
Equity-settled share-based payments charge (see note A3)	**4.4**	1.7	**–**	–
Other non-cash movements	**(2.0)**	(1.9)	**–**	–
Changes in working capital:				
(Increase)/decrease in inventories	**(2.9)**	7.8	**–**	–
(Increase)/decrease in trade and other receivables	**(4.7)**	(26.5)	**0.4**	1.3
(Decrease)/increase in trade and other payables	**(25.4)**	9.3	**(0.6)**	0.1
Increase in provisions	**4.1**	1.9	**–**	–
Pension contributions paid less pension expense charged to operating profit	**(7.0)**	(73.6)	**–**	–
Cash generated from continuing operations	**941.6**	852.2	**237.7**	433.8

* The comparatives have been re-presented to include increase in provisions of £1.9 million and pension contributions paid less pension expense charged to operating profit of £73.6 million as separate categories, rather than within decrease in provisions and retirement benefit obligations, as previously presented. The comparatives have also been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

The group has received property, plant and equipment of £24.8 million (2013: £38.2 million) in exchange for the provision of future goods and services (see notes 1, 22 and A5).

27 CONTINGENT LIABILITIES

The group has entered into performance guarantees as at 31 March 2014 where a financial limit has been specified of £47.1 million (2013: £72.1 million).

The company has not entered into performance guarantees as at 31 March 2014 or 31 March 2013.

28 EVENTS AFTER THE REPORTING PERIOD

There are no events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 31 March 2014.

Notes to the financial statements – appendices

A1 FINANCIAL RISK MANAGEMENT

Risk management

The board is responsible for treasury strategy and governance, which is reviewed on an annual basis. The annual treasury strategy review covers the group's funding, liquidity, capital management and interest rate management strategies, along with the delegation of specific funding and hedging authorities to the treasury committee.

The treasury committee, a sub-committee of the board, has responsibility for setting and monitoring the group's adherence to treasury policies, along with oversight in relation to the activities of the treasury function.

Treasury policies cover the key financial risks: liquidity risk, credit risk, market risk (inflation, interest rate, electricity price and currency) and capital risk. These policies are reviewed by the treasury committee for approval on at least an annual basis, or following any major changes in treasury operations and/or financial market conditions.

Day-to-day responsibility for operational compliance with the treasury policies rests with the treasurer. An operational compliance report is provided monthly to the treasury committee, which details the status of the group's compliance with the treasury policies and highlights the level of risk against the appropriate risk limits in place.

The group's treasury function does not act as a profit centre and does not undertake any speculative trading activity.

Liquidity risk

The group looks to manage its liquidity risk by maintaining liquidity within a board approved duration range. Liquidity is actively monitored by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 2014, the group had £1,027.2 million (2013: £721.7 million) of available liquidity, which comprised £127.2 million (2013: £201.7 million) cash and short-term deposits, £500.0 million (2013: £520.0 million) of undrawn committed borrowing facilities, and £400.0 million (2013: £nil) of undrawn term loan facility. Short-term deposits mature within three months and bank overdrafts are repayable on demand.

The group had available committed borrowing facilities as follows:

Group	2014 £m	2013 £m
Expiring within one year	**50.0**	220.0
Expiring after one year but in less than two years	**50.0**	50.0
Expiring after more than two years	**400.0**	250.0
Undrawn borrowing facilities	**500.0**	520.0

At 31 March 2014, the group had additional committed borrowing facilities of £nil (2013: £100.0 million) expiring after more than two years, £nil (2013: £50.0 million) available to be drawn from September 2013 and £nil (2013: £50.0 million) available to be drawn from January 2014.

These facilities are arranged on a bilateral rather than a syndicated basis, which spreads the maturities more evenly over a longer time period, thereby reducing the refinancing risk by providing several renewal points rather than a large single refinancing point.

Company

The company did not have any committed facilities available at 31 March 2014 or 31 March 2013.

Notes to the financial statements – appendices

A1 FINANCIAL RISK MANAGEMENT continued

Maturity analysis

Concentrations of risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to the group's financial liabilities with agreed repayment periods and derivatives on an undiscounted basis. Derivative cash flows have been shown net where there is a contractual agreement to settle on a net basis; otherwise the cash flows are shown gross.

Group At 31 March 2014	Total[1] £m	Adjust-ment[2] £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Bonds	10,314.6		165.9	592.1	142.3	174.7	652.5	8,587.1
Bank and other term borrowings	2,165.0		140.5	51.2	344.5	66.5	78.5	1,483.8
Adjustment to carrying value[2]	(6,410.3)	(6,410.3)						
Borrowings	6,069.3	(6,410.3)	306.4	643.3	486.8	241.2	731.0	10,070.9
Derivatives:								
Payable	1,005.9		108.4	55.9	45.4	80.6	352.0	363.6
Receivable	(1,464.0)		(171.5)	(86.2)	(83.3)	(132.5)	(428.4)	(562.1)
Adjustment to carrying value[2]	48.3	48.3						
Derivatives – net assets	(409.8)	48.3	(63.1)	(30.3)	(37.9)	(51.9)	(76.4)	(198.5)

At 31 March 2013	Total[1] £m	Adjust-ment[2] £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Bonds	9,873.4		190.1	169.9	595.6	145.4	182.7	8,589.7
Bank and other term borrowings	2,056.1		170.6	26.9	49.4	331.6	56.5	1,421.1
Adjustment to carrying value[2]	(5,756.0)	(5,756.0)						
Borrowings	6,173.5	(5,756.0)	360.7	196.8	645.0	477.0	239.2	10,010.8
Derivatives:								
Payable	1,064.9		97.7	80.8	52.3	46.3	77.0	710.8
Receivable	(1,643.9)		(152.3)	(174.6)	(86.9)	(85.3)	(143.9)	(1,000.9)
Adjustment to carrying value[2]	57.8	57.8						
Derivatives – net assets	(521.2)	57.8	(54.6)	(93.8)	(34.6)	(39.0)	(66.9)	(290.1)

Notes:

(1) Forecast future cash flows are calculated, where applicable, utilising forward interest rates based on the interest environment at year end and are therefore susceptible to changes in market conditions. For index-linked debt it has been assumed that RPI will be 3.00 per cent (2013: 2.65 per cent) over the life of each instrument.

(2) The carrying value of debt is calculated following various methods in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' and therefore this adjustment reconciles the undiscounted forecast future cash flows to the carrying value of debt in the statement of financial position.

Company

The company has total borrowings of £1,584.3 million (2013: £1,558.2 million), which are payable within one year.

A1 FINANCIAL RISK MANAGEMENT continued

Credit risk

Credit risk arises principally from trading (the supply of services to customers) and treasury activities (the depositing of cash and holding of derivative and foreign exchange instruments). The group does not believe it is exposed to any material concentrations of credit risk.

The group manages its risk from trading through the effective management of customer relationships. Concentrations of credit risk with respect to trade receivables are limited due to the group's customer base consisting of a large number of unrelated households and businesses. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. Considering the above, the directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables (see note 16).

The group manages its risk from treasury activities by establishing a total credit limit by counterparty, which comprises a counterparty credit limit and an additional settlement limit to cover intra-day gross settlement cash flows. In addition, potential derivative exposure limits are also established to take account of potential future exposure which may arise under derivative transactions. These limits are calculated by reference to a measure of capital and credit ratings of the individual counterparties and are subject to a maximum single counterparty limit. A control mechanism to trigger a review of specific counterparty limits, irrespective of credit rating action, is in place. This entails daily monitoring of counterparty credit default swap levels and/or share price volatility. Credit exposure is monitored daily by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 2014 and 31 March 2013, the maximum exposure to credit risk for the group and company is represented by the carrying amount of each financial asset in the statement of financial position:

	Group		Company	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Cash and short-term deposits (see note 17)	**127.2**	201.7	**–**	0.6
Trade and other receivables (see note 16)	**336.8**	329.1	**56.3**	41.4
Investments (see note 14)	**6.9**	5.7	**–**	–
Derivative financial instruments	**512.9**	721.2	**–**	–
	983.8	1,257.7	**56.3**	42.0

The credit exposure on derivatives is disclosed gross of any collateral held. At 31 March 2014, the group held £75.0 million (2013: £125.6 million) as collateral in relation to derivative financial instruments (included within borrowings in note 18).

Market risk

The group's exposure to market risk primarily results from its financing arrangements and the economic return which it is allowed on the regulatory capital value (RCV).

The group uses a variety of financial instruments, including derivatives, in order to manage the exposure to these risks.

Notes to the financial statements – appendices

A1 FINANCIAL RISK MANAGEMENT continued

Inflation risk

The group earns an economic return on its RCV, comprising a real return through revenues and an inflation return as an uplift to its RCV. To the extent that nominal debt liabilities finance a proportion of the RCV, there is an asset liability mismatch which potentially exposes the group to the risk of economic loss where actual inflation is lower than that implicitly locked in through nominal debt.

The group's index-linked borrowings, which are linked to RPI inflation, form an economic hedge of the group's regulatory assets, which are also linked to RPI inflation. In particular, index-linked debt delivers a cash flow benefit compared to nominal debt, as the inflation adjustment on the index-linked liabilities is a deferred cash flow until the maturity of each financial instrument, providing a better match to the inflation adjustment on the regulated assets, which is recognised as a non-cash uplift to the RCV.

In addition, the group's pension obligations also provide an economic hedge of the group's regulatory assets. The pension schemes' inflation funding mechanism (see note A2) ensures that future contributions will be flexed for movements in RPI and smoothed over a rolling five-year period, providing a natural hedge against any inflationary uplift on the RCV.

The group seeks to manage this risk by identifying opportunities to amend the economic hedge currently in place where deemed necessary and subject to relative value. Inflation risk is reported monthly to the treasury committee in the operational compliance report.

The carrying value of index-linked debt held by the group is as follows:

	2014 £m	2013 £m
Index-linked debt	**2,936.8**	2,853.9

Sensitivity analysis

As required by IFRS 7 'Financial Instruments: Disclosure', the sensitivity analysis has been prepared on the basis of the amount of index-linked debt in place as at 31 March 2014 and 31 March 2013 respectively. As a result, this analysis relates to the position at the reporting date and is not indicative of the years then ended, as these factors would have varied throughout the year. The following table details the sensitivity of profit before taxation to changes in the RPI on the group's index-linked borrowings:

Increase/(decrease) in profit before taxation and equity	2014 £m	2013 £m
1 per cent increase in RPI	**(29.9)**	(29.1)
1 per cent decrease in RPI	**29.9**	29.1

This table excludes the hedging aspect of the group's regulatory assets which, being property, plant and equipment, are not financial assets as defined by IAS 32 'Financial Instruments: Presentation' and are typically held at cost or deemed cost less accumulated depreciation on the consolidated statement of financial position. In addition, the table excludes the hedging aspect of the group's pension obligations.

The analysis assumes a one per cent change in RPI having a corresponding one per cent impact on this position over a 12-month period. It should be noted, however, that there is a time lag by which current RPI changes impact on the income statement, and the analysis does not incorporate this factor. The portfolio of index-linked debt is either calculated on a three or eight-month lag basis. Therefore, at the reporting date the index-linked interest and principal adjustments impacting the income statement are fixed and based on the annual RPI change either three or eight months earlier.

Company

The company had no material exposure to inflation risk at 31 March 2014 or 31 March 2013.

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A1 FINANCIAL RISK MANAGEMENT continued

Interest rate risk

The group's policy is to structure debt in a way that best matches its underlying assets and cash flows. The group earns an economic return on its RCV, comprising a real return through revenues, determined by the real cost of capital fixed by the regulator for each five-year regulatory pricing period, and an inflation return as an uplift to its RCV.

The preferred form of debt therefore is sterling index-linked debt which incurs fixed interest, in real terms, and forms a natural hedge of regulatory assets and cash flows.

Where conventional long-term debt is raised in a fixed-rate form, to manage exposure to long-term interest rates, the debt is generally swapped at inception to create a floating rate liability for the term of the liability through the use of interest rate swaps. These instruments are typically designated within a fair value accounting hedge.

To manage the exposure to medium-term interest rates, the group fixes underlying interest rates on nominal debt out to ten years in advance on a reducing balance basis. This is supplemented by managing residual exposure to interest rates within the relevant regulatory price control period by fixing substantively all residual floating underlying interest rates on projected nominal debt across the immediately forthcoming regulatory period at around the time of the price control determination.

The group seeks to manage its risk by maintaining its interest rate exposure within a board approved range. Interest rate risk is reported monthly to the treasury committee through the operational compliance report.

Sensitivity analysis

As required by IFRS 7 'Financial Instruments: Disclosures', the sensitivity analysis has been prepared on the basis of the amount of net debt and the interest rate hedge positions in place at the reporting date. As a result, this analysis is not indicative of the years then ended, as these factors would have varied throughout the year.

The following assumptions were made in calculating the interest sensitivity analysis:

- fair value hedge relationships are fully effective;
- borrowings designated at fair value through profit or loss are effectively hedged by associated swaps;
- the main fair value sensitivity to interest rates in the statement of financial position (excluding the effect of accrued interest) is in relation to the fixed interest rate swaps which manage the exposure to medium-term interest rates;
- cash flow sensitivity in the statement of financial position to interest rates is calculated on floating interest rate net debt;
- the sensitivity excludes the impact of interest rates on post-retirement obligations;
- management has assessed one per cent as a reasonably possible movement in UK interest rates; and
- all other factors are held constant.

	Group		Company	
Increase/(decrease) in profit before taxation and equity	**2014 £m**	2013 £m	**2014 £m**	2013 £m
1 per cent increase in interest rate	**100.9**	95.2	**(15.8)**	(15.6)
1 per cent decrease in interest rate	**(111.1)**	(97.2)	**15.8**	15.6

The exposure largely relates to fair value movements on the group's fixed interest rate swaps which manage the exposure to medium-term interest rates.

A1 FINANCIAL RISK MANAGEMENT continued

Repricing analysis

The following tables categorise the group's borrowings, derivatives and cash deposits on the basis of when they reprice or, if earlier, mature. The repricing analysis demonstrates the group's exposure to floating interest rate risk.

Group At 31 March 2014	Total £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Borrowings in fair value hedge relationships							
Fixed rate instruments	2,137.6	–	–	–	–	571.8	1,565.8
Effect of swaps	–	2,137.6	–	–	–	(571.8)	(1,565.8)
	2,137.6	2,137.6	–	–	–	–	–
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	268.7	–	–	–	–	–	268.7
Effect of swaps	–	268.7	–	–	–	–	(268.7)
	268.7	268.7	–	–	–	–	–
Borrowings measured at amortised cost							
Fixed rate instruments	531.8	75.3	427.7	0.4	0.5	0.5	27.4
Floating rate instruments	194.4	194.4	–	–	–	–	–
Index-linked instruments	2,936.8	2,936.8	–	–	–	–	–
	3,663.0	3,206.5	427.7	0.4	0.5	0.5	27.4
Effect of a fixed hedge for the term of the regulatory period	–	(2,031.3)	–	325.0	252.1	250.0	1,204.2
Total borrowings	6,069.3	3,581.5	427.7	325.4	252.6	250.5	1,231.6
Cash and short-term deposits	(127.2)	(127.2)	–	–	–	–	–
Net borrowings	5,942.1	3,454.3	427.7	325.4	252.6	250.5	1,231.6

At 31 March 2013	Total £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Borrowings in fair value hedge relationships							
Fixed rate instruments	2,329.3	–	–	–	–	–	2,329.3
Effect of swaps	–	2,329.3	–	–	–	–	(2,329.3)
	2,329.3	2,329.3	–	–	–	–	–
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	323.4	21.0	–	–	–	–	302.4
Effect of swaps	–	302.4	–	–	–	–	(302.4)
	323.4	323.4	–	–	–	–	–
Borrowings measured at amortised cost							
Fixed rate instruments	584.1	125.9	0.3	429.0	0.4	0.5	28.0
Floating rate instruments	82.8	82.8	–	–	–	–	–
Index-linked instruments	2,853.9	2,853.9	–	–	–	–	–
	3,520.8	3,062.6	0.3	429.0	0.4	0.5	28.0
Effect of a fixed interest rate hedge	–	(1,831.3)	200.0	–	325.0	252.1	1,054.2
Total borrowings	6,173.5	3,884.0	200.3	429.0	325.4	252.6	1,082.2
Cash and short-term deposits	(201.7)	(201.7)	–	–	–	–	–
Net borrowings	5,971.8	3,682.3	200.3	429.0	325.4	252.6	1,082.2

A1 FINANCIAL RISK MANAGEMENT continued

Company	Total £m	2014 1 year or less £m	Total £m	2013 1 year or less £m
Borrowings measured at amortised cost				
Floating rate instruments	**1,584.3**	**1,584.3**	1,558.2	1,558.2
Total borrowings	**1,584.3**	**1,584.3**	1,558.2	1,558.2

Electricity price risk

The group is allowed a fixed amount of revenue by the regulator, in real terms, to cover electricity costs for each five-year regulatory pricing period. To the extent that electricity prices remain floating over this period, this exposes the group to volatility in its operating cash flows. The group's policy, therefore, is to manage this risk by fixing a proportion of electricity prices in a cost-effective manner.

The group has used electricity swap contracts to fix the price of a substantial proportion of its anticipated electricity usage out to the end of the AMP in 2015.

Sensitivity analysis

As required by IFRS 7 'Financial Instruments: Dislosures', the sensitivity analysis has been prepared on the basis of the amount of the group's electricity swaps in place at the reporting date and, as a result, this analysis is not indicative of the years then ended, as this factor would have varied throughout the year.

Increase/(decrease) in profit before taxation and equity	2014 £m	2013 £m
10 per cent increase in commodity prices	**2.6**	4.4
10 per cent decrease in commodity prices	**(2.6)**	(4.4)

Currency risk

Currency exposure principally arises in respect of funding raised in foreign currencies.

To manage exposure to currency rates, foreign currency debt is hedged into sterling through the use of cross currency swaps and these are typically designated within a fair value accounting hedge.

The group seeks to manage its risk by maintaining currency exposure within board approved limits. Currency risk in relation to foreign currency denominated financial instruments is reported monthly to the treasury committee through the operational compliance report.

The group and company have no material net exposure to movements in currency rates.

Capital risk management

The group's objective when managing capital is to maintain a capital structure that enables its principal subsidiary, United Utilities Water PLC, to retain a credit rating of A3 from Moody's Investors Services (Moody's), which the group believes best mirrors the Water Services Regulation Authority's (Ofwat) assumptions in relation to capital structure. The strategy of targeting a credit rating of A3 has been consistently maintained since 2007.

One of Ofwat's primary duties is to ensure that water companies are able to finance their functions, in particular by securing a reasonable return on their capital. Therefore, mirroring Ofwat's assumptions for credit ratings (and hence capital structure) should help safeguard the group's ability to earn a reasonable return on its capital, securing access to finance at a reasonable cost and enabling the group to continue as a going concern in order to provide returns for shareholders and credit investors, and benefits for other stakeholders.

In order to maintain a credit rating of A3 the group needs to manage its capital structure with reference to the ratings methodology and measures used by Moody's. The ratings methodology is normally based on a number of key ratios (such as RCV gearing and adjusted interest cover) and threshold levels as updated and published from time to time by Moody's.

The group looks to manage its risk by maintaining the relevant key financial ratios used by the credit rating agencies to determine a corporate's credit rating, within the thresholds approved by the board. Capital risk is reported monthly to the treasury committee through the operational compliance report.

Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies.

Notes to the financial statements – appendices

A1 FINANCIAL RISK MANAGEMENT continued

Fair values

The table below sets out the valuation basis of financial instruments held at fair value and financial instruments where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

Group 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available for sale financial assets				
Investments	–	6.9	–	6.9
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	–	398.9	–	398.9
Derivative financial assets – held for trading(1)	–	114.0	–	114.0
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – held for trading(1)	–	(103.1)	–	(103.1)
Financial liabilities designated as fair value through profit or loss	–	(268.7)	–	(268.7)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(2,032.3)	(68.1)	–	(2,100.4)
Other financial liabilities at amortised cost	(1,146.7)	(2,820.6)	–	(3,967.3)
	(3,179.0)	(2,740.7)	–	(5,919.7)

Re-presented* 2013	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available for sale financial assets				
Investments	–	5.7	–	5.7
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	–	576.2	–	576.2
Derivative financial assets – held for trading(1)	–	145.0	–	145.0
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – held for trading(1)	–	(200.0)	–	(200.0)
Financial liabilities designated as fair value through profit or loss	–	(323.4)	–	(323.4)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	–	(2,209.3)	–	(2,209.3)
Other financial liabilities at amortised cost	–	(3,937.3)	–	(3,937.3)
	–	(5,943.1)	–	(5,943.1)

* The comparatives have been re-presented using the format required by IFRS 13 'Fair Value Measurement' to ensure consistency with the 2014 table. As IFRS 13 is applied prospectively, the numbers included in the 2013 table have not been restated and were included in other sections of the financial instruments note in the 2013 financial statements.

Note:

(1) Derivatives forming an economic hedge of the currency exposure on borrowings included in these balances were £83.2 million (2013: £143.5 million).

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable).

The group has adopted IFRS 13 'Fair value measurement' for the year ended 31 March 2014 and has applied it prospectively in line with the transitional provisions of the standard. For the year ended 31 March 2014, the group has calculated fair values using quoted prices where an active market exists, which has resulted in £3,179.0 million of 'level 1' fair value measurements. In the absence of an appropriate quoted price, the group has applied discounted cash flow valuation models utilising market available data in line with prior years.

In respect of the total change during the year in the fair value of financial liabilities designated at fair value through profit or loss of a £32.6 million gain (2013: £17.5 million loss), an £11.1 million loss (2013: £1.5 million) is attributable to changes in own credit risk. The cumulative amount recognised in the income statement due to changes in credit spread was £63.6 million profit (2013: £74.7 million). The carrying amount is £66.6 million (2013: £99.2 million) higher than the amount contracted to settle on maturity.

Company

The company does not hold any financial instruments that are measured subsequent to initial recognition at fair value or where fair value has been separately disclosed in the notes as the carrying value is not a reasonable approximation of fair value.

A2 RETIREMENT BENEFITS

Defined benefit schemes

The group participates in two major funded defined benefit pension schemes in the United Kingdom – the United Utilities Pension Scheme (UUPS) and the United Utilities PLC Group of the Electricity Supply Pension Scheme (ESPS), both of which are closed to new employees. The assets of these schemes are held in trust funds independent of the group's finances.

The trustees are composed of representatives of both the employer and employees. The trustees are required by law to act in the interests of all relevant beneficiaries and are responsible for the investment policy with regard to the assets plus the day-to-day administration of the benefits.

The group also operates a series of unfunded, unregistered retirement benefit schemes. The costs of these schemes are included in the total pension cost, on a basis consistent with IAS 19 and the assumptions set out below.

Information about the pension arrangements for executive directors is contained in the directors' remuneration report.

Under the schemes, employees are entitled to annual pensions on retirement. Benefits are also payable on death and following other events such as withdrawing from active service. No other post-retirement benefits are provided to these employees.

The latest actuarial valuations of UUPS and ESPS were carried out as at 31 March 2013. The results of these valuations have been adjusted to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position at 31 March 2014 by projecting forward from the valuation date by the independent actuary, Aon Hewitt Limited.

Funding requirements

The latest funding valuations of the schemes as at 31 March 2013 reported a deficit. The basis on which liabilities are valued for funding purposes differs to the basis required under IAS 19. Under UK legislation there is a requirement that pension schemes are funded prudently.

The group has a plan in place with the schemes' trustees to address the funding deficit by 31 December 2020, through a series of annual deficit recovery contributions.

The group and trustees have agreed long-term strategies for reducing investment risk in each scheme.

For UUPS this includes an asset liability matching policy which aims to reduce the volatility of the funding level of the pension plan by investing in assets such as fixed income swaps which perform in line with the liabilities so as to hedge against changes in swap yields. For ESPS, a partial hedge is in place to protect against changes in swap yields.

In addition, the group has had an Inflation Funding Mechanism (IFM) in place since 2010; details of this are outlined in the 2011 annual report. In 2013, it extended the mechanism to the ESPS, and increased the fixed percentage rate used to 3.0 per cent per annum from 2.75 per cent per annum. To the extent that inflation, as measured by the RPI index at each 31 March preceding the payment due date is different from 3.0 per cent per annum, the inflation reserve will increase/decrease. Additional contributions are then payable annually based on the size of the inflation reserve.

The duration of the combined schemes is around 20 years. The schemes' duration is an indicator of the weighted-average time until benefit payments are settled, taking account of the split of the defined benefit obligation between current employees, deferred members and the current pensioners of the schemes.

The group expects to make contributions of £29.3 million in the year ending 31 March 2015, comprising £5.5 million to UUPS in respect of the inflation funding mechanism and £22.5 million and £1.3 million in respect of regular contributions to UUPS and ESPS respectively.

Impact of scheme risk management on IAS 19 disclosures

Under the prescribed IAS 19 basis, pension scheme liabilities are calculated based on current accrued benefits. Expected cash flows are projected forward allowing for RPI and the current member mortality assumptions. These projected cash flows are then discounted by an AA corporate bond rate, which comprises an underlying interest rate and a credit spread.

The group has de-risked its pension schemes through hedging strategies applied to the underlying interest rate and the forecast RPI. The underlying interest rate has been largely hedged through external market swaps, the value of which is included in the schemes' assets, and the forecast RPI has been largely hedged through the IFM, with RPI in excess of 3.0 per cent per annum being funded through an additional schedule of deficit contribution.

A2 RETIREMENT BENEFITS continued

As a consequence, the reported statement of financial position under IAS 19 remains volatile to changes in credit spread which have not been hedged, primarily due to the difficulties in doing so over long durations; changes in inflation, as the IFM results in changes to the IFM deficit contributions rather than a change in the schemes' assets; and, to a lesser extent, changes in mortality as management has decided not to hedge this exposure due to its lower volatility in the short term.

In contrast, the schemes' specific funding basis, which forms the basis for regular (non-IFM) deficit repair contributions, is unlikely to suffer from volatility due to credit spread or inflation. This is because a prudent, fixed credit spread assumption is applied, and inflation linked contributions are included within the IFM.

In the IAS 19 assessment of financial position at 31 March 2014, although the discount rate has fallen by 0.3 per cent this masks a rise in underlying interest rates offset by a credit spread reduction of 0.5 per cent. This credit spread reduction results in substantially all of the reported £192.5 million deterioration. During the year ended 31 March 2014, there has not been any material change in the deficits on a scheme specific funding basis and therefore the level of deficit repair contributions.

Sensitivity of the key scheme assumptions

The measurement of the group's defined benefit obligation is sensitive to changes in key assumptions, which are described below. The sensitivity calculations presented below allow for the specified movement in the relevant key assumption, whilst all other assumptions are held constant. This approach does not take into account the interrelationship between some of these assumptions or any hedging strategies adopted.

- Asset volatility
  If the schemes' assets underperform relative to the discount rate used to calculate the schemes' liabilities, this will create a deficit. The schemes hold some growth assets (equities, diversified growth funds and emerging market debt) which, though expected to outperform the discount rate in the long term, create volatility in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the schemes' long-term objectives.
- Discount rate
  An increase/decrease in the discount rate of 0.1 per cent would have resulted in a £49.1 million decrease/increase in the schemes' liabilities at 31 March 2014, although as long as credit spreads remain stable this will be largely offset by an increase in the value of the schemes' bond holdings and other instruments designed to hedge this exposure. The discount rate is based on AA corporate bond yields of a similar duration to the schemes' liabilities.
- Price inflation
  An increase/decrease in the inflation assumption of 0.1 per cent would have resulted in a £47.0 million increase/decrease in the schemes' liabilities at 31 March 2014, as a significant proportion of the schemes' benefit obligations are linked to inflation. In some cases, caps on the level of inflationary increases are in place to protect against extreme inflation. The majority of the assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation will also increase the deficit. Any change in inflation out-turn results in a change to the cash contributions provided under the IFM.
- Life expectancy
  An increase/decrease in the mortality long-term improvement rate of 0.25 per cent would have resulted in a £37.3 million increase/decrease in the schemes' liabilities at 31 March 2014. The majority of the schemes' obligations are to provide benefits for the life of the member and, as such, the schemes' liabilities are sensitive to these assumptions.

A contingent liability exists in relation to the equalisation of Guaranteed Minimum Pension (GMP). The UK Government intends to implement legislation which could result in an increase in the value of GMP for males. This would increase the defined benefit obligation of the schemes. At this stage, it is not possible to quantify the impact of this change.

Reporting

The results of the latest funding valuations at 31 March 2013 have been adjusted in order to assess the position at 31 March 2014, by taking account of experience over the period, changes in market conditions, and differences in the financial and demographic assumptions. The present value of the defined benefit obligation, and the related current service costs, were measured using the Projected Unit Credit Method.

A2 RETIREMENT BENEFITS continued

The main financial and demographic assumptions used by the actuary to calculate the defined benefit (obligations)/surplus of UUPS and ESPS were as follows:

Group	2014 % pa	2013 % pa
Discount rate	4.3	4.6
Pensionable salary growth and pension increases	3.3	3.3
Price inflation	3.3	3.3

In assessing the financial assumptions, the group has taken into account the average duration of the schemes' liabilities.

Demographic assumptions

Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA year of birth tables with a one year age rating for males, reflecting actual mortality experience; and CMI 2013 long-term improvement factors, with a long-term annual rate of improvement of 1.5 per cent per annum. The current life expectancies at age 60 underlying the value of the accrued liabilities for the schemes are:

	2014 years	2013 years
Retired member – male	26.6	26.7
Non-retired member – male	28.4	28.5
Retired member – female	30.0	30.0
Non-retired member – female	31.9	31.9

Further reporting analysis

At 31 March, the fair value of the schemes' assets and liabilities recognised in the statement of financial position were as follows:

	Schemes' assets %	2014 £m	Schemes' assets %	2013 £m
Equities	6.6	157.0	14.9	363.9
Other non-equity growth assets	10.0	238.3	10.6	259.0
Gilts	11.9	283.9	2.1	50.7
Bonds	52.2	1,240.7	60.5	1,477.4
Other	19.3	457.1	11.9	291.0
Total fair value of schemes' assets	100.0	2,377.0	100.0	2,442.0
Present value of defined benefit obligations		(2,554.4)		(2,426.9)
Net retirement benefit (obligations)/surplus		(177.4)		15.1

The fair values in the table above are all based on quoted prices in an active market, where applicable.

The assets, in respect of UUPS, included in the table above, have been allocated to each asset class based on the return the assets are expected to achieve as UUPS has entered into a variety of derivative transactions to change the return characteristics of the physical assets held in order to reduce undesirable market and liability risks. As such, the breakdown shown separates the assets of the schemes to illustrate the underlying risk characteristics of the assets held.

Both of the schemes employ a strategy where the asset portfolio is made up of a growth element and a defensive element. Assets in the growth portfolio are shown as equities and other non-equity growth assets above, while assets held in the defensive portfolio represent the remainder of the schemes' assets.

The 'other' element of the portfolio is set aside for collateral purposes linked to the derivative contracts entered into, as described above. The collateral portfolio, comprising cash and eligible securities which are readily converted to cash, provides sufficient liquidity to manage the derivative transactions and is expected to achieve a return in excess of LIBOR.

A2 RETIREMENT BENEFITS continued

Movements in the fair value of the schemes' assets were as follows:

	2014 £m	Restated* 2013 £m
At the start of the year	2,442.0	2,113.0
Interest income on schemes' assets	111.3	106.8
The (loss)/return on plan assets, excluding amounts included in interest	(125.1)	205.6
Member contributions	6.6	6.8
Benefits paid	(83.7)	(80.3)
Administrative expenses	(2.2)	(2.9)
Company contributions	28.1	93.0
At the end of the year	**2,377.0**	2,442.0

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

The group's actual return on the schemes' assets was a loss of £13.8 million (2013: £312.4 million gain), principally due to losses on derivatives hedging the schemes' liabilities.

Movements in the present value of the defined benefit obligations are as follows:

	2014 £m	Restated* 2013 £m
At the start of the year	(2,426.9)	(2,205.0)
Interest cost on schemes' obligations	(110.0)	(108.3)
Actuarial losses arising from changes in financial assumptions	(108.3)	(176.9)
Actuarial gains arising from changes in demographic assumptions	34.4	–
Actuarial (losses)/gains arising from experience	(1.8)	6.3
Curtailments/settlements arising on reorganisation	(1.7)	(0.6)
Member contributions	(6.6)	(6.8)
Benefits paid	83.7	80.3
Current service cost	(17.2)	(15.9)
At the end of the year	**(2,554.4)**	(2,426.9)

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

A3 SHARE-BASED PAYMENTS

The total expense included within employee benefits expense from continuing operations in respect of equity-settled share-based payments was £4.4 million (2013: £1.7 million) and £nil (2013: £0.2 million) in respect of cash-settled share-based payments, plus a £0.1 million accrual of national insurance contributions (2013: £0.3 million).

The company operates several share option schemes.

Long Term Plan (LTP)

The LTP is the principal long-term incentive plan for executives and eligible senior leaders. Awards vest based on company performance over a three-year performance period and continued employment. An additional two-year holding period applies for executive directors.

Deferred Bonus Plan (DBP)

Under the DBP, executives are required to defer part of their bonus for three years, to be settled in shares. Vesting is not dependent on any service or performance conditions; however, malus provisions apply.

Further details of the LTP and DBP are given on pages 81 to 82 in the Directors' remuneration report.

Performance Share Plan (PSP)

The PSP was the principal long-term incentive plan for executives and senior leaders prior to 2013. Nil-cost options were granted and will vest based on company performance over a three-year performance period and continued employment. The nil-cost options accrue dividend equivalents.

Matching Share Award Plan (MSAP)

Prior to 2013, executives could voluntarily defer part of their bonus into shares under the MSAP. Matching shares (up to a one-for-one match) in the form of nil-cost options were awarded subject to company performance over a three-year performance period and continued employment. The matched shares accrue dividend equivalents.

There is no intention to grant future awards under the PSP or MSAP. Further details of the PSP and MSAP are given on pages 89 to 90 in the Directors' remuneration report.

Deferred Share Award Scheme (DSAS)

The DSAS is used as a retention mechanism for certain key employees below board level on a discretionary basis. Shares are released after a three-year holding period and are conditional on satisfactory job performance and continued employment during this time. The nil-cost options accrue dividend equivalents.

Matched Share Investment Scheme (MSIS)

One-off matched share investment awards for the directors were made on their appointments. Under this scheme, the directors bought company shares and were awarded a conditional one-for-one matched award of shares. Shares under this scheme will be transferred to the CEO on 5 January 2016 and the CFO on 1 October 2015, subject to them still being employed by the group and retaining their original investment. The matched shares accrue dividend equivalents.

Company Share Option Scheme 1999 (CSOS)

The CSOS 1999 is for senior executives (excluding, with effect from the introduction of the group's long-term incentive plan, executive directors and other executives participating in that plan and its successor, the PSP). Options under the CSOS 1999 are exercisable in a period beginning no earlier than three years and ending no later than ten years from the date of grant.

Although the LTP, DBP and DSAS give the company the option to settle in cash, the intention is to settle in shares.

Notes to the financial statements – appendices

A3 SHARE-BASED PAYMENTS continued

The following tables show the inputs to the model used to calculate the fair value of equity-settled share awards granted during the years ended 31 March 2014 and 31 March 2013. A Monte Carlo simulation model was used to calculate the fair value of awards with Total Shareholder Return (TSR) performance conditions. The fair value of the awards with operational performance conditions or no performance conditions is equal to the market share price at the grant date.

Year ended 31 March 2014	Long term plan[1] TSR 33.3%	Long term plan[1] Operational 66.7%
Weighted average exercise price (£ per share)	–	–
Vesting period (years)[2]	3.0	3.0
Expected volatility (%)	17.1	17.1
Risk-free rate (%)	0.6	–
Expected dividend yield (%)	–	–
Fair value (£ per share)	2.81	7.14

Notes:
(1) Awarded in July 2013.
(2) The vesting period for the directors' awards is 4.7 years.

Year ended 31 March 2013	Performance share plan[1] TSR 40%	Performance share plan[1] Operational 60%	Performance share plan[2] TSR 20%–50%	Performance share plan[2] Operational 50%–80%	Matching share award plan[2] TSR 50%	Matching share award plan[2] Operational 50%
Weighted average exercise price (£ per share)	–	–	–	–	–	–
Vesting period (years)	2.6	2.6	2.8	2.8	2.8	2.8
Expected volatility (%)	17.2	17.2	17.5	17.5	17.5	17.5
Risk-free rate (%)	0.2	–	0.3	–	0.3	–
Expected dividend yield (%)	–	–	–	–	–	–
Fair value (£ per share)	4.33	7.19	3.30	6.63	3.30	6.63

Notes:
(1) Awarded in August 2012.
(2) Awarded in June 2012.

The expected volatility is based on the historical volatility of the company's share price over the expected life of the award.

The weighted average share price at date of exercise and the contractual remaining life of total outstanding options is provided below:

	Performance share plan	Matching share award plan	Deferred share award scheme	Matched share investment scheme	Company share option scheme 1999
Weighted average share price at date of exercise					
31 March 2014	**7.87**	**7.87**	**7.15**	**n/a**	**n/a**
31 March 2013	6.91	6.91	6.48	n/a	6.63
Contractual remaining life					
31 March 2014	**0.5 years**	**0.6 years**	**1.3 years**	**1.7 years**	**n/a**
31 March 2013	1.2 years	1.6 years	0.9 years	2.7 years	n/a

None of the share options identified above as outstanding at 31 March 2014 had vested at that date.

A4 RELATED PARTY TRANSACTIONS

Group

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Trading transactions

The following transactions were carried out with the group's joint ventures and other investments:

	Sales of services		Purchases of goods and services	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Joint ventures	**1.5**	1.3	**0.8**	0.7
Other investments	**0.1**	–	**–**	–
	1.6	1.3	**0.8**	0.7

The following amounts were owed by/to the group's joint ventures and other investments at the balance sheet date (see note 16).

	Amounts owed by related parties		Amounts owed to related parties	
	2014 £m	2013 £m	**2014 £m**	2013 £m
Joint ventures	**1.3**	1.0	**–**	–
Other investments	**0.1**	–	**–**	–
	1.4	1.0	**–**	–

Sales of services to related parties were on the group's normal trading terms.

The amounts outstanding are unsecured and will be settled in accordance with normal credit terms. The group has issued guarantees of £5.2 million (2013: £5.2 million) in support of its joint ventures (see note 14).

No allowance has been made for doubtful receivables in respect of the amounts owed by related parties (2013: £nil). No expense has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (2013: £nil).

Details of transactions with key management are disclosed in note 3.

Company

The parent company receives dividend income and pays and receives interest to and from subsidiary undertakings in the normal course of business. Total dividend income received during the year amounted to £237.9 million (2013: £432.6 million) and total net interest payable during the year was £25.3 million (2013: £32.4 million). Amounts outstanding at 31 March 2014 and 31 March 2013 between the parent company and subsidiary undertakings are provided in notes 16, 18 and 22.

At 31 March 2014 and 31 March 2013, no related party receivables and payables were secured and no guarantees were issued in respect thereof. Balances will be settled in accordance with normal credit terms. No allowance for doubtful receivables has been made for amounts owed by subsidiary undertakings as at 31 March 2014 and 31 March 2013.

A5 ACCOUNTING POLICIES

Basis of consolidation

The group financial statements consolidate the financial statements of the company and entities controlled by the company (its subsidiaries), and incorporate the results of its share of joint ventures using proportionate consolidation.

The results of subsidiaries and joint ventures acquired or disposed of during the year are included in the consolidated income statement from the date control is obtained or until the date that control ceases, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used under the relevant local GAAP into line with those used by the group.

Subsidiaries

Control is achieved where the company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one-half of the voting rights of an investee entity so as to obtain benefits from its activities. In the parent company accounts, investments are held at cost less provision for impairment.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the income statement in the period of acquisition. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Joint ventures

Joint ventures are entities in which the group holds an interest on a long-term basis and which are jointly controlled with one or more parties under a contractual arrangement. The group's share of joint venture income, expenses, assets, liabilities and cash flows is included in the consolidated financial statements on a proportionate consolidation basis using the same accounting methods as adopted for subsidiaries.

Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business for goods and services provided. Where relevant, this includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the period end, exclusive of value added tax and foreign sales tax.

The group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should the group consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as collectability is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred income.

Operating profit

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

Borrowing costs and finance income

Except as noted below, all borrowing costs and finance income are recognised in the income statement in the period in which they are accrued.

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are included in the initial fair value of that instrument.

Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

Taxation

The taxation expense represents the sum of current taxation and deferred taxation.

Current taxation

Current taxation, 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 substantively enacted at each reporting 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.

Current taxation is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the corporation taxation is also dealt with in equity.

Deferred taxation

Deferred taxation 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 each reporting 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 taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the group 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 taxation 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 substantively enacted at each reporting date.

A5 ACCOUNTING POLICIES continued

The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Property, plant and equipment

Property, plant and equipment comprises water and wastewater infrastructure assets and overground assets (including properties and plant and equipment).

The useful economic lives of these assets are as follows:

- Water and wastewater infrastructure assets:
  - Impounding reservoirs 200 years;
  - Mains and raw water aqueducts 30 to 300 years;
  - Sewers 60 to 300 years;
  - Sea outfalls 77 years;
- Buildings 10 to 60 years;
- Operational assets 5 to 80 years; and
- Fixtures, fittings, tools and equipment 3 to 40 years.

Employee and other related costs incurred in implementing the capital schemes of the group are capitalised.

Water and wastewater infrastructure assets

Infrastructure assets comprise a network of water and wastewater pipes and systems. Expenditure on the infrastructure assets, including borrowing costs where applicable, relating to increases in capacity or enhancements of the network is treated as additions. Amounts incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred. Infrastructure assets are depreciated by writing off their cost, less the estimated residual value, evenly over their useful economic lives.

Other assets

All other property, plant and equipment is stated at historical cost less accumulated depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items, including relevant borrowing costs, where applicable, for qualifying assets. 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 group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Freehold land and assets in the course of construction are not depreciated. Other assets are depreciated by writing off their cost, less their estimated residual value, evenly over their estimated useful economic lives, based on management's judgement and experience.

Depreciation methods, residual values and useful economic 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 other operating costs.

Transfer of assets from customers

Where the group receives from a customer an item of property, plant and equipment (or cash to construct or acquire an item of property, plant and equipment) that the group must then use, either to connect the customer to the network, or to provide the customer with ongoing access to a supply of goods or services, or to do both, such items are capitalised at their fair value and included within property, plant and equipment, with a credit of the same amount to deferred grants and contributions. The assets are depreciated over their useful economic lives and the deferred contributions released to revenue over the same period (or where the receipt of property, plant and equipment is solely to connect the customer to the network, the deferred contribution is released immediately to revenue). This interpretation has been applied to transfers of assets from customers received on or after 1 July 2009.

Assets transferred from customers are accounted for at fair value. If no market exists for the assets then incremental cash flows are used to arrive at fair value.

Intangible assets

Goodwill

Goodwill arising on consolidation is recognised as an asset. Following initial recognition, goodwill is subject to impairment reviews, at least annually, and measured at initial value less accumulated impairment losses. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, or jointly controlled entity, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets

Other intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful economic lives. The carrying amount is reduced by any provision for impairment where necessary.

A5 ACCOUNTING POLICIES continued

On a business combination, as well as recording separable intangible assets already recognised in the statement of financial position of the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are also included in the acquisition statement of financial position at fair value.

Internal expenditure is capitalised as internally generated intangibles only if it meets the criteria of IAS 38 'Intangible Assets'.

Amortisation periods for categories of intangible assets are:

- Computer software 3 to 10 years; and
- Other intangible assets 2 to 20 years.

Impairment of tangible and intangible assets excluding goodwill

Intangible assets with definite useful economic lives and 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 cash flows that are independent from other assets, the group 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 cash flows, 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 cash flows 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 losses in respect of non-current assets are recognised in the income statement within operating costs.

Where an impairment loss subsequently reverses, the reversal 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.

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.

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 maturity of three months or less from the date of acquisition and which are subject to an insignificant risk of change in value. In the consolidated statement of cash flows and related notes, cash and cash equivalents include cash and short-term deposits, net of bank overdrafts.

Financial investments

Investments (other than interests in associates, subsidiaries, joint ventures and fixed deposits) are initially measured at fair value, including transaction costs. Investments classified as available for sale in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period.

Trade receivables

Trade receivables are initially measured at fair value, and are subsequently measured at amortised cost, less any impairment for irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience of the receivables balance.

Trade payables

Trade payables are initially measured at fair value and are subsequently measured at amortised cost.

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 group after deducting all of its liabilities.

Equity instruments

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

Borrowings

The group's default treatment is that bonds, loans and overdrafts 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.

A5 ACCOUNTING POLICIES continued

The default treatment of measuring at amortised cost, whilst associated hedging derivatives are recognised at fair value, presents an accounting measurement mismatch that has the potential to introduce considerable volatility to both the income statement and the statement of financial position. Therefore, where feasible, the group takes advantage of the provisions under IAS 39 'Financial Instruments: Recognition and Measurement' to fair value its borrowing instruments to reduce this volatility and better represent the economic hedges that exist between the group's borrowings and associated derivative contracts.

Where feasible, the group designates its financial instruments within fair value hedge relationships. In order to apply fair value hedge accounting, it must be demonstrated that the hedging derivative has been, and will continue to be, a highly effective hedge of the risk being hedged within the applicable borrowing instrument.

Borrowings designated within a fair value hedge relationship

Where designated, bonds and loans are initially measured at fair value being the cash proceeds received net of any direct issue costs. They are subsequently adjusted for any change in fair value attributable to the risk being hedged at each reporting date, with the change being charged or credited to finance expense in the income statement.

Hedge accounting is discontinued prospectively when the hedging instrument is sold, terminated or exercised, or where the hedge relationship no longer qualifies for hedge accounting.

Borrowings designated at fair value through profit or loss

Designation is made where the requirements to designate within a fair value hedge cannot be met at inception despite there being significant fair value offset between the borrowing and the hedging derivative. Where designated, bonds and loans are initially measured at fair value being the cash proceeds received and are subsequently measured at fair value at each reporting date with changes in fair value being charged or credited to finance expense in the income statement.

Derivative financial instruments

Derivative financial instruments are measured at fair value at each reporting date with changes in fair value being charged or credited to finance expense in the income statement. The group enters into financial derivatives contracts to manage its financial exposure to changes in market rates (see note A1).

Derivatives and borrowings – valuation

Where an active market exists, designated borrowings and derivatives recorded at fair value are valued using quoted market prices. Otherwise, they are valued using a net present value valuation model. The model uses applicable interest rate curve data at each reporting date to determine any floating cash flows. Projected future cash flows associated with each financial instrument are discounted to the reporting date using discount factors derived from the applicable interest curves adjusted for counterparty credit risk where appropriate. Discounted foreign currency cash flows are converted into sterling at the spot exchange rate at each reporting date. Assumptions are made with regard to credit spreads based on indicative pricing data.

The valuation of debt designated in a fair value hedge relationship is calculated based on the risk being hedged as prescribed by IAS 39 'Financial Instruments: Recognition and Measurement'. The group's policy is to hedge its exposure to changes in the applicable underlying interest rate and it is this portion of the cash flows that is included in the valuation model (excluding any applicable company credit risk spread).

The valuation of debt designated at fair value through the profit or loss incorporates an assumed credit risk spread in the applicable discount factor. Credit spreads are determined based on indicative pricing data.

Inventories

Inventories are stated at the lower of cost and net realisable value. For properties held for resale, cost includes the cost of acquiring and developing the sites, including borrowing costs where applicable.

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Employee benefits

Retirement benefit obligations

The group operates two defined benefit pension schemes, which are independent of the group's finances, for 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 statement of financial position.

A5 ACCOUNTING POLICIES continued

The cost of providing pension benefits to employees relating to the current year's service (including curtailment gains and losses) is included within the income statement within employee benefits expense. The net interest on the schemes' obligation/surplus is included in the income statement within investment income or finance expense.

Remeasurement gains and losses are recognised outside the income statement in retained earnings and presented in the statement of comprehensive income.

In addition, the group also operates a defined contribution pension section within the United Utilities Pension Scheme. Payments are charged as employee costs as they fall due. The group has no further payment obligations once the contributions have been paid.

Share-based compensation arrangements

The group 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 group 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 simulation models, according to the relevant measures of performance. The group has the option to settle some of these equity-settled share-based payments in cash.

At each reporting date, the group 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.

Provisions

Provisions are recognised when the group 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. Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed.

Foreign currency translation

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rates applicable on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange applicable on that 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.

In order to hedge its exposure to certain foreign exchange risks, the group enters into derivative instruments (see note A1).

Group companies

On consolidation, the statements of financial position of overseas subsidiaries and joint ventures (none of which has the currency of a hyperinflationary economy) are translated into sterling at exchange rates applicable at each reporting date. The income statements are translated into sterling using the average rate unless exchange rates fluctuate significantly in which case the exchange rate at the date the transaction occurred is used. Exchange differences resulting from the translation of such statements of financial position at rates ruling at the beginning and end of the period, together with the differences between income statements translated at average rates and rates ruling at the period end, are dealt with as movements on the group's cumulative exchange reserve, a separate component of equity. Such translation differences are recognised as income or expense in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. The group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of implementation of IFRS 3 'Business Combinations' (1 April 1999) as sterling denominated assets and liabilities.

Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the income statement over the estimated useful economic lives of the related assets.

Leases

Leases are classified according to the substance of the transaction. Operating leases are leases that do not transfer substantially all the risks and rewards of ownership to the lessee.

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

Shareholder information

Key dates

We plan to:

- **1 August 2014**
  Pay the 2013/14 final dividend
- **26 November 2014**
  Announce the half year results for the 2014/15 financial year
- **2 February 2015**
  Pay the 2014/15 interim dividend
- **May 2015**
  Announce the final results for the 2014/15 financial year
- **June 2015**
  Publish the Annual Report and Financial Statements for the 2014/15 financial year

Dividends paid direct to your bank account

Why not make life easy and have your dividends paid straight into your bank account?

- the dividend goes directly into your bank account and is available straight away
- no need to pay dividend cheques into your bank account
- no risk of losing cheques in the post
- no risk of having to replace spoiled or out-of-date cheques
- it's cost-effective for your company

To take advantage of this, please contact Equiniti via shareview.co.uk or complete the dividend mandate form that you receive with your next dividend cheque.

If you choose to have your dividend paid directly into your bank account you'll receive one tax voucher each year. This will be issued with the interim dividend normally paid in February and will contain details of all the dividends paid in that tax year. If you'd like to receive a tax voucher with each dividend payment, please contact Equiniti.

Keeping you in the picture

You can find information about United Utilities quickly and easily on our website: **corporate.unitedutilities.com** Here the Annual Report and Financial Statements, corporate responsibility report, other reports, company announcements, the half year and final announcements and associated presentations are published.

View or download the full Annual Report and Financial Statements from **corporate.unitedutilities.com**

Electronic communications

We're encouraging our shareholders to receive their shareholder information by email and via our website. Not only is this a quicker way for you to receive information, it helps us to be more sustainable by reducing paper and printing materials and lowering postage costs.

Registering for electronic shareholder communications is very straightforward, and is done online via shareview.co.uk which is a website provided by our registrar, Equiniti.

Log on to **shareview.co.uk** and you can:

- set up electronic shareholder communication
- view your shareholdings
- update your address details if you change your address
- get your dividends paid directly into your bank account

Please do not use any electronic address provided in this notice or in any related document to communicate with the company for any purposes other than those expressly stated.

To go straight to the investor page on our website scan the QR code with your smartphone

See further information online:
corporate.unitedutilities.com

Registrar

The group's registrar, Equiniti, can be contacted on **0871 384 2041** or textphone for those with hearing difficulties: **0871 384 2255**. Calls to these numbers will be charged at 8p per minute plus network extras. Lines are open 8.30 am to 5.30 pm, Monday to Friday excluding bank holidays.

The address is:
Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

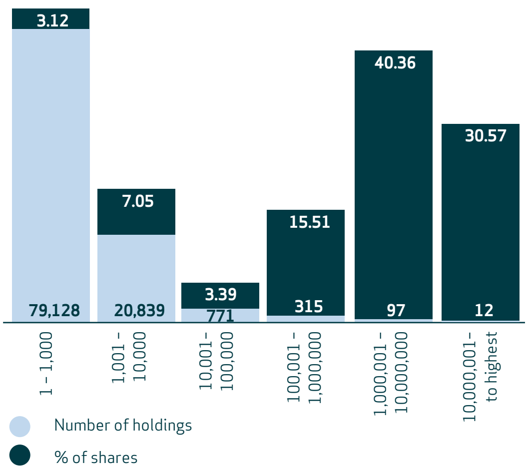
Overseas shareholders may contact them on:
+44 (0)121 415 7048
Equiniti offers a share dealing service by telephone: **0845 603 7037** and online: **shareview.co.uk/dealing**
Equiniti also offers a stocks and shares ISA for United Utilities shares.
For more information, call **0845 300 0430** or go to: **shareview.co.uk/dealing**

Warning to shareholders

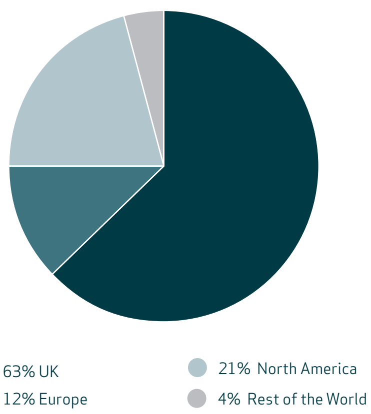
Please be very wary of any unsolicited contact about your investments or offers of free company reports. It may be from an overseas 'broker' who could sell you worthless or high risk shares. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. Further information and a list of unauthorised firms that have targeted UK investors is available from the Financial Conduct Authority at **fca.org.uk/consumers/protect-yourself/unauthorised-firms**

REMEMBER: if it sounds too good to be true, it probably is!

Balance analysis as at 31 March 2014



Shareholders by location



Dividend history — Pence per share	2011	2012	2013	2014
Interim	10.00	10.67	11.44	**12.01**
Final	20.00	21.34	22.88	**24.03**
Total ordinary	30.00	32.01	34.32	**36.04**

United Utilities is proud to have retained Platinum Big Tick ranking in the Business in the Community Corporate Responsibility Index and world class status in the Dow Jones Sustainability Index.

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www.unitedutilities.com

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Cover image: Customer service technicians Vicky Thorpe (left) and Barbara McAuley, helping to sort out issues on the wastewater network.