Registered No: 2366616

United Utilities PLC

Report and Financial Statements

31 March 2014

Contents

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Terms used in this report:
United Utilities PLC's ultimate parent company is United Utilities Group PLC. 'UUG' means United Utilities Group PLC and 'United Utilities', 'the group' or 'the UUG group' means United Utilities Group PLC and its subsidiary undertakings. 'UU' means United Utilities PLC and its subsidiary undertakings.

Cautionary statement:
This financial 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 financial report and the company undertakes no obligation to update these forward-looking statements. Nothing in this financial report should be construed as a profit forecast.

Certain regulatory performance data contained in this financial report is subject to regulatory audit.

Strategic report

Our vision and strategy

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

Our strategy is to deliver value by providing:

The best service to customers: Delivering excellent services to our customers by anticipating and responding to their needs.

Our areas of focus are improving customers 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; and building capability to compete in the expanding retail market

Our performance will be measured by serviceability, qualitative SIM and quantitative SIM.

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

Our areas of focus are 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; and providing support for customers struggling to pay.

Our performance will be measured by opex outperformance, financing outperformance and capex outperformance.

In a responsible manner: Managing responsibly our interaction with the environment, the communities where we operate and our employees.

Our areas of focus are 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; and reducing pollution incidents.

Our performance will be measured by leakage, EA performance assessment and the Dow Jones Sustainability Index.

For more information in relation to our vision and strategy, please see pages 10 to 12 of the 2014 UUG Annual report and financial statements.

How we create 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 have 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.

Strategic report (continued)

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.

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.

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. 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.

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 penalise companies who perform badly, relative to other water companies. Our current KPIs are reflective of these potential areas for outperformance.

Strategic report (continued)

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.

For more information in relation to how we create value, please see pages 14 to 17 of the 2014 UUG Annual report and financial statements.

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

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.

Strategic report (continued)

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: 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. Details on our responsible business performance for the year can be found on our website at corporate.unitedutilities.com

Our operating environment

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.

Our customers
United Utilities Water hold 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.

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.

Strategic report (continued)

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. Where performance falls short of expectations, Ofwat can take actions, such as enforcement actions or fines, in order to protect customers' interests.

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.

We submitted our business plan to Ofwat on 2 December 2013.

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.

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.

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.

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.

Strategic report (continued)

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.

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.

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.

Strategic report (continued)

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.

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.

For more information in relation to our operating environment, please see pages 20 to 27 of the 2014 UUG Annual report and financial statements.

Our journey so far

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.

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
- United Utilities becoming the second largest water retailer in Scotland within one year of entering the market

Strategic report (continued)

Other operational improvements

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.

For more information in relation to our journey so far, please see pages 28 to 29 of the 2014 UUG Annual report and financial statements.

Key performance indicators

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.

The group monitors a large number of financial and operational key performance indicators (KPI's) to enhance the visibility of its performance and to help drive improvements. Performance in 2013/14 against these KPI's is set out in the table below.

	Year ended 31 March 2014	Restated[(1)] Year ended 31 March 2013
Financial KPIs		
Revenue	£1,704.5m	£1,636.0m
Underlying [(2)] operating profit	£641.3m	£604.2m
Underlying [(2)] profit before taxation	£414.8m	£383.9m
Underlying [(2)] profit after taxation	£324.4m	£288.9m
Regulatory capital expenditure [(3)]	£835.6m	£786.5m
Gearing: net debt to regulatory capital value [(4)]	58%	60%

Performance summary

	Year ended 31 March 2014 £m	Restated[(1)] Year ended 31 March 2013 £m
Operating profit	636.9	601.6
Profit before taxation	570.0	344.3
Profit after taxation	784.8	312.5

Strategic report (continued)

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 12.

(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 (RCV) defined as Ofwat's published RCV in outturn prices adjusted for actual capital expenditure to date

- Further customer service improvements: moved up to 7th position on Ofwat's SIM measure
- strong performance on Ofwat and Environment Agency KPI assessments
- reinvesting c£280 million of outperformance for customer and environmental benefits
- Accelerated the capital investment programme with a £49 million increase to £836 million in 2013/14
- further improvement on capex delivery; Time: Cost: Quality index (TCQi) up to 98 per cent
- initiated c£40 million of transitional investment to aid a smoother and more effective start to AMP6
- RCV gearing 2 per cent lower at 58 per cent, well within Ofwat's assumed range
- Underlying operating profit up £37.1million to £641.3million
- continuing to offer and develop a range of value-added services
- largest new entrant and second largest water retailer in Scotland

Financial performance

Turnover
UU has delivered a good set of financial results for the year ended 31 March 2014. Revenue increased by £68.5 million to £1,704.5 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 £641.3 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 £636.9 million.

Profit before taxation
Underlying profit before tax was £414.8 million, £30.9 million higher than last year, due to the £37.1 million increase in underlying operating profit and a £6.2 million increase 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 £225.7 million to £570.0 million.

Profit after taxation
Underlying profit after tax of £324.4 million was £62.2 million higher than the previous year. Reported profit after tax from continuing operations was £784.8 million, compared with £312.5 million last year, impacted by the £170.7 million improvement in fair value gains on debt and derivative instruments and the £246.6 million increase in the net tax credit between the two periods.

Taxation
For 2013/14, UU received an exceptional cash tax refund of £95.5 million in relation to prior years' tax matters, covering a period of over 10 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.

The current tax charge was £82.5 million in the year, compared with £88.5 million in the previous year. In addition, there was a current tax credit of £167.7 million relating to matters agreed with HMRC in respect of prior years.

Strategic report (continued)

For 2013/14, UU recognised a deferred tax charge of £40.5 million compared with a credit of £3.0 million in 2012/13. In addition, UU has recognised a deferred tax credit of £156.8 million relating to the three per cent staged reduction in the mainstream rate of corporation tax, substantially enacted on 2 July 2013, to reduce the rate to 20 per cent by 2015/16. A deferred tax credit of £53.0 million relating to a similar one per cent reduction in the mainstream rate of corporation tax was included in 2012/13. UU also recognised a deferred tax credit of £13.3 million relating to a prior year matter.

Underlying profit

In considering the underlying results for the period, the directors have excluded fair value movements on debt and derivative instruments and one-off items. Reported operating profit and profit before taxation from continuing operations are reconciled to underlying operating profit, underlying profit before taxation and underlying profit after taxation (non-GAAP measures) as follows:

	Year ended 31 March 2014	Restated[1] Year ended 31 March 2013
Operating profit	£m	£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	32.3	34.8
Net finance expense	(66.9)	(257.3)
Net fair value (gains)/losses on debt and derivative instruments	(129.2)	41.5
Adjustment for interest on swaps and debt under fair value options	8.1	8.3
Adjustment for net pension interest (income)/expense	(1.3)	1.5
Adjustment for capitalisation of interest 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	(226.5)	(220.3)
Profit before taxation	£m	£m
Profit before taxation per published results	570.0	344.3
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 capitalisation of interest 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 taxation	414.8	383.9

Strategic report (continued)

Profit after taxation	£m	£m
Underlying profit before taxation	414.8	383.9
Reported tax credit/(charge)	214.8	(31.8)
Deferred taxation credit – change in taxation rate	(156.8)	(53.0)
Agreement of prior years' UK taxation matters	(181.0)	(0.7)
Taxation relating to underlying profit before taxation adjustments	32.6	(9.5)
Underlying profit after taxation	324.4	288.9

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.

The group also has a number of operational KPI's and the performance in respect of these can be found on page 31 and associated commentary on pages 33 to 38, of the 2014 UUG Annual report and financial statements.

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.

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.

For more information in relation to our business plan 2015-20, please see pages 46 to 47 of the 2014 UUG Annual report and financial statements.

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 UUG 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 UUG 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 UUG

Strategic report (continued)

audit committee regularly reviews the framework's effectiveness, and the group's compliance with it, reporting its findings to the UUG 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 piece of material litigation worthy of note but, based on the facts currently known to us and the provisions in our statement of financial position, the group's directors remain of the opinion that the likelihood of these having a material adverse impact on the group's financial position is remote.

- 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 below have been determined by considering our entire risk profile relative to the five principal risk categories contained within the group's 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 to manage these areas.

Strategic report (continued)

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)

Potential impact
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 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.

Control/mitigation
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.

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)

Potential impact
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.

Control/mitigation
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.

Strategic report (continued)

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

Potential impact
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.

Control/mitigation
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.

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

Potential Impact
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 10 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.

Strategic report (continued)

Control/mitigation
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.

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

Potential Impact
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
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 safety and health 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.

Strategic report (continued)

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.

The Strategic report was approved by the board on 5 June 2014 and signed on its behalf by:

JR Houlden

Director

Directors' report

The directors present their report and the audited financial statements of United Utilities PLC and its subsidiaries for the year ended 31 March 2014.

Profit and dividends

The results for the year, set out in the profit and loss account on page 24, show that profit for the year after tax was £785.6 million (2013: £327.1 million).

The directors have not recommended a final ordinary dividend (2013: £nil). Interim ordinary dividends of £237.9 million (2013: £432.6 million) have been declared and paid during the year.

Principal activity and review of business

The company is a public limited company registered in England and Wales.

The company is the intermediate holding company of a group which owns and operates water and wastewater assets in the North West of England. There have not been any significant changes in the company's principal activity in the year under review and no changes are currently planned.

The company's principal subsidiary undertakings, and joint ventures in which the group participates, are listed in note 13 to the consolidated financial statements.

The ultimate parent company of United Utilities PLC ("UU PLC") is United Utilities Group PLC ("UUG").

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.

Research and development

The group undertakes research primarily to provide improved standards of service to customers, together with continuing improvements in business efficiency. Its intention is to strengthen its understanding of science and technology in relation to its range of wastewater and water treatment processes to ensure that treatment plants are able to meet the required current and future standards of environmental performance.
The group is a member of a number of collaborative research programmes including UK Water Industry Research and Water Research Centre, both of which address common issues that face the UK water industry. The group also undertakes specific projects with these and other research and development providers, manufacturers and with universities. Research and development expenditure incurred by the group was £2.4 million in the year ended 31 March 2014 (2012: £1.3 million).

Events after the balance sheet date

There were no events arising after the balance sheet date that require recognition or disclosure in the financial statements for the year ended 31 March 2014.

Going concern

The directors' considerations in preparing these financial statements on a going concern basis are set out in the accounting policies section.

Directors' report (continued)

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

PA Aspin
JR Houlden
SL Mogford
SR Fraser

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.

Employees
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 37.

Supplier payment policy and practice
Payment terms are specific to the type of contract and the relevant commercial arrangements, and are agreed with suppliers in advance. As at 31 March 2014, the average credit period taken for trade purchases was 30 days for the group (2013: 36 days). At 31 March 2014 and 31 March 2013, no average credit period has been calculated for the company due to the company no longer making external purchases.

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.

Internal controls and risk management
The board is responsible for ensuring that the company has sound risk management and internal control systems in place, and for reviewing its effectiveness. It is supported in this role by the audit committee of UUG, the internal audit function, the financial control team and the external auditor. The key features of this internal control framework include policies and procedures for planning, approving and monitoring major capital expenditure and clearly defined comprehensive business planning and financial reporting procedures, and monthly meetings by the executive team to review financial and non-financial performance and key operational issues. Alongside these processes, risk management is well embedded in our ongoing business as usual approach. All areas of the business and support departments are responsible

Directors' report (continued)

for monitoring changes to their areas of activity, and identifying any associated risks as a result of these changes which might prevent us from achieving our objectives and identify actions to mitigate those risks as far as is reasonably practicable and cost-effective to do so. These internal control and risk management systems, which are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss, have been in place continually for the year under review. On behalf of the board, the audit committee of UUG completed its annual review of the effectiveness of the risk management and internal control processes up to the date of the annual report in accordance with the revised Turnbull Guidance on Internal Control. There were no significant failings or weaknesses identified in this review.

The principal risks and uncertainties to the business are explained on pages 13 to 18. We continue to work with all key parties to represent the best interests of our stakeholders, and where we can identify actions to mitigate the adverse consequences of these potential regulatory changes we are working hard to address these changes to our business in a proactive manner.

Information given to the auditor

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

1. so far as he or she is aware, there is no relevant audit information of which the company's auditor is unaware; and
2. 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 has decided to recommend KPMG LLP to be reappointed as external auditor to the company at the forthcoming AGM and an authority for the directors to set the remuneration of the auditor will be sought.

Approved by the board and signed on its behalf by:

JR Houlden
Director
5 June 2014

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

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with IFRSs as adopted by the EU and applicable law.

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.

Independent auditor's report

to the members of United Utilities PLC

We have audited the financial statements of United Utilities PLC for the year ended 31 March 2014 set out on pages 24 to 84. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

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 IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; 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 IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

John Luke (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St James' Square
Manchester
M2 6D

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	32.3	34.8
Finance expense	6	(99.2)	(292.1)
Investment income and finance expense		(66.9)	(257.3)
Profit before taxation		570.0	344.3
Current taxation charge		(82.5)	(88.5)
Current taxation credit –adjustments in respect of prior years		167.7	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	214.8	(31.8)
Profit after taxation from continuing operations		784.8	312.5
Discontinued operations			
Profit after taxation from discontinued operations	8	0.8	14.6
Profit after taxation		785.6	327.1

* 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		785.6	327.1
Other comprehensive income			
Remeasurement (losses)/gains on defined benefit pension schemes	18	(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		624.5	354.3

* 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

	Note	Group 2014 £m	Group 2013 £m	Company 2014 £m	Company 2013 £m
ASSETS					
Non-current assets					
Property, plant and equipment	10	9,361.7	8,990.7	-	-
Goodwill	11	4.9	5.0	-	-
Other intangible assets	12	115.2	99.9	-	-
Investments	13	6.9	5.7	4,731.4	4,655.1
Trade and other receivables	15	1.3	2.2	-	-
Retirement benefit surplus	18	-	15.1	-	-
Deferred tax asset	19	-	-	5.7	6.4
Derivative financial instruments	A1	456.0	659.2	92.4	163.7
		9,946.0	9,777.8	4,829.5	4,825.2
Current assets					
Inventories	14	42.5	39.6	-	-
Trade and other receivables	15	1,927.7	1,884.9	3,176.5	2,792.5
Cash and short-term deposits	16	127.2	201.1	109.5	270.5
Derivative financial instruments	A1	56.9	62.0	4.1	-
		2,154.3	2,187.6	3,290.1	3,063.0
Total assets		12,100.3	11,965.4	8,119.6	7,888.2
LIABILITIES					
Non-current liabilities					
Trade and other payables	21	(452.2)	(419.8)	-	-
Borrowings	17	(5,956.4)	(6,007.4)	(641.5)	(727.9)
Retirement benefit obligations	18	(177.4)	-	(31.8)	(23.0)
Deferred tax liabilities	19	(1,050.4)	(1,219.0)	-	-
Provisions	20	-	(3.4)	-	-
Derivative financial instruments	A1	(52.3)	(196.2)	-	-
		(7,688.7)	(7,845.8)	(673.3)	(750.9)
Current liabilities					
Trade and other payables	21	(398.7)	(438.9)	(864.1)	(1,081.3)
Borrowings	17	(156.4)	(198.3)	(1,386.7)	(945.5)
Current tax liabilities		(35.4)	(102.4)	-	-
Provisions	20	(16.3)	(8.8)	(0.1)	(0.2)
Derivative financial instruments	A1	(50.8)	(3.8)	(0.4)	(0.9)
		(657.6)	(752.2)	(2,251.3)	(2,027.9)
Total liabilities		(8,346.3)	(8,598.0)	(2,924.6)	(2,778.8)
Total net assets		3,754.0	3,367.4	5,195.0	5,109.4
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	22, 23	881.8	881.8	881.8	881.8
Share premium account	22	1,430.0	1,430.0	1,430.0	1,430.0
Revaluation reserve	22	158.8	158.8	-	-
Cumulative exchange reserve	22	(5.6)	(4.4)	-	-
Retained earnings	22	1,289.0	901.2	2,883.2	2,797.6
Shareholders' equity		3,754.0	3,367.4	5,195.0	5,109.4

These financial statements for the group and United Utilities PLC (company number: 2366616) were approved by the board of directors on 5 June 2014 and signed on its behalf by:

JR Houlden
Director

Consolidated statement of changes in equity

for the year ended 31 March

	Share capital £m	Share premium account £m	Revaluation reserve £m	Cumulative exchange reserve £m	Retained earnings £m	Total £m
Group						
At 1 April 2013	881.8	1,430.0	158.8	(4.4)	901.2	3,367.4
Profit after taxation	-	-	-	-	785.6	785.6
Other comprehensive income						
Remeasurement losses on defined benefit pension schemes (see note 18)	-	-	-	-	(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 income	-	-	-	(1.2)	625.7	624.5
Transactions with owners						
Dividends (note 9)	-	-	-	-	(237.9)	(237.9)
At 31 March 2014	881.8	1,430.0	158.8	(5.6)	1,289.0	3,754.0

Restated*	Share capital £m	Share premium account £m	Revaluation reserve £m	Cumulative exchange reserve £m	Retained earnings £m	Total £m
Group						
At 1 April 2012	881.8	1,430.0	158.8	(5.0)	980.1	3,445.7
Profit after taxation	-	-	-	-	327.1	327.1
Other comprehensive income						
Remeasurement gains on defined benefit pension schemes (see note 18)	-	-	-	-	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	353.7	354.3
Transactions with owners						
Dividends (note 9)	-	-	-	-	(432.6)	(432.6)
At 31 March 2013	881.8	1,430.0	158.8	(4.4)	901.2	3,367.4

* 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

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
Company				
At 1 April 2013	881.8	1,430.0	2,797.6	5,109.4
Profit after taxation	-	-	331.4	331.4
Other comprehensive income				
Remeasurement losses on defined benefit pension schemes (see note 18)	-	-	(9.0)	(9.0)
Taxation on items taken directly to equity (see note 7)	-	-	1.1	1.1
Total comprehensive income	-	-	323.5	323.5
Transactions with owners				
Dividends	-	-	(237.9)	(237.9)
At 31 March 2014	881.8	1,430.0	2,883.2	5,195.0

Restated*	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
Company				
At 1 April 2012	881.8	1,430.0	2,613.7	4,925.5
Profit after taxation	-	-	611.0	611.0
Other comprehensive income				
Remeasurement gains on defined benefit pension schemes (see note 18)	-	-	7.6	7.6
Taxation on items taken directly to equity (see note 7)	-	-	(2.1)	(2.1)
Total comprehensive income	-	-	616.5	616.5
Transactions with owners				
Dividends	-	-	(432.6)	(432.6)
At 31 March 2013	881.8	1,430.0	2,797.6	5,109.4

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) ‘Employee Benefits’. See accounting policies for details.

Consolidated and company statements of cash flows

for the year ended 31 March

		Group		Company	
		2014	2013	2014	2013
	Note	£m	£m	£m	£m
Operating activities					
Cash generated from continuing operations	25	904.3	1,023.4	175.5	465.0
Interest paid		(169.1)	(168.3)	(20.6)	(22.9)
Interest received and similar income		28.3	38.7	0.7	1.3
Tax paid		(65.4)	(55.2)	(64.1)	(54.1)
Tax received		95.5	-	20.8	-
Net cash generated from operating activities (continuing operations)		793.6	838.6	112.3	389.3
Net cash used in operating activities (discontinued operations)		(0.8)	(1.4)	-	-
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	21	16.4	16.3	-	-
Purchase of investments	13	(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 borrowings		384.0	147.9	84.4	38.7
Repayment of borrowings		(344.8)	(39.4)	(119.8)	(33.0)
Dividends paid to equity holders of the company	9	(237.9)	(432.6)	(237.9)	(432.6)
Net cash used in financing activities (continuing operations)		(198.7)	(324.1)	(273.3)	(426.9)
Effects of exchange rate changes (continuing operations)		(0.1)	-	-	-
Net decrease in cash and cash equivalents (continuing operations)		(90.2)	(129.3)	(161.0)	(37.6)
Net decrease in cash and cash equivalents (discontinued operations)		(0.8)	(1.4)	-	-
Cash and cash equivalents at beginning of the year		181.9	312.6	270.5	308.1
Cash and cash equivalents at end of the year	16	90.9	181.9	109.5	270.5

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:

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 on the group 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 the group 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).

The impact on the company in the year ended 31 March 2014 has been an increase in employee benefit expense of £0.8 million (2013: £1.0 million), a decrease in finance expense of £nil (2013: £2.5 million) and an offsetting gain to remeasurement gains and losses within other comprehensive income of £0.8 million (2013: £1.5 million loss). These amendments have had no overall impact on the retirement benefit (obligations)/surplus in the statement of financial position.

The impact on the company taxation in the year ended 31 March 2014 has been a deferred taxation credit of £0.2 million (2013: £0.3 million charge) and an offsetting charge to other comprehensive income of £0.2 million (2013: £0.3 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 (company: £nil) 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.

Accounting policies (continued)

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 and 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 directors have a reasonable expectation that the group has adequate resources available to it to continue in 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 on, 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 the primary legal duty of United Utilities Water PLC's economic regulator, to ensure that the companies can finance their functions.

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 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 overhead 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.

Accounting policies (continued)

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 bill 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 26, 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 costs under IAS 19 ‘Employee Benefits’ are 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 is 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 (continued)

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 A4.

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 fixed interest rate 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 13, and the value of goodwill arising on acquisition of the joint ventures, as shown in note 11, 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

Accounting policies (continued)

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)	32.3	34.8
Total revenue	1,736.8	1,670.8

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 21).

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 12), 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
Salaries	1.6	1.2
Benefits	0.4	0.3
Bonus	0.8	0.6
Share-based payment charge	1.7	1.4
	4.5	3.5

* 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.

Included within the above are aggregate emoluments of £2.0 million (2013: £2.0 million) in respect of the highest paid director. The group paid £nil in the year (2013: £nil) to the group’s defined contribution pension scheme on behalf of the highest paid director. The highest paid director did not exercise share options in the year.

Notes to the financial statements (continued)

3. Directors and employees (continued)

	2014 £m	2013 £m
Aggregate amounts receivable under long-term incentive plans	0.1	-

	2014 Number	2013 Number
Number of directors who received shares* in respect of qualifying services	4	3
Number of directors who exercised share* options	3	1
Number of directors accruing benefits under defined benefit schemes	1	1

*Shares in the parent company United Utilities Group PLC.

There were three directors with incentive plans which vested during the year ended 31 March 2014 (2013: one director).

Details of the employee Sharesave Scheme and the executive share option scheme operated by United Utilities Group PLC are given in the UUG group financial statements.

All executive directors were either members of the defined benefit section or the defined contribution section of the group's pension scheme during the year or had opted for a cash allowance in lieu of their defined contribution pension entitlement (see note 18).

Remuneration of key management personnel

	2014 £m	Re-presented* 2013 £m
Salaries and short-term employee benefits	5.7	6.0
Post-employment benefits	0.3	0.2
Share-based payment charge	2.8	2.3
	8.8	8.5

* 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.

Key management personnel comprises all directors and certain senior managers who are members of the executive committee.

Notes to the financial statements (continued)

3. Directors and employees (continued)

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 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.

Options over shares of the ultimate parent undertaking, United Utilities Group PLC have been granted to employees of the group under various schemes. Details of the terms and conditions of each share option scheme are given in the United Utilities Group PLC Annual Report 2014. Included within wages and salaries is an expense of £4.4 million (2013: £1.9 million) relating to a recharge of share-based payment costs from the ultimate parent undertaking.

The table below shows the nature of post-employment benefits:

Group	2014 £m	Restated* 2013 £m
Continuing operations		
Defined benefit pension expense (see note 18)	21.1	19.4
Defined contribution pension costs (see note 18)	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)

Group	2014 number	2013 number
Continuing operations	5,329	5,301

Company

The average number of employees during the year was 268 (2013: 358). These employees were engaged in the provision of services to United Utilities Water PLC, and as such, employee costs of £18.1 million (2013: £22.7 million) in relation to these employees have been incurred directly by that company during the year.

Notes to the financial statements (continued)

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 15)	37.1	35.5
Regulatory fees	36.2	34.3
Movement in other provisions (see note 20)	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 21)	(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	314.4	305.9
Amortisation of other intangible assets	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	34.0	32.5
Statutory audit - subsidiaries	195.0	187.5
Regulatory reporting	30.0	30.0
	259.0	250.0
Audit related services	45.0	45.0
Other non-audit services	203.0	84.0
	507.0	379.0

Included in the above statutory audit fee is £21,000 in relation to the company for the year ended 31 March 2014 (2013: £20,000).

Notes to the financial statements (continued)

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 (note 18)	1.3	-
Interest receivable from ultimate parent undertaking (note A3)	25.3	32.5
	32.3	34.8

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 - 2010-2015 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 18)	-	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) 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’.

Notes to the financial statements (continued)

7. Taxation

	2014 £m	Restated* 2013 £m
Continuing operations		
Current taxation		
UK corporation tax	81.1	87.2
Foreign tax	1.4	1.3
Adjustments in respect of prior years	(167.7)	(6.5)
Total current taxation (credit)/charge for the year	(85.2)	82.0
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	(214.8)	31.8

* 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	570.0	
Tax at the UK corporation tax rate of 23 per cent	131.1	23.0
Adjustments in respect of prior years	(181.0)	(31.8)
Change in taxation rate	(156.8)	(27.5)
Net expenses not deductible/other	(8.1)	(1.4)
Total taxation credit and effective tax rate for the year	(214.8)	(37.7)

	Restated* 2013 £m	Restated* 2013 %
Profit before taxation	344.3	
Tax at the UK corporation tax rate of 24 per cent	82.6	24.0
Adjustments in respect of prior years	(0.7)	(0.2)
Change in taxation rate	(53.0)	(15.4)
Net expenses not deductible/other	2.9	0.8
Total taxation charge and effective tax rate for the year	31.8	9.2

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

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.

Notes to the financial statements (continued)

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.

For a group of our size, negotiations with tax authorities in relation to tax returns can span a number of years. The net adjustment of £181.0 million credit (2013: £0.7 million) in respect of prior years relates to those matters agreed in the current year (see page 11 for further information).

Taxation on items taken directly to equity

		Restated*
Group	2014	2013
Continuing operations	£m	£m
Current taxation		
Relating to other pension movements	(1.9)	(15.6)
Deferred taxation (see note 19)		
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.

		Restated*
Company	2014	2013
Continuing operations	£m	£m
Current taxation		
Relating to other pension movements	-	(4.6)
Deferred taxation (see note 19)		
On remeasurement (losses)/gains on defined benefit pension schemes	(1.8)	1.8
Relating to other pension movements	-	4.4
Change in taxation rate	0.7	0.5
	(1.1)	6.7
Total taxation (credit)/charge on items taken directly to equity	(1.1)	2.1

* 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 IFRS5 ‘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.

Notes to the financial statements (continued)

9. Dividends

Amounts recognised as distributions to equity holders of the company in the year comprise:

	2014 £m	2013 £m
Ordinary shares		
Final dividend for the year ended 31 March 2013 at 17.69 pence per share (2012: 16.50 pence per share)	156.0	145.5
Interim dividend for the year ended 31 March 2014 at 9.29 pence per share (2013: 8.85 pence per share)	81.9	78.0
Interim dividend for the year ended 31 March 2014 at nil pence per share (2013: 23.71 pence per share)	-	209.1
	237.9	432.6

10. Property, plant and equipment

	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
Group						
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)
Currency translation differences	-	-	-	-	-	-
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

Notes to the financial statements (continued)

10. Property, plant and equipment (continued)

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 the 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 at 31 March 2013.

11. 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 (Tallinn Water), the reduction of which relates to foreign currency translation at the balance sheet date.

Company
The company has no goodwill.

12. Other intangible assets

	Computer software £m	Other £m	Total £m
Group			
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

Notes to the financial statements (continued)

12. Other intangible assets (continued)

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.

13. Investments

	£m
Group	
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.

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 undertakings			
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 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:

Notes to the financial statements (continued)

13. Investments (continued)

	2014 £m	2013 £m
Group share of joint ventures		
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

	2014 £m	2013 £m
Group share of joint ventures		
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 26.

	Shares in subsidiary undertakings £m
Company	
At 1 April 2012	6,100.0
Additions	1,605.9
Impairment charge	(1,499.9)
Disposals	(1,550.9)
At 31 March 2013	4,655.1
Additions	1,131.1
Impairment charge	-
Disposals	(1,054.8)
Net book value at 31 March 2014	4,731.4

During the year ended 31 March 2014, there were additions of £1,131.1 million, which included a £562.2 million investment in the ordinary shares of United Utilities Investments BV, £556.7 million investment in the ordinary shares of United Utilities (Jersey) Limited and a £12.2 million investment in the ordinary shares of United Utilities Utility Solutions (Industrial) Limited. The investments in United Utilities Investments BV and United Utilities (Jersey) Limited resulted from the acquisition of shares from United Utilities Investments (No.3) Limited and United Utilities Investments BV respectively, subsequent to the strike off of United Utilities Investments (No.3) Limited. The investment in United Utilities Utility Solutions (Industrial) Limited resulted from the acquisition of shares from United Utilities Energy & Contracting Services Holdings Limited, the latter of which was an indirect subsidiary of the company and was subsequently struck off.

Total disposals during the year ended March 2014 of £1,054.8 million include a £557.2 million investment in the ordinary shares of United Utilities Investments (No.3) Limited, £474.6 million in the ordinary shares of United Utilities Finance Holdings Limited and £23.0 million in the ordinary shares of United Utilities Holdings Trustee Limited. The disposals resulted in £1,201.9 million realisation of value through receipt of dividends, subsequent to the strike off of these companies.

Notes to the financial statements (continued)

13. Investments (continued)

As reported in the prior year, there were additions of £1,605.9 million which included a £1,499.8 million investment in the ordinary shares of United Utilities North West Limited, £25.4 million investment in the ordinary shares of United Utilities International Limited and £185.7 million investment in the ordinary shares of United Utilities BV. The investment in United Utilities BV resulted from the acquisition of shares from United Utilities (Europe) Limited for £80.7 million an indirect subsidiary of United Utilities Contract Solutions Holding Limited and the transfer of value of £105 million from United Utilities Contract Solutions Holding Limited's subsequent strike off.

Also in the prior year, there was an impairment of £1,499.9 million in relation to the investment in United Utilities Investments (No.7) Limited following a £1,499.8 million realisation of value through receipt of dividends.

Total disposals during the prior year were £1,550.9 million of which £1,187.9 million relate to the investment in the ordinary shares of United Utilities Employee Share Trust Limited, £15.0 million in the ordinary shares of United Utilities Investments (No.5) Limited, £297.0 million in the ordinary shares of United Utilities (Jersey) Investments (No.6) Limited, and £51.1 million in the ordinary shares of NB Telecom (IOM) Limited prior to the strike off of the company following a £51.4 million realisation of value through receipt of dividends.

14. Inventories

	2014	2013
Group	£m	£m
Properties held for resale	33.0	33.8
Other inventories	9.5	5.8
	42.5	39.6

Company
The company has no inventories.

15. Trade and other receivables

	Group		Company	
	2014	2013	2014	2013
	£m	£m	£m	£m
Trade receivables	190.8	190.1	-	-
Amounts owed by subsidiary undertakings	-	-	3,176.4	2,792.5
Amounts owed by ultimate parent undertaking (see note A3)*	1,592.2	1,558.0	-	-
Amounts owed by related parties (see note A3)	1.4	1.0	-	-
Other debtors	18.1	19.5	0.1	-
Prepayments and accrued income	126.5	118.5	-	-
	1,929.0	1,887.1	3,176.5	2,792.5

* Included in net amounts owed by the ultimate parent undertaking is £0.7 million for the group (2013: £9.0 million) and £nil for the company (2013: £nil) relating to net group tax relief receivable from United Utilities Group PLC.

At 31 March 2014 the group had £1.3 million (2013: £2.2 million) of trade and other receivables classified as non-current.

Amounts owed by subsidiary undertakings are a sum of all subsidiary balances where the total of inter-company tax, debt, interest and trade balances is in a net receivable position. The recoverability of these balances has been assessed at the year end, and except for the allowance for doubtful receivables detailed below, the balances are deemed fully recoverable.

Notes to the financial statements (continued)

15. 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		Company
	2014	2013	2014	2013
	£m	£m	£m	£m
At the start of the year	87.5	78.4	0.4	0.4
Amounts charged to operating expenses	37.1	35.5	-	-
Trade receivables written off	(26.7)	(26.4)	(0.4)	-
At the end of the year	97.9	87.5	-	0.4

At each reporting date, the group evaluates the recoverability of trade receivables and records allowances for doubtful receivables based on experience.

In the company, gross amounts owed by subsidiary undertakings relating to non-trading subsidiary undertakings are stated net of allowances for doubtful receivables, an analysis of which is as follows:

	2014	2013
	£m	£m
Company		
At the start of the year	88.7	87.3
Amounts charged to operating expenses	1.8	1.4
Amounts written off	-	-
At the end of the year	90.5	88.7

At 31 March 2014 and 31 March 2013, the group had no trade receivables that were past due and not individually impaired.

At each reporting date, the company evaluates the recoverability of amounts owed by subsidiary undertakings and records allowances for doubtful receivables based on an assessment of the company's ability to pay.

The following table provides information regarding the ageing of net trade receivables that were past due and individually impaired:

	Aged less than one year	Aged between one year and two years	Aged greater than two years	Carrying value
Group	£m	£m	£m	£m
At 31 March 2014				
Trade receivables	112.1	40.0	31.1	183.2

	Aged less than one year	Aged between one year and two years	Aged greater than two years	Carrying value
Group	£m	£m	£m	£m
At 31 March 2013				
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.

Notes to the financial statements (continued)

15. Trade and other receivables (continued)

Company
At 31 March 2014 the company had trade receivables of £nil which were past due (2013: £0.4 million). The company had £nil (2013: £nil) which was not 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.

16. Cash and cash equivalents

		Group		**Company**
	2014	2013	2014	2013
	£m	£m	£m	£m
Cash at bank and in hand	17.0	14.0	-	84.1
Short-term bank deposits	110.2	187.1	109.5	186.4
Cash and short-term deposits	127.2	201.1	109.5	270.5
Bank overdrafts (included in borrowings, see note 17)	(36.3)	(19.2)	-	-
Cash and cash equivalents in the statement of cash flows	90.9	181.9	109.5	270.5

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.

17. Borrowings

The following analysis provides information about the contractual terms of the group's borrowings:

	2014	2013
Group	£m	£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 16)	36.3	19.2
Amounts owed to ultimate parent undertaking	44.1	32.2
	156.4	198.3
	6,112.8	6,205.7

Notes to the financial statements (continued)

17. 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:

Group	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
5.00% 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			**4,010.8**	**3,706.5**	**3,969.5**	**3,553.0**
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
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

Notes to the financial statements (continued)

17. Borrowings (continued)

	Currency	Year of final repayment	Fair value 2014 £m	Carrying value 2014 £m	Fair value 2013 £m	Carrying value 2013 £m
table continued from previous page						
Borrowings measured at amortised cost						
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
Joint venture borrowings	EUR	Various	27.8	27.8	28.2	28.2
Amounts owed to ultimate parent undertaking	GBP	2014	44.1	44.1	32.2	32.2
Bank overdrafts	GBP	2014	36.3	36.3	19.2	19.2
			6,379.9	**6,112.8**	**6,502.2**	**6,205.7**

IL Index-linked debt – this debt is adjusted for movements in the Retail Price 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.

The following analysis provides information about the contractual terms of the company's borrowings:

Company	2014 £m	2013 £m
Non-current liabilities		
Bonds	641.5	727.9
	641.5	727.9
Current liabilities		
Bank and other term borrowings	46.5	81.9
Amounts owed to subsidiary undertakings	1,296.1	831.4
Amounts owed to ultimate parent undertaking	44.1	32.2
	1,386.7	945.5
	2,028.2	1,673.4

Notes to the financial statements (continued)

17. Borrowings (continued)

Terms and debt repayment schedule
The principal economic terms and conditions of outstanding borrowings were as follows:

	Currency	Year of final repayment	Fair value 2014	Carrying value 2014	Fair value 2013	Carrying value 2013
Company			£m	£m	£m	£m
Borrowings in fair value hedge relationships			**392.3**	**404.1**	**434.5**	**467.5**
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
Borrowings measured at amortised cost			**1,655.4**	**1,624.1**	**1,247.9**	**1,205.9**
Short-term bank borrowings – fixed	GBP	2014	46.5	46.5	81.9	81.9
Amounts owed to subsidiary undertakings	GBP	2014	1,296.1	1,296.1	831.4	831.4
Amounts owed to ultimate parent undertaking	GBP	2014	44.1	44.1	32.2	32.2
6.875% 400m bond	USD	2028	268.7	237.4	302.4	260.4
			2,047.7	**2,028.2**	**1,682.4**	**1,673.4**

Borrowings are unsecured. Funding raised in currencies other than sterling is swapped to sterling to match funding costs to income and assets.

18. 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:

	Group 2014	Restated* Group 2013	Company 2014	Restated* Company 2013
	£m	£m	£m	£m
Continuing operations				
Current service cost	(17.2)	(15.9)	(0.9)	(1.1)
Curtailments/settlements arising on reorganisation	(1.7)	(0.6)	(0.3)	-
Administrative expenses	(2.2)	(2.9)	(0.8)	(1.0)
Pension expense charged to operating profit	(21.1)	(19.4)	(2.0)	(2.1)
Net pension interest income/(expense) credited/(charged) to investment income and finance expense (see notes 5 and 6)	1.3	(1.5)	(1.0)	(1.7)
Net pension expense charged before taxation	(19.8)	(20.9)	(3.0)	(3.8)

* 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).

Notes to the financial statements (continued)

18. Retirement benefit (obligations)/surplus (continued)

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* Group 2013 £m	Company 2014 £m	Restated* Company 2013 £m
At the start of the year	15.1	(92.0)	(23.0)	(51.1)
Expense recognised in the income statement	(19.8)	(20.9)	(3.0)	(3.8)
Contributions paid	28.1	93.0	3.2	24.3
Remeasurement (losses)/gains gross of taxation	(200.8)	35.0	(9.0)	7.6
At the end of the year	(177.4)	15.1	(31.8)	(23.0)

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Included in the group contributions paid of £28.1 million (2013: £93.0 million) were regular 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.

	Group 2014 £m	Restated* Group 2013 £m	Company 2014 £m	Restated* Company 2013 £m
The (loss)/return on plan assets, excluding amounts included in interest	(125.1)	205.6	(182.0)	68.5
Actuarial losses arising from changes in financial assumptions	(108.3)	(176.9)	(26.9)	(64.1)
Actuarial gains arising from changes in demographic assumptions(1)	34.4	-	7.2	-
Actuarial (losses)/gains arising from experience	(1.8)	6.3	192.7	2.3
Remeasurement (losses)/gains on defined benefit pension schemes	(200.8)	35.0	(9.0)	6.7

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

(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 pension costs
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.

Notes to the financial statements (continued)

19. Deferred tax liabilities/(assets)

The following are the major deferred tax liabilities and assets recognised by the group and company, and the movements thereon, during the current and prior year:

Restated*	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
Group				
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	-	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)
Credit to equity	-	(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.

Restated*	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
Company				
At 1 April 2012	(0.1)	(12.3)	(5.3)	(17.7)
Charged to the income statement	-	0.3	4.3	4.6
Charged to equity	-	6.7	-	6.7
At 31 March 2013	(0.1)	(5.3)	(1.0)	(6.4)
Charged to the income statement	-	-	1.8	1.8
Credit to equity	-	(1.1)	-	(1.1)
At 31 March 2014	(0.1)	(6.4)	0.8	(5.7)

*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’.

A deferred tax asset has been recognised in the company’s statement of financial position as the group is profit making and as such, it is anticipated that when the deferred tax assets reverse it will be possible to surrender any losses arising as group relief.

Notes to the financial statements (continued)

20. Provisions

			Group			Company
	Restructuring	Other	Total	Restructuring	Other	Total
	£m	£m	£m	£m	£m	£m
At 1 April 2012	0.6	9.7	10.3	0.2	0.2	0.4
Charged to the income statement	2.6	4.9	7.5	-	-	-
Utilised in the year	(1.6)	(4.0)	(5.6)	(0.1)	(0.1)	(0.2)
At 31 March 2013	1.6	10.6	12.2	0.1	0.1	0.2
Charged to the income statement	4.4	10.9	15.3	-	-	-
Utilised in the year	(3.6)	(7.6)	(11.2)	-	(0.1)	(0.1)
At 31 March 2014	2.4	13.9	16.3	0.1	-	0.1

At 31 March 2014, the group had £nil (2013: £3.4 million) and the company had £nil (2013: £nil) of 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.

21. Trade and other payables

		Group
	2014	2013
	£m	£m
Non-current		
Deferred grants and contributions	441.8	410.0
Other creditors	10.4	9.8
	452.2	419.8

Company
The company has no non-current trade and other payables.

		Group		Company
	2014	2013	2014	2013
	£m	£m	£m	£m
Current				
Trade payables	45.7	52.7	1.0	0.1
Amounts owed to ultimate parent undertaking	4.9	1.0	0.4	-
Amounts owed to subsidiary undertakings:				
Group tax relief payable	7.2	-	87.0	62.9
Other	-	-	763.9	1,005.7
Other taxation and social security	4.9	4.7	-	-
Deferred grants and contributions	8.9	9.0	-	-
Other creditors	2.3	2.6	2.3	2.8
Accruals and deferred income	324.8	368.9	9.5	9.8
	398.7	438.9	864.1	1,081.3

Notes to the financial statements (continued)

21. Trade and other payables (continued)

The directors consider that the carrying amounts of trade payables approximate to their fair value at both 31 March 2014 and 31 March 2013.

Deferred grants and contributions

	2014 £m	2013 £m
Group		
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 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

22. Shareholders' equity

	2014 £m	2013 £m
Group		
Share capital	881.8	881.8
Share premium account	1,430.0	1,430.0
Revaluation reserve	158.8	158.8
Cumulative exchange reserve	(5.6)	(4.4)
Retained earnings	1,289.0	901.2
	3,754.0	3,367.4

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS.

	2014 £m	2013 £m
Company		
Share capital	881.8	881.8
Share premium account	1,430.0	1,430.0
Retained earnings	2,883.2	2,797.6
	5,195.0	5,109.4

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 £331.4 million (2013: £611.0 million profit) after accounting for dividends received from subsidiary undertakings of £1,355.0 million (2013: £3,638.9 million) and impairment of investments of £nil (2013: £1,499.9 million) (see note 13).

Notes to the financial statements (continued)

23. Share capital

	2014 number	2014 £	2013 number	2013 £
Company				
Issued, called up and fully paid				
Ordinary shares of 100.0 pence each	881,787,478	881,787,478	881,787,478	881,787,478
Deferred A shares of 100.0 pence each	1	1	1	1
	881,787,479	881,787,479	881,787,479	881,787,479

The company has one class of ordinary shares which carry no right to fixed income. The deferred A share carries no voting rights nor a right to fixed income.

24. Operating lease commitments

Group **Commitments under non-cancellable operating leases due**	Property 2014 £m	Plant and equipment 2014 £m	Property 2013 £m	Plant and equipment 2013 £m
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.

Company **Commitments under non-cancellable operating leases due**	Property 2014 £m	Property 2013 £m
Within one year	-	-
In the second to fifth years inclusive	0.2	-
After five years	0.2	0.1
	0.4	0.1

Notes to the financial statements (continued)

25. Cash generated from operations

		Restated*		Restated*
		Group		**Company**
	2014	2013	2014	2013
	£m	£m	£m	£m
Continuing operations				
Profit before taxation	570.0	344.3	315.3	617.8
Adjustment for investment income and finance expense	66.9	257.3	(21.9)	(37.4)
Operating profit	636.9	601.6	293.4	580.4
Adjustments for:				
Depreciation of property, plant and equipment	314.4	305.9	-	0.4
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	(7.4)	(7.1)	-	-
Other non-cash movements(1)	(2.0)	(1.9)	(147.1)	(95.0)
Changes in working capital:				
(Increase)/decrease in inventories	(2.9)	7.8	-	-
(Increase)/decrease in trade and other receivables	(25.2)	(26.6)	(130.1)	35.2
(Decrease)/increase in provisions and payables	(40.7)	110.6	159.3	(56.0)
Cash generated from continuing operations	904.3	1,023.4	175.5	465.0

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) ‘Employee Benefits’. See accounting policies for details.

(1) Material non-cash transactions for the company during the year ended 31 March 2014 include disposals of the company’s investment in its subsidiaries amounting to £1,054.8 million and offset by non-cash settled dividends received of £1,201.9 million. There were no further material non-cash transactions during the year. Material non-cash transactions for the company in the prior year included disposals of the company’s investment in its subsidiaries amounting to £1,550.9 million and impairments of £1,499.9 million offset by non-cash settled dividends received of £3,145.8 million.

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, 21 and A4).

26. 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 guaranteed loans of group undertakings up to a maximum of £1,349.7 million (2013: £1,464.9 million), including £1,253.2 million (2013: £1,121.0 million) relating to United Utilities Water PLC’s loans from the European Investment Bank and £96.5 million (2013: £343.9 million) relating to intra-group loans made by subsidiary undertakings.

The company has entered into performance guarantees as at 31 March 2014, where a financial limit has been specified of £41.9 million (2013: £66.9 million).

27. 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 (continued)

28. Ultimate parent undertaking

The company's immediate and ultimate parent undertaking and controlling party is United Utilities Group PLC, a company incorporated in Great Britain.

The smallest group in which the results of the company are consolidated is that headed by United Utilities PLC.

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

Notes to the financial statement – appendices

A1 Financial Risk Management

Risk management
The UUG 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 UUG 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 UUG 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: £721.1 million) of available liquidity, which comprised £127.2 million (2013: £201.1 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 and company had available committed borrowing facilities as follows:

	Group		**Company**	
	2014 £m	2013 £m	2014 £m	2013 £m
Expiring within one year	50.0	220.0	25.0	120.0
Expiring after one year but in less than two years	50.0	50.0	25.0	25.0
Expiring after more than two years	400.0	250.0	75.0	60.0
Undrawn borrowing facilities	500.0	520.0	125.0	205.0

At 31 March 2014, the group and company had £nil additional committed borrowing facilities.

At 31 March 2013, the group had an additional committed borrowing facility of £100.0 million and the company had an additional committed borrowing facility of £20.0 million expiring after more than two years £50.0 million (company: £10.0 million) available to be drawn from September 2013 and £50.0 million (company: £10.0 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 financing point.

Notes to the financial statement – appendices (continued)

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 group and company'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	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
At 31 March 2014								
Bonds	10,314.6		165.9	592.1	142.3	174.7	652.5	8,587.1
Bank and other term borrowings	2,164.4		139.9	51.2	344.5	66.5	78.5	1,483.8
Amounts owed to ultimate parent undertaking	44.1		44.1	-	-	-	-	-
Adjustment to carrying value[(2)]	(6,410.3)	(6,410.3)						
Borrowings	6,112.8	(6,410.3)	349.9	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)

Group	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
At 31 March 2013								
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
Amounts owed to ultimate parent undertaking	32.2		32.2	-	-	-	-	-
Adjustment to carrying value[(2)]	(5,756.0)	(5,756.0)						
Borrowings	6,205.7	(5,756.0)	392.9	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 to the financial statement – appendices (continued)

A1 Financial Risk Management (continued)

Maturity analysis (continued)

Company	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
At 31 March 2014								
Bonds	912.1		34.6	34.8	34.9	34.9	393.0	379.9
Bank and other term borrowings	46.6		46.6	-	-	-	-	-
Amounts owed to ultimate parent undertaking	44.1		44.1	-	-	-	-	-
Amounts owed to subsidiary undertakings	1,296.1		1,296.1	-	-	-	-	-
Adjustment to carrying value[2]	(270.7)	(270.7)						
Borrowings	2,028.2	(270.7)	1,421.4	34.8	34.9	34.9	393.0	379.9
Derivatives:								
Payable	382.7		34.9	4.4	7.1	9.2	327.1	-
Receivable	(484.8)		(53.6)	(18.2)	(18.3)	(18.3)	(376.4)	-
Adjustment to carrying value[2]	6.0	6.0						
Derivatives – net assets	(96.1)	6.0	(18.7)	(13.8)	(11.2)	(9.1)	(49.3)	-

Company	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
At 31 March 2013								
Bonds	1,022.3		38.0	38.0	37.9	37.8	37.6	833.0
Bank and other term borrowings	81.9		81.9	-	-	-	-	-
Amounts owed to ultimate parent undertaking	32.2		32.2	-	-	-	-	-
Amounts owed to subsidiary undertakings	831.4		831.4	-	-	-	-	-
Adjustment to carrying value[2]	(294.4)	(294.4)						
Borrowings	1,673.4	(294.4)	983.5	38.0	37.9	37.8	37.6	833.0
Derivatives:								
Payable	349.0		17.2	(4.9)	2.7	4.0	5.5	324.5
Receivable	(519.4)		(37.3)	(18.7)	(19.9)	(19.8)	(19.7)	(404.0)
Adjustment to carrying value[2]	7.6	7.6						
Derivatives – net assets	(162.8)	7.6	(20.1)	(23.6)	(17.2)	(15.8)	(14.2)	(79.5)

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.

Notes to the financial statement – appendices (continued)

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 and company do not believe they are 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 15).

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 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	2013	2014	2013
	£m	£m	£m	£m
Cash and short-term deposits (see note 16)	127.2	201.1	109.5	270.5
Trade and other receivables (see note 15)	1,929.0	1,887.1	3,176.5	2,792.5
Investments (see note 13)	6.9	5.7	-	-
Derivative financial instruments	512.9	721.2	96.5	163.7
	2,576.0	2,815.1	3,382.5	3,226.7

Included within trade and other receivables for the group are amounts owed by the ultimate parent undertaking of £1,592.2 million (2013: £1,558.0 million).

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) and the company held £46.5 million (2013: £81.9 million) as collateral in relation to derivative financial instruments (included within borrowings in note 17).

Market risk
The group's exposure to market risks primarily result 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 statement – appendices (continued)

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 scheme 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	2013
	£m	£m
Index-linked debt	2,936.8	2,853.9

Sensitivity analysis
As required by IFRS 7 'Financial Instruments: Disclosures', 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.

	2014	2013
Group	£m	£m
Increase/(decrease) in profit before taxation and equity		
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.

Notes to the financial statement – appendices (continued)

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 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 have assessed one percent as a reasonably possible movement in UK interest rates; and
- all other factors are held constant.

	Group		Company	
	2014 £m	2013 £m	2014 £m	2013 £m
Increase/(decrease) in profit before taxation and equity				
1 per cent increase in interest rate	100.5	94.9	(19.6)	(18.7)
1 per cent decrease in interest rate	(110.7)	(96.9)	20.1	16.9

The exposure largely relates to the fair value movements on the group's fixed interest rate swaps which manage the exposure to medium-term interest rates.

Notes to the financial statement – appendices (continued)

A1 Financial Risk Management (continued)

Repricing analysis

The following tables categorise the group and company's borrowings, derivatives and cash deposits on the basis of when they reprice or, if earlier, mature. The repricing analysis demonstrates the group and company'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	193.8	193.8	-	-	-	-	-
Index-linked instruments	2,936.8	2,936.8	-	-	-	-	-
	3,662.4	3,205.9	427.7	0.4	0.5	0.5	27.4
Effect of a fixed interest rate hedge	-	(2,031.3)	-	325.0	252.1	250.0	1,204.2
Total external borrowings	6,068.7	3,580.9	427.7	325.4	252.6	250.5	1,231.6
Amounts owed to ultimate parent undertaking	44.1	44.1	-	-	-	-	-
Total borrowings	6,112.8	3,625.0	427.7	325.4	252.6	250.5	1,231.6
Cash and short-term deposits	(127.2)	(127.2)	-	-	-	-	-
Net borrowings	5,985.6	3,497.8	427.7	325.4	252.6	250.5	1,231.6

Notes to the financial statement – appendices (continued)

A1 Financial Risk Management (continued)

Repricing analysis (continued)

Group **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 external borrowings	6,173.5	3,884.0	200.3	429.0	325.4	252.6	1,082.2
Amounts owed to ultimate parent undertaking	32.2	32.2	-	-	-	-	-
Total borrowings	6,205.7	3,916.2	200.3	429.0	325.4	252.6	1,082.2
Cash and short-term deposits	(201.1)	(201.1)	-	-	-	-	-
Net borrowings	6,004.6	3,715.1	200.3	429.0	325.4	252.6	1,082.2

Notes to the financial statement – appendices (continued)

A1 Financial Risk Management (continued)

Repricing analysis (continued)

Company **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	404.1	-	-	-	-	404.1	-
Effect of swaps	-	404.1	-	-	-	(404.1)	-
	404.1	404.1	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	283.9	46.5	-	-	-	-	237.4
Total external borrowings	688.0	450.6	-	-	-	-	237.4
Amounts owed to subsidiary undertakings	1,296.1	1,296.1	-	-	-	-	-
Amounts owed to ultimate			-	-	-	-	-
parent undertaking	44.1	44.1	-	-	-	-	-
Effect of a fixed interest rate hedge	-	-	-	-	-	-	-
Total borrowings	2,028.2	1,790.8	-	-	-	-	237.4
Cash and short-term deposits	(109.5)	(109.5)	-	-	-	-	-
Net borrowings	1,918.7	1,681.3	-	-	-	-	237.4

Company **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	467.5	-	-	-	-	-	467.5
Effect of swaps	-	467.5	-	-	-	-	(467.5)
	467.5	467.5	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	342.3	81.9	-	-	-	-	260.4
	342.3	81.9	-	-	-	-	260.4
Total external borrowings	809.8	549.4	-	-	-	-	260.4
Amounts owed to subsidiary undertakings	831.4	831.4	-	-	-	-	-
Amounts owed to ultimate parent undertaking	32.2	32.2	-	-	-	-	-
Effect of a fixed interest rate hedge	-	400.0	(400.0)	-	-	-	-
Total borrowings	1,673.4	1,813.0	(400.0)	-	-	-	260.4
Cash and short-term deposits	(270.5)	(270.5)	-	-	-	-	-
Net borrowings	1,402.9	1,542.5	(400.0)	-	-	-	260.4

Notes to the financial statement – appendices (continued)

A1 Financial Risk Management (continued)

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: Disclosures,' the sensitivity analysis has been prepared on the basis of the amount of 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.

Group	2014 £m	2013 £m
Increase/(decrease) in profit before taxation and equity		
10 per cent increase in commodity prices	2.6	4.4
10 per cent decrease in commodity prices	(2.6)	(4.4)

Company
The company had no material exposure to electricity price risk at 31 March 2014 or 31 March 2013.

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 UUG 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 pricipal 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 UUG board. Capital risk is reported monthly to the treasury committee through the operational compliance report.

Notes to the financial statement – appendices (continued)

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.

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)	(2,864.1)	-	(4,010.8)
	(3,179.0)	(2,784.2)	-	(5,963.2)

Re-presented*

Group **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	-	(3,969.5)	-	(3,969.5)
	-	(5,975.3)	-	(5,975.3)

* 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 statements note in the 2013 financial statements.

(1) Derivatives forming an economic hedge of the currency exposure on borrowings included in these balances were £83.2 million (2013: £143.5 million).

Notes to the financial statement – appendices (continued)

A1 Financial Risk Management (continued)

Company **2014**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	-	92.4	-	92.4
Derivative financial assets – held for trading	-	4.1	-	4.1
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – held for trading	-	(0.4)	-	(0.4)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	(392.3)	-	-	(392.3)
Other financial liabilities at amortised cost	-	(1,655.4)	-	(1,655.4)
	(392.3)	(1,559.3)	-	(1,951.6)

Re-presented*

Company **2013**	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets – fair value hedge	-	153.5	-	153.5
Derivative financial assets – held for trading	-	10.2	-	10.2
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities – held for trading	-	(0.9)	-	(0.9)
Financial instruments for which fair value has been disclosed				
Financial liabilities in fair value hedge relationships	-	(434.5)	-	(434.5)
Other financial liabilities at amortised cost	-	(1,247.9)	-	(1,247.9)
	-	(1,519.6)	-	(1,519.6)

* 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 statements note in the 2013 financial statements.

(1) Includes amounts owed by subsidiary undertakings of £3.3 million (2013: £6.7 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 and company have adopted IFRS 13 'Fair value measurement' for the year ended 31 March 2014 and have applied it prospectively in line with the transitional provisions of the standard. For the year ended 31 March 2014, the group and company have calculated fair values using quoted prices where an active market exists, which has resulted in £3,179.0 million (company: £392.3 million) of 'level 1' fair value measurements. In the absence of an appropriate quoted price, the group and company 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 loss) 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.

Notes to the financial statement – appendices (continued)

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 cost 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 note 3.

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 to 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.

Notes to the financial statement – appendices (continued)

A2 Retirement Benefits (continued)

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.

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 conservative, 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 schemes' 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 the 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 the 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 outturn results in a change to the cash contributions provided under the IFM.

Notes to the financial statement – appendices (continued)

A2 Retirement Benefits (continued)

Sensitivity of the key scheme assumptions (continued)

- **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 the 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.

The main financial and demographic assumptions used by the actuary to calculate the defined benefit (obligations)/surplus of UUPS and ESPS were as follows:

	2014 % pa	2013 % pa
Group and Company		
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
Group and Company		
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

Notes to the financial statement – appendices (continued)

A2 Retirement Benefits (continued)

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
Group				
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

	Schemes' assets %	2014 £m	Schemes' assets %	2013 £m
Company				
Equities	8.0	52.2	19.1	155.5
Other non-equity growth assets	10.3	67.4	13.6	110.7
Gilts	7.5	48.8	2.1	16.9
Bonds	48.8	318.3	53.4	435.4
Other	25.4	165.3	11.8	96.7
Total fair value of schemes' assets	100.0	652.0	100.0	815.2
Present value of defined benefit obligations		(683.8)		(838.2)
Net retirement benefit obligations		(31.8)		(23.0)

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.

Notes to the financial statement – appendices (continued)

A2 Retirement Benefits (continued)

Movements in the fair value of the schemes' assets were as follows:

	Group 2014 £m	Group Restated* 2013 £m	Company 2014 £m	Company Restated* 2013 £m
At the start of the year	2,442.0	2,113.0	815.2	714.0
Interest income on schemes' assets	111.3	106.8	37.0	35.8
The (loss)/return on plan assets, excluding amounts included in interest	(125.1)	205.6	(182.0)	69.4
Member contributions	6.6	6.8	0.3	0.5
Benefits paid	(83.7)	(80.3)	(20.9)	(27.8)
Administrative expenses	(2.2)	(2.9)	(0.8)	(1.0)
Company contributions	28.1	93.0	3.2	24.3
At the end of the year	2,377.0	2,442.0	652.0	815.2

* 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:

	Group 2014 £m	Group Restated* 2013 £m	Company 2014 £m	Company Restated* 2013 £m
At the start of the year	(2,426.9)	(2,205.0)	(838.2)	(765.1)
Interest cost on schemes' obligations	(110.0)	(108.3)	(38.0)	(37.5)
Actuarial losses arising from changes in financial instruments	(108.3)	(176.9)	(26.9)	(64.1)
Actuarial gains arising from changes in demographic assumptions	34.4	-	7.2	-
Actuarial (losses)/gains arising from experience	(1.8)	6.3	192.7	2.3
Curtailments/settlements arising on reorganisation	(1.7)	(0.6)	(0.3)	-
Member contributions	(6.6)	(6.8)	(0.3)	(0.5)
Benefits paid	83.7	80.3	20.9	27.8
Current service cost	(17.2)	(15.9)	(0.9)	(1.1)
At the end of the year	(2,554.4)	(2,426.9)	(683.8)	(838.2)

* The comparatives have been restated to reflect the requirements of IAS 19 (Revised) 'Employee Benefits'. See accounting policies for details.

Notes to the financial statement – appendices (continued)

A3 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

	Amounts owed by related parties		Amounts owed to related parties	
	2014 £m	2013 £m	2014 £m	2013 £m
Joint ventures (see note 15)	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 13).

No allowance has been made for doubtful receivables in respect of the amounts owed by related parties (2013: £nil million). 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.

Non-trading transactions
The following transactions were carried out with the group's ultimate parent undertaking, United Utilities Group PLC:

	Interest receivable	
	2014 £m	2013 £m
Ultimate parent undertaking	25.3	32.5

	Amounts owed by related parties		Amounts owed to related parties	
	2014 £m	2013 £m	2014 £m	2013 £m
Ultimate parent undertaking	1,592.2	1,558.0	49.0	33.2

Notes to the financial statement – appendices (continued)

A3 Related party transactions (continued)

Company

The company receives dividend income, pays and receives interest and recharges costs to and from subsidiary undertakings and its ultimate parent company in the normal course of business.

Total dividend income received during the year amounted to £1,355.0 million (2013: £3,638.9 million), total interest receivable during the year from subsidiary undertakings was £20.1 million (2013: £21.9 million), and total fair value losses during the year from subsidiary undertakings was £29.6 million (2013: £23.9 million gain). In addition, total interest receivable during the year from the ultimate parent company was £25.3 million (2013: £32.3 million). Amounts outstanding at 31 March 2014 between the parent company, subsidiary undertakings and ultimate parent undertaking are provided in notes 15, 17 and 21.

The company guaranteed intra-group loans made by subsidiary undertakings of £96.5 million (2013: £343.9 million). Balances will be settled in accordance with normal credit terms. An allowance for doubtful receivables of £90.5 million (2013: £88.7 million) has been made for amounts owed by subsidiary undertakings. In the year ended 31 March 2014, an expense of £1.8 million was recorded in respect of bad or doubtful receivables due from subsidiary undertakings (2013: £1.4 million) (see note 15).

The company has a £400 million intercompany interest rate swap with United Utilities Water PLC maturing in March 2015, as part of the 2010-2015 regulatory hedging programme. During the year the company received net interest of £5.9 million (2013: £5.0 million) and £6.5 million was debited through the income statement (2013: £3.5 million credit).

Notes to the financial statement – appendices (continued)

A4 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.

Notes to the financial statement – appendices (continued)

A4 Accounting Policies (continued)

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.

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.

Notes to the financial statement – appendices (continued)

A4 Accounting Policies (continued)

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.

Notes to the financial statement – appendices (continued)

A4 Accounting Policies (continued)

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.

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.

Notes to the financial statement – appendices (continued)

A4 Accounting Policies (continued)

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.

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.

Notes to the financial statement – appendices (continued)

A4 Accounting Policies (continued)

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. 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.

Notes to the financial statement – appendices (continued)

A4 Accounting Policies (continued)

Share-based compensation arrangements (continued)
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.