UNITED UTILITIES GROUP PLC

Annual Report and Financial Statements for the year ended 31 March 2011

United Utilities

Welcome

United Utilities Group PLC provides water and wastewater services to around seven million people in the North West of England. The group has a strong focus on operational performance and customer service. Its £3.6 billion capital investment programme during the 2010–15 regulatory period will maintain and improve the asset base, providing further customer benefits and environmental improvements. High levels of capital investment are expected to continue beyond 2015, driving further growth in the value of the business. The group's policy is to deliver real growth in the dividend whilst retaining a robust and sustainable financial profile.

Key performance indicators

United Utilities monitors a large number of financial and non-financial key performance indicators (KPIs) to assess its performance. The non-financial KPIs include targets set by regulatory bodies. The group believes that the KPIs listed below provide an overall picture of its business. Additional important non-financial performance measures (in particular, health and safety) are provided in the various sections of this report and in the online corporate responsibility report at **unitedutilities.com/crreport2010**. The 2011 corporate responsibility report is expected to be published in October 2011.

	2010/11	Restated[1] 2009/10	Page reference
Financial KPIs			
Underlying[2] operating profit from continuing operations	£596.4m	£706.3m	10
Underlying[2] profit before taxation from continuing operations	£329.2m	£482.6m	10
Underlying[2] profit after taxation from continuing operations	£239.2m	£346.5m	10
Underlying[2] earnings per share from continuing operations	35.1p	50.8p	07
Revenue from continuing operations	£1,513.3m	£1,573.1m	58
Operating profit from continuing operations	£580.2m	£767.8m	58
Profit before taxation from continuing operations	£327.1m	£408.7m	58
Profit after taxation from continuing operations	£354.5m	£347.0m	58
Basic earnings per share from continuing operations	52.0p	50.9p	58
Total dividends per ordinary share	30.0p	34.3p	04
Non-financial KPIs			
Best service to customers			
Serviceability[3]	4 x stable	4 x stable	12
Overall customer satisfaction (in response to enquiries)	83%	82%	04
Lowest sustainable cost			
Water – relative efficiency banding[4]	Band B	Band B	14
Wastewater – relative efficiency banding[4]	Band C	Band C	14
Leakage – rolling annual average leakage	464Ml/d	462Ml/d	14
Responsible manner			
Environment Agency performance assessment[5]	6th	10th	14
Dow Jones Sustainability Index rating[6]	'World Class'	'World Class'	14

[1] Contributions from non-regulated entities disposed of in the year have been removed from prior year comparatives.
[2] See page 10 for explanation.
[3] Ofwat rates assets as improving, stable, marginal or deteriorating and classes them between water and wastewater and infrastructure and non-infrastructure.
[4] Bandings relate to 2009/10 and 2008/09 being the latest available assessments (2009/10 bandings based on internal company modelling).
[5] Composite index produced by the Environment Agency, which measures the relative performance of the 10 water and sewerage companies. Performance relates to 2009/10 and 2008/09 being the latest available assessments.
[6] Ratings relate to 2009/10 and 2008/09 being the latest available assessments.

Front cover photograph:
Haweswater Reservoir, Cumbria.

Financial highlights

Revenue
£1,513.3m
2010: £1,573.1m

Underlying operating profit
£596.4m
2010: £706.3m

Total dividends per share
30.0p
2010: 34.3p

Business review

01 Financial highlights
02 Business description
04 Chairman's and chief executive officer's statement
06 Performance
16 Corporate responsibility
17 Employees
18 Principal risks and uncertainties

Governance

24 Board of directors
26 Directors' report – statutory information
30 Corporate governance
41 Directors' remuneration report
55 Statement of directors' responsibilities

Financial statements

57 Independent auditor's report
58 Consolidated income statement
59 Consolidated statement of comprehensive income
60 Consolidated and company statements of financial position
61 Consolidated statement of changes in equity
62 Company statement of changes in equity
63 Consolidated and company statements of cash flows
64 Accounting policies
73 Notes to the financial statements

116 Shareholder information

Important information

Cautionary statement:

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

Terms used in this report:

The 'group', 'United Utilities' or 'the company' means United Utilities Group PLC and its subsidiary undertakings; the 'regulated business', 'regulated activities' or 'UUW' means the licensed water and wastewater activities undertaken by United Utilities Water PLC in the North West of England; the 'non-regulated business' or 'non-regulated activities' refers to the group's other utility infrastructure operations in the UK and overseas.

Signposting

The signposts throughout this report direct you to further information within the report or online.

For further information on performance go to Page 06

For information on investor relations go to unitedutilities.com/investors

Business description

United Utilities Group PLC is the UK's largest listed water business. The group owns and manages the regulated water and wastewater network in the North West of England, through its subsidiary United Utilities Water PLC (UUW), which constitutes the vast majority of the group's assets and profit.

United Utilities has one operating division for management purposes, being regulated activities, and reports through two business segments:

- Regulated activities; and
- All other segments.

REGULATED ACTIVITIES

Key facts

96
water treatment works

Over
42,000
km of water pipes

57,000
hectares of catchment land

575
wastewater treatment works

Over
43,000
km of sewers

Serving a population of
7 million
people

Water and wastewater operations

UUW holds licences to provide water and wastewater services to a population of approximately seven million people in the North West of England.

Almost 2,000 million litres of water is supplied every day to approximately 3.2 million homes and businesses. Water is collected from catchment land and other sources and stored in reservoirs before being treated and then delivered via a network of pipes to homes and industry. A large proportion of the water supplied flows freely by gravity and does not need to be pumped.

Wastewater is collected using a network of sewers and treated before being returned safely to the environment. A by-product of the treatment of wastewater is sewage sludge, which is treated further to produce an end product suitable for recycling.

UUW's water and wastewater service currently costs households approximately £1 per day on average. Over the 2010–15 regulatory period, the average annual bill will fall by £9 in real terms. The group believes this represents excellent value for money, providing customers with high quality drinking water to meet all their daily needs and for environmentally responsible wastewater collection and treatment.

Since privatisation in 1990:

- Water quality in the North West has improved from 99.6 per cent to 99.9 per cent;
- Compliance with standards in official designated North West bathing waters has risen from just over 30 per cent to more than 90 per cent;
- Leakage from the network has halved, supported by ongoing investment in replacing ageing water pipes; and
- UUW has invested more than £4,000 for every household in the North West, which is above the national average.

In the 2005–10 regulatory period, UUW invested more than £3 billion to improve the water and wastewater infrastructure and the environment across the North West. Further developments in the regulatory regime are expected to take effect in the next few years, in particular as a result of European Union environmental initiatives (including the Water Framework Directive and the revised Drinking Water Directive).

Consistent with the group's approach to longer-term planning, UUW's strategic direction statement, updated in April 2010, sets out the company's plans for the 2010–15 regulatory period in a longer-term context. The key elements identified in the strategic direction statement are:

- Responsible stewardship of water and wastewater networks;
- Listening to customers and other stakeholders;
- Ensuring water resources are more sustainable and resilient;
- An integrated approach to drainage to reduce the threat of flooding;
- Reducing significantly the carbon impact of activities; and
- Bills to rise, on average, no faster than incomes.

United Utilities has a well-established framework for risk management and climate change is identified as one such risk. As such, climate change is managed in the same way as any other risk to the group. In January 2011, UUW published its response to the Secretary of State for Environment, Food and Rural Affairs, detailing the work already undertaken and the company's plans to adapt to the challenge of climate change, in line with the requirements under the Climate Change Act 2008.

Regulatory environment

Environmental regulation is the responsibility of the Secretary of State for Environment, Food and Rural Affairs together with the Environment Agency, the Drinking Water Inspectorate and Natural England.

Economic regulation is the responsibility of an independent body, Ofwat, which sets price limits every five years for the water sector in England and Wales. Price cap regulation in the UK is performance based and companies are incentivised to be efficient in terms of their operating costs, capital programmes and financing. Regulated revenue is set by reference to inflation as measured by the retail prices index (RPI) plus an adjustment factor known as 'K'.

Current price limits were published in 2009 when Ofwat set out its final determination of price limits for the period 1 April 2010 to 31 March 2015. UUW's profile of price limits for the five years is set out below.

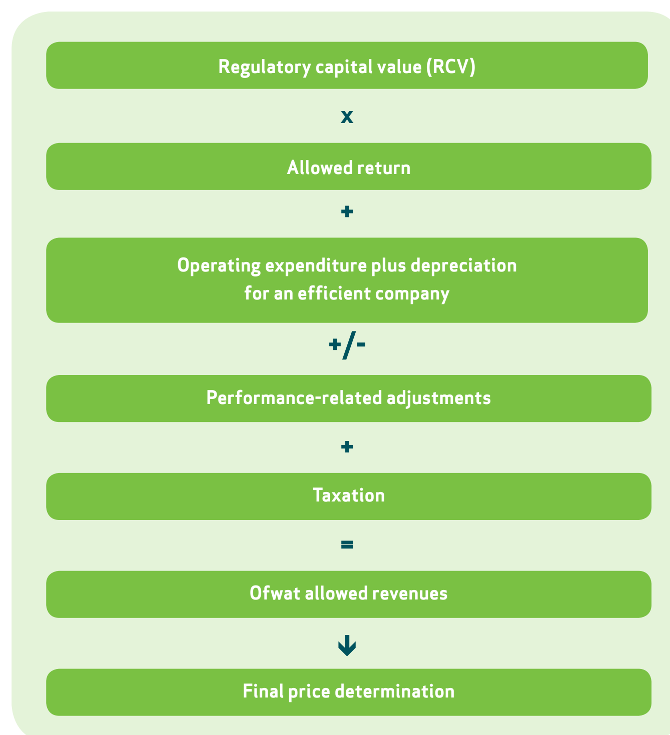
Year	2010/11	2011/12	2012/13	2013/14	2014/15
K factor	-4.3%	-0.2%	+0.6%	+1.0%	+1.2%

Ofwat's final determination of price limits for UUW was based upon:

- a £3.6 billion capital investment programme (2007/08 prices);
- 12 per cent, or approximately £900 million, real growth in the regulatory capital value (RCV) over the five years;
- an average annual underlying operating efficiency improvement of 1.2 per cent for the water service and 2.4 per cent for the wastewater service; and
- a return on capital of 4.5 per cent (post-taxation, real).

The RCV is the capital base on which water companies earn a return. It is increased by capital expenditure and inflation and reduced by depreciation.

Ofwat's approach to setting price limits



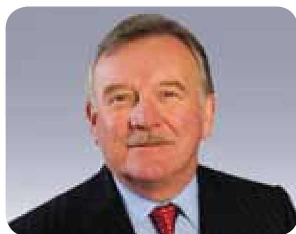
ALL OTHER SEGMENTS

As part of its strategy of focusing on its core activities, United Utilities completed its non-regulated disposal programme in November 2010.

The non-regulated disposal programme has included the disposal of United Utilities investments in Northern Gas Networks and Manila Water, which completed in the prior financial year, together with the disposal of its electricity operations and maintenance business in the North West of England, its holding in Meter Fit, its Australian business, its principal UK and European non-regulated water interests, its contract with Northern Gas Networks, its gas and electricity metering installation contract and its municipal solid waste related interests. Following the completion of this disposal programme United Utilities no longer has a requirement for a non-regulated activities reporting segment.

The residual elements of the previously reported non-regulated activities operating segment, which have been retained, are now included within all other segments. These principally include UUW's non-appointed activities and the group's holding in AS Tallinna Vesi (Tallinn Water). The results of United Utilities Property Services and certain central costs are also included within this reporting segment.

Chairman's and chief executive officer's statement



Dr John McAdam
Chairman

Steve Mogford
Chief executive officer

Overview

In line with our strategy of focusing on core activities, United Utilities completed its non-regulated disposal programme in November 2010. The last four years have seen United Utilities reshape its portfolio from a group with a wide ranging set of activities and interests into a regulated UK water and wastewater business.

We believe this enhanced focus on the regulated business will enable us to deliver further operational performance, customer service and efficiency improvements. We remain confident of delivering outperformance over the 2010–15 period, with significant financing outperformance already secured.

We have made good progress in the first year of the new five-year regulatory period and are pleased to report a sound set of financial results. We have continued to make high levels of investment in our water and wastewater assets providing further benefits for our shareholders, customers and the environment.

Dividend

In line with our policy, the board is proposing a final dividend for the year ended 31 March 2011 of 20 pence per ordinary share. Together with the interim dividend of 10 pence, the total dividend relating to the year is 30 pence per ordinary share. The final dividend is expected to be paid to shareholders on 1 August 2011.

Looking ahead, we plan to continue with our policy of targeting real dividend growth of RPI+2 per cent per annum through to 2015.

Operational performance

We continue to work hard to improve our operational performance and have made further progress during the year. We are pleased that more customers than ever before are telling us that they are satisfied or very satisfied with our service and we have achieved an overall customer satisfaction rate of 83 per cent for 2010/11. In addition, this year we reduced by over three quarters the number of customer complaints assessed by the Consumer Council for Water. We know, however, that there is still more we can do in this area and it remains a key priority for us.

The commitment demonstrated by our employees during the unprecedented cold spell that we experienced in December 2010 was exemplary. This outstanding effort has resulted in us achieving Ofwat's leakage target for a fifth consecutive year. This is a remarkable achievement given the significant impact of the extreme weather on our leakage levels and we would like to take this opportunity to say thank you to all our employees and contractors who worked tirelessly to achieve this result.

In order to enhance further the visibility of our operational performance and help drive continuous improvements, we have reviewed our key performance indicators (KPIs) against which our stakeholders can assess our progress. As part of our aim to deliver best service to customers, we will continue to measure asset serviceability and customer satisfaction, and intend to introduce Ofwat's new service incentive mechanism (SIM) when fully implemented. Our drive to deliver lowest sustainable cost will be supported through our KPIs which cover relative efficiency and water leakage. We also have KPIs to measure environmental performance and corporate responsibility.

Delivering our regulatory contract

We have made a good start to the new regulatory period and investment in our assets has continued at high levels, helping the business meet strict environmental standards and deliver an improved service for our customers. Regulatory capital expenditure, including infrastructure renewals expenditure, in our water and wastewater business amounted to over £600 million during the year. This substantial level of spend is consistent with our planned investment programme over the 2010–15 period, as we aim to deliver a smoother spend profile to optimise efficiency and reduce risk. We are pleased to have made good early progress in the delivery of outputs.

Corporate governance and corporate responsibility

We have consistently demonstrated a commitment to adopting the highest standards of corporate governance at board level and throughout the company. The board closely monitors new developments and requirements in this area.

In light of the group's strategic focus on its core water activities, we have simplified the board structure such that directors' membership of the United Utilities Group PLC and United Utilities Water PLC boards is now identical.

We continue to listen to the views of all our stakeholders and endeavour to develop, manage and operate in an environmentally sustainable and socially responsible manner. This includes a continued focus on water efficiency, the impact of climate change and responding to the needs of our customers.

In recognition of the company's continued focus on corporate responsibility, we retained our 'World Class' rating, as measured by the Dow Jones Sustainability Index.

Health and safety is paramount and we believe that everybody in United Utilities has a part to play in maintaining a safe working environment. We acknowledge that our health and safety performance in 2010/11 has been below our target and we will continue to focus on this area.

Regulatory developments

Privatisation of the water industry has generally been considered a success, with companies having invested over £90 billion to maintain and improve assets, customer service and the environment. Some 20 years after privatisation, there are currently a number of reviews being undertaken to assess options for the future development of the industry. This includes a UK Government review of Ofwat and a Water White Paper is expected to be published later this year.

Whilst it is too early for us to know the outcome of the various reviews that are taking place, we will continue to work very closely with the key politicians and regulators to represent the best interests of our investors, customers, broader stakeholders and the industry as a whole.

People

The people in United Utilities are key to the delivery of the highest levels of service to our customers and we would like to thank them for their dedication and continued hard work. We believe that a committed and motivated workforce is central to delivering our vision to become the UK's leading water company and we remain fully focused on maintaining high levels of employee engagement.

On behalf of the board, we say thank you and farewell to Philip Green who has made a tremendous contribution to United Utilities during the last five years. Philip led the reshaping of the company's strategy and capital structure and he leaves United Utilities on a sound footing. We wish him all the best in his future challenges.

We would also like to thank Charlie Cornish for his contribution to the group over the past seven years, most recently as managing director, Utility Solutions. Charlie left the group as we completed the non-regulated disposal programme and we wish him well in his new role as chief executive of Manchester Airport Group.

We welcome Russ Houlden who joined us in October from Telecom New Zealand as chief financial officer. His combination of experience within finance and treasury will prove invaluable to the company, along with his extensive experience of operating in a regulatory environment and managing large capital expenditure programmes.

Environment

Key to the group's strategic objectives is the goal to operate in a more sustainable manner. Given our long life assets, we take a long-term view of our operations. In line with requirements under the Climate Change Act 2008, in January 2011, we published our response to the Secretary of State for Environment, Food and Rural Affairs detailing the work we are already undertaking and the plans we are putting into place to adapt to the challenge of climate change. We continue to look at ways of reducing demand for water to help ensure the continuity of water supplies for our customers.

We recently completed the construction of our West East Link water pipeline, which will enable us to transport water over 55 kilometres in either direction between Merseyside and Greater Manchester. This is one of the largest projects of its kind ever undertaken and upon commissioning will improve further our ability to manage water supply across our region and therefore our resilience to climate change.

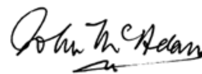
Customers

During 2010/11 our household customers have benefited from an average real reduction in their water bills of 4.3 per cent, which equates to around £16 per customer per annum. Despite this reduction in average customer bills, we have continued to invest heavily in our assets in order to ensure that we can continue to provide our customers with high quality drinking water to meet all their daily needs and environmentally responsible wastewater collection and treatment.

Our water and wastewater service currently costs households approximately £1 per day on average. We believe this continues to represent excellent value for money for our customers. We recognise that we need to maintain the affordability of customer bills, in what continues to be a tough economic environment, and we continue to fund our charitable trust, providing £5 million per year to help customers who are struggling to pay their water bills.

Outlook

We believe that, with the continued focus on the core regulated activities, we are well positioned to meet the challenges of the current regulatory period and beyond, with the aim of delivering benefits for all of our stakeholders. The board is encouraged by the progress we have made in the first year of the new regulatory period and is confident we can build on this as we progress through the remainder of the period. We hope our shareholders, employees and customers will continue to share in United Utilities' success.



Dr John McAdam
Chairman

Steve Mogford
Chief executive officer

Performance

SUMMARY

Continuing operations £m	Year ended 31 March 2011	Restated[(1)] Year ended 31 March 2010
Underlying operating profit[(2)]	596.4	706.3
Underlying profit before taxation[(2)]	329.2	482.6
Underlying profit after taxation[(2)]	239.2	346.5
Underlying earnings per share[(3)] (pence)	35.1	50.8
Revenue	1,513.3	1,573.1
Operating profit	580.2	767.8
Profit before taxation	327.1	408.7
Profit after taxation	354.5	347.0
Basic earnings per share[(3)] (pence)	52.0	50.9
Total dividends per ordinary share (pence)	30.0	34.3

Notes:
(1) The vast majority of the group's non-regulated activities are treated as discontinued and the group has adopted IFRIC 18 hence the 2009/10 results have 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 10.
(3) Earnings per share and underlying earnings per share calculations are explained in the earnings per share section on page 07.
(4) Excludes the impact of the transfer of private sewers since this was not included in the 2009 price review.

- **Underlying operating profit of £596 million: reflects 2009 price review**
- **Smoother capital delivery profile for 2010–15 period: over £600 million invested in the year**
- **Met regulatory leakage target despite extreme winter weather**
- **Strong focus on operational performance**
- **Substantial financing outperformance already secured**
- **Targeting total operating expenditure outperformance of at least £50 million, or two per cent, over 2010–15 period[(4)]**
- **Final dividend of 20 pence per share, in line with policy**

FINANCIAL PERFORMANCE

United Utilities has delivered a sound set of financial results for the year ended 31 March 2011, following the regulatory price review. Group revenue from continuing operations fell by £60 million to £1,513 million, reflecting a real price decrease in the regulated business. Revenue from all other segments was £48 million, representing just three per cent of group revenue.

Underlying operating profit decreased by 16 per cent to £596 million, primarily as a consequence of the reduction in revenue alongside increases in depreciation, infrastructure renewals expenditure and property rates. Reported operating profit fell by 24 per cent to £580 million, reflecting one-off restructuring costs of £16 million in the year and impacted by a one-off credit relating to pensions of £87 million last year which increased 2009/10 operating profit. Underlying operating profit from all other segments was £16 million, representing less than three per cent of group underlying operating profit. In light of this, from 2011/12, United Utilities will have a single segment for financial reporting purposes.

Investment income and finance expense

Investment income and finance expense of £253 million was £106 million lower than the previous year, principally reflecting £19 million of net fair value gains on debt and derivative instruments, compared with £137 million of net fair value losses in 2009/10. The impact of credit spreads on debt accounted for at fair value through profit or loss has contributed to the net fair value movement on the prior year.

The underlying net finance expense for continuing operations of £267 million was £44 million higher than the previous year. This reflects an increase in the group's average annual underlying interest rate from around 4.8 per cent to 5.7 per cent. The group has just over £2 billion of index-linked debt and the increase in the finance expense primarily reflects an increase in inflation.

For further information on our financial highlights go to unitedutilities.com/Investors

During the year, indexation of the principal of index-linked debt amounted to a net charge in the income statement of £103 million, compared with a net charge of £31 million in the previous year primarily due to the effects of RPI deflation in the prior year on the index-linked debt with an eight-month lag. The indexation charge does not represent a cash flow during the year and is more than matched by an inflationary uplift to the regulatory capital value.

Partially offsetting this increase, the group has benefited from fixing the majority of its remaining debt for the 2010–15 financial period, with a net effective nominal interest rate of approximately five per cent, around one per cent lower than the previous year.

Profit before taxation

Underlying profit before taxation was £329 million, 32 per cent lower than the prior year, principally reflecting the revenue impact from the regulatory price review, an increase in infrastructure renewals expenditure in line with the planned investment profile, an increase in the underlying net finance expense and a higher depreciation charge as a result of growth in the commissioned asset base. This underlying measure adjusts for the impact of one-off items, principally from restructuring within the business, and fair value movements in respect of debt and derivative instruments. Reported profit before taxation from continuing operations decreased by 20 per cent to £327 million principally as a result of the £87 million one-off pensions credit in the prior year, and a higher depreciation charge, partly offset by a decrease in the reported finance expense this year.

Taxation

The current tax charge relating to continuing activities was £35 million in the year and the current tax effective rate was 11 per cent, compared with five per cent in the previous year. The current year charge includes a £29 million credit following agreement with HM Revenue & Customs (HMRC) of prior years' taxation matters, without which the effective tax rate would have been 19 per cent. The prior year current tax charge included a £47 million credit in relation to the agreement with HMRC of prior years' taxation matters, without which the effective tax rate would have been 16 per cent.

The group has recognised a net deferred taxation credit of £62 million in 2010/11. This includes an £11 million charge in relation to the agreement with HMRC of prior years' taxation matters and a £99 million credit to reflect both the change enacted on 27 July 2010 to reduce the mainstream rate of corporation tax from 28 per cent to 27 per cent and the subsequent change enacted on 29 March 2011 to reduce the mainstream rate of corporation tax further to 26 per cent from 1 April 2011. This compares with a net deferred taxation charge relating to continuing operations of £42 million in the prior year, which included a £7 million credit in relation to the agreement with HMRC of prior years' taxation matters.

An overall taxation credit of £27 million relating to continuing operations has been recognised for the year ended 31 March 2011. Excluding the impact of the reduction in the corporation tax rate and the impact of the prior year taxation adjustments, the total taxation charge relating to continuing operations would be £89 million or 27 per cent compared with a £115 million charge or 28 per cent last year.

The group made a cash tax payment relating to continuing operations during the year of £47 million. In the previous year, the group's net tax payment was just £1 million as it received a cash tax inflow of £51 million, following agreement with HMRC of prior years' taxation matters.

Profit after taxation

Reported profit after taxation was £355 million compared with £347 million in the prior year. Underlying profit after taxation was £239 million. This is based upon the underlying profit before taxation figure less an underlying taxation charge of £90 million, which includes an adjustment for the deferred taxation credit in relation to the change in the mainstream rate of corporation tax.

Earnings per share

Basic earnings per share relating to continuing operations increased from 50.9 pence to 52.0 pence principally reflecting the aforementioned taxation credits, partly offset by the reduction in profit before taxation in the current period. Underlying earnings per share reduced from 50.8 pence to 35.1 pence. This underlying measure is derived from underlying profit before taxation less underlying taxation. This includes the adjustment for the deferred taxation credit in 2010/11 associated with the reduction in the corporation tax rate and the impact of the agreement of prior years' taxation matters.

Dividend per share

The board has proposed a final dividend of 20.0 pence per ordinary share in respect of the year ended 31 March 2011. Taken together with the interim dividend of 10.0 pence per ordinary share paid in February, this produces a total dividend per ordinary share for 2010/11 of 30.0 pence, consistent with the group's policy. From 2011/12, United Utilities intends to continue with its dividend policy of targeting a real growth rate of RPI+2 per cent per annum through to 2015.

The final dividend is expected to be paid on 1 August 2011 to shareholders on the register at the close of business on 24 June 2011. The ex-dividend date is 22 June 2011.

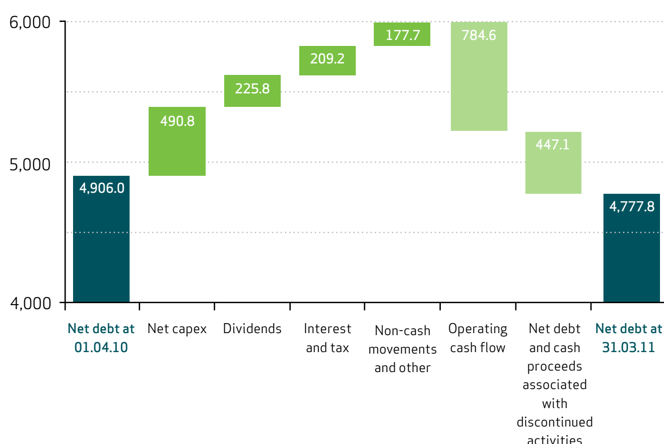
Performance continued

Cash flow

Net cash generated from continuing operating activities for the year ended 31 March 2011 was £575 million, compared with £750 million last year. This reflects the impact of the regulatory price review and a tax payment of £47 million in 2010/11, compared with a small net tax payment of £1 million in the prior year. The group's net capital expenditure on continuing operations was £491 million, principally in the regulated water and wastewater investment programmes. This excludes infrastructure renewals expenditure which is treated as an operating cost under International Financial Reporting Standards.

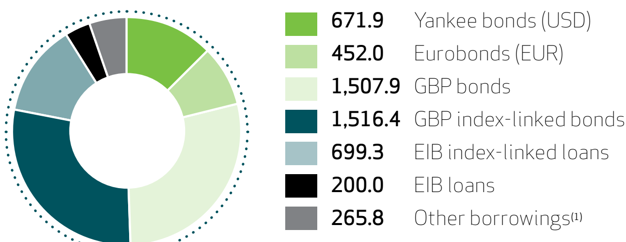
Net debt including derivatives in respect of continuing operations at 31 March 2011 was £4,778 million, compared with £4,906 million at 31 March 2010. Expenditure on the regulatory capital investment programmes and payments of dividends, interest and taxation have been more than offset by operating cash flows and the £268 million of cash proceeds from the non-regulated disposals.

Summary of net debt movement (£ million)



Debt financing and interest rate management

Gross debt (£ million)



Total: £5,313.3 million

[1] Includes amounts relating to joint ventures of £30.1 million

Gearing (measured as group net debt divided by UUW's regulatory capital value) decreased to 59 per cent at 31 March 2011, compared with 64 per cent at 31 March 2010. This reflects growth in the regulatory capital value coupled with a reduction in group net debt following the disposals of non-regulated activities. Taking account of the group's pensions deficit, and treating it as debt, gearing would be 61 per cent.

At the year end, United Utilities Water PLC had long-term credit ratings of A3/BBB+ and United Utilities PLC had long-term credit ratings of Baa1/BBB- from Moody's Investors Service and Standard & Poor's Ratings Services respectively. The split rating reflects differing methodologies used by the credit rating agencies.

Cash and short-term deposits at 31 March 2011 amounted to £255 million. During 2010/11, UUW agreed a new £200 million index-linked loan facility with the European Investment Bank with an average real interest rate of 1.2 per cent and an average term of approximately 11 years. This is an amortising loan with an initial four year capital repayment holiday, followed by semi-annual instalments with a final maturity in 18 years. The group also renewed £50 million of existing bilateral committed bank facilities in the 2010/11 financial year. Subsequent to the year end, the group renewed a further £100 million of bank facilities. United Utilities now has headroom to cover its projected financing needs into 2013.

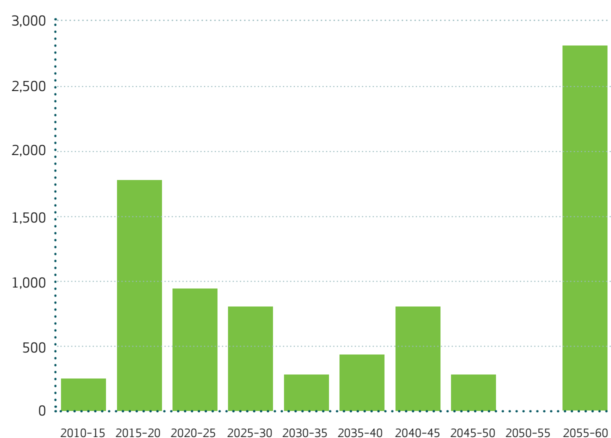
The group has access to the international debt capital markets through its €7 billion euro medium-term note programme which provides for the periodic issuance by United Utilities PLC and United Utilities Water PLC of debt instruments on terms and conditions determined at the time the instruments are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

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

Very long-term sterling inflation index-linked debt is the group's preferred form of funding as this provides a natural hedge to assets and earnings. At 31 March 2011, approximately 46 per cent of the group's net debt was in index-linked form, representing around 27 per cent of UUW's regulatory capital value, with an average real interest rate of 1.8 per cent. The long-term nature of this funding also provides a good match to the company's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile which is in excess of 25 years.

Where nominal debt is raised in a currency other than sterling and/or with a fixed interest rate, to manage exposure to long-term interest rates, the debt is generally swapped to create a floating rate sterling liability for the term of the liability. To manage exposure to medium-term interest rates, the group fixed interest costs for a substantial proportion of the group's debt for the duration of the current five-year regulatory period at around the time of the price review. The group does not undertake any speculative trading activity.

Term debt maturity per regulatory period (£ million)



Liquidity

Short-term liquidity requirements are met from the group's normal operating cash flow and its short-term bank deposits. The group has a €2 billion euro-commercial paper programme and further liquidity is provided by committed but undrawn credit facilities.

In line with the board's treasury policy, United Utilities aims to maintain a healthy headroom position. Available headroom at 31 March 2011 was £700 million based on cash, short-term deposits and medium-term committed bank facilities, net of short-term debt. This headroom is sufficient to cover the group's projected financing needs into 2013.

United Utilities believes that it operates a prudent approach to managing banking counterparty risk. Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits. United Utilities' cash is held in the form of short-term (generally no longer than three months) money market deposits with either prime commercial banks or with triple A rated money market funds.

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

Headroom/prefunding = £699.9 million

	£m
Cash and short-term deposits	255.2
Medium-term committed bank facilities[1]	554.4
Short-term debt	(57.1)
Term debt maturing within one year[2]	(52.6)
Total headroom/prefunding	699.9

Notes:
[1] Excludes £375.0 million facilities maturing within one year.
[2] Includes amounts relating to joint ventures of £2.4 million.

Pensions

The group's net pension deficit at the year end has decreased by £76 million, compared with the position at 31 March 2010. This deficit reduction principally reflects the additional contributions paid into the fund in the year, partially offset by the impact of revised actuarial assumptions used to measure the liabilities when compared with 2009/10. As at 31 March 2011, the group's net pension obligations stood at £195 million.

The group has sought to adopt a more sustainable approach to the delivery of pension provision and in the second half of 2009/10 amended the terms of its defined benefit pension schemes, the details of which were included in last year's annual report and financial statements. United Utilities has also reduced its future pension obligations as a result of the sale of non-regulated activities. Further detail is provided in note 20 'Retirement benefit obligations' of these financial statements. The group will continue to evaluate its pensions investment strategy to de-risk further its pension provision.

Performance continued

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:

Continuing operations

Operating profit for the year ended 31 March 2011	Regulated activities £m	All other segments £m	Group £m
Operating profit per published results	571.0	9.2	580.2
One-off items[1]	9.1	7.1	16.2
Underlying operating profit	580.1	16.3	596.4

Operating profit for the year ended 31 March 2010 (restated)	Regulated activities £m	All other segments £m	Group £m
Operating profit per published results	761.7	6.1	767.8
One-off items[1]	15.8	10.0	25.8
Impact of changes to pension schemes	(76.7)	(10.6)	(87.3)
Underlying operating profit	700.8	5.5	706.3

Underlying net finance expense	Year ended 31 March 2011 £m	Restated year ended 31 March 2010 £m
Finance expense	(255.9)	(365.3)
Investment income	2.8	6.2
Net finance expense	(253.1)	(359.1)
Net fair value (gains)/losses on debt and derivative instruments	(19.2)	136.5
Adjustment for interest on swaps and debt under fair value option	5.7	(22.2)
Adjustment for net pension interest expense	3.8	21.6
Adjustment for capitalisation of interest costs	(4.4)	(0.5)
Underlying net finance expense	(267.2)	(223.7)

Profit before taxation	Year ended 31 March 2011 £m	Restated year ended 31 March 2010 £m
Profit before taxation per published results	327.1	408.7
One-off items[1]	16.2	25.8
Impact of changes to pension schemes	–	(87.3)
Net fair value (gains)/losses on debt and derivative instruments	(19.2)	136.5
Adjustment for interest on swaps and debt under fair value option	5.7	(22.2)
Adjustment for net pension interest expense	3.8	21.6
Adjustment for capitalisation of interest costs	(4.4)	(0.5)
Underlying profit before taxation	329.2	482.6

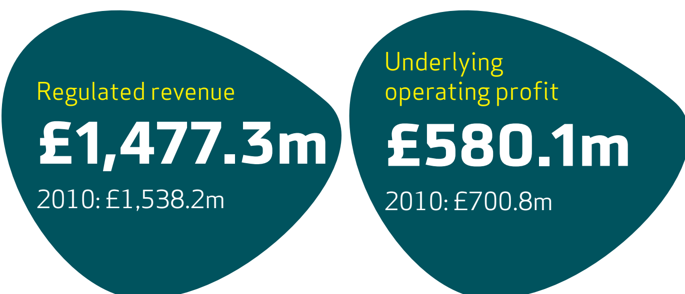
Profit after taxation	Year ended 31 March 2011 £m	Restated year ended 31 March 2010 £m
Underlying profit before taxation	329.2	482.6
Reported taxation	27.4	(61.7)
Deferred taxation credit	(99.0)	–
Agreement of prior years' UK taxation matters	(17.8)	(53.7)
Tax relating to underlying profit before taxation adjustments	(0.6)	(20.7)
Underlying profit after taxation	239.2	346.5

Note:

[1] Principally relates to restructuring and other reorganisation costs within the business.

REGULATED ACTIVITIES

Financial highlights



Revenue from regulated activities was lower by four per cent at £1,477 million, principally reflecting the impact of the 2009 price review, which includes a four per cent nominal price decrease for 2010/11. Customers are benefiting from lower prices alongside significant investment in United Utilities' water and wastewater infrastructure, which helps meet strict environmental standards and deliver an improved service. As anticipated, regulated revenue was a little lower in the second half of 2010/11 compared with the first half, reflecting seasonality.

Underlying operating profit for the year, at £580 million, was 17 per cent lower than last year. This was primarily a result of the regulated price reduction and expected increases in depreciation, infrastructure renewals expenditure and property rates, partly offset by a reduction in power costs. Other operating expenses were impacted by increases in legal provisions and several small non-recurring items. In line with the planned phasing of the capital investment programme, infrastructure renewals expenditure and depreciation were higher in the second half of 2010/11 compared with the first half of the year. Reported operating profit, at £571 million, was impacted by one-off costs of £9 million which principally reflect business restructuring. This reported profit was lower than 2009/10, primarily as a result of the aforementioned revenue and cost movements, as well as a one-off pensions credit in the prior year of £77 million.

United Utilities has made changes to its approach to revenue recognition, with effect from 1 April 2010, which it believes best reflect the likelihood of cash collection. This revised approach is consistent with IAS 18 'Revenue' and reflects better information regarding which customers are not likely to pay. The effect has been to reduce both revenue and the bad debt charge in the income statement, with a minimal impact on operating profit. The bad debt charge for the year was £31 million, compared with £55 million last year. Approximately £18 million of this movement relates to the group's revised application of revenue recognition, with around £6 million reflecting an underlying improvement. This is an encouraging performance given the tough economic climate.

Regulatory capital investment in the year, including £130 million of infrastructure renewals expenditure, was £608 million, compared with £441 million in the first year of the 2005–10 regulatory period. This level of spend is in line with the planned capital investment profile for the 2010–15 period, as management has sought to deliver a smoother investment profile to support efficient delivery of outputs and reduce risk.

Operational performance

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

- The best service to customers
- At the lowest sustainable cost
- In a responsible manner

Operational performance is a top priority for United Utilities and the company aims to deliver improvements in this area and outperform its regulatory contract. The business also has a range of key performance indicators to enhance the visibility of its performance and help drive improvements.

Best service to customers

Actions:

Customer experience – UUW has established a customer experience programme to help deliver improved customer service. The business now offers additional contact options for customers, such as an online account management facility, to provide more choices as to when and how they can contact the company. A priority is to improve customer data management to ensure this provides a single view of the customer to help improve the efficiency and quality of service.

Customer initiatives – Supporting this customer experience programme, the business has increased staff training, better aligned staff incentive mechanisms, put new service level arrangements in place, substantially reduced work queues and backlogs, and proactively contacts customers to keep them informed of progress in respect of their enquiries. This is delivering an improved customer experience and reduces unnecessary and repeat calls, thereby improving efficiency. Although UUW has made good progress in the area of customer service, the business recognises that it needs to reduce further the number of customer complaints and an encouraging performance in 2010/11 saw UUW achieve an 85 per cent reduction in customer complaints assessed by the Consumer Council for Water (CCW), compared with the previous year. Nonetheless, customer service remains a significant area of continued management focus.

Performance continued

Safe, clean drinking water – UUW has an action plan to ensure safe, clean drinking water through maintaining and improving the robustness of its water treatment processes, refurbishing service reservoir assets, ongoing mains cleaning and optimising water treatment to reduce discoloured water events. UUW continues to supply a high quality of drinking water, with a mean zonal compliance water quality performance of 99.96 per cent, which compares with 99.94 per cent the previous year, and is focused on maintaining these high levels.

Water supply and demand balance – To help ensure a continuous water supply to its customers, UUW's action plan includes innovation and investment in remote monitoring to better manage and control the company's water supply system. UUW also has investment projects to optimise water pressures and improve network resilience. In addition, the company is improving its response to burst mains to help keep the water flowing, supported by 'wet' repairs to water mains where the supply remains on through the repair process. The company is now close to opening the West East Link, a significant capital project designed to improve further the water supply and demand balance in its region and enhance network resilience to climate change. Further details on this project are included in the adjacent case study.

Wastewater – The company has a range of actions to help support the serviceability of its wastewater assets. To help reduce sewer flooding, these actions include incident based targeting to focus on areas more likely to experience flooding, effective intervention in cleaning and rehabilitation or refurbishment of sewers and advising customers about items not suitable for sewer disposal. The plan also includes an improved approach to risk assessment to identify and reduce the risk profile of the company's wastewater treatment works.

Key performance indicators:

- Serviceability – Long-term stewardship of assets is critical and UUW improved its position in the area of wastewater non-infrastructure in Ofwat's 2009/10 serviceability assessment (Ofwat defines serviceability as the capability of a system of assets to deliver a reference level of service to customers and to the environment now and in the future). All four asset classes (water infrastructure, water non-infrastructure, wastewater infrastructure and wastewater non-infrastructure) are now rated 'stable' and the business expects to retain this position for 2010/11. The aim is to retain a 'stable' rating for all four asset classes, which is aligned with Ofwat's target.

- Service incentive mechanism (SIM) – Although Ofwat has only just introduced this new measure, which has replaced the overall performance assessment (OPA) measure, UUW's indicative assessment suggests that the company is in the fourth quartile. The aim is to move to the first quartile in the medium-term.

CASE STUDY

West East Link pipeline

The project, costing over £120 million, is a 55 kilometre water pipeline connecting Merseyside and Greater Manchester and the pipeline is now complete. It will use gravity to transport water from Greater Manchester to Merseyside, with the option to pump water in the other direction, thus providing more resource flexibility. It has a capacity of over 100 megalitres per day, which equates to over half of Liverpool's average daily demand. It will increase the integration of UUW's network, which is important given the potential supply and demand issues that are likely to arise through climate and demographic change. In addition to improved security of water supply for customers, a key benefit is that it will facilitate the maintenance of critical assets and will replace the need to use temporary mains pipes during maintenance and cleaning activities.

Lowest sustainable cost

Actions:

Staff and pensions – The group reduced staffing levels in 2009/10 and placed its pension provision on a more sustainable footing. These measures are helping UUW in meeting its regulatory efficiency targets.

Asset optimisation – The company's asset optimisation programme is progressing well, providing the benefits of increased and more effective use of operational site management to optimise power and chemical use and the development of more combined heat and power (CHP) assets to improve energy efficiency. The company's wastewater treatment optimisation programme is targeting approximately £9 million of annual savings by 2013.

Proactive approach – The business is introducing a more proactive approach to asset and network management, with the aim of improving its modelling and forecasting to enable it to address more asset and network problems before they occur, thereby reducing the level of reactive work and improving efficiency.

Power hedging – United Utilities has increased its power hedging and has now substantially locked in its power requirements through to 2014/15, securing outperformance. Power unit costs for 2010/11 are approximately 20 per cent lower compared with 2009/10 and the business expects to benefit from this reduced cost level through 2011/12. Although power rates beyond 2011/12 have been secured at higher levels than those for 2011/12, this still delivers additional outperformance versus the regulatory contract.

Debt collection – The business is adopting a more proactive approach to debt collection. It has a detailed action plan in place, which includes enhancing systems to improve customer segmentation analysis and to obtain better data on customers who have changed address, coupled with a more proactive debt follow up strategy. To support this, a proportion of its debt collection function which was previously off-shored has now been brought back in-house. In addition, the company is planning to use more local authority collection agreements. The bad debt performance for 2010/11 has been encouraging.

Lean principles – Supporting the company's efficiency drive is its lean principles approach to doing business. Systems and processes continue to be streamlined and the business is rationalising its infrastructure and has in-sourced its IT provision to provide greater control of its IT assets and applications.

Leakage management – The performance of the business in meeting its regulatory leakage target for 2010/11 was exemplary, given the extreme winter weather. Winter temperatures were well below the long-term average and fell as low as minus 15 degrees Celsius on several occasions. It was the coldest December in the UK for over 100 years. The freeze and subsequent thaw resulted in a significant increase in leakage levels. Strong management focus and outstanding commitment from employees enabled the business to meet its 2010/11 regulatory leakage target of 464 megalitres per day and, importantly, with minimum customer disruption.

Capital delivery – The business has utilised previous experience to improve the terms and conditions of its supplier contracts and has a robust commercial capital delivery framework in place for the 2010–15 period. Contractor performance is aligned with the company's business plan through appropriate incentive arrangements. Good progress in the delivery of outputs has been achieved in the first year of the new regulatory period, reflecting a smoother and more efficient investment profile than that experienced in the 2005–10 period.

Sludge processing – A new £100 million sludge processing centre is being developed at the company's Davyhulme wastewater treatment works in Manchester. Further details are provided in the case study below.

CASE STUDY

Davyhulme

Sludge will arrive from seven feeder treatment works and will be processed using advanced thermal hydrolysis technology. The new facility will provide a range of benefits including energy self-sufficiency for the whole site, greater sludge disposal flexibility, with a wider choice of land disposal due to the advanced stage of the treated product, and improved sludge condition to enhance the efficiency of incineration. There will also be the option to pump the treated sludge to UUW's Shell Green sludge processing centre in Widnes. The project is scheduled to be completed in early 2013.

Performance continued

Key performance indicators:

- Relative efficiency – UUW has sustained its relative efficiency bandings as assessed by Ofwat for a number of years, at band B for the water service and band C for the wastewater service. This places UUW in the third quartile and the business aims to move to the first quartile in the medium-term.

- Leakage – UUW met its economic level of leakage rolling target for the fifth consecutive year in 2010/11, despite extreme winter weather conditions, reflecting strong management focus and the outstanding commitment of the workforce. The aim is to meet its regulatory leakage target, as set by Ofwat, each year.

Responsible manner

Actions:

Corporate responsibility – Sustainability is fundamental to the manner in which United Utilities undertakes its business and the group has for many years included corporate responsibility (CR) factors as a strategic consideration in its decision making. One example of the company's actions is its partnership with environmental regeneration charity, Groundwork, where every £1 invested by the company leverages £3, which helps fund community schemes in socially and economically deprived areas where United Utilities is carrying out capital works. This has contributed to United Utilities achieving the highest platinum plus ranking in Business in the Community's (BitC) CR index and being recognised as BitC's Company of the Year for 2010, as well as being rated 'World Class' in the Dow Jones Sustainability Index. United Utilities' CR policy sets out its commitment to environmental, social and economic improvements and this is communicated in a way that enables all employees to recognise how their roles and responsibilities contribute to maintaining and improving sustainability performance.

Sustainable catchment management programme – United Utilities owns approximately 57,000 hectares of land in the North West which it holds to protect the quality of water entering its reservoirs. The company has developed a sustainable catchment management programme which will help to enhance biodiversity and protect and improve water quality.

Renewable energy – United Utilities has a detailed carbon and renewable energy plan, which contributes both to sustainability and reduces costs. In 2010/11 the company generated 111 GWh of renewable electricity, principally from sludge processing. This represents approximately 14 per cent of the group's total electricity consumption.

Environmental performance – This is a high priority for the company and UUW has more than halved the number of major pollution incidents over the last few years. Wastewater treatment works compliance remains high at 97.8 per cent, a similar performance to the previous year. UUW is working more closely with the Environment Agency (EA), through its agreed protocol, to help minimise the occurrence and environmental impact of pollution incidents. This includes the sharing of resources, knowledge and expertise. The company is also enhancing its telemetry and flow monitoring equipment to provide early identification of incidents to enable prompt action to be taken to minimise the potential impact. Recognising that environmental performance is wide-ranging, the company will be measuring itself against an EA composite measure as detailed in the key performance indicators below.

Key performance indicators:

- Environmental performance – The EA computes a composite measure which incorporates a broad range of areas including pollution. UUW was ranked tenth out of ten water and sewerage companies for 2008/09, but improved to sixth position for 2009/10 (EA's latest assessment) and has reduced the number of major pollution incidents this year, which will contribute to the assessment for 2010/11. The company aims to move from this average relative position to the first quartile in the medium-term.

- Corporate responsibility – United Utilities has a strong focus on corporate responsibility and is the only UK water company to have a 'World Class' rating as measured by the Dow Jones Sustainability Index. The group aims to retain this 'World Class' rating each year.

Outperformance of regulatory contract

Financing outperformance – United Utilities has secured £300 million of financing outperformance over the 2010–15 period, based upon an RPI inflation rate of 2.5 per cent per annum. A one per cent per annum increase in RPI above this level would increase financing outperformance by more than £100 million across the five-year period. The aim is to raise future financing, as required, at interest rates that will deliver further outperformance when compared with Ofwat's allowed cost of debt of 3.6 per cent real. UUW has recently agreed a new £200 million index-linked loan with the European Investment Bank at an average real interest rate of 1.2 per cent, which secures additional financing outperformance of around £20 million through to 2015.

Operating expenditure outperformance – The business is targeting total operating expenditure outperformance over the 2010–15 period of at least £50 million, or approximately two per cent, compared with the regulatory allowance. This is in addition to the base operating expenditure efficiency targets set by Ofwat, which equate to a total of approximately £150 million over the five years. UUW has made good progress in 2010/11 and has achieved operating expenditure outperformance of around £10 million.

Capital expenditure outperformance – UUW is delivering significant efficiencies in the area of capital expenditure and, although it is striving for outperformance, expects broadly to meet Ofwat's revised allowance after adjusting, through the regulatory methodology, for the impact of lower construction output prices.

Political and regulatory developments

United Utilities is actively involved in political and regulatory developments that relate to the UK water sector and has a proactive programme to regularly engage with the key parties.

Private sewers – The UK Government has now tabled before parliament regulations to transfer the ownership of and responsibility for private sewers to the English and Welsh water and sewerage companies from 1 October 2011. This is a significant asset base and UUW expects the length of its sewer network to increase by around 80 per cent. This should provide long-term benefits for both customers and the industry, although it will inevitably result in additional cost and operational workload and an increase in customer contacts. However, the company has been preparing for this for some time and mobilisation activities are underway to help ensure a smooth transfer.

Although the assets are expected to be transferred at zero value, future capital expenditure should provide the opportunity for further growth in the regulatory capital value (RCV). Whilst final details of the transfer are still to be determined, UUW currently estimates that it will incur additional operating expenditure totalling around £55 million over the remainder of the 2010–15 period. Capital expenditure is estimated to be approximately £125 million across the same period, of which around £90 million is expected to be infrastructure renewals expenditure (IRE) and the balance enhancement expenditure.

For private sewers expenditure in 2011–15, under Ofwat's regulatory framework, United Utilities expects, as a minimum, that shareholders will receive appropriate returns on the enhancement capital expenditure (subject to Ofwat's assessment of efficiency) and IRE (subject to Ofwat's application of the capital expenditure incentive scheme). In addition, the company will review regularly whether an enhanced outcome for shareholders can be achieved through the submission of a request for an Interim Determination of K. For expenditure beyond 2015, United Utilities expects shareholders to receive appropriate returns on all private sewers expenditure provided that the money is spent efficiently.

The same regulations will provide for the transfer of private pumping stations. There are estimated to be several thousand of these in the UUW region. As they require to be surveyed and may need remedial work for health and safety and performance reasons, the transfer date for pumping stations is expected to be by 1 October 2016. UUW expects to incur capital expenditure of approximately £10 million by 2015 in respect of the adoption of private pumping stations, with the majority expected to be adopted in the first year of the subsequent regulatory period. This estimated spend is included within the aforementioned £125 million total capital expenditure spend over the remainder of the 2010–15 period.

Regulatory reviews – It has been a busy year for water issues in the political and regulatory arenas. Against a backdrop of Defra's review of Ofwat, Ofwat's own reviews and consultation on price limits, as well as planned White Papers on the Natural Environment and on Water, United Utilities has been closely engaged in developments with the aim of helping to shape the outcomes for the benefits of customers, shareholders and other stakeholders.

The business sought to focus the debate onto areas such as how the sector can help address climate change and sustainability issues by reforming water abstraction and water trading arrangements. United Utilities has emphasised to politicians and regulators that the sector has a busy change agenda with the transfer of private sewers and that benchmark competition has already delivered significant environmental and customer service benefits. The company is encouraged that its calls for less regulation are being considered and is seeking incentives to encourage the industry to innovate more. The UK Government's planned Water White Paper, which is now scheduled to be published in autumn 2011, is expected to cover these issues.

NON-REGULATED ACTIVITIES

United Utilities completed its c.£600 million non-regulated disposal programme in November 2010 and the remaining proceeds were received in the second half of 2010/11. The vast majority of the non-regulated activities are treated as discontinued in the 2010/11 financial statements. The residual elements of the previously reported non-regulated activities operating segment, which have not been classified as discontinued operations, no longer form a reportable segment as defined by International Financial Reporting Standard No. 8 and have therefore been included within 'All other segments'. These principally include UUW's non-appointed activities and the group's holding in AS Tallinna Vesi (Tallinn Water), which was not sold as part of the non-regulated disposal programme.

In the year, the non-regulated activities treated as discontinued, produced profit after taxation of £104 million, of which £89 million related to profit on disposal after taxation.

ALL OTHER SEGMENTS

All other segments have delivered an underlying operating profit during the year of £16 million, which compares with an underlying operating profit of £6 million last year. This includes UUW's non-appointed activities, United Utilities Property Services (UUPS) and the contribution from the group's 35.3 per cent holding in Tallinn Water, partly offset by certain central costs. Despite the continuing difficult conditions in the UK property market, UUPS has generated a small profit contribution.

The reported operating profit for the segment was £9 million. This reflects one-off costs of approximately £7 million, principally in relation to restructuring within the group's support services function, elements of which are reported in central costs.

Corporate responsibility

In 2010/11, United Utilities retained platinum plus ranking in the Business in the Community (BitC) Corporate Responsibility (CR) Index. The group also led the water sector for the second year running in the Dow Jones World Sustainability Index.

To retain this leading position necessitates regular review of CR governance, strategies and plans to ensure they remain fit for purpose and reflect current trends. In 2010/11, the company reviewed its CR governance and found its arrangements to be sound, requiring refinement and enhancement rather than radical overhaul. Minor changes will be implemented in 2011/12 following approval by the board.

The review of water industry regulator Ofwat and discussion on the pending Water White Paper have both reinforced the importance of integrating sustainability into the future shape of the industry. The company has been actively promoting the reforms it believes are necessary to help shape that debate.

A dedicated CR report is available at **unitedutilities.com/crreport2010**.

Developing talent

Talent is a main focus area for CR and further information is available in the Employees section on the next page.

Customer service

Customer service is important to United Utilities. For information on customer activity please see page 11.

The group recognises that in the current economic climate some customers may be experiencing financial difficulty and struggling to pay their water bills. United Utilities offers a range of payment options for customers. One of the easiest ways to pay is by Direct Debit and last year nearly 38,000 Direct Debit mandates were set up. The group also runs an arrears allowance scheme which matches, pound for pound, debt repaid by customers who sign up, and keep to, an easy payment scheme.

Community investment

Last year the company invested approximately £2 million in the communities in which it operates, including cash, time and in-kind contributions. It supported employees involved in community activity by linking volunteering activity to personal development. Investment included the United Futures partnership with Groundwork to deliver bespoke community projects that support core business objectives. The group continued its support of WaterAid by promoting the charity to customers and organising staff-led fundraising events.

United Utilities continued to run campaigns designed to educate communities. For example, its 'What Not to Flush' campaign shows the damage that can be caused when unsuitable items are flushed away and cooking fat is disposed of inappropriately.

For further information on the campaign, go to
whatnottoflush.com

Natural resource protection and environmental enhancement

United Utilities is committed to protecting and enhancing natural habitats and biodiversity as part of the way it manages operational sites and landholdings. In April 2010, the group celebrated the completion of its first Sustainable Catchment Management Programme (SCaMP). SCaMP won the BitC Northern Foods Rural Action Award and a Gold Green Apple Environment award. The company received Ofwat approval for a number of catchment schemes in the current five-year investment period. These extend the SCaMP approach to its northern and central catchment landholdings.

In 2010, United Utilities secured regulatory funding to extend a biodiversity programme to 16 operational water sites. This project aims to embed proactive management of biodiversity into the management, operation and maintenance of operational sites and make biodiversity considerations everyday practice.

Sustainable consumption and production

Through the operation and maintenance of water and wastewater assets the company generates waste materials such as sludges, excavated materials and general office waste. Last year, over one million tonnes of waste was generated, 89 per cent of which was diverted from landfill by either recycling, finding an alternative use or by incinerating and recovering the energy produced.

Each year the company spends more than £1.4 billion with over 5,000 local, national and international suppliers. This is managed by teams who receive advanced training and coaching in sustainable supply chain techniques. This means the sustainable performance of the supply chain can continually improve.

Climate change and energy

Following extensive review in 2010, United Utilities updated its carbon strategy to take account of internal and external changes. The group is targeting a 21 per cent reduction in carbon emissions by 2015 based on a 2005/06 baseline. Emissions in 2010/11 were 570,963 tonnes of carbon dioxide equivalent, broadly similar to last year as energy reduction activities were countered by additional energy use during the drought and freezing weather conditions. Renewable generation from sludge and other sources increased by five per cent last year to over 111 GWh and the group remains confident it will meet its 2015 target.

The group is prepared for the Carbon Reduction Commitment Energy Efficiency Scheme, which began in April 2010, and through its reduction strategy is taking action to reduce the cost impact of the scheme. To ensure that carbon accounting is of the highest standard the group attained the Certified Emissions Measurement and Reduction Scheme certification for its carbon accounting methodology. This is verified externally to meet the requirements of ISO 14064:1. United Utilities encourages its suppliers to do the same.

As required under the 2008 Climate Change Act, the company submitted to government, along with the rest of the water sector, its adaptation report. This sets out its approach to risk assessment and the plans it will implement to adapt to predicted climatic changes.

Employees

United Utilities aims to create a great place to work, ensuring the right people with the right skills are in the right roles to deliver the best possible service to its customers.

Health and safety

The reported accident incidence rate per 100,000 employees (injuries causing an absence of greater than one day) increased from 740 (restated) to 1,101, reflecting an unfortunate rise in accidents. In response, United Utilities has sought to consolidate its health and safety management framework and renew its focus on 'back to basics' for good health and safety practice, linked to improvement plans which are in place across the group.

The company has introduced a new dedicated incident 'hotline' and integrated data analysis and reporting solution, launched a safety awareness campaign and developed robust procedures governing accident investigation.

The competence of employees plays a key part in minimising the risks they face and reduces the group's risk exposure. United Utilities continues to develop new ways to measure and review competence in health and safety skills, and increasingly, in security and risk management.

The reported accident incidence rate per 100,000 employees for the group's contractors is 416, representing a significant improvement over the prior year's performance of 1,232 (restated).

The importance of preventing occupational ill health can not be overstated. United Utilities provides health monitoring arrangements through its partner Serco in particular, employment, surveillance, absence interventions and lifestyle services as part of its health protection and prevention programme. The company continues to review the services provided to make improvements where required not only to ensure value for money but also to provide the best experience for our employees.

Employee engagement

Importance is placed on strengthening employees' engagement, measuring annually then acting to improve how they feel about the company, understand its direction and are motivated to go beyond the requirements of the job. United Utilities' engagement score is 82 per cent, which is tracking at UK high performance levels of engagement. More employees than ever before said they had seen action as a result of the feedback they gave in the previous year's survey, with 61 per cent recognising that improvements had been achieved, a score significantly above UK high performance norms.

Workplace environment

There is a strong focus on talent and skills development. Developing a flexible, skilled and efficient workforce is critical to the group's ability to deliver improved services to customers.

More than 20,000 days of training were undertaken in the year and 300 employees were supported through further education. Line managers have access to a number of accredited programmes through the Institute of Leadership and Management, with 157 managers on a programme this year.

Apprenticeships and graduate recruitment are considered an essential part of developing the group for the future – there are currently almost 100 apprentices spread across the North West in a variety of roles, with a further 40 apprentices to be recruited each year for the next three years. United Utilities was recognised by the National Apprenticeship Service for its commitment and support to the training and skills of apprentices. In 2010 United Utilities took on seven engineering graduates and will be recruiting more graduates in 2011.

Policies on maternity, paternity, adoption, personal and special leave go beyond the requisite legal obligations. A large majority of employees are members of the company pension schemes, which include two defined benefit (closed to new members) and a defined contribution scheme.

United Utilities works with its trade unions under an employee relations framework to ensure positive relationships. The group is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice. Applicants with disabilities are given equal consideration in the employment criteria and the group will modify equipment and working practices wherever it is safe and practical to do so.

The company's business principles make clear how it and all 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 though a confidential telephone line.

Number of employees (full-time equivalent including directors)

The non-regulated disposal programme reduced the number of employees from the previous year. However, some IT and customer services, previously outsourced, were brought in-house.

For further information on the average number of employees go to Page 77

Principal risks and uncertainties

KEY DEVELOPMENTS DURING THE YEAR

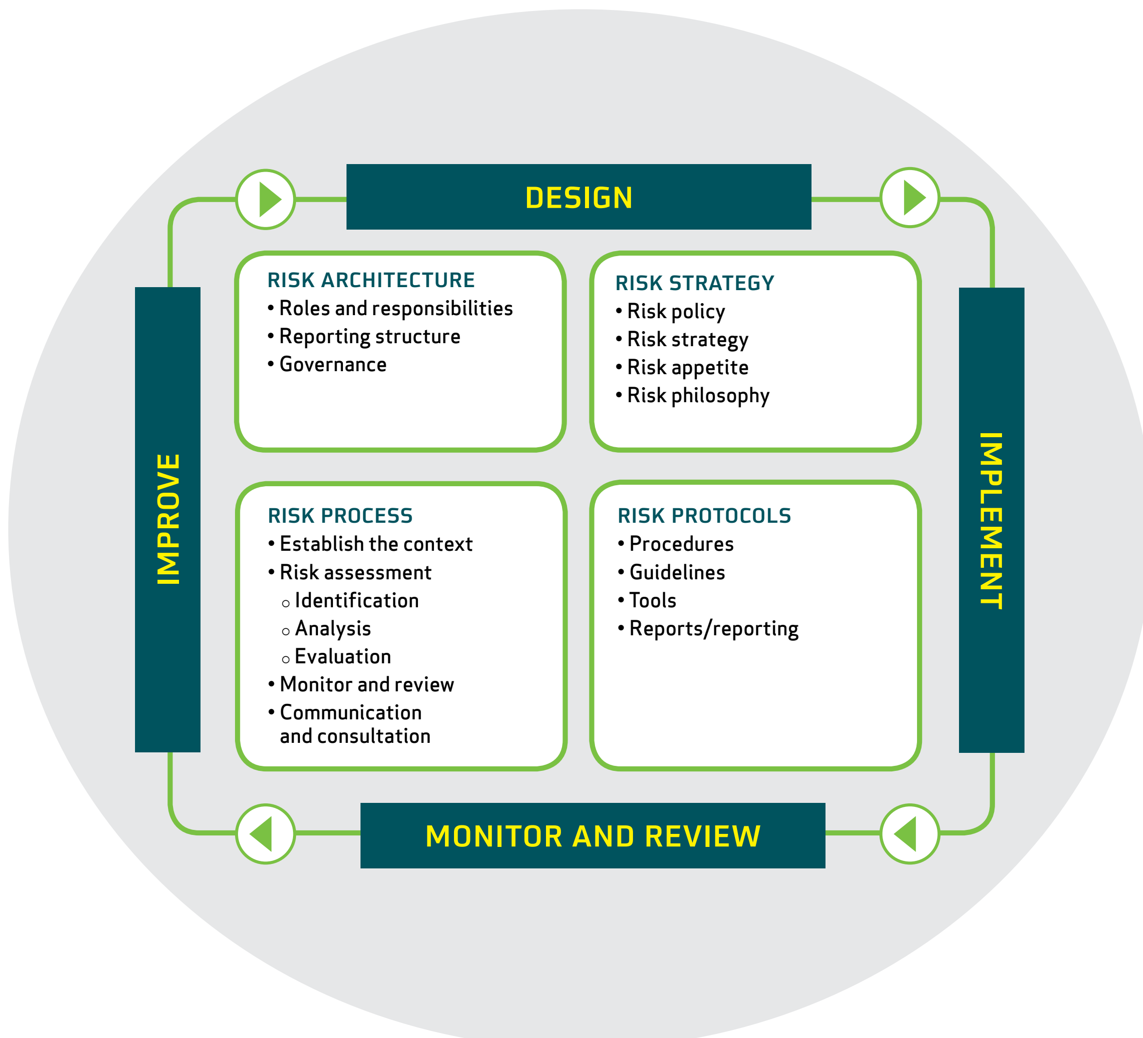
With the sale of the vast majority of the group's non-regulated businesses in the UK and overseas during the course of last year, the risk profile of the group is now largely confined to the regulated water and wastewater business in the North West of England.

However, a new principal uncertainty has arisen due to the publication of the Government Water White Paper, expected later this year. The likely impact on the industry, positive or negative, is as yet unknown, but the paper is expected to address challenges facing the water industry such as: climate change and population growth and their effects on future water resources and infrastructure resilience; the availability of future investment; how to manage wastewater effectively; and how to improve customer service – all while keeping water bills affordable.

The White Paper will also set out the Government's conclusions on Martin Cave's review of Competition and Innovation in Water Markets, and Anna Walker's review of Charging for Household Water and Sewerage Services.

The White Paper will reflect the conclusions of David Gray's as yet unpublished review of Ofwat and the statutory and regulatory frameworks under which the industry operates and these may further impact the industry in general and the group in particular.

The group maintains an internal control framework (see figure below) that assesses, throughout the year, the nature and magnitude of internal and external risks to the achievement of business goals (see also the corporate governance section of this report). Managers are required to employ both proactive and reactive mitigation measures in a prioritised manner to reduce exposures and ensure ongoing resilience should a risk materialise. The executive management team regularly reviews significant risks so that the board can determine the nature and extent of those risks it is willing to take in achieving its strategic objectives. The audit committee regularly reviews the framework's effectiveness and the group's compliance with it.



GOVERNMENT MARKET REFORM AGENDA

RISK

The government is introducing a White Paper later this year which may implement some or all of the recommendations contained in the 2009 Cave report which include:

- extending competition to all non-domestic customers and splitting off the company's retail operations to facilitate the same;
- facilitation of abstraction licence trading to tackle over abstraction;
- reform of the special merger regime to allow mergers of water companies where these would be in the customer's interest; and
- reform to the inset appointment regime with regulated access and supply frameworks.

MITIGATION

The group has been fully engaged in the government and Ofwat consultations on the Cave review and other aspects of competition. A relatively small proportion of the group's profits derive from the retailing of water and wastewater services to non-household customers. However, United Utilities recognises that reforms to the pricing rules that govern access to the group's water network and greater upstream competition could put at risk a greater proportion of the group's profits. Equally, if competition is expanded, there would also be opportunities for the group to participate in a wider market in England and Wales.

CAPITAL INVESTMENT PROGRAMMES

RISK

The core business requires significant capital expenditure, particularly in relation to new and replacement plant and equipment for water and wastewater networks and treatment facilities.

Delivery of capital investment programmes could be affected by a number of factors including adverse legacy effects of earlier capital investments (such as increased maintenance or corrective costs) or amounts budgeted in prior capital investment programmes proving insufficient to meet the actual amount required. This may affect the group's ability to meet regulatory and other environmental performance standards.

MITIGATION

Capital investment programmes are regularly monitored to identify the risk of time, cost and quality variances from plans and budgets and to identify, where possible, any appropriate opportunities for outperformance and any necessary corrective actions.

SERVICE INCENTIVE MECHANISM

RISK

For the 2010–15 period, Ofwat has introduced a new comparative incentive mechanism to reward or penalise water companies' service performance, replacing the Overall Performance Assessment (OPA). The Service Incentive Mechanism (SIM) compares companies' performance in terms of the number of 'unwanted' contacts received from customers and how well they deal with those contacts. Depending upon UUW's relative performance under SIM it could receive a revenue penalty (up to one per cent of turnover) or reward (up to half a per cent of turnover) when price limits are next reset in 2014.

MITIGATION

The group has been monitoring and measuring customer satisfaction for a number of years and results have been improving consistently. To build on this success and in preparation for the change to SIM, a dedicated project team has been set up to ensure our processes, behaviours and systems provide consistent and excellent service to our customers. The company's focus is on ensuring right first time service delivery to its customers, thus avoiding the need for 'unwanted' contacts. Where 'unwanted' contacts do arise, then there is a clear focus on identifying the root causes. These actions are intended to ensure that the company's performance under SIM is optimised thereby mitigating the risk of a penalty at the next price setting.

Principal risks and uncertainties continued

SERVICEABILITY ASSESSMENT

RISK

The group is required to maintain the serviceability of its water and wastewater assets, ensuring they continue to deliver a level of service and performance at least as good as in the past. Where serviceability falls below required reference levels of performance, Ofwat would deploy a staged approach to regulatory action to secure corrective action by UUW and could make financial adjustments at the next price setting. Or, if performance was to decline, the group may incur additional operating or capital expenditure to restore performance.

MITIGATION

The various indicators of performance are closely and routinely monitored by management. The company's capital investment programme is targeted to seek to maintain stable serviceability of the company's water and wastewater assets. Similarly, operational practice is intended to ensure stable serviceability. Where adverse trends develop and there is a risk of serviceability deviating from stable, then corrective action can be identified and taken.

THE ADOPTION OF PRIVATE SEWERS

RISK

In 2008, the government announced its intention to transfer sewers and pumping stations currently owned by private individuals and businesses to sewerage undertakers. The transfer is expected on 1 October 2011 for private sewers and by October 2016 for pumping stations. No allowance has been made in price limits for the costs associated with the transfer. Therefore, any costs incurred will represent an unbudgeted increase in operating and capital expenditure compared with the Ofwat allowance in the 2010–15 price determination.

MITIGATION

We will seek to mitigate the impact of the costs associated with the transfer when price limits are next reset, either at an interim determination or the next periodic review.

PENSION SCHEME OBLIGATIONS

RISK

The group participates in a number of pension arrangements. The principal schemes are defined benefit schemes, although these have been closed to new employees since October 2006. The assets of these schemes are held in trust funds independent of group finances, with the funds being well diversified and professionally managed. The group's current schemes had a combined IAS 19 deficit of £195 million as at 31 March 2011, compared with a deficit of £271 million as at 31 March 2010.

MITIGATION

Increases to pension fund deficits may result in an increased liability for the group, the size of the liability depending upon a number of factors, including levels of contributions and actuarial assumptions. In the 2009 water price review, Ofwat took account of broadly 50 per cent of the pension deficit shown in UUW's final business plan for the regulated business when setting its overall price controls. In response to the size of its ongoing pension risks and pension costs the group introduced a series of changes for employees in its defined benefit (DB) schemes. These changes, which came into force on 31 March 2010, should result in reduced costs and risks, including deficit, associated with DB liabilities in future. In conjunction with the trustees, the group continues to monitor and to look to reduce the investment strategy risks for the pension schemes, including the group's exposure to investment risks.

FAILURE TO COMPLY WITH APPLICABLE LAW OR REGULATIONS

RISK

The group is subject to various laws and regulations in the UK and internationally. Regulatory authorities may from time to time, make enquiries of companies within their jurisdiction regarding compliance with regulations governing their operations. In addition to regulatory compliance proceedings, the group could become involved in a range of third party proceedings relating to, for example: land use, environmental protection and water quality. Amongst others, these may include civil actions by third parties for infringement of rights or nuisance claims relating to odour or other matters. Furthermore, the impact of future changes in laws or regulations or the introduction of new laws or regulations that affect the business cannot always be predicted and, from time to time, interpretation of existing laws or regulations may also change or the approach to their enforcement may become more rigorous. If the group fails to comply with applicable law or regulations, in particular in relation to its water and wastewater licences, or has not successfully undertaken corrective action, regulatory action could be taken that could include the imposition of a financial penalty (of up to 10 per cent of relevant regulated turnover) or the imposition of an enforcement order requiring the group to incur additional capital or operating expenditure to remedy its non-compliance. In the most extreme cases, non-compliance may lead to revocation of a licence or the appointment of a special administrator.

MITIGATION

The group endeavours to comply with all legal requirements in accordance with its business principles and robust processes are in place to seek to mitigate against non-compliance. The group continually monitors legislative and regulatory developments and, where appropriate, participates in consultations to seek to influence their outcome, either directly or through industry trade associations for wider issues. The group seeks appropriate funding for any additional compliance costs in the regulated business as part of the price determination process.

EVENTS, SERVICE INTERRUPTIONS, SYSTEMS FAILURES, WATER SHORTAGES OR CONTAMINATION OF WATER SUPPLIES

RISK

The group controls and operates water and wastewater networks and maintains the associated assets with the objective of providing a continuous service. In exceptional circumstances, a significant interruption of service provision such as prolonged drought or catastrophic damage, such as a dam burst could occur resulting in: significant loss of life; and/or environmental damage; and/or economic and social disruption. Such circumstances might arise, for example, from water shortages; the failure of an asset or an element of a network or supporting plant and equipment; human error; an individual's malicious intervention; or unavoidable resource shortfalls. The group could be fined for breaches of statutory obligations or held liable to third parties, or be required to provide an alternative water supply of equivalent quality, which could increase costs. The group is also dependent upon the ability to access, utilise and communicate remotely via electronic software applications mounted upon corporate information technology hardware and communicating through internal and external networks. The ownership, maintenance and recovery of such applications, hardware and networks are not wholly under its control.

MITIGATION

The group operates long-standing, well tested and appropriately resourced incident response and escalation procedures. The processes continue to be refined, alongside related risk management and business continuity procedures which complement the governance and inspection regimes for key infrastructure assets such as aqueducts, dams, reservoirs and treatment works. These recognise that possible events can have varying causes, impacts and likelihoods. Sustainability of our water supply is also managed through regional aqueduct networks which will be enhanced by the completion of the West East Link pipeline. While the group seeks to ensure that it has appropriate processes and preventative controls in place, there can be no certainty that such measures will be effective in preventing or, when necessary, managing large-scale incidents to the satisfaction of customers, regulators, government and the wider stakeholder community. The group also maintains insurance cover in relation to losses and liabilities likely to be associated with such significant risks, although potential liabilities arising from a catastrophic event could exceed the maximum level of insurance 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 in the event of a catastrophic incident.

Principal risks and uncertainties continued

MATERIAL LITIGATION

RISK

NOSS Consortium (NOSS), of which North West Water International Limited, a wholly owned subsidiary of United Utilities Group PLC, is a member, is party to arbitration proceedings in Thailand in relation to a 1993 contract with the Bangkok Metropolitan Administration (BMA) to build a wastewater treatment plant and network in central Bangkok. NOSS has total claims against the BMA of approximately six billion baht (*c*.£120 million). The BMA has counter claimed for approximately three billion baht (*c*.£60 million); however, based upon the facts and matters currently known, the counterclaim appears to lack substance. After considerable delay, the arbitration is now proceeding.

In February 2009, United Utilities International Limited (UUIL) was served with notice of a multiparty 'class action' in Argentina related to the issuance and payment default of a US$230 million bond by Inversora Eléctrica de Buenos Aires S.A. (IEBA), an Argentine project company set up to purchase one of the Argentine electricity distribution networks, which was privatised in 1997. UUIL had a 45 per cent shareholding in IEBA which it sold in 2005. The claim is for a non-quantified amount of unspecified damages, and purports to be pursued on behalf of unidentified consumer bondholders in IEBA. UUIL has filed a defence to the action and will vigorously resist the proceedings, given the robust defences that UUIL has been advised that it has on procedural and substantive grounds.

In March 2010, Manchester Ship Canal Company (MSCC), issued proceedings seeking, amongst other relief, damages alleging trespass against UUW in respect of UUW's discharges of water and treated effluent into the canal. The respective legal rights of MSCC and UUW relating to the discharges are unclear. UUW has filed a Defence and Counterclaim in support of its believed entitlement to make discharges into the canal without charge and await MSCC's response. The claim will continue to be vigorously defended.

MITIGATION

The group faces the general risk of litigation in connection with its businesses. In most cases, liability for litigation is difficult to assess or quantify; recovery may be sought for very large and/or indeterminate amounts and the existence and magnitude of liability may remain unknown for substantial periods of time. The group robustly defends litigation where appropriate and seeks to minimise its exposure to such claims by early identification of risks and compliance with its legal and other obligations. Based upon the facts and matters currently known and the provisions carried in the group's statement of financial position, the directors are of the opinion that the possibility of the disputes referred to in this risk section having a material adverse effect on the group's financial position is remote.

Governance

24 Board of directors
26 Directors' report – statutory information
30 Corporate governance
41 Directors' remuneration report
55 Statement of directors' responsibilities

Board of directors

Executive and non-executive directors

Dr John McAdam (63)

Non-executive chairman

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

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

Committee membership: Nomination (chairman)

Current directorships/business interests: Chairman of Rentokil Initial plc, senior independent director of J Sainsbury plc, non-executive director of Rolls-Royce Group plc and Sara Lee Corporation

Career experience: Appointed to the board of ICI plc in 1999 and became chief executive in 2003, a position held until ICI's takeover by Akzo Nobel.

Steve Mogford (54)

Chief executive officer

Qualifications: BSc (Hons) Astrophysics/ Maths/Physics

Appointment to the board: January 2011

Committee membership: Nomination

Current directorships/business interests: Non-executive director of Carillion PLC

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

Russ Houlden (52)

Chief financial officer

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

Appointment to the board: October 2010

Committee membership: Treasury

Current directorships/business interests: None

Career experience: Chief financial officer at Telecom New Zealand. Previously he was finance director of Lovells between 2002 to 2008 and prior to that was finance director at BT Wholesale, BT Networks and Information Services, ICI Polyurethanes and ICI Japan.

Dr Catherine Bell CB (60)

Independent non-executive director

Qualifications: MA Geography, PhD Economic History

Appointment to the board: March 2007

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

Current directorships/business interests: Non-executive director of the Civil Aviation Authority, Ensus Limited and the Department of Health

Career experience: A former civil servant and acting permanent secretary at the Department for Trade and Industry. Previously a non-executive director of Swiss Re GB Plc.

Paul Heiden (54)

Independent non-executive director

Qualifications: BSc (Hons) Biology, Chartered Accountant ACA

Appointment to the board: October 2005

Committee membership: Audit (chairman), nomination and treasury (chairman)

Current directorships/business interests: Non-executive chairman of Talaris Topco Limited, non-executive director of Meggitt plc and London Stock Exchange Group plc

Career experience: Formerly chief executive of FKI plc and prior to that group finance director of Rolls-Royce plc. Previous senior finance roles at Hanson PLC and Mercury Communications and has been a non-executive director of Bunzl plc and Filtrona plc.

David Jones CBE (69)

Independent non-executive director

Qualifications: MSc Control System Engineering, BSc Electrical Engineering

Appointment to the board: January 2005

Committee membership: Audit, nomination and remuneration (chairman)

Current directorships/business interests: None

Career experience: Formerly chairman of UK Coal plc, group chief executive of The National Grid Company plc and chief executive of South Wales Electricity.

Nick Salmon (58)

Senior independent non-executive director

Qualifications: BSc (Hons) Mechanical Engineering

Appointment to the board: April 2005

Committee membership: Nomination and remuneration

Current directorships/business interests: Chief executive of Cookson Group plc

Career experience: Formerly executive vice-president of Alstom S.A. and of ABB Alstom Power and chief executive of Babcock International Group plc. Previous senior management positions held at GEC and GEC Alsthom in the UK and France and the China Light and Power Company, Hong Kong.

Other directors who served on the board during the year ended 31 March 2011 were:

Philip Green: chief executive officer – stepped down from the board on 31 March 2011.
Tim Weller: chief financial officer – stepped down from the board on 21 May 2010.
Charlie Cornish: managing director, utility solutions – stepped down from the board on 30 September 2010.
Andrew Pinder CBE: independent non-executive director – retired from the board on 23 July 2010.

Full biographical details of the above can be found in the company's 2010 annual report and financial statements.

The business of the company is managed by the board of directors. Details of those board members who served during the 2010/11 financial year are set out above. There are no family relationships between any of the directors or senior managers. There are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any of the persons referred to above was selected as a director or member of senior management.

Directors' report

The directors present their report and the audited financial statements of United Utilities Group PLC (the company) and its subsidiaries (together referred to as the group) for the year ended 31 March 2011.

Principal activities and business review

The company is a public limited company registered in England and Wales. Its registered office address is at Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP.

The company is the holding company of a group which predominantly owns and operates water and wastewater assets in the North West of England. During the year, the group disposed of the majority of its non-regulated assets.

The business review (inside front cover to page 22), which includes the chairman's and chief executive officer's statement and the financial performance section (pages 06 to 15), provides a balanced analysis of the development and performance of the group's business during the financial year, and the position of the group's business at the year end, and forms part of this directors' report. A summary of key performance indicators can be found on the inside front cover. A further description of these key performance indicators and others can be found in the performance section of the business review on pages 06 to 15. A summary of the principal risks and uncertainties can be found on pages 18 to 22. An indication of likely future developments of the group can be found on pages 04 and 05. The company's principal subsidiary undertakings, and the associated companies and joint ventures in which the group participates, are listed in note 14 to the consolidated financial statements.

Dividends

The directors are recommending a final dividend of 20.0 pence per ordinary share for the year ended 31 March 2011, which, together with the interim dividend of 10.0 pence, gives a total dividend for the year of 30.0 pence per ordinary share (the interim and final dividends paid in respect of the 2009/10 financial year were 11.17 pence and 23.13 pence per ordinary share respectively).

Subject to approval by shareholders at the annual general meeting, the final dividend will be paid on 1 August 2011 to shareholders on the register at the close of business on 24 June 2011. United Utilities Employee Share Trust Limited has waived its rights to dividends, including dividends paid in respect of the year ended 31 March 2011. The Trust disposed of 30,310 shares in June 2010 to satisfy awards made under the Matching Share Award Plan and Special Long-Term Incentive Scheme for Charlie Cornish. The Trust disposed of its remaining holding of 11,108 shares in February 2011 to part satisfy the Matched Share Investment Scheme for Philip Green.

Directors

Summary biographical details of the current directors can be found on pages 24 to 25, along with the names of the other directors who served during the financial year ended 31 March 2011.

During the year, Tim Weller, chief financial officer, left the company on 21 May 2010 and Andrew Pinder, non-executive director, retired from the board following the 2010 annual general meeting on 23 July 2010. Charlie Cornish, managing director utility solutions, and Philip Green, chief executive officer, left the company on 30 September 2010 and 31 March 2011 respectively. Russ Houlden was appointed as chief financial officer on 1 October 2010 and Steve Mogford was appointed to the board on 5 January 2011 as chief executive designate and formally took over from Philip Green as chief executive officer on 31 March 2011.

The articles of association provide that a director must retire at the third annual general meeting following his or her last appointment or reappointment by shareholders. For the annual general meetings held in 2009 and 2010, the articles included transitional provisions in relation to the retirement of directors by rotation. The board, being mindful of the recommendation contained within the revised UK Corporate Governance Code published in June 2010 that all directors should be subject to annual election by shareholders, concluded that all directors will retire at the 2011 annual general meeting and offer themselves for election/reappointment.

Details of the board's policies and procedures regarding the appointment of directors are included in the corporate governance report on pages 33 to 34. Details of the interests in the company's shares held by the directors and persons connected with them are set out in the directors' remuneration report on pages 41 to 54.

Corporate governance statement

Further details of the company's compliance with the Combined Code on Corporate Governance as published by the Financial Reporting Council in June 2008 (the code) are given on pages 30 to 40. The statement includes a description of the main features of the group's internal control and risk management systems in relation to the financial reporting process and forms part of this directors' report. A copy of the code published in June 2008 as applicable to the company for the year ended 31 March 2011, can be found at the Financial Reporting Council's website **frc.org.uk**. Copies of the matters reserved to the board and the terms of reference for each of the main board committees can be found on the company's website at **unitedutilities.com**. The corporate governance statement also includes the consideration given by the directors to the factors relevant to the adoption of the going concern basis.

The annual general meeting

The annual general meeting of the company will be held on 22 July 2011 at The Midland Hotel, Peter Street, Manchester, M2 3NQ.

Full details of the resolutions to be proposed to shareholders, and explanatory notes in respect of these resolutions, can be found in the notice of annual general meeting. A copy can be found on the company's website.

At the annual general meeting, resolutions will be proposed, amongst other matters: to receive the annual report and financial statements; to approve the directors' remuneration report; to declare a final dividend; and to reappoint KPMG Audit Plc as auditor.

In addition, resolutions will be proposed: to approve the directors' general authority to allot shares; to grant the authority to issue shares without first applying statutory rights of pre-emption; to authorise the company to make market purchases of its own shares; to authorise the making of limited political donations by the company and its subsidiaries; to amend the articles of association; and to enable the company to continue to hold general meetings on not less than 14 clear days' notice.

Share capital, transfers of shares and voting rights

At 31 March 2011, the issued share capital of the company was £499,806,108 divided into 681,612,044 ordinary shares of five pence each and 273,956,180 deferred shares of 170 pence each. Details of the share capital and movements in the issued share capital are shown in note 25 to the financial statements on page 109. The ordinary shares represented 71.3 per cent and the deferred shares represented 28.7 per cent respectively of the total issued share capital as at 31 March 2011.

All ordinary shares have the same rights, including the rights to one vote at a general meeting, to an equal proportion of any dividend declared and payable, and to an equal amount of any surplus assets which are distributed in the event of a winding-up.

The deferred shares convey no right to income, no right to vote and no appreciable right to participate in any surplus capital in the event of a winding-up. The rights attaching to shares in the company are provided by the articles of association, which may be amended or replaced by means of a special resolution of the company in general meeting. The company renews annually its power to issue and buy back shares at its annual general meeting and such resolutions will be proposed at the 2011 annual general meeting. The directors' powers are conferred on them by UK legislation and by the company's articles. At the annual general meeting of the company on 23 July 2010, the directors were authorised to issue relevant securities up to an aggregate nominal amount of £11,358,933 and were empowered to allot equity securities for cash on a non pre-emptive basis to an aggregate nominal amount of £1,703,840.

Electronic and paper proxy appointment and voting instructions must be received by the company's registrars not less than 48 hours before a general meeting and when calculating this period, the directors can decide not to take account of any part of a day that is not a working day. There are no restrictions on the transfer of ordinary shares in the company, nor any limitations on the holding of shares in the company, save (i) where the company has exercised its right to suspend their voting rights or to prohibit their transfer following the omission of their holder or any person interested in them to provide the company with information requested by it in accordance with Part 22 of the Companies Act 2006; or (ii) where their holder is precluded from exercising voting rights by the Financial Services Authority's Listing Rules or the City Code on Takeovers and Mergers.

There are no arrangements known to the company by which financial rights carried by any shares in the company are held by a person other than the holder of the shares, nor are there known to the company any arrangements between holders of securities that may result in restrictions on the transfer of securities or on voting rights. All issued shares are fully paid.

Major interests in shares

At 25 May 2011, the directors had been notified of the following interests in the company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Services Authority:

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

Purchase of own shares

At the annual general meeting of the company held on 23 July 2010, shareholders authorised the company to purchase, in the market, up to 68,153,603 of its own ordinary shares of five pence each. No shares were purchased pursuant to that authority during the year. Such authority from shareholders is normally sought annually. Authorisation will be sought from shareholders of the company at the 2011 annual general meeting to grant authority to purchase up to 68,168,136 of its own ordinary shares of five pence each, such authority to expire at the earlier of the conclusion of the company's annual general meeting in 2012 or the close of business on 21 January 2013.

Directors' report continued

Change of control

The trustee of the United Utilities Employee Share Trust, which administers the performance share plans, matching share plans and deferred share award scheme, has the ability to exercise voting rights at its discretion which relate to shares which it holds under the trust deed constituting the trust. In the event of a takeover offer which could lead to a change of control of the company, the trustee must consult with the company before accepting the offer or voting in favour of the offer. Subject to that requirement, the trustee may take into account a prescribed list of interests and considerations prior to making a decision in relation to the offer, including the interests of the beneficiaries under the trust. As detailed on page 26, at 31 March 2011 the trustee's holding of ordinary shares in the company was nil. In the event of a change of control, the participants in the share incentive plan would be able to direct the trustees, Equiniti Share Plan Trustees Limited, how to act on their behalf.

Directors' indemnities and insurance

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

Political and charitable donations

United Utilities does not support any political party and does 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 political stakeholders. This includes promoting United Utilities' activities at any of the main political parties' annual conferences when they are held in the North West region. In 2010/11, the Labour Party held its annual conference in Manchester as did the Conservative Party in the previous year. The group incurred expenditure of £5,000 (2010: £19,155) as part of this process. At the 2010 annual general meeting, an authority was taken to cover such expenditure. A similar resolution will be put to the shareholders at the 2011 annual general meeting to authorise the company and its subsidiaries to make such expenditure.

Charitable donations by the group in the year amounted to £5,193,987 (2010: £5,247,202) in support of charitable causes in the local communities in which it operates and those of interest to its employees.

Employees

The company's policies on employee consultation and on equal opportunities for disabled employees are contained within the employee section of the business review on page 17. The board encourages employees to own shares in the company. Details of employee share schemes can be found in the remuneration report on page 54.

Environmental, social and community matters

Details of the company's approach to corporate responsibility, relating to the environment and social and community issues, can be found in the corporate responsibility section on page 16.

Essential contractual relationships

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

Policy on payment of creditors

The group's policy is in line with the CBI Code of Prompt Payment (copies are available from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU). Payment terms are specific to the type of contract and the relevant commercial arrangements, and are agreed with suppliers in advance. The group makes every effort to comply with the payment terms as agreed with its suppliers subject to there being no dispute with the invoices received. As at 31 March 2011, the average credit period taken for trade purchases was 31 days for the group (2010 restated: 38 days). The company has no trade and other payables due to external creditors.

Approach to technology development

The company is committed to using innovative, cost-effective and practical solutions for providing high quality services. It recognises the importance of ensuring that it focuses properly its investment in the development of technology, that it has the right skills to apply technology to achieve sustainable competitive advantage and that it continues to be alert to emerging technological opportunities.

Financial instruments

The risk management objectives and policies of the company in relation to the use of financial instruments can be found in note 19 to the financial statements.

Fixed assets

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 impractical to obtain meaningful market values for the land. Other land owned by the group, the majority of which relates to operational sites, does not have a market value materially different from historic cost.

Events occurring after the reporting period

Details of events after the reporting period are included in note 31 to the consolidated financial statements on page 113.

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.

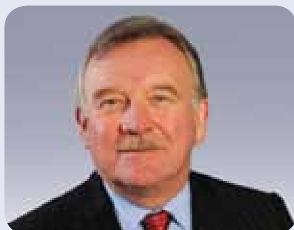
Reappointment of auditor

The board is proposing that shareholders reappoint KPMG Audit Plc as auditor at the forthcoming annual general meeting and authorise the directors to fix the auditor's remuneration.

Approved by the board on 25 May 2011 and signed on its behalf by:

Simon Gardiner
Company secretary

Corporate governance



Dr John McAdam
Chairman

Letter from the chairman

The board of directors is committed to adopting and implementing the highest standards of corporate governance in the way in which it directs, manages and controls the company. This approach underpins the way in which we do business at United Utilities.

The board is aware of the changes that have been introduced by the Financial Reporting Council's UK Corporate Governance Code (the UK code) as published in June 2010. In response to the UK code, all directors will be retiring and offering themselves for reappointment at the annual general meeting in July 2011.

As chairman, I fully embrace my position as leader of the board and my role in ensuring the board's effective operation and its stewardship of the company on behalf of all our stakeholders. I also welcome my responsibilities in promoting positive relationships between board members both individually and as a whole.

In light of the group's strategic focus on its core water activities, we have simplified the board structure such that directors' membership of the United Utilities Group PLC and United Utilities Water PLC boards is now identical. This will facilitate the board's enhanced focus on our strategy of meeting the challenges faced by the business in the remainder of the 2010–15 regulatory period and improving our operational performance.

Dr John McAdam
Chairman

This corporate governance statement describes how the board and its committees discharge their duties and how we apply the principles of good governance. This report forms part of and should be read in conjunction with the directors' report set out on pages 26 to 29. United Utilities Group PLC (the company) is subject to the Combined Code on Corporate Governance (the code) which was published by the Financial Reporting Council in June 2008.

The Combined Code

During the financial year ended 31 March 2011, the company complied fully with the provisions of Section 1 of the code with one exception. Following the retirement of Andrew Pinder at the conclusion of the 2010 annual general meeting on 23 July 2010, the membership of the remuneration committee reduced from three to two independent non-executive directors. The committee remained quorate but did not at all times during the year comply with provision B.2.1 of the code which requires that this committee consists of three independent non-executive directors. This delay was linked to the process of putting the necessary arrangements in place to appoint common board members to the company and United Utilities Water PLC. With effect from the beginning of March 2011, Dr Catherine Bell was appointed to the remuneration committee.

This report (which incorporates a report from the audit committee, see pages 38 to 40), together with the remuneration report on pages 41 to 54, gives details of how the main principles of the code have been applied during the year.

The board of directors

The names of the current directors who served during the year, and their biographical details, are set out on pages 24 and 25. As is apparent from that information, the board membership has an appropriate range of commercial, engineering, financial, industrial and regulatory expertise to provide effective stewardship to the company. Ten board meetings are scheduled each year and the board will meet more or less frequently as required. During the year nine meetings were held (2010: nine). Additionally, the board held a number of telephone conferences to consider, amongst other matters, the processes related to the sale of the group's non-regulated assets during the year. The table on page 31 shows the attendance of each of the directors at meetings of the board and the principal board committees, which are subject to code requirements, during the year. The figures in brackets show the maximum number of meetings which the directors could have attended.

	Board	Audit committee	Nomination committee	Remuneration committee
Steve Mogford	2(2)	n/a	n/a	n/a
Philip Green	9(9)	n/a	2(3)*	n/a
Charlie Cornish	5(5)	n/a	n/a	n/a
Tim Weller	1(1)	n/a	n/a	n/a
Russ Houlden	4(4)	n/a	n/a	n/a
Dr Catherine Bell	9(9)	4(4)	4(4)	1(1)
Paul Heiden	8(9)	4(4)	3(4)	n/a
David Jones	9(9)	3(4)	4(4)	7(7)
Dr John McAdam	9(9)	n/a	4(4)	n/a
Andrew Pinder	4(4)	n/a	1(2)	4(4)
Nick Salmon	9(9)	n/a	3(4)	7(7)

Notes:
n/a in the above table denotes that the director is not a member of that committee.
Tim Weller left the company on 21 May 2010.
Andrew Pinder retired from the board on 23 July 2010.
Charlie Cornish left the company on 30 September 2010.
Russ Houlden was appointed to the board on 1 October 2010.
Steve Mogford was appointed to the board on 5 January 2011.
Philip Green left the company on 31 March 2011.

* As described in the nomination committee section below, one of the matters the committee considered during the year was Philip Green's successor to the role of chief executive officer. Accordingly, Philip Green did not attend nomination committee meetings where his succession was discussed.

Summary of approach to governance

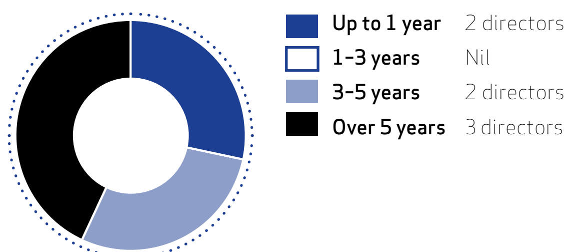
The board members are fully aware of their responsibilities, both individually and collectively, to promote the long-term success of the company and ensuring that the principal goal of the company is to create shareholder value, while having regard to other stakeholder interests. The board is responsible for devising the strategy of the group and has responsibility for the internal control systems operated across the group, allowing assessment and management of the key issues and risks impacting the business. During the year, the board specifically considered the company's strategy and long-term business plan during board meetings. The board has a formal schedule of matters reserved to it, which ensures that it takes all major strategy, policy and investment decisions affecting the group. Accordingly, the board sets the company's overall strategic direction, reviews management performance and assesses whether the company has the necessary financial and human resources in place to meet its objectives. It also reviews the company's business planning, approach to risk management and development of policies. The remuneration committee (whose report is set out on pages 41 to 54) is principally responsible for the directors' and senior managers' remuneration.

The board takes responsibility for setting the company's values and standards. Accordingly, the long-term interests of shareholders, together with consideration of the wider interests of stakeholders represented by employees, customers, suppliers, the community and the environment, are factored into the group's management processes. Appropriate consideration is also given, within the company's control and risk assessment processes, to social, environmental and ethical issues.

The steps taken to achieve these goals are communicated to shareholders and other interested parties through dedicated communication and investor relations departments, the company's website and to employees via the intranet and through formal and informal briefings and newsletters. Through its vision, core values, formal policies and the 'business principles' statement, which sets out what the company expects from employees in the conduct of the company's business, the board seeks to engender a culture where business ethics, integrity and fairness are values that all employees endorse and apply in their everyday conduct.

During the year, risk assessments have been undertaken for every business area of the company in preparation for the Bribery Act 2010, due to come into force on 1 July 2011. The group's internal controls, policies and procedures have been reviewed and, where appropriate, will be revised ahead of the implementation date.

Directors' length of service



Corporate governance continued

The board has established a governance framework which encourages all directors to bring to bear independent judgement on issues of strategy, performance and resources, including key appointments and standards of conduct. Directors have a right to ensure that any unresolved concerns they have about the running of the company or a proposed action are recorded in the board minutes. In addition, upon resignation, a non-executive director is asked to provide a written statement addressed to the chairman should he or she have any concerns about the running of the company, and any such statement would then be circulated to the board.

The group's governance structure also seeks to ensure that decisions are made at an appropriate level by employees with the knowledge and skills to do so.

The directors of subsidiary operating companies (most notably United Utilities Water PLC (UUW)) are legally responsible for those business entities and their associated regulatory obligations. Additionally, they are tasked with the delivery of the targets set within the budgets approved by the board and for the implementation of strategy and policy across their businesses.

With the completion of the sale of all material non-regulated businesses and the company's focus upon its core business in the North West of England, confirmation was obtained from UUW's regulator, Ofwat, that it did not object to the board of the company and UUW having identical board members moving forward, to enhance the effectiveness and efficiency of the governance processes and internal controls. Accordingly with effect from April 2011, the company and UUW have had common board memberships.

The board's view is that it is appropriate, from a development perspective, for executive directors or senior managers to become non-executive directors of other companies, provided that any such appointment does not impact upon their obligations to the company or upon the performance of their duties. To this end, there is an embargo upon such individuals accepting more than one non-executive directorship of a FTSE 100 company or the chairmanship of such a company.

Principal committees of the board (summary)

The board has formally delegated specific responsibilities to certain committees, including the following: approvals; audit (see page 38); corporate responsibility; nomination (see page 33); remuneration (see page 41); and treasury. All board committees are provided with sufficient resources to undertake their duties, have authority to seek independent advice, if appropriate, and are supported by the company's secretariat. In addition to the board committees featured in the code, the board has delegated certain of its powers and functions to the committees described in the following three paragraphs.

Approvals committee

This considers and approves expenditure and investment proposals within limits determined by the board. Its members are the executive directors and the company secretary. As a result of the focus on core activities, the major capital expenditure investments are now the responsibility of UUW. The approvals committee was disbanded with effect from 31 March 2011. Approvals in excess of delegated limits to the UUW approvals committee are the joint responsibility of the chief executive officer and the chief financial officer as directors of UUW, although in excess of the limits of these individual delegations, major capital investment approvals are the responsibility of the UUW board.

Corporate responsibility committee

This has responsibility for developing and overseeing the corporate responsibility strategy of the company and for approving its charitable donations. Its members are certain board directors and meetings are attended by such members of management as may be invited by the committee from time to time. Two employee representatives are also invited to attend meetings and participate in its assessment of items of business. During the year ended 31 March 2011, Dr Catherine Bell took over the chair from Tim Weller and Steve Mogford was appointed as the other committee member.

Treasury committee

This considers and approves borrowing, leasing, bond and other banking facilities within limits set by the board. It is chaired by Paul Heiden and its other members are the chief financial officer and the treasurer. The treasury committee has delegated some of its powers, subject to certain limits, to the chief financial officer and the treasurer.

Executive team

Reflecting the realignment of the business during the year and its focus upon core activities in the North West of England, there were a number of senior management changes. With effect from 31 March 2011, the company's executive team consists of Steve Mogford, chief executive officer, Sally Cabrini, human resources director, Steve Fraser, operations director, Russ Houlden, chief financial officer, Gaynor Kenyon, communications director, and Paul Worthington, chief information officer.

Chairman and chief executive

The positions of chairman and chief executive are separate appointments and the board has agreed clearly defined responsibilities for these roles. It has also adopted a set of guiding principles to govern the working relationship between them. The chairman is primarily responsible for the working of the board, ensuring that the non-executive directors are fully engaged in their roles and that they provide an effective contribution to the operation of the board and the promotion of the success of the company. In essence, the responsibility of the chief executive officer is to manage the group's business and to implement board strategy and policy.

Board balance and independence

The board aims to maintain a balance of executive and non-executive directors and, at the date of approval of this statement, comprises the non-executive chairman, two executive directors and four non-executive directors. All four of the non-executive directors are determined by the board to be independent in accordance with the code and free from any business or other relationship which could compromise their independent judgement. The chairman (following appointment to that role) is not deemed to be independent under the code in view of his unique role in corporate governance, although Dr John McAdam was deemed to be independent at the time of his initial appointment to the board.

Senior independent director

Nick Salmon is the senior independent director and is available to shareholders if they have concerns that dialogue with management representatives has failed to resolve. The terms of reference for the senior independent director are available on the company's website. They include the authority to call a meeting of the non-executive directors if, in his opinion, it is necessary; the convening of a meeting of the non-executive directors without the chairman present at least annually to appraise the chairman's performance; and to be available if required to attend meetings with major shareholders to listen to their views, in order to assist the process of the company having a balanced understanding of their issues and concerns.

Conflicts of interest

Since 1 October 2008, directors have been under a statutory duty to avoid any situation in which they have, or can have, a direct or indirect interest which conflicts or possibly may conflict with the interests of the company. The duty is not infringed where a conflict situation has been authorised in advance by the unconflicted directors or the shareholders of the company or where the situation cannot reasonably be regarded as likely to give rise to a conflict of interest. For a public company, the unconflicted directors can only authorise conflict situations if permitted to do so by the company's articles of association. The company's articles of association contain provisions which permit the unconflicted directors to authorise conflict situations and procedures have been put in place for the disclosure of any conflicts by the directors to the board and for the consideration and, if appropriate, authorisation of such conflicts. The procedures permit any authorisation to be subject to any terms and/or conditions that the unconflicted directors think fit. In October 2010, each board member (together with the directors of the principal operating subsidiary) completed, as part of the annual review process, a comprehensive questionnaire to establish if any director had a conflict of interest under the Companies Act 2006. The results were then assessed by the chairman and the board, which concluded that no director had a conflict that required authorisation. Moving forward, directors will continue to be required to notify the chairman and/or company secretary if they believe that a conflict might arise. This would then be referred to the board. Any potential issue of conflict relating to prospective directors would be addressed by the nomination committee, with a recommendation to the board.

The nomination committee and appointments to the board

The nomination committee meets at least once each year and otherwise as required. Its primary role is to make recommendations to the board on the composition, balance and membership of the board and refreshment of the board's principal committees. The nomination committee's terms of reference are available to shareholders on request and are also available on the company's website.

The nomination committee evaluates the balance of skills, knowledge and experience on the board and, in the light of such evaluation, prepares descriptions of the roles and capabilities required for a particular appointment and makes recommendations to the board from time to time on its composition. It may use executive search consultants to assist it when considering board member succession.

The committee is chaired by the chairman of the company (except when succession issues surrounding that position are being considered). Its other members are the non-executive directors and the chief executive. As such, the substantial majority of the members are non-executive directors determined by the board to be independent in accordance with the code.

During the financial year ended 31 March 2011, amongst other matters, the nomination committee met four times to finalise the terms of appointment of Tim Weller's successor Russ Houlden as chief financial officer and to oversee the process relating to the selection of a successor for Philip Green. To assist the committee, JCA Group were appointed as executive search consultants. This process led to Steve Mogford being recommended to the board as Philip Green's successor as chief executive officer. The committee also reviewed the composition of the principal board committees and the succession planning arrangements for the senior executive management population and non-executive directors.

The letters of appointment of the non-executive directors (which comply with the code) are made available for inspection at the company's registered office during business hours and before and during the annual general meeting and are published on the company's website. They make it clear that no compensation is payable for loss of office and expressly set out the time commitment expected from non-executive directors. Non-executive directors are required to disclose to the company any significant commitments that might impede the performance of their duties to the company prior to appointment and to consult the chairman before accepting any positions that might impact upon their availability to perform their duties or give rise to a potential conflict of interest.

Corporate governance continued

Details of the executive directors' service contracts and the basis of their appointments are set out in the directors' remuneration report.

Election/reappointment of directors

The board appoints all new directors, after assessing the recommendation of the nomination committee and following an appropriate recruitment process. Following initial appointment, a new director is required to retire and seek appointment at the next annual general meeting. The company's articles of association require all directors to retire and seek reappointment at least every three years, and include additional provisions which require one-third of the directors to retire at each annual general meeting (including those who are proposed for reappointment at an annual general meeting and those who are not). Biographical details of directors being submitted for appointment or reappointment are set out in the notes accompanying the relevant notice of meeting. Mindful of the new UK Code on Corporate Governance published by the Financial Reporting Council in June 2010, the board has decided that all the executive and non-executive directors will retire at the 2011 annual general meeting and offer themselves for election/reappointment.

Non-executive directors are appointed for specified terms, subject to reappointment under the company's articles of association and to Companies Act provisions relating to the removal of directors. The board explains to shareholders, in the explanatory notes accompanying the resolutions, why it believes that the relevant directors should be elected/reappointed.

The chairman will confirm to shareholders when proposing reappointment that following formal performance evaluation, the individual's performance continues to be effective and demonstrates commitment to the role. In this context as part of the annual board evaluation exercise, the board reviewed the time commitment and contribution of the chairman in his role and concluded that it was more than satisfied with his performance.

Any term beyond six years for a non-executive director will be subject to particularly rigorous review, and will take into account the need for progressive refreshing of the board. Any non-executive director serving for longer than nine years will be subject to annual reappointment. Having both served on the board for more than six years, as part of the individual evaluation process for David Jones and Nick Salmon, the chairman undertook a rigorous review of their individual performance and reported to the board which concluded that they each remained fully effective and committed to their roles as non-executive directors.

Information, support and advice

The chairman is responsible for ensuring that directors receive comprehensive information on a regular basis to enable them to perform their duties properly, supported by the company secretary. Board papers are generally distributed five days in advance of scheduled board meetings to enable directors to obtain a thorough understanding of the matters to be discussed, and seek clarification, if required. As part of the preparation process for board meetings, the chairman has implemented a programme of informal briefings with the non-executive directors and chief executive the evening before the scheduled board meetings.

All directors have access to the advice and services of the company secretary and his team, who are responsible to the board for ensuring that board procedures are complied with. The appointment and removal of the company secretary are matters reserved to the board.

The board has adopted a protocol under which directors have access, through the company secretary, to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors. The company also maintains an appropriate level of directors' and officers' insurance.

Induction and training

New directors receive appropriate induction on joining the board, typically including meeting with members of the senior management team and visits to operational sites. Directors are provided with details of seminars and training courses relevant to their role and are encouraged to attend those that meet their development needs. During 2010/11 guidance was provided to the whole board on topics such as the impending implementation of the Bribery Act and proposed new regulations relating to competition. Given the complex nature of the regulated environment in which the company's water and wastewater businesses operate, the board receives regular presentations on regulation changes and the impact on the business, plus developments such as the reviews led by Martin Cave (Independent Review of Competition and Innovation in Water Markets) and David Gray (Review of Ofwat). Major shareholders are also invited to meet with new non-executive directors and shareholders will have the opportunity to meet directors at the annual general meeting in July.

Performance evaluation

During the year, the board conducted an evaluation of its own performance and that of its committees and individual directors. The process involved the completion by each director of a confidential questionnaire in a form consistent with previous years and which was modelled on the 'Chairman's Guide to the Board Performance Review' published by the Chairman's Forum. Each director was required to score the board's performance (and that of the principal committees) on approximately 40 topics, including: contribution to strategy; risk management; financial and operational reporting; the inter-relationship between the board and board committees; matters reserved for the board; communication; company and board advisers; relations with the group's regulators and investors; and board procedures.

The company secretary analysed the completed questionnaires and summarised the findings in a report for the chairman, which highlighted and prioritised the key areas of feedback and provided a comparison with the previous year's evaluation. The chairman subsequently conducted one-to-one discussions with each of the board members based upon the summary report about the board's performance and their own as directors, after which he reported back to the whole board on the evaluation process. The responses to the questionnaires demonstrated a high degree of consistency and the evaluation process affirmed the board's confidence in the group's system of corporate governance. Arising from the 2010/11 exercise, the board has concluded that an enhanced focus should be placed on succession planning for senior management members and other key personnel. The members of the audit, nomination and remuneration committees, together with the managers and advisers who attend those committees, completed separate confidential questionnaires upon the effectiveness of the principal committees. Similarly, the chairs of those committees undertake evaluation based upon the feedback that is received.

Given the number of board changes during the year, the board concluded that appointing an external evaluator (as recommended by the revised code published in June 2010) would be premature but the board is cognisant of the need to refresh the annual evaluation process using an external facilitator moving forward.

As part of good governance, the chairman holds meetings with the non-executive directors without the executive directors present. In turn, led by the senior independent director, the non-executive directors meet without the chairman present at least annually to appraise the chairman's performance. The chief executive officer conducts annual appraisals with executive directors and the other members of his senior management team and has one-to-one discussions about their performance with them, as does the chairman with the chief executive officer.

Internal controls

The board has overall responsibility for the company's system of risk management and internal controls and for reviewing its effectiveness. The schedule of written matters reserved to the board ensures that the directors are responsible for the control of, amongst other matters, all significant strategic, financial and organisational risks.

An overview of the principal risks surrounding the company is contained in the business review section on pages 18 to 22. To manage these and other commercial and operational risks the company has an established risk management programme that assists management in identifying, assessing and mitigating business, financial, operational and compliance risks on a continual basis. The board views management of risk as integral to good business practice. The programme is designed to support management's decision-making, improve the reliability of business performance, and assist in the preparation of the company's consolidated accounts. The board is supported by internal audit and internal risk specialists who report to the head of audit and risk, who in turn reports directly to the audit committee and the chief financial officer.

The board delegates to executive management the responsibility for designing, operating and monitoring both the system and the maintenance of effective internal control in the group. The system of internal control is based upon an ongoing process of identifying, evaluating and managing key risks and includes the risk management processes referred to above. The system of internal control was in place throughout the year and up to the date of approval of the Annual Report and Financial Statements. The effectiveness of this system has been reviewed regularly throughout the year, and up to the date of the approval of the Annual Report and Financial Statements, by the company's management teams. The system of internal control was periodically reviewed by the audit committee and the board and it accords with the guidance in the Turnbull Report and the Internal Control Revised Guidance for Directors published by the Financial Reporting Council in October 2005. The system is also refined, as necessary, in response to changes in the company's business and the associated risks. Joint venture arrangements with other companies and participations via shareholdings in other businesses are outside the group's own formal control procedures. However, the group's exposure to them is assessed by line management (in most cases through representation on the boards of those statutory entities).

Corporate governance continued

Control systems

The main components of the group's internal control framework are summarised below. Their foundation is in the considerable value that the group places, throughout its activities, on seeking to ensure that employees are of the highest quality and integrity. Formal control is exercised through a management structure which includes clear lines of responsibility and documented delegations of authority from the board. The systems of internal control include a series of group policies, operating and procedural manuals and processes, with which all relevant employees are expected to comply. Processes underpinning the financial reporting systems are managed and monitored by line and functional management through regular reporting. Separately, the effectiveness of these internal controls is reviewed by an internal audit function, which reports its results to the company's senior management teams and directly to the audit committee. The work of the internal auditors is focused on the areas of perceived greatest risk to the company as determined by internal risk assessments, senior management and the audit committee.

Function of controls

The system of internal control (the control system) is designed to manage rather than eliminate the risk of failure to achieve business objectives. It can only provide reasonable and not absolute assurance against material errors, losses, fraud or breaches of laws and regulations. The key features of the control system include:

- a control environment with clearly defined organisation structures, operating within a framework of policies and procedures, covering every aspect of the business;
- comprehensive business planning, risk assessment and financial reporting procedures, including the annual preparation of detailed operational budgets for the following year and projections for subsequent years;
- established procedures, set out in the group's internal control manual, for planning, approving and monitoring major capital expenditure, major projects and the development of new business which includes short and long-term budgets, risk evaluation, detailed appraisal and review procedures, defined authority levels and post-investment performance reviews;
- a monthly board review of financial and non-financial performance to assess progress towards objectives;
- monthly meetings, prior to each board meeting, of the senior management teams, where the executive directors, and other senior executives responsible for running the group's business, amongst other matters, review performance and explore strategic and operational issues which are of group-wide importance;
- centralised treasury operations operating within defined limits and subject to regular reporting requirements and internal audit reviews;
- an internal audit function which provides independent scrutiny of internal control systems and risk management procedures;
- regular monitoring of risks and control systems throughout the year by the operating business, supported by the use of risks and issues databases;
- a monthly rolling review of group-wide risks and mitigating actions and controls by the senior management teams. Arising from such reviews, plans are developed to enhance internal control and risk management;
- a self-certification process whereby the operating business is required to confirm annually that the system of internal control is operating effectively;
- an annual risk assessment exercise involving self-assessment by management of all major business risks in terms of impact, likelihood and control strength; and
- data consolidated into the group's financial statements is reconciled to the underlying financial systems. A review of the consolidated data is undertaken by management to ensure that the true position and results of the group are reflected, through compliance with approved accounting policies and the appropriate accounting for non-routine transactions.

Annual review of risk management and internal control systems

In addition to the regular reports received by the audit committee and the board on internal controls, key risks and periodic reviews, the board conducts an analysis of the company's risk appetite and tolerance profile to assess whether it is appropriate and an annual review of the effectiveness of the risk management and internal control systems in operation during the year and up to the date of the approval of the Annual Report and Financial Statements. Through operational reports from management, the board reviews controls designed to mitigate risks. The board, through the audit committee, also assesses the review that is conducted by internal audit. Management of all the parts of the group are required to complete and sign off control self-assessment questionnaires that confirm that the key internal controls are in place and are operating effectively. Where weaknesses have been identified, plans and timetables for putting them right are also reported. Internal audit monitors and selectively checks the results of this exercise, ensuring that the representations made are consistent with the results of the internal audit function's work during the year. The results of this exercise are summarised for the audit committee and the board.

In the event that any significant control failings occurred or losses were incurred during any year as a result of the failure of internal controls, an analysis would be reported to the audit committee and the board. A plan would also be implemented to take the necessary action to remedy any significant weaknesses. In the year ended 31 March 2011, there were no such losses and the board was satisfied with:

- the changes since the last annual assessment in the nature and extent of significant risks identified by management;
- the company's ability to respond to changes in its business and the external environment to the extent that such changes are events that management can materially influence;
- the scope and quality of management's ongoing monitoring of risks and of the system of internal control, and where applicable, the work of its internal audit function and other providers of assurance;

- the extent and frequency of communication of the results of the monitoring to the board (or board committee(s)) which enables it to build up a cumulative assessment of the state of controls in the company and the effectiveness with which risk is being managed; and
- the company's external reporting processes.

Financial reporting and going concern

When releasing the annual and half-yearly financial reports and interim management statements the directors aim to present a balanced and understandable assessment of the group's position and prospects. These statements are posted on the company's website at the same time as they are released to the London Stock Exchange. To encourage effective communication, individuals with an email address can register free of charge to receive an email alert upon the posting of each new release.

The company's business activities, together with factors (including principal risks and uncertainties) likely to affect its future performance and financial position, are described in the business review. The directors have a reasonable expectation that the company has adequate resources available to it to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. This approach, taking into account the relatively stable and regulated nature of the business, is based, amongst other matters, upon a review of the group's budget for 2011/12, the group's proposed business plan and investment programme covering the current regulatory period, together with a review of the cash and committed borrowing facilities available to the group (discussed in further detail in the liquidity section on page 09 and the debt financing and interest rate management section on page 08). The liquidity section gives details of the company's headroom as at 31 March 2011.

The board also took into account potential contingent liabilities and other risk factors as interpreted by the guidance given in 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009', published by the Financial Reporting Council in October 2009.

Significant holdings of securities

Information can be found in the directors' report at page 27.

Communication with shareholders

The company produces an electronic report for shareholders and other interested parties, which provides information on its key social and environmental impacts and performance during the year. Together with the annual and the half-yearly financial reports, and interim management statements, these form the principal means of communications with shareholders. A substantial amount of company information is available via its website: **unitedutilities.com**.

A programme of regular investor meetings and presentations takes place throughout the year, both in the UK and overseas. During the year, the board met or offered to meet with 120 different funds, representing 41 per cent of the company's issued share capital. Such briefings, together with regular announcements of significant events affecting the group and frequent updates on current trading, are part of a dedicated investor relations programme undertaken to keep the company's equity and debt investors informed of developments affecting the group. The board regards this programme as an important contribution to seek continually to improve investors' awareness of the business and for the board to maintain an understanding of investors' priorities. Board members also receive regular updates in their board papers about investor relations and reports from sector analysts. Additionally, the board commissions Makinson Cowell to produce an annual survey of shareholders, the results of which are reviewed by the board. Non-executive directors also have the opportunity to attend meetings with major shareholders at either party's request.

Constructive use of the annual general meeting

The notice calling the annual general meeting and related papers are sent to shareholders at least 20 working days before the meeting. All directors normally attend annual general meetings, where presentations are made on the progress and performance of the business prior to the formal business of the meeting.

Additionally, the board encourages shareholders to participate in meetings through question and answer sessions with individual directors or, where appropriate, the chairman of the relevant committee. To that end, the chairmen of the audit, nomination and remuneration committees will always endeavour to answer questions relevant to the work of those committees.

Voting on all resolutions takes place by means of a poll which ensures that all shareholders' votes are taken into account, whether lodged in person at the meeting, or by proxy. The poll vote is scrutinised by the company's share registrars and the results are released to the London Stock Exchange and posted on the company's website on the next business day. Separate resolutions are proposed on each substantially separate issue. For each resolution, proxy appointment forms provide shareholders with the option to direct their proxy to vote either for or against the resolution or to withhold their vote. The proxy form and any announcement of the results of a vote will make it clear that a 'vote withheld' is not a vote in law and will not be counted in the calculation of the proportion of votes for and against the resolution.

Takeover directive

Information on the impact on the company as required by the Takeover Directive is given in the directors' report (see page 27) and forms part of this corporate governance statement.

Corporate governance continued

Report of the audit committee

Paul Heiden, chairman

Members

The audit committee's members are Paul Heiden (chairman), Dr Catherine Bell and David Jones. The board is satisfied that Paul Heiden has recent and relevant financial experience and that all members have extensive commercial experience and are independent within the meaning of the code. The qualifications of the members of the audit committee are given on pages 24 and 25. Appointments to the committee are made by the board, on the recommendation of the nomination committee in consultation with the audit committee chairman. Appointments are initially for a period of up to three years, extendable by no more than two additional three-year periods, so long as committee members continue to be deemed to be independent. The terms of reference of the audit committee are available to shareholders on request and are also available on the company's website.

Attendees at meetings

The chairman, chief executive officer and chief financial officer of the group and other senior management attend committee meetings by invitation of the committee. Representatives of the group's external auditor, the head of audit and the director of health, safety, risk and security also attend meetings by invitation. During the year ended 31 March 2011, representatives of the external auditor and internal audit attended all audit committee meetings, had direct access to the committee during the meetings and time was also set aside for them to have private discussions with the committee, in the absence of management.

Audit committee compliance with the code

The audit committee's terms of reference comply with the code and were revised during the year to reflect the guidance published by the Institute of Chartered Secretaries and Administrators in October 2010.

During the year ended 31 March 2011, the formal calendar of matters considered by the committee embraced, amongst other matters, the code and disclosure and transparency rules requirements to:

- monitor the statutory audit of the annual and consolidated accounts;
- monitor the integrity of the financial statements of the company, and any formal announcements relating to the company's financial performance, including reviewing significant financial reporting judgements and any disclosures contained in them;
- review the company's internal financial controls and its internal control and risk management systems and to make recommendations to the board;
- monitor and review the effectiveness of the company's internal audit function;
- make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment, reappointment and if necessary removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; and
- review the company's policy on the engagement of the external auditor to supply non-audit services. In doing so, account is taken of relevant ethical guidance regarding the provision of non-audit services by the external auditor and pre-approval practices. In this context, the committee will report to the board any matters in respect of which it considers that action or improvement is needed and makes recommendations as to the steps to be taken.

With effect from 27 April 2011, the audit committee was renamed as the Audit and Risk Committee in order to reflect more accurately the powers delegated to the committee with regard to reviewing the company's internal financial controls and internal control and risk management systems. The committee's terms of reference have been updated accordingly.

Audit committee activities

An overview of the work undertaken by the audit committee during the year ended 31 March 2011 is described within the following sections of this report.

The audit committee met four times during the financial year ended 31 March 2011. It has a formal policy, endorsed by the board, to keep under review the independence and objectivity of the external auditor. The audit committee determined that it was satisfied that the independence of the external auditor had been maintained, having taken into account the external auditor's written representations and the committee's own enquiries. These were facilitated by a private meeting with the external auditor without executive management being present. The independence policy sets out certain disclosure requirements by the external auditor to the audit committee, including restrictions on mutual hiring of personnel, rules for rotation of audit partners and procedures for the approval of non-audit services provided by the external auditor. The audit committee has monitored the application of the policy both during the year ended 31 March 2011 and up to the date of this report.

The audit committee reviewed the external auditor's audit scope, plans and materiality levels and the resources proposed to execute the plans. Having done so, the committee approved the terms of engagement and the audit fees. The committee also reviewed the findings of the external auditor and their management letters on internal financial controls. The audit committee also assessed the qualifications, expertise and resources and independence of the external auditor and the effectiveness of the audit process. Through an embedded regular audit effectiveness review, the audit committee has continued to keep the

performance of the company's auditor and audit effectiveness under review. Mindful of the costs associated with the company's compliance requirements, the audit committee continues to seek the most cost-effective approach to compliance and external audit generally.

The policy relating to the provision of non-audit services by the external auditor specifies the types of work from which the external auditor is excluded; for which the external auditor can be engaged without referral to the audit committee; and for which a case-by-case decision is required. The ratio of non-audit fees to audit fees was monitored by the committee throughout the year ended 31 March 2011. The audit committee is satisfied that this policy in respect of the provision of non-audit services was applied during the year ended 31 March 2011 and up to the date of this report.

Fees

As summarised above, the committee has established policies and procedures to pre-approve the engagement of the auditor to provide any audit or non-audit services and keep the nature and extent of non-audit services under review. All audit and audit related services proposed to be provided by the external auditor are pre-approved by the audit committee and reviewed annually. The provision of audit related services is generally highly correlated with the role of independent auditor. Such services include assurance on non-statutory information, assurance work carried out in connection with reporting to a statutory regulator, analysis and interpretation of accounting principles, support for debt issues and similar transactions and other services that have a bearing on the group's financial statements on which the external auditor provides an opinion.

Non-audit services are allowed under the procurement of an audit and non-audit services policy, where they do not affect the independence of the external auditor, but do require the pre-approval of the audit committee prior to the engagement. Specific approval may be delegated to a designated member of the audit committee, with such approvals to be reported at the next audit committee meeting. In granting such approval, the designated member of the audit committee is required to consider the cumulative proportion of fees paid for such work compared with the statutory audit fees. In the financial year ended 31 March 2011, all such services were approved by the audit committee.

The company also maintains a list of prohibited services that cannot be provided by the group's auditor as they are considered by statute or in the group's opinion to be incompatible with the role of the independent auditor.

The fees paid or payable to the auditor in the year ended 31 March 2011 and the preceding year were as follows:

Year ended 31 March	2011 £m	2010 £m
Statutory audit of the financial statements	0.3	0.4
Other fees to the auditor:		
Local statutory audits for subsidiaries	0.2	0.4
Other audit related	0.1	–
Regulatory reporting	0.1	0.2
Due diligence and transaction support	0.6	5.5
	1.3	6.5

Note:
- Included in the above statutory audit fee for the period ended 31 March 2011 is £35,000 in relation to the company (period ended 31 March 2010: £35,000).

The committee is always mindful of the ratio of audit and non-audit fees and best practice in deciding any appointments for advisory work. For the year ended 31 March 2011, the substantial majority of non-audit related fees relate to the services provided by Deloitte LLP (Deloitte) in its advisory capacity in relation to the provision of continued due diligence services to the company to support the completion of the disposal of non-regulated businesses. In deciding to appoint Deloitte in 2009/10 to assist with the disposal process, the committee was cognisant of the impact that by doing so would have on the ratio of audit to non-audit fees. Nevertheless, given Deloitte's knowledege of the complex group structure and the inter-company accounting, it concluded on balance that it was appropriate to authorise Deloitte's appointment, as in doing so it provided the most cost-effective and efficient way of obtaining the advisory services required, thereby promoting shareholders' interests. The audit committee has satisfied itself that these due diligence services undertaken during the financial year ended 31 March 2011 did not prejudice the auditor's independence.

Evaluation of the external auditor

In appropriate circumstances the audit committee is empowered to dismiss the external auditor and appoint another suitably qualified auditor in its place. The reappointment of the external auditor is submitted for annual approval by the shareholders at the annual general meeting.

Corporate governance continued

To assess the effectiveness of the external auditor Deloitte, the audit committee reviewed:

- the auditor's independence and objectivity;
- fulfilment of the 2010/11 audit plan;
- the robustness and perceptiveness of the auditor in its handling of key accounting and audit judgements; and
- the content of the external auditor's reporting on internal controls;

and was content with its findings.

During the year, the audit committee took into account the tenure of the auditor and considered whether there should be a tender process for the 2011/12 audit. It concluded that such a process was appropriate, which was undertaken in the last quarter of the financial year. Four firms were invited to tender. Following a thorough process, and taking into account that Deloitte had been auditor to the group since 2002, the committee concluded that given the strategic refocus of the group, a change in auditor was appropriate. The audit committee therefore recommended to the board that KPMG Audit Plc be appointed auditor to the group following the conclusion of Deloitte's audit of the 2011 group financial statements. The appropriate resolution to approve this will be put to shareholders at the 2011 annual general meeting. There are no contractual obligations restricting the company's choice of external auditor.

Other activities

The audit committee met prior to the board meetings at which the annual and half-yearly financial reports were approved. The committee reviewed significant accounting policies, financial reporting issues and judgements and, in conducting this review, considered reports from management, the external auditor and internal audit.

At all of its meetings, the committee reviewed and considered reports from the head of audit and, at three of its meetings, the director of health, safety, risk and security. Those reports included the status of the company's risk management systems, findings from the internal audit function concerning internal controls and reports on the status of the correction of any weaknesses in internal controls identified by the internal or external auditor.

The audit committee also reviewed and approved the remit, organisation, plans and resources of the company's internal audit function and carried out a review of the effectiveness of that function.

Disclosure policy

The committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of matters raised in confidence and for appropriate follow-up action. Accordingly, the audit committee periodically reviews the arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. Employees can report any concerns anonymously to an independent service provider, who can be contacted at any time.

The corporate governance statement and report of the audit committee were approved by the board on 25 May 2011.

Directors' remuneration report

The remuneration committee

David Jones, chairman

On behalf of the remuneration committee, I am pleased to provide the directors' remuneration report for the year ended 31 March 2011 which sets out the information required by the Companies Act 2006, Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules of the Financial Services Authority. The report is unaudited except where stated. An ordinary resolution to approve this report will be put to the annual general meeting on 22 July 2011.

The 12 months to 31 March 2011 has been a period of change. The disposal of our non-regulatory business interests has resulted in the company being solely focused on its regulated water business in the North West of England. A number of senior management changes coincided with this business change, including at the chief executive level where Philip Green left United Utilities on 31 March 2011. The remuneration details agreed by the committee for directors who left or joined during the year are described in this report.

The committee has adjusted its approach to setting executive remuneration to reflect the significance of the business change in 2010/11, most notably in relation to the company's reduced scale and the change in focus of the organisation. This revised approach was in place when terms were agreed for both Steve Mogford and Russ Houlden. The committee has also ensured that the performance measures which underpin the incentive structures remain appropriate for the company's future shape and strategy.

Finally, the committee has been, and continues to be, mindful of remuneration issues across the wider workforce when looking at pay and other incentives for executives.

Approach to reward

The company's remuneration arrangements are designed so that the overall level of remuneration, including salary and benefits together with the short and long-term incentive opportunities, is competitive in comparison to other relevant companies, in order to provide an effective recruitment and retention mechanism and to ensure an appropriate balance between fixed and variable reward. Short and long-term incentive remuneration arrangements are designed in a way that reflects a balance of measures relating to financial and operational performance. Executives are incentivised to achieve stretching results which are delivered with an acceptable level of risk. Executives are also encouraged to accumulate personal holdings in United Utilities group shares over time, thereby ensuring that their interests are fully aligned with those of the shareholders. During the financial year, the remuneration arrangements were adjusted to reflect those necessary to recruit and retain senior executives working for a listed utility company operating in the North West of England.

Aggregate remuneration

During the financial year, the aggregate remuneration paid to all directors was £5.21 million (2010: £4.24 million). This includes salaries, benefits in kind (excluding pensions), annual bonuses earned and accrued in the year ended 31 March 2011 but paid after the year end and the value of long-term incentives exercised in the year ended 31 March 2011.

The remuneration committee

The committee makes recommendations to the board on the company's framework of executive remuneration and its aggregate cost to the company. It approves, on the board's behalf, the general recruitment terms, remuneration, benefits, employment conditions and severance terms for senior executive management. In particular, it determines the specific recruitment terms, remuneration, benefits, employment conditions, pension rights, compensation payments and severance terms for the executive board directors and the most senior executives in the company.

The committee's membership comprises solely of independent non-executive directors. During 2010/11, the members of the committee were David Jones, Nick Salmon and Andrew Pinder, albeit Andrew Pinder retired from the board and the committee after the company's annual general meeting on 23 July 2010. There was then a delay to the appointment of a replacement for Andrew, pending completion of the move towards a common board membership for both United Utilities Group PLC and United Utilities Water PLC following the disposal of the non-regulatory businesses. In light of this situation Dr Catherine Bell was appointed to the committee with effect from 1 March 2011 and in the seven-month period prior to her appointment the company was not compliant with the Combined Code provision for three non-executive directors to be members of the committee. However, during this period there were only two meetings of the committee and in the directors' opinion, the temporary reduction in membership did not impact upon the committee's effectiveness or upon its ability to conduct business.

The committee's members have no personal financial interest in the company other than as shareholders and the fees paid to them as non-executive directors. The committee's terms of reference, which were updated during the year to reflect best practice, are available to shareholders on request from the company secretary and are on the company's website: **unitedutilities.com**.

The independent consultants Hewitt New Bridge Street (part of AON Hewitt Ltd) advise the committee on executive remuneration. They also advise the company on the remuneration of a limited number of senior executive managers whose specific terms of employment do not fall within the remit of the remuneration committee. This is to ensure consistency in the application of the board's policies on executive remuneration and the general terms of employment approved by the committee. AON Hewitt Ltd also provided a small piece of advice during the year on remuneration strategy for the wider organisation. Eversheds LLP provides legal advice on the operation of the company's share incentive and share option plans, and also provides general legal advice to the company.

Directors' remuneration report continued

Committee meetings are also attended by the chairman of the company (Dr John McAdam), the chief executive officer (Philip Green to 31 March 2011 and Steve Mogford thereafter), the human resources director (Alison Clarke to 31 October 2010 and Sally Cabrini thereafter) and the reward and pensions director (Sean Duxbury) who are consulted on proposals relating to the remuneration of the directors and senior executives, subject to this not relating to their own remuneration. The committee can and does seek advice or information directly from other employees where the committee feels that such additional contributions will assist the committee in its decision-making. The company secretary (Tom Keevil to 31 March 2011 and Simon Gardiner thereafter) acts as secretary to the committee, which met seven times in the year ended 31 March 2011.

Policy statement on executive directors' remuneration

The board's policy for executive directors' and senior executives' remuneration for this year and subsequent years is to:

- pay a basic salary that is in line with other comparable companies;
- use short and long-term incentives to encourage executives to outperform key targets for the business, thereby linking their rewards to the interests of shareholders and other stakeholders;
- encourage executives to hold shares in the company; and
- reward executives fairly and responsibly for their contribution to the company's short and long-term performance, avoid paying more than is appropriate and avoid structures that may incentivise executives to take unnecessary business risk.

The company's strategy is supported by the remuneration arrangements through the emphasis on key operational performance measures in both the short and long-term incentive arrangements. The operational targets are complemented by short-term financial targets within the annual bonus structure and targets relating to total shareholder return within the share plans. This provides a strong overall link between incentives and the company's performance and if the strategy is delivered senior executives will be rewarded through the annual bonus and long-term incentives. If it is not delivered then a significant part of their remuneration will not be paid.

In determining the executive directors' total remuneration package and the individual elements of it, the committee looks at both the performance of the individual and the performance of the company. It also considers the range of pay in similar companies and the general increases in base salaries across the company's wider workforce. The company aims to pay within a range of the mid-market rate but may pay higher salaries and total remuneration for outperforming individuals (or to attract or retain executives of the right calibre) and where the company itself outperforms.

Fixed rewards include basic salary, a car allowance, life, medical and permanent health insurance and pension benefits (or a cash allowance in lieu of pension benefits). Variable rewards take the form of an annual bonus where executives are also incentivised to receive a proportion of their bonus in shares which are then matched by a corresponding performance-related award from the company (the matching share award plan, or MSAP) and a long-term incentive plan (the performance share plan, or PSP). These variable rewards are designed to establish a clear link between pay and performance by encouraging outperformance of the business and by the individual in both the short and long term, thus linking executives' rewards directly to the interests of shareholders and other stakeholders. Annual bonus and long-term awards are not pensionable.

The committee aims to achieve an appropriate balance between fixed and variable rewards. It recognises that the company operates in the North West of England in a regulated environment and therefore needs to ensure that the structure of executive remuneration reflects the practices of the markets in which its executives operate and stakeholder expectations of how the company should be run. The committee reviews its policy in the light of emerging best practice.

The company operates a defined contribution pension scheme which newly appointed directors (and senior executives) can join. Further details of pension benefits provided for executive directors are provided on page 45 of this report.

The chart below sets out the summary of the composition of reward. At maximum performance the proportion of a current executive's total available remuneration that is 'at risk' is 70 per cent.

maximum value 2010/2011

maximum value 2011/2012

0 100 200 300 400 500

Value relative to base pay

base pay | pension | other fixed benefits | annual bonus | performance share plan | matching share award plan

Notes:
- The shading represents the value of each element of the reward package relative to base pay (base pay = 100).
- Pension refers to the defined contribution benefit provided with a company contribution, or the cash allowance paid in lieu of a pension contribution.
- The maximum values apply only where maximum annual bonus is achieved and the PSP and MSAP have paid out fully.
- The values for the PSP and MSAP assume a dividend reinvestment value of five per cent per year.

Executive directors' shareholdings

Executive directors are encouraged to build up and retain a target shareholding equal to the value of their basic salary, normally within five years of appointment. This significant level of commitment further aligns the interests of the executives with the long-term interests of shareholders. The company prefers a flexible approach to the accumulation of a shareholding, which takes account of individual circumstances, and has decided not to require executives to retain a proportion of shares that vest under its incentive plans. Executive shareholdings are reviewed annually and progress towards achieving targets is discussed with each executive director.

Executive directors' remuneration 2010/11

Executive directors' emoluments, the value of long-term incentives vested during 2010/11 and payments made by the employer in respect of pensions are set out in table 1.

Table 1: Executive directors' emoluments and long-term incentive payments (audited information)

	Gross salary for the year ended 31 March		Bonus earned for the year ended 31 March		Other benefits in the year ended 31 March		Total emoluments for the year ended 31 March		Long-term incentive vesting during the year ended 31 March		Employer pension contributions/ allowances paid in lieu of pension contributions in the year ended 31 March	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Philip Green	812.0	798.0	959.1	924.9	30.2	26.7	1,801.3	1,749.6	827.0	–	203.0	199.5
Charlie Cornish[1]	193.0	386.0	720.1	435.8	10.0	18.1	923.1	839.9	93.9	–	48.2	96.5
Tim Weller[2]	64.9	464.0	82.7	603.2	3.6	30.3	151.2	1,097.5	18.0	–	16.2	116.0
Russ Houlden[3]	200.0	n/a	237.4	n/a	93.8	n/a	531.2	n/a	-	n/a	44.0	n/a
Steve Mogford[3]	155.5	n/a	183.2	n/a	3.8	n/a	342.5	n/a	-	n/a	34.2	n/a

Notes:

[1] Charlie Cornish left the company part way through the year and the bonus shown comprises his pro-rated annual bonus (£230,867) and a special bonus in respect of the disposal of the non-regulated businesses (£489,200).

[2] As disclosed in last year's report in relation to his 2009/10 bonus, it was agreed that Tim Weller should receive maximum bonus in respect of the period he worked during the year, this being in recognition of him working up to the point after the 2009/10 results were announced, which went beyond his normal notice period.

[3] Figures for Steve Mogford and Russ Houlden reflect part-year earnings as they joined the company part way through the year.

Base salaries

The committee reviews salaries each year taking account of both company and individual performance and the level of pay in similar and, where possible, comparable companies. As stated earlier, consideration is also given to the general increases in base salaries taking place within the company. There was a three per cent increase to Philip Green's salary in 2010, with no increases awarded in 2010 to Tim Weller or Charlie Cornish, both of whom left the business before the year end. The next review date for executive director salaries will be 1 September 2011. The annual salaries of executive directors during the year are shown in table 2.

Directors' remuneration report continued

Table 2: Executive directors' salaries

	Salary at 31 March 2011 £'000	Salary at 31 March 2010 £'000	Date of change
Philip Green	822.0	798.0	01.09.2010
Charlie Cornish	–	386.0	n/a
Tim Weller	–	464.0	n/a
Steve Mogford	650.0	–	n/a
Russ Houlden	400.0	–	n/a

Annual bonus

The annual bonus plan is designed to motivate and reward executives for the achievement of a range of measures that represent a balance of stakeholder interests. Performance measures are established by the committee on an annual basis and are designed to be stretching whilst also recognising the nature and risk profile of the business.

The maximum bonus opportunity for 2010/11 was 130 per cent of base salary. This will remain the maximum bonus opportunity for 2011/12 albeit the balance between financial, operational and personal achievement measures will change slightly, as shown in table 3. The underlying performance measures have also been reassessed for 2011/12.

As a result of changes made to executive director contracts in 2010/11, bonus payments made in relation to 2010/11 and future financial years will be subject to claw-back provisions (details of which are provided on page 52).

Table 3: Weighting of maximum bonus plan opportunities as a percentage of salary

	2010/11	Steve Mogford 2011/12	Russ Houlden 2011/12
Financial measures	65%	65%	52%
Operational measures	35%	52%	52%
Personal	30%	13%	26%
Total	130%	130%	130%

Financial performance measures represented one-half of the total maximum bonus opportunity for 2010/11. One-quarter of the maximum award for each financial measure is payable for reaching a threshold target, half for reaching an intermediate result and the maximum for achieving the stretch target.

Operational performance measures accounted for 27 per cent of the maximum bonus opportunity for 2010/11 with appropriate operational targets and vesting scales being set for the year in relation to management of the capital programme (two targets), maintenance of the company's assets, customer service, employee engagement, health and safety and corporate responsibility. Personal objectives accounted for the remaining 23 per cent of the maximum bonus opportunity for 2010/11, with these being based upon individual targets specific to each role. Outcomes against each of these measures are shown in table 4.

Table 4: Annual bonus plan outcome for 2010/11 (percentage of salary)

	Financial[1]		Operational[2]		Personal		Total	
	Max	Actual	Max	Actual	Max	Actual	Max	Actual
Philip Green	65.0%	65.0%	35.0%	24.6%	30.0%	28.5%	130.0%	118.1%
Charlie Cornish	65.0%	65.0%	35.0%	24.6%	30.0%	30.0%	130.0%	119.6%
Tim Weller	65.0%	65.0%	35.0%	24.6%	30.0%	30.0%	130.0%	130.0%[3]
Steve Mogford	65.0%	65.0%	35.0%	24.6%	30.0%	28.2%	130.0%	117.8%
Russ Houlden	65.0%	65.0%	35.0%	24.6%	30.0%	29.1%	130.0%	118.7%

Notes:
(1) Financial measures include: profit before exceptional items, interest and taxation; profit before exceptional items and taxation; operating cost vs budget; and operating cash vs budget.
(2) Operational measures include: customer satisfaction; employee engagement; serviceability; capital outputs; capital efficiencies; safety; and corporate responsibility.
(3) At the discretion of the committee, the 2010/11 bonus for Tim Weller has been increased to maximum, albeit based only on his salary earned in the 51 day period he worked in 2010/11.

Executives are encouraged to elect to take a significant part of their bonus in the form of company shares through the MSAP, thereby further aligning their interests with the long-term interests of shareholders. Participation in the plan is voluntary and executives who were invited to and applied to join the MSAP in 2010/11 were able to elect to receive up to 61 per cent of their bonus award in the form of United Utilities shares. There is a corresponding matching award from the company whereby the first 20 per cent of bonus elected to be taken in the form of shares attracts a 1:1 match from the company, with the remaining 41 per cent of bonus elected to be taken in the form of shares attracting a company match of 0.81:1. This matching structure results in an overall maximum matching award by the company equal to 70 per cent of base salary, assuming the maximum bonus applies.

This maximum matching award of 70 per cent of base salary will continue to apply in 2011/12, albeit the matching structure will be simplified to be 1:1 on any bonus (up to a maximum of 54 per cent of overall bonus) being taken in the form of shares.

The matching shares awarded by the company are released after three years subject to the achievement of performance conditions, and are also subject to the claw-back provisions detailed on page 52. Details of the performance conditions and further information on the terms of the matching share awards are described in the long-term incentive section of this report.

Pensions

All executive directors were either members of the defined contribution section of the company's pension scheme during the year or had opted for a cash allowance in lieu of their defined contribution pension entitlement. The company's defined contribution plan has a normal pension age of 65 and incorporates a salary sacrifice arrangement whereby the employee's contribution to the pension scheme is effected through a salary reduction. The salary reduction rate for Philip Green was equivalent to three per cent of basic salary and the rate for Charlie Cornish and Tim Weller was seven per cent. The company contributed this salary reduction on behalf of the employee and paid an additional amount of six per cent of basic salary for Philip Green (plus 19 per cent of basic pay to his private pension plan) and 25 per cent of basic salary for Tim Weller and Charlie Cornish.

The cash allowance available to executive directors in lieu of pension is 22 per cent of base pay and this was payable during the year to Steve Mogford and Russ Houlden.

During the year ended 31 March 2011, the company paid contributions totalling £346,000 (2010: £412,000) in respect of pension contributions and cash allowances paid in lieu of pension contributions for the executive directors who were in post during the year.

Other benefits

Directors are paid a car allowance of £14,000 a year and are provided with medical, life and permanent health insurance.

Long-term incentives

The company currently operates the PSP and MSAP to provide long-term incentives.

The performance conditions for long-term incentive awards are focused on two key areas: total shareholder return; and operational performance. The weighting of performance conditions for the various plans in issue is shown in table 5.

Table 5: Summary of performance conditions applicable to awards under the PSP and MSAP

Grant	Performance share plan	Matching share plan
2007/08	100% TSR index	50% TSR index & 50% operational measures
2008/09; 2009/10; 2010/11	50% TSR index & 50% operational measures	50% TSR index & 50% operational measures

Total shareholder return (TSR): represents share price growth and reinvested dividends and is compared to returns achieved across a comparator group of companies. Grants are based upon a performance condition which measures the company's comparative TSR performance against a TSR index (index) rather than a comparator group ranking. Using an index allows for a meaningful comparison of performance to be made and a smoother sliding scale of vesting of awards. The index is constructed by assessing the TSR performance of the companies in the index, with their influence on the index being weighted according to relevance and size. When a company is acquired or taken over, its performance is reflected in the calculation of the index's performance up until the point that a public announcement is made. Any new company that joined the index would be treated in a similar 'pro-rata' manner.

None of the awards in table 5 would vest if United Utilities' performance fell below the index; 25 per cent of the award would vest for a performance equal to the index; and 100 per cent of the award would vest for outperforming the index by an additional 12 per cent over the three-year performance period. The 12 per cent margin of outperformance represents the average expected additional return over a three-year period between the median and upper quartile TSRs of the constituents of the comparator group. This margin was determined in 2007 based upon analysis of historical TSR performance of the company and the constituents of the index over preceding three-year rolling periods and represents in the committee's view a demanding level of outperformance that is at least as demanding as upper quartile performance on the previously used comparator group ranking. Vesting would be on a sliding scale for performance between these points. Any vesting of awards would also be subject to the remuneration committee being satisfied that the company's recorded TSR performance was consistent with underlying business performance.

The composition and weighting of the index for awards made during 2010/11 is shown in table 6. The companies and weightings shown are the same as for 2008/09 and 2009/10.

Table 6: Weighting of comparator companies 2010/11 (out of 300 points)

Company	Points
National Grid	25
Northumbrian Water	75
Pennon Group	75
Scottish & Southern Energy	25
Severn Trent	100

GOVERNANCE

Directors' remuneration report continued

Operational performance measures: For the 2008 and 2009 awards multiple operational measures were adopted across four different quadrants of performance, namely quality and environment, finance and efficiency, customer service and people. Further details on these can be found in reports from previous years.

For the 2010 award it was decided that operational performance should be assessed against a reduced number of targets, namely the relative efficiency band for the water and wastewater businesses (75 per cent weighting) and the employee engagement level across the whole business. The relative efficiency targets reflect the need to focus on sustained and improved efficiency compared with other water companies, with high levels of employee engagement helping achieve this aim. The detailed targets and vesting scales for these measures are shown in table 7.

2011/12 long-term incentive awards: The weighting applied to TSR and operational measures will remain the same for awards to be made in 2011/12. However, the underlying performance measures and targets have been reassessed, including the TSR outperformance target. The TSR outperformance target, equivalent to upper quartile performance relative to the comparator group, was last calculated in 2007 as a 12 per cent addition to the index performance. The updated calculated additive hurdle would now be 10.9 per cent. The committee decided that rather than continue to apply a hurdle on an additive basis, it would be more appropriate to use a multiplicative basis for the 2011/12 awards. The TSR hurdle rate for the 2011/12 awards is thus a 6.3 per cent multiplier to index performance, this being statistically equivalent to the updated additive rate. The operational measures have also been reassessed and in 2011/12 will focus on outperforming the capital expenditure and operational expenditure targets over the relevant three-year performance period. These revised operational measures will replace those described in table 7 for the 2010/11 awards.

i) Performance share plan

Executive directors and members of the executive team participate in the performance share plan. Awards are granted at the discretion of the plan's trustee on the recommendation of the committee. Each year, participants may be awarded a right to acquire a maximum number of shares worth up to a percentage of their annual salary at the date of the award, at no cost to them. The number of shares awarded is based upon the market price of a share at the date of grant. The plan's rules provide for a maximum award of 100 per cent of annual salary, which may be increased above this level in circumstances which the committee consider to be exceptional, although to date grants have not exceeded 100 per cent of salary.

Awards during 2010/11 were 70 per cent of salary for executive directors and 50 per cent of salary for other members of the executive team. Following review, the same level of awards will apply for 2011/12 for executive directors.

The proportion of the award that will vest and become exercisable depends upon the company's performance against specified targets over a performance period. This period is not less than three years, beginning at the start of the financial year during which the award is made. There is no retesting and awards lapse if the performance criteria are not met. Participants normally have three months from the date when the award vests to exercise their right to acquire shares. There is no automatic waiving of performance conditions if there is a change of control, capital reconstruction or winding up of the company.

Modifications of performance conditions and the level of vesting of awards are subject to the consent of the committee and are made at the trustee's discretion. As stated above in relation to bonus and the MSAP, future awards under the PSP will be subject to claw-back provisions.

When a participant's employment terminates during a performance period and the reason is determined by the committee to fall within the 'good leaver' provisions of the plan, the vesting of an award is at the trustee's discretion. If the trustee decides to make an award in these circumstances, the maximum number of shares in an award is pro-rated to service in the performance period and vesting is subject to satisfying the performance conditions (modified, if appropriate). Except in the case of the death of a participant, there is normally no early vesting of awards. Awards lapse where terminations during the performance period do not satisfy the 'good leaver' provisions.

Tim Weller's awards lapsed with effect from 21 May 2010 following his resignation which did not meet 'good leaver' provisions. The committee determined that Philip Green and Charlie Cornish both left the company under 'good leaver' provisions and so their awards will continue to apply, albeit pro-rated as shown in table 8.

Table 7: Operational performance measures (2010 share plans)

Operational area	Weighting	Target for 31.3.13	Vesting scale
Relative efficiency band	75%	Water and wastewater both have relative efficiency score at Band A	Both Band A = 100% One at Band A, one at Band B+ = 50% Both Band B+, or one at Band A and one at Band B- = 25%
Employee engagement score	25%	To achieve a score which is equal to or above the UK high performance norm	At or above UK high performance norm = 100% Within 2% of UK high performance norm = 50% Between 2% and 4% of the UK high performance norm = 25%

The following notes apply to tables 8 to 13:

- The values shown for 1 April 2010 and 31 March 2011 have been calculated using the mid-market price of a share on each day of 567.0 pence and 591.5 pence respectively.
- All awards are increased by the notional reinvestment of dividends paid over the course of the retention or performance period.
- During the period 1 April 2010 to 31 March 2011 the market price of a share ranged from 507.0 pence to 628.5 pence.

Table 8: Executive directors' continuing scheme interests in the performance share plan (audited information)

						Awards as at 1 April 2010		Awards granted during the year from notional dividends		Awards lapsed during the year	Awards vested and exercised during the year ended 31 March 2011		Awards as at 31 March 2011	
	Award date	Performance period	Market price of a share at award (p)	Number of shares	Value at award date £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Number of shares	Value £'000	Number of shares	Value £'000
Philip Green														
2007/08[1]	11.6.07	1.4.07 to 31.3.10	752.5	92,359	695.0	112,470	628.7	–	–	112,470	–	–	–	–
2008/09	6.8.08	1.4.08 to 31.3.11	697.0	75,121	523.6	85,670	478.9	4,973	28.7	–	–	–	90,643	536.1
2009/10	23.6.09	1.4.09 to 31.3.12	502.5	111,164	558.6	119,022	665.3	6,910	39.9	42,130	–	–	83,802	495.7
2010/11	12.7.10	1.4.10 to 31.3.13	554.5	100,739	558.6	–	–	5,848	33.8	71,123	–	–	35,464	209.8
Total													209,909	1,241.6
Charlie Cornish[2]														
2007/08[1]	11.6.07	1.4.07 to 31.3.10	752.5	45,183	340.0	55,019	307.6	–	–	55,019	–	–	–	–
2008/09	6.8.08	1.4.08 to 31.3.11	697.0	36,355	253.4	41,459	231.8	2,275	13.2	7,193	–	–	36,541	216.1
2009/10	23.6.09	1.4.09 to 31.3.12	502.5	53,771	270.2	57,571	321.8	2,798	16.3	29,940	-	-	30,429	180.0
Total													66,970	396.1
Tim Weller[2]														
2007/08[1]	11.6.07	1.4.07 to 31.3.10	752.5	53,157	400.0	64,730	361.8	–	–	64,730	–	–	–	–
2008/09	6.8.08	1.4.08 to 31.3.11	697.0	43,185	301.0	49,247	275.3	–	–	49,247	–	–	–	–
2009/10	23.6.09	1.4.09 to 31.3.12	502.5	64,636	324.8	69,204	386.9	–	–	69,204	–	–	–	–
Total													–	–
Russ Houlden														
2010/11	28.3.11	1.4.10 to 31.3.13	588.5	47,578	280.0	–	–	2,761	16.0	–	–	–	50,339	297.8
Total													50,339	297.8

Notes:

[1] The performance condition applicable to the 2007/08 PSP awards was 100 per cent TSR index. The TSR index was not achieved and so all awards lapsed.

[2] The committee decided not to make awards for 2010/11 to Charlie Cornish and Tim Weller.

Directors' remuneration report continued

ii) Matching share award plan

Details of the basis for MSAP awards are provided under the earlier section relating to annual bonus. A proportion of annual bonus received in shares results in a corresponding matching award from the company. An executive must retain his shares for the three-year holding period in order to receive the matching award and in addition matching shares are only released if performance criteria are met. The performance conditions for MSAP are applied on the same basis as for the PSP, so one-half of each matching share award is subject to the TSR index performance condition and one-half relates to operational performance measures.

The provisions that apply in the event of a change of control, capital reconstruction or winding up of the company are the same as for the PSP. The provisions applying to awards when an executive director leaves during the performance period are the same as for the PSP, so Tim Weller's awards under the MSAP lapsed with effect from 21 May 2010 following his resignation. The MSAP awards for Philip Green and Charlie Cornish will continue to apply, albeit pro-rated as shown in table 9, as they left the company under 'good leaver' provisions.

Table 9: Executive directors' continuing scheme interests in the matching share award plan (audited information)

						Awards as at 1 April 2010		Awards granted during the year from notional dividends		Awards lapsed during the year	Awards vested and exercised during the year ended 31 March 2011		Awards as at 31 March 2011	
	Award date	Performance period	Market price of a share at award (p)	Number of shares	Value at award date £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Number of shares	Value £'000	Number of shares	Value £'000
Philip Green														
2007/08[1]	30.7.07	1.4.07 to 31.3.10	662.0	51,624	341.7	62,863	351.4	–	–	55,006	7,857	42.2	–	–
2008/09	6.8.08	1.4.08 to 31.3.11	697.0	65,755	458.3	74,988	419.2	4,353	25.1	–	–	–	79,341	469.3
2009/10	23.6.09	1.4.09 to 31.3.12	502.5	33,956	170.6	36,356	203.2	2,110	12.2	12,869	–	–	25,597	151.4
Total											7,857	42.2	104,938	620.7
Charlie Cornish														
2007/08[1]	30.7.07	1.4.07 to 31.3.10	662.0	14,606	96.9	17,784	99.4	–	–	15,561	2,223	12.0	–	–
2008/09	6.8.08	1.4.08 to 31.3.11	697.0	18,475	128.8	21,068	117.8	1,156	6.7	3,655	–	–	18,569	109.8
Total													18,569	109.8
Tim Weller														
2007/08[1]	30.7.07	1.4.07 to 31.3.10	662.0	22,015	145.7	26,806	149.8	–	–	23,456	3,350	18.0	–	–
2008/09	6.8.08	1.4.08 to 31.3.11	697.0	41,929	292.2	47,816	267.3	–	–	47,816	–	–	–	–
2009/10	23.6.09	1.4.09 to 31.3.12	502.5	29,651	149.0	31,746	177.5	–	–	31,746	–	–	–	–
Total													–	–

Note:

[1] The performance condition applicable to the 2007/08 MSAP awards was 50 per cent TSR index and 50 per cent operational measures. The TSR index was not achieved but achievement of operational measures resulted in 12.5 per cent of the awards vesting, with the remainder lapsing.

Matched share investment and special long-term incentive schemes

During the year Philip Green's matched share investment scheme and Charlie Cornish's special long-term incentive scheme both vested, and they both exercised their options against matched awards of 136,607 shares (Philip Green) and 15,228 shares (Charlie Cornish). As noted in last year's report the arrangement for Tim Weller lapsed on 21 May 2010. The relevant details are shown in tables 10, 11 and 12.

Table 10: Philip Green's matched share investment scheme (audited information)

						Awards as at 1 April 2010		Awards granted during the year from notional dividends		Awards lapsed during the year	Awards vested and exercised during the year ended 31 March 2011		Awards as at 31 March 2011	
	Award date	Retention period	Market price of a share at award (p)	Number of shares	Value at award date £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Number of shares	Value £'000	Number of shares	Value £'000
Philip Green	16.1.07	13.2.06 to 12.2.11	761.0	100,000	761.0	129,533	724.1	7,074	40.8	–	136,607	785.0	–	–

Table 11: Charlie Cornish's special long-term incentive scheme (audited information)

						Awards as at 1 April 2010		Awards granted during the year from notional dividends		Awards lapsed during the year	Awards vested and exercised during the year ended 31 March 2011		Awards as at 31 March 2011	
	Award date	Retention period	Market price of a share at award (p)	Number of shares	Value at award date £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Number of shares	Value £'000	Number of shares	Value £'000
Charlie Cornish	16.3.07	1.4.06 to 31.3.10	723.0	47,027	340.0	60,912	340.5	–	–	45,684	15,228	81.9	–	–

Table 12: Tim Weller's matched share investment scheme (audited information)

						Awards as at 1 April 2010		Awards granted during the year from notional dividends		Awards lapsed during the year	Awards vested and exercised during the year ended 31 March 2011		Awards as at 31 March 2011	
	Award date	Retention period	Market price of a share at award (p)	Number of shares	Value at award date £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Number of shares	Value £'000	Number of shares	Value £'000
Tim Weller	14.2.07	1.7.06 to 30.6.11	772.5	39,000	301.3	50,515	282.4	–	–	50,515	–	–	–	–

Directors' remuneration report continued

Matched share investment scheme for Steve Mogford

Steve Mogford commenced employment with the company and was appointed as a director on 5 January 2011. As part of the terms of his recruitment, the company has agreed to establish a matched share investment scheme. This is a long-term incentive scheme under which Steve Mogford is the sole participant. Full details of the scheme are set out below.

The arrangement was introduced specifically to facilitate Steve Mogford's recruitment. The company considered the circumstances of his recruitment were such that it was important and necessary to introduce these arrangements to attract him as the new chief executive officer.

Steve Mogford first became eligible to participate in the scheme upon commencement of his employment on 5 January 2011. The principal terms are:

- He agreed to acquire, within 12 months of the start of his contract and at his expense, shares in the company to the value of £500,000 (investment shares);
- The company has agreed to match the investment shares on a 1:1 basis by making a matching share award which will take the form of a nil cost option over shares in the company (matched shares);
- The exercise price payable under the option shall be zero;
- The number of matched shares will be increased by the notional reinvestment of dividends payable over the course of the five-year period;
- In normal circumstances the option will be capable of being exercised by Steve Mogford on the fifth anniversary of him joining the company provided that:
  (a) he has maintained throughout this period a shareholding in the company of at least the number of investment shares; and
  (b) he remains an employee within the group for the whole of the five-year period;
- The matching award will be exercisable for a period of six months after the end of the five-year period and will lapse if not exercised by then. This period may be extended if Steve Mogford is prevented from exercising because of trading restrictions related to stock market regulations;
- In the event that Steve Mogford ceases to be an employee because of ill health, death, or there is a change of control, or he is dismissed without cause at any time during this five-year period the full amount of matched shares (including those notionally added by way of dividend reinvestment as mentioned above) will be capable of being exercised immediately;
- The matching share award will not be capable of assignment and, until it is exercised, Steve Mogford will have no right to vote in respect of the shares subject to the matching share award;
- Shares transferred pursuant to the exercise of the matching share award will rank *pari passu* in all respects with the shares in the company already in issue; and
- In the event of any increase or variation in the share capital of the company, the remuneration committee may recommend such adjustment to the matching share award as it considers reasonable.

The following provisions under the scheme cannot be amended to the advantage of Steve Mogford without the prior approval of the shareholders in general meeting (except for minor amendments to benefit the administration of the long-term incentive scheme, to take into account any change in legislation or to obtain or maintain favourable taxation, exchange control or regulatory treatment for Steve Mogford or the company or members of its group):

- The person to whom the matching share award may be made;
- The limits on the number of shares which may be used under the scheme;
- The maximum entitlement of Steve Mogford;
- The basis for determining Steve Mogford's entitlement to the matching share award or shares pursuant to it; and
- The basis for determining the adjustment of the matching share award granted under the scheme following any increase or variation in the share capital of the company.

The benefits to Steve Mogford under the scheme are not pensionable.

The company believes that this arrangement and particularly the time period it relates to, which extends beyond the implementation of the next regulatory review, is a forceful alignment of interests between Steve Mogford and shareholders.

As at 31 March 2011, Steve Mogford had acquired £400,000 of investment shares and was still required to acquire a further £100,000 before the matched shares would be awarded.

Matched share investment scheme for Russ Houlden

Russ Houlden commenced employment with the company and was appointed as a director on 1 October 2010. As part of the terms of his recruitment, the company has agreed to establish a matched share investment scheme. This is a long-term incentive scheme under which Russ Houlden is the sole participant. Full details of the scheme are set out in this section and shown in table 13.

The arrangement was introduced specifically to facilitate Russ Houlden's recruitment. The company considered the circumstances of his recruitment were such that it was important and necessary to introduce these arrangements to attract him as the new chief financial officer.

Russ Houlden first became eligible to participate in the scheme upon commencement of his employment on 1 October 2010. The principal terms are:

- He agreed to acquire, at the start of his contract and at his expense, shares in the company to the value of £210,000, equating to 36,710 shares at the point of acquisition (investment shares);
- The company has agreed to match the investment shares on a 1:1 basis by making a matching share award which will take the form of a nil cost option over 36,710 shares in the company (matched shares);
- The exercise price payable under the option shall be zero;
- The matched shares will be increased by the notional reinvestment of dividends payable over the course of the five-year period;
- In normal circumstances, the option will be capable of being exercised by Russ Houlden at the end of a five-year period commencing from the date he joined the company provided that:
  - (a) he has maintained throughout this period a shareholding in the company of at least the number of investment shares; and
  - (b) he remains an employee within the group for the whole of the five-year period;
- The matching award will be exercisable for a period of six months after the end of the five-year period and will lapse if not exercised by then. This period may be extended if Russ Houlden is prevented from exercising because of trading restrictions related to stock market regulations;
- In the event that Russ Houlden ceases to be an employee because of ill health, death, or there is a change of control, or he is dismissed without cause at any time during this five-year period the full amount of matched shares (including those notionally added by way of dividend reinvestment as mentioned above) will be capable of being exercised immediately;
- The matching share award will not be capable of assignment and, until it is exercised, Russ Houlden will have no right to vote in respect of the shares subject to the matching share award;
- Shares transferred pursuant to the exercise of the matching share award will rank *pari passu* in all respects with the shares in the company already in issue; and
- In the event of any increase or variation in the share capital of the company, the remuneration committee may recommend such adjustment to the matching share award as it considers reasonable.

The following provisions under the scheme cannot be amended to the advantage of Russ Houlden without the prior approval of the shareholders in general meeting (except for minor amendments to benefit the administration of the long-term incentive scheme, to take into account any change in legislation or to obtain or maintain favourable taxation, exchange control or regulatory treatment for Russ Houlden or the company or members of its group):

- The person to whom the matching share award may be made;
- The limits on the number of shares which may be used under the scheme;
- The maximum entitlement of Russ Houlden;
- The basis for determining Russ Houlden's entitlement to the matching share award or shares pursuant to it; and
- The basis for determining the adjustment of the matching share award granted under the scheme following any increase or variation in the share capital of the company.

The benefits to Russ Houlden under the scheme are not pensionable.

The company believes that this arrangement and particularly the time period it relates to, which extends beyond the implementation of the next regulatory review, is a forceful alignment of interests between Russ Houlden and shareholders.

GOVERNANCE

Table 13: Russ Houlden's matched share investment scheme (audited information)

						Awards as at 1 April 2010		Awards granted during the year from notional dividends		Awards lapsed during the year	Awards vested and exercised during the year ended 31 March 2011		Awards as at 31 March 2011	
	Award date	Retention period	Market price of a share at award (p)	Number of shares	Value at award date £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Number of shares	Value £'000	Number of shares	Value £'000
Russ Houlden	1.10.10	1.10.10 to 1.10.15	572.0	36,710	210.0	–	–	667	3.7	–	–	–	37,377	221.1

Directors' remuneration report continued

Contracts of service and compensation for termination

The company's policy is that the executive directors normally have one-year notice periods. The company may offer a longer notice period if it considers that necessary to recruit a new director. If it offers an initial notice period of more than one year, it will reduce that to a rolling one-year notice period after the initial period has expired. At 31 March 2011, all executive directors had one-year notice periods. Service contracts are with, and all remuneration and benefits are provided by, United Utilities PLC.

Contracts terminate automatically upon the director reaching age 65 unless the company agrees that a director may continue to work after attaining that age. No special arrangements apply if there is a change of control.

Service contracts do not provide explicitly for termination payments (other than for holidays due but not taken), liquidated damages or payments in lieu of notice. If a contract is to be terminated, the committee will, in each circumstance, determine the compensation that will be paid, normally by reference to fixed elements of remuneration and the notice period. There is no automatic entitlement to payments under the annual bonus or performance share plan. Any annual bonus payment is at the discretion of the company. Performance share plan vesting is at the discretion of the trustee based upon a recommendation from the remuneration committee and an award will not normally vest unless the termination is for a 'good leaver' reason (as determined by the committee) such as retirement or because of ill health, or there are other special circumstances. Payments are then pro-rated and subject to the performance conditions on which awards were granted (or modified, if appropriate) being satisfied.

The committee will apply such mitigation to any contractual obligations as it considers is fair and reasonable. It will take into account the best practice provisions of the code and will take legal advice on the company's liability to pay compensation. The company's policy is to take a robust line on reducing compensation, and it may phase payments for a departing employee in order to mitigate loss. Details of directors' contracts as at 31 March 2011 are set out in table 14.

During the year (as referred to earlier in the report) the committee introduced a framework to enable claw-back of payments made under the bonus scheme and long-term incentive arrangements for the company's most senior executives. Claw-back will apply in respect of bonus payments and long-term incentive awards made from 2010/11 onwards and will be considered in the event of fraud or a material error in the financial statements of the company. Claw-back actions may include the committee: requiring the executive to repay amounts received in respect of a bonus payment; reducing the number of shares awarded but not yet transferred to the executive in respect of a PSP award; reducing the number of shares awarded but not yet transferred to the executive in respect of an MSAP award; requiring the executive to repay amounts related to the value of shares already transferred as a result of PSP or MSAP awards vesting.

Table 14: Executive directors' service contracts as at 31 March 2011

	Date of contract	Unexpired term (to 65th birthday)	Notice period
Steve Mogford	5.1.11	27.6.21	12 months (rolling)
Russ Houlden	1.10.10	13.3.24	12 months (rolling)

Non-executive directorships

The company recognises that its executive directors may be invited to become non-executive directors of companies outside the company and exposure to such non-executive duties can broaden experience and knowledge, which will be to the benefit of the company. Subject to board approval (which will not be given if the proposed appointment is with a competing company, would otherwise lead to a material conflict of interest or could have a detrimental effect on a director's performance), executive directors are allowed to accept one non-executive directorship and to retain the fee. Steve Mogford will remain a non-executive director of Carillion PLC for which he will receive and retain an annual fee of £48,450.

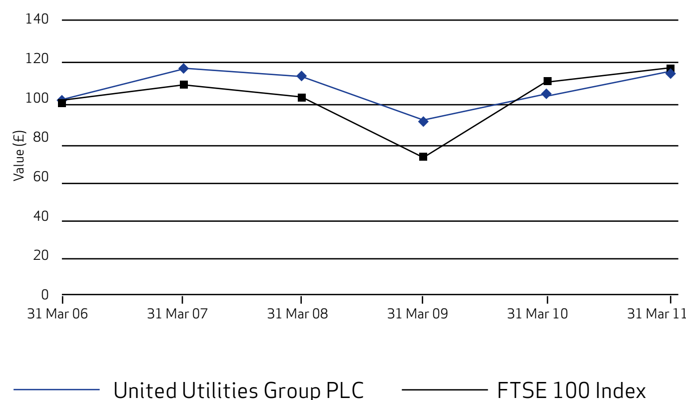
Performance graph

The performance graph compares the group's annual TSR performance (reflecting B shares issued to shareholders and the share consolidation) for the past five years against the FTSE 100 index.

The TSR indices used in the chart have been calculated in accordance with the Directors' Remuneration Report Regulations 2002 relative to a base date of 31 March 2006.

Total shareholder return

Source: Thomson Reuters



This graph shows the value, by 31 March 2011, of £100 invested in United Utilities on 31 March 2006 compared with the value of the FTSE 100 Index. The other points plotted are the values at intervening financial year ends.

Non-executive directors (including the chairman)

A committee of the board decides the remuneration of all of the non-executive directors other than the chairman. Its members are the chairman (Dr John McAdam) and the executive directors. The company's policy is to pay annual fees that reflect the responsibilities placed upon the non-executive directors. Fees are reviewed each year when account is taken of the level of fees paid by companies of similar size and complexity. Additional fees are paid to the chairs of the audit, corporate responsibility, remuneration and treasury committees, and to the senior independent non-executive director. Non-executive directors do not participate in any annual bonus or incentive plans, pension schemes, healthcare arrangements, the company's long-term incentive plans or employee share schemes. The company repays the reasonable expenses that non-executive directors incur in carrying out their duties as directors.

In 2010/11, the committee decided to review the fees paid to non-executive directors. The base annual fee increased to £55,500 a year (2010: £54,000). The chairman of the audit and treasury committee receives an additional annual fee of £15,000. The chairman of the remuneration committee and the senior independent non-executive director each receive an additional annual fee of £10,000. The chair of the corporate responsibility committee received an additional fee of £5,000 per annum with effect from 1 March 2011. The chairman's fee was increased from £250,000 to £257,000. The next review of non-executive directors' fees will be in September 2011.

Non-executive directors' remuneration for the year ended 31 March 2011 is set out in table 15.

Table 15: Non-executive directors' total fees (audited information)

	Year to 31 March 2011 £'000	Year to 31 March 2010 £'000
Dr John McAdam	254.4	250.0
Dr Catherine Bell	55.3	54.0
Paul Heiden	68.8	66.5
David Jones	64.9	64.0
Andrew Pinder[(1)]	16.8	54.0
Nick Salmon	64.9	64.0
Total	525.1	552.5

Note:

(1) Andrew Pinder stepped down from the board at the July 2010 AGM.

Terms of appointment

Non-executive directors' appointments are for an initial period of three years. In accordance with the company's articles of association the non-executive directors are subject to reappointment at the first AGM after their initial appointment and at an AGM at least every three years thereafter (if they are to be reappointed). After nine years in office, a non-executive director is required to seek reappointment each year at the AGM. At the AGM in 2011 all of the directors will be offering themselves for reappointment in accordance with the new UK Corporate Governance Code. Non-executive directors have letters of appointment, as opposed to contracts of service. In the event of early termination, for whatever reason, they are not entitled to receive compensation for loss of office.

The non-executive directors' letters of appointment can be inspected at the company's registered office and on the company's website, **unitedutilities.com**. The letters set out the expected time commitment and non-executives agree to devote sufficient time to meet what is expected of them. Table 16 summarises the terms of appointment for each non-executive director.

Table 16: Non-executive directors' terms of appointment

	Date first appointed to board	Date of last appointment AGM in	Reappoint no later than AGM
Dr John McAdam	4.2.08	2008	2011
Dr Catherine Bell	19.3.07	2010	2011
Paul Heiden	5.10.05	2009	2011
David Jones	3.1.05	2008	2011
Nick Salmon	4.4.05	2010	2011

Share interests

Details of beneficial interests in the company's ordinary shares as at 31 March 2011 held by the directors and their connected persons are set out in table 17. Except as described below and, in the case of the options granted as part of the incentive schemes described above, none of the directors had any further interests in the shares of the company.

GOVERNANCE

Directors' remuneration report continued

Table 17: Details of interests in shares held by directors

	At 1 April 2010 Ordinary	At 31 March 2011 Ordinary
Dr John McAdam	1,837	1,837
Philip Green	145,316	116,384
Dr Catherine Bell	–	5,000
Charlie Cornish	17,908	n/a
Paul Heiden	2,421	2,421
David Jones	–	–
Andrew Pinder	6,807	n/a
Nick Salmon	1,004	1,004
Tim Weller	76,019	n/a
Steve Mogford	n/a	70,814
Russ Houlden	n/a	36,736

In the period 1 April 2011 to 25 May 2011, additional shares were acquired by Steve Mogford (324 ordinary shares) and Russ Houlden (300 ordinary shares) in respect of their regular monthly contributions to the company's HM Revenue & Customs (HMRC) approved share incentive plan, 'ShareBuy'.

Employee share schemes

The board believes that share ownership is an effective way of strengthening employees' involvement in the development of the business and bringing together their interests and those of shareholders. It offers employees the opportunity to build up a shareholding in the company.

The main all-employee scheme is the HMRC approved share incentive plan, 'ShareBuy'. This is a flexible way for employees to acquire shares in the company by buying 'partnership' shares up to the lower of £1,500 or 10 per cent of taxable pay each year. The funds are deducted from pre-taxable pay and passed to an independent trustee who makes a monthly purchase of shares at full market price. Employees can reinvest the dividends on partnership shares to buy more shares under the plan. The company gives one free share for every five partnership shares bought, which need to be held in trust for a five-year term in order to retain the maximum taxation advantages.

A limited number of senior managers participate in a deferred share award scheme to facilitate the award of annual performance awards in the form of shares. Shares awarded are released after a waiting period of three years from the date the award is determined, provided that the individual remains employed within the company, with no additional performance conditions. Shares are forfeited in the event that an individual voluntarily leaves the company during the waiting period. Newly issued or treasury shares may not be used to satisfy awards under this plan. According to the rules of the deferred share scheme executive directors are not eligible to participate.

The directors' remuneration report was approved by the board of directors on 25 May 2011 and signed on its behalf by:

David Jones
Remuneration committee chairman

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and Article 4 of the International Accounting Standard (IAS) Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the management report, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the board on 25 May 2011 and signed on its behalf by:

Dr John McAdam
Chairman

Russ Houlden
Chief financial officer

Financial statements

57 Independent auditor's report
58 Consolidated income statement
59 Consolidated statement of comprehensive income
60 Consolidated and company statements of financial position
61 Consolidated statement of changes in equity
62 Company statement of changes in equity
63 Consolidated and company statements of cash flows
64 Accounting policies
73 Notes to the financial statements

Independent auditor's report

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

We have audited the financial statements of United Utilities Group PLC for the year ended 31 March 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity, the consolidated and company statements of cash flows, the accounting policies and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union 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, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 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 European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union 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 the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in 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:

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

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

Under the Listing Rules we are required to review:

- the directors' statement contained within the corporate governance report in relation to going concern;
- the part of the corporate governance statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Douglas King (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, United Kingdom
25 May 2011

Consolidated income statement

for the year ended 31 March

	Note	2011 £m	Restated* 2010 £m
Continuing operations			
Revenue	1, 2	1,513.3	1,573.1
Employee benefits expense:			
excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	3	(142.8)	(156.3)
pension schemes curtailment gains arising on amendment of pension obligations	3, 20	–	87.3
restructuring costs	3	(3.1)	(25.8)
Total employee benefits expense	3	(145.9)	(94.8)
Other reorganisation costs	2	(13.1)	–
Other operating costs	4	(355.4)	(321.8)
Other income	4	2.2	5.1
Depreciation and amortisation expense	4	(290.5)	(280.1)
Infrastructure renewals expenditure		(130.4)	(113.7)
Total operating expenses		(933.1)	(805.3)
Operating profit	2, 4	580.2	767.8
Investment income	5	2.8	6.2
Finance expense	6	(255.9)	(365.3)
Investment income and finance expense		(253.1)	(359.1)
Profit before taxation		327.1	408.7
Current taxation charge		(34.6)	(19.5)
Deferred taxation charge		(37.0)	(42.2)
Deferred taxation credit – change in taxation rate		99.0	–
Taxation	7	27.4	(61.7)
Profit after taxation from continuing operations		354.5	347.0
Discontinued operations			
Profit after taxation from discontinued operations	8	103.7	56.5
Profit after taxation		458.2	403.5
Earnings per share	10		
from continuing and discontinued operations			
Basic		67.2p	59.2p
Diluted		67.2p	59.2p
Earnings per share	10		
from continuing operations			
Basic		52.0p	50.9p
Diluted		52.0p	50.9p
Dividend per ordinary share	9	30.00p	34.30p

* The comparatives have been restated to reflect the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' and the adoption of IFRIC 18 'Transfers of Assets from Customers'. See note 32 and the accounting policies for details.

Consolidated statement of comprehensive income

for the year ended 31 March

	Note	2011 £m	2010 £m
Profit after taxation		458.2	403.5
Other comprehensive income			
Actuarial losses on defined benefit pension schemes	20	(44.7)	(125.4)
Deferred taxation on actuarial losses on defined benefit pension schemes	21	11.6	35.1
Revaluation of investments	14	1.1	3.4
Reclassification from other reserves arising on sale of financial asset investment	8	(6.6)	(36.6)
Net fair value (losses)/gains on cash flow hedges		(0.2)	0.9
Deferred taxation on net fair value losses/(gains) on cash flow hedges	21	0.1	(0.5)
Reclassification from other reserves arising on disposal of subsidiaries	8	1.8	–
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries	8	(26.1)	–
Foreign exchange adjustments		0.7	6.4
Total comprehensive income		395.9	286.8

There is no taxation impact on the items of other comprehensive income except where stated in the table above.

Consolidated and company statements of financial position

at 31 March

	Note	Group 2011 £m	Group Restated 2010 £m	Company 2011 £m	Company 2010 £m
ASSETS					
Non-current assets					
Property, plant and equipment	11	8,274.9	8,159.6	–	–
Goodwill	12	5.0	2.5	–	–
Other intangible assets	13	93.9	208.6	–	–
Investments	14	2.3	7.7	5,600.0	5,600.0
Trade and other receivables	16	–	56.5	–	–
Derivative financial instruments	19	363.3	378.5	–	–
		8,739.4	8,813.4	5,600.0	5,600.0
Current assets					
Inventories	15	47.6	74.8	–	–
Trade and other receivables	16	296.8	451.0	33.9	65.6
Cash and short-term deposits	17	255.2	301.5	–	–
Derivative financial instruments	19	2.0	18.3	–	–
		601.6	845.6	33.9	65.6
Total assets		9,341.0	9,659.0	5,633.9	5,665.6
LIABILITIES					
Non-current liabilities					
Trade and other payables	23	(249.8)	(182.9)	–	–
Borrowings	18	(5,203.6)	(5,307.9)	–	–
Retirement benefit obligations	20	(195.0)	(271.3)	–	–
Deferred tax liabilities	21	(1,293.1)	(1,355.4)	–	–
Provisions	22	(9.3)	(8.3)	–	–
Derivative financial instruments	19	(84.6)	(102.3)	–	–
		(7,035.4)	(7,228.1)	–	–
Current liabilities					
Trade and other payables	23	(433.0)	(594.4)	(2.3)	(14.3)
Borrowings	18	(109.7)	(168.3)	(1,502.2)	(1,507.4)
Current income tax liabilities		(70.5)	(89.0)	–	–
Provisions	22	(14.5)	(45.5)	–	–
Derivative financial instruments	19	(0.4)	(25.8)	–	–
		(628.1)	(923.0)	(1,504.5)	(1,521.7)
Total liabilities		(7,663.5)	(8,151.1)	(1,504.5)	(1,521.7)
Total net assets		1,677.5	1,507.9	4,129.4	4,143.9
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	24, 25	499.8	499.8	499.8	499.8
Share premium account	24	1.3	0.9	1.3	0.9
Revaluation reserve	24	158.8	158.8	–	–
Treasury shares	24	–	(0.1)	–	–
Cumulative exchange reserve	24	(3.1)	22.3	–	–
Capital redemption reserve	24	–	–	1,033.3	1,033.3
Merger reserve	24	329.7	329.7	–	–
Other reserves	24	–	3.8	–	–
Retained earnings	24	691.0	492.7	2,595.0	2,609.9
Shareholders' equity		1,677.5	1,507.9	4,129.4	4,143.9

The consolidated comparatives for 31 March 2010 have been restated to reflect the adoption of IFRIC 18 'Transfer of Assets from Customers'. See note 32 and the accounting policies for details. These financial statements for the group and United Utilities Group PLC (company number: 6559020) were approved by the board of directors on 25 May 2011 and signed on its behalf by:

Steve Mogford
Chief executive officer

Russ Houlden
Chief financial officer

Consolidated statement of changes in equity

for the year ended 31 March

Group	Share capital £m	Share premium account £m	Revaluation reserve £m	Treasury shares £m	Cumulative exchange reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2010	499.8	0.9	158.8	(0.1)	22.3	329.7	3.8	492.7	1,507.9
Profit after taxation	–	–	–	–	–	–	–	458.2	458.2
Other comprehensive income									
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	–	(44.7)	(44.7)
Deferred taxation on actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	–	11.6	11.6
Revaluation of investments	–	–	–	–	–	–	1.1	–	1.1
Reclassification from other reserves arising on sale of financial asset investment	–	–	–	–	–	–	(6.6)	–	(6.6)
Net fair value losses on cash flow hedges	–	–	–	–	–	–	(0.2)	–	(0.2)
Deferred taxation on net fair value losses on cash flow hedges	–	–	–	–	–	–	0.1	–	0.1
Reclassification from other reserves arising on disposal of subsidiaries	–	–	–	–	–	–	1.8	–	1.8
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries	–	–	–	–	(26.1)	–	–	–	(26.1)
Foreign exchange adjustments	–	–	–	–	0.7	–	–	–	0.7
Total comprehensive (expense)/income	–	–	–	–	(25.4)	–	(3.8)	425.1	395.9
Transactions with owners									
Dividends	–	–	–	–	–	–	–	(225.8)	(225.8)
New share capital issued	–	0.4	–	–	–	–	–	–	0.4
Shares disposed of from employee share trust	–	–	–	0.1	–	–	–	(0.1)	–
Equity-settled share-based payments	–	–	–	–	–	–	–	(0.1)	(0.1)
Exercise of share options	–	–	–	–	–	–	–	(0.8)	(0.8)
At 31 March 2011	499.8	1.3	158.8	–	(3.1)	329.7	–	691.0	1,677.5

Group	Share capital £m	Share premium account £m	Revaluation reserve £m	Treasury shares £m	Cumulative exchange reserve £m	Merger reserve £m	Other reserves £m	Retained earnings £m	Total £m
At 1 April 2009	499.8	0.7	158.8	(0.3)	15.9	313.0	36.6	420.2	1,444.7
Profit after taxation	–	–	–	–	–	–	–	403.5	403.5
Other comprehensive income									
Actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	–	(125.4)	(125.4)
Deferred taxation on actuarial losses on defined benefit pension schemes	–	–	–	–	–	–	–	35.1	35.1
Revaluation of investments	–	–	–	–	–	–	3.4	–	3.4
Reclassification from other reserves arising on sale of financial asset investment	–	–	–	–	–	–	(36.6)	–	(36.6)
Net fair value gains on cash flow hedges	–	–	–	–	–	–	0.9	–	0.9
Deferred taxation on net fair value gains on cash flow hedges	–	–	–	–	–	–	(0.5)	–	(0.5)
Foreign exchange adjustments	–	–	–	–	6.4	–	–	–	6.4
Total comprehensive income/(expense)	–	–	–	–	6.4	–	(32.8)	313.2	286.8
Transactions with owners									
Dividends	–	–	–	–	–	–	–	(226.2)	(226.2)
New share capital issued	–	0.2	–	–	–	–	–	–	0.2
Shares disposed of from employee share trust	–	–	–	0.2	–	–	–	(0.2)	–
Capital reorganisation*	–	–	–	–	–	16.7	–	(16.7)	–
Equity-settled share-based payments	–	–	–	–	–	–	–	2.4	2.4
At 31 March 2010	499.8	0.9	158.8	(0.1)	22.3	329.7	3.8	492.7	1,507.9

* The increase in the capital redemption reserve during the year ended 31 March 2010 is due to the redemption of the remaining £16.7 million of B shares in April 2009 (see note 24).

Company statement of changes in equity

for the year ended 31 March

Company	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 April 2010	499.8	0.9	1,033.3	2,609.9	4,143.9
Profit after taxation (see note 24)	–	–	–	211.8	211.8
Total comprehensive income	–	–	–	211.8	211.8
Transactions with owners					
Dividends (see note 9)	–	–	–	(225.8)	(225.8)
New share capital issued	–	0.4	–	–	0.4
Equity-settled share-based payments (see note 27)	–	–	–	(0.1)	(0.1)
Exercise of share options	–	–	–	(0.8)	(0.8)
At 31 March 2011	499.8	1.3	1,033.3	2,595.0	4,129.4

Company	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Total £m
At 1 April 2009	499.8	0.7	1,016.6	3,373.3	4,890.4
Loss after taxation (see note 24)	–	–	–	(522.9)	(522.9)
Total comprehensive expense	–	–	–	(522.9)	(522.9)
Transactions with owners					
Dividends (see note 9)	–	–	–	(226.2)	(226.2)
New share capital issued	–	0.2	–	–	0.2
Redemption of B shares*	–	–	16.7	(16.7)	–
Equity-settled share-based payments (see note 27)	–	–	–	2.4	2.4
At 31 March 2010	499.8	0.9	1,033.3	2,609.9	4,143.9

* The increase in the capital redemption reserve during the year ended 31 March 2010 is due to the redemption of the remaining £16.7 million of B shares in April 2009 (see note 24).

Consolidated and company statements of cash flows

for the year ended 31 March

		Group		Company	
			Restated		
		2011	2010	2011	2010
	Note	£m	£m	£m	£m
Operating activities					
Cash generated from continuing operations	29	784.6	945.5	235.1	233.0
Interest paid		(165.8)	(201.0)	(37.1)	(23.2)
Interest received and similar income		3.1	6.5	–	–
Tax paid		(46.5)	(51.2)	–	–
Tax received		–	50.5	2.7	9.1
Net cash generated from operating activities (continuing operations)		575.4	750.3	200.7	218.9
Net cash generated from operating activities (discontinued operations)		13.7	51.7	–	–
Investing activities					
Proceeds from disposal of discontinued operations	8	268.4	–	–	–
Transaction costs, deferred consideration and cash disposed		(97.9)	–	–	–
Proceeds from disposal of discontinued operations net of transaction costs, deferred consideration and cash disposed		170.5	–	–	–
Purchase of property, plant and equipment		(475.4)	(500.4)	–	–
Purchase of increased shareholding in joint venture		(5.0)	–	–	–
Purchase of other intangible assets		(20.2)	(33.9)	–	–
Proceeds from sale of property, plant and equipment		9.8	3.9	–	–
Purchase of investments	14	–	(0.8)	–	–
Net cash used in investing activities (continuing operations)		(320.3)	(531.2)	–	–
Net cash (used in)/generated by investing activities (discontinued operations)		(52.7)	78.5	–	–
Financing activities					
Proceeds from issue of ordinary shares		0.4	0.2	0.4	0.2
Proceeds from borrowings		94.1	265.0	24.6	24.2
Repayment of borrowings		(88.0)	(337.9)	–	–
Dividends paid to equity holders of the company	9	(225.8)	(226.2)	(225.8)	(226.2)
Return to shareholders on capital reorganisation		–	(16.7)	–	(16.7)
Net cash used in financing activities (continuing operations)		(219.3)	(315.6)	(200.8)	(218.5)
Net cash used in financing activities (discontinued operations)		(4.8)	(2.6)	–	–
Effects of exchange rate changes (discontinued operations)		(1.3)	13.5	–	–
Net increase/(decrease) in cash and cash equivalents (continuing operations)		35.8	(96.5)	(0.1)	0.4
Net (decrease)/increase in cash and cash equivalents (discontinued operations)		(45.1)	141.1	–	–
Cash and cash equivalents at beginning of the year	17	253.7	209.1	(2.3)	(2.7)
Cash and cash equivalents at end of the year	17	244.4	253.7	(2.4)	(2.3)

Accounting policies

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

a) 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.

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 upon management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates.

The comparatives for the consolidated income statement and consolidated statement of cash flows for the year ended 31 March 2010 have been restated to reflect the disclosure of the results of the non-regulated businesses disposed of during the year as discontinued operations (see note 8).

The adoption of the following standards and interpretations, at 1 April 2010, has had no material impact on the group's financial statements:

IFRIC 18 'Transfers of Assets from Customers'
The interpretation applies to all agreements in which an entity receives from a customer an item of property, plant and equipment (PPE) (or cash to construct or acquire an item of PPE) that the entity must then use, either to connect the customer to a network, or to provide the customer with ongoing access to a supply of goods or services, or to do both. Its application is retrospective and has been applied to transfers of assets from customers received on or after 1 July 2009. Hence, restatement of the information presented for the year ended 31 March 2010 is required.

The impact in the year ended 31 March 2011 in respect of transfers of assets from customers which were not previously accounted for is to record PPE of £59.8 million (2010: £36.8 million) with a credit of the same amount to deferred revenue within current and non-current trade and other payables combined. The assets will be depreciated over their useful life and the deferred revenue released over the same period.

Certain transfers of assets from customers were previously recognised immediately within revenue and operating expenses and have therefore been reclassified to deferred revenue and PPE thereby reducing both revenue and operating expenses, as they would otherwise have been reported, by £3.6 million in the year ended March 2011 (2010: £2.5 million).

As a result of the adoption of this interpretation, the group has presented a restated consolidated income statement and consolidated statement of financial position for the year ended 31 March 2010.

IFRS 3 'Business Combinations'
This revised standard, issued in January 2008, is effective for periods commencing on or after 1 July 2009 and was endorsed by the EU on 12 June 2009. It will have a material impact on the group's financial statements only if it enters into any relevant transactions in the future.

'Improvements to IFRSs (2009)'
This is a collection of amendments to 12 standards as part of the International Accounting Standards Board (IASB) programme of annual improvements with no material impact on the group's financial statements. The improvements were issued in April 2009, are effective for periods commencing on or after 1 January 2010 and were endorsed by the EU on 23 March 2010.

Going concern

The financial statements have been prepared on the going concern basis. The directors have set out factors considered on concluding the appropriateness of this presentation in the financial reporting and going concern section of the corporate governance report.

Operating profit

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

b) Basis of consolidation

The group financial statements consolidate the financial statements of the company and entities controlled by the company (its subsidiaries), made up to 31 March each year, and incorporate the results of its share of jointly controlled entities 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.

c) Non-current assets held for sale

Non-current assets (and disposal groups comprising assets held for sale and the associated liabilities) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

d) Intangible assets

Goodwill

Goodwill arising on consolidation is recognised as an asset. Following initial recognition, goodwill is subject to impairment reviews, at least annually, and measured at initial value less accumulated impairment losses. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

On disposal of a subsidiary, or jointly controlled entity, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets

Other intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful 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;
- Other intangible assets 2 to 20 years; and
- Service concessions 20 to 30 years.

e) Property, plant and equipment

Property, plant and equipment comprises water and wastewater infrastructure assets and other assets (including properties and overground plant and equipment).

The useful lives of these assets are as follows:

- Water and wastewater infrastructure assets:
  - Impounding reservoirs 200 years;
  - Mains and raw water aqueducts 30 to 290 years;
  - Sewers 60 to 285 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.

Water and wastewater infrastructure assets

Infrastructure assets comprise a network of water and wastewater 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 deemed cost, less the estimated residual value, evenly over their useful lives.

Employee costs incurred in implementing the capital schemes of the group are capitalised within infrastructure assets.

Accounting policies
continued

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 lives, based upon management's judgement and experience:

Depreciation methods, residual values and useful lives are reassessed annually and, if necessary, changes are accounted for prospectively. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in other income.

f) Impairment of tangible and intangible assets excluding goodwill
Intangible assets with definite useful 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.

g) 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 a party to the contractual provisions of the instrument.

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

Financial investments
Investments (other than interests in associates, subsidiaries, joint ventures and fixed deposits) are initially measured at fair value, including transaction costs. Investments classified as available for sale in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Investments classified as loans and receivables in accordance with IAS 39 'Financial Instruments: Recognition and Measurement' are measured at amortised cost.

Service concession financial assets
See note r.

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 upon 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, except where they are designated within a fair value hedge relationship or as fair value through profit or loss. 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.

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. Designation is made where it can be demonstrated from inception that a highly effective fair value hedge exists.

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

Where designated, bonds and loans are initially measured at fair value being the cash proceeds received, net of any direct issue costs, 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. 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.

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 19).

h) 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 19).

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.

i) 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.

j) Long-term contract accounting

Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at each reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Accounting policies
continued

k) 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 upon 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.

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 tax 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 upon 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.

l) Employee benefits

Retirement benefit obligations

The group operates a number of defined benefit pension schemes, which are independent of the group's finances, for the majority of its employees. Actuarial valuations of the schemes are carried out as determined by the pension scheme trustees using the projected unit credit method at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. In any intervening years, the actuaries review the continuing appropriateness of the contribution rates.

Defined benefit assets are measured at fair value while liabilities are measured at present value. The difference between the two amounts is recognised as a surplus or obligation in the statement of financial position.

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

All actuarial gains and losses, excluding curtailment 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 defined contribution pension schemes. Payments are charged as employee costs as they fall due. The group has no further payment obligations once the contributions have been paid.

Share-based compensation arrangements

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

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based upon estimates of the number of options that are expected to vest. Fair value is based upon both simulation and binomial models, according to the relevant measures of performance in accordance with the advice of an expert. The group has the option to settle some of these equity-settled share-based payments on a net basis 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.

m) 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. Liabilities for environmental remediation and decommissioning costs are recognised, and capitalised in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' as appropriate, when there is a legal or constructive obligation, environmental assessments indicate that clean-up is probable, and the associated costs can be reliably estimated.

n) 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 the transaction becomes fully earned or collectability is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred income.

o) 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.

p) Leases

Leases are classified according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases.

Operating leases

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

q) Inventories

Inventories are stated at cost less any provision necessary to recognise damage and obsolescence. Finished goods and goods for resale are stated at the lower of cost (comprising, where applicable, direct materials, direct labour costs and appropriate overheads incurred in bringing them to their present location and condition) and net realisable value.

Properties held for resale are included at the lower of cost and net realisable value. 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.

r) Service concessions

IFRIC 12 'Service Concession Arrangements' addresses accounting by private sector operators involved in the provision of public sector infrastructure assets and services. Relevant assets within its scope are classified as financial assets (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement); or intangible assets (where the operator's future cash flows are not specified); or a combination of both (where the operator's return is provided partially by a financial asset and partially by an intangible asset).

The group bore demand risk on revenues arising from its service concession arrangements in Scotland and Bulgaria. In accordance with IFRIC 12, the related assets were therefore classified as intangible assets (see note 13). The service concession arrangements in Australia had a mix of revenue streams; some were fixed, while others varied depending upon demand levels. The related assets were therefore classified as financial asset loan receivables or intangible assets as appropriate (see notes 16 and 13).

s) 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 upon the information available. These 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.

Accounting policies
continued

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

Carrying value of property, plant and equipment

The estimated useful economic lives of property, plant and equipment (PPE) are based upon management's judgement and experience. When management identifies that actual useful 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 lives could impact operating results both positively and negatively, although historically few changes to estimated useful lives have been required.

The group is required to evaluate the carrying values of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable. An impairment review requires management to make subjective judgements concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Revenue recognition

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 the transaction becomes fully earned or 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 upon 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 upon estimated usage from the last billing through to each reporting date. The estimated usage is based upon historical data, judgement and assumptions; actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined. For customers who do not have a meter, the receivable billed is dependent upon the rateable value of the property, as assessed by an independent rating officer.

For the group's other businesses, revenue is recognised in line with activity and performance, normally using amounts specified in contractual obligations and when recoverability is reasonably assured. In general:

- variable revenues, for example, revenues dependent upon customer volumes in the period, are recognised only when those variable activities are performed;
- performance incentives are recognised in revenue only to the extent that it is probable that the related economic benefits will flow to the group; and
- revenue invoiced or received in advance of performance is recognised as deferred income. When performance occurs, the deferred income is released and reported as revenue.

A breakdown of revenues by segment is contained in note 2 to the financial statements.

Provision for doubtful receivables

At each reporting date, the company and each of its subsidiaries evaluate the recoverability of trade receivables and record provisions for doubtful receivables based upon experience. These provisions are based upon, amongst other things, customer category and 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.

Accounting for 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 30, unless the possibility of transferring economic benefits is remote.

Retirement benefits

The group operates a number of defined benefit schemes, two of which have a defined contribution section, which are independent of the group's finances. Actuarial valuations of the schemes are carried out as determined by the trustees at intervals of not more than three years. The pension cost under IAS 19 'Employee Benefits' is assessed in accordance with the advice of a firm of actuaries based upon the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based upon information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note 20. Profit before taxation and net assets are affected by the actuarial assumptions used. These assumptions include investment returns on the schemes' assets, discount rates, pay growth and increases to pensions in payment and deferred pensions and may differ from actual results due to changing market and economic conditions and longer or shorter lives of participants.

Derivatives and borrowings – hedging

The group's default treatment is that borrowings are carried at amortised cost, whilst associated hedging derivatives are recognised at fair value. This accounting measurement mismatch 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 are designated at fair vaue through profit or loss where the designation of such borrowings within a fair value hedge relationship is not feasible despite there being a significant fair value offset between the hedged item and the derivative, and where otherwise the inconsistent accounting treatment would result in a significant accounting measurement mismatch.

Derivatives and borrowings – valuation

Designated borrowings and derivatives recorded at fair value 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.

The valuation of debt designated in a fair value hedge relationship is calculated based upon 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 upon indicative pricing data.

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.

Accounting policies
continued

t) 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. 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 – amendment', issued in October 2010, is effective for periods commencing on or after 1 January 2013 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 the 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.

The directors anticipate that the adoption of the following standards and interpretations will have no material impact on the group's financial statements:

- IAS 12 'Income taxes – amendment', issued in December 2010, is effective for periods commencing on or after 1 January 2012 but not yet endorsed by the EU;
- IFRIC 14 'Prepayments of a Minimum Funding Requirement – amendment', issued in November 2009, is effective for periods commencing on or after 1 January 2011 and was endorsed by the EU on 19 July 2010;
- 'Improvements to IFRS (2010)', issued in May 2010, is effective for periods commencing on or after 1 January 2011 and was endorsed by the EU on 18 February 2011;
- IFRS 7 'Financial Instruments – amendment', issued in May 2010, is effective for periods commencing on or after 1 January 2011 and was endorsed by the EU on 18 February 2011;
- IFRS 7 'Financial Instruments – amendment', issued in October 2010, is effective for periods commencing on or after 1 July 2011 but has not yet been endorsed by the EU. This will have a material impact on the group's financial statements only if it enters into any relevant transactions in the future;
- IFRS 10 'Consolidated financial standards', issued in May 2011, is effective for periods commencing on or after 1 January 2013 but has not yet been endorsed by the EU;
- IAS 27 'Separate financial statements – revised', issued in May 2011, is effective for periods commencing on or after 1 January 2013 but has not yet been endorsed by the EU;
- IFRS 11 'Joint arrangements', issued in May 2011, is effective for periods commencing on or after 1 January 2013 but has not yet been endorsed by the EU. The adoption of IFRS 11 is expected to remove the option currently taken by the group to proportionally consolidate its joint ventures and require equity accounting;
- IAS 28 'Investments in associates and joint ventures – revised', issued in May 2011, is effective for periods commencing on or after 1 January 2013 but has not yet been endorsed by the EU. The revision to IAS 28 is expected to remove the option currently taken by the group to proportionally consolidate its joint ventures and require equity accounting;
- IFRS 12 'Disclosure of interests in other entities', issued in May 2011, is effective for periods commencing on or after 1 January 2013 but has not yet been endorsed by the EU; and
- IFRS 13 'Fair value measurement', issued in May 2011, is effective for periods commencing on or after 1 January 2013 but has not yet been endorsed by the EU.

New and revised standards and interpretations in issue but not yet effective which are not considered relevant to the activities of the group are as follows:

- IAS 24 'Related Party Disclosures – amendment', issued in November 2009, is effective for periods commencing on or after 1 January 2011 and was endorsed by the EU on 19 July 2010;
- IFRS 1 'First-time Adoption – amendment', issued in January 2010, is effective for periods commencing on or after 1 July 2010 and was endorsed by the EU on 30 June 2010;
- IFRS 1 'First-time Adoption – amendment', issued in December 2010, is effective for periods commencing on or after 1 July 2011 but has not yet been endorsed by the EU; and
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments', issued in November 2009, is effective for periods commencing on or after 1 July 2010 and was endorsed by the EU on 23 July 2010.

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:

	2011 £m	Restated 2010 £m
Provision of goods and services (see note 2)	1,513.3	1,573.1
Revenue	1,513.3	1,573.1
Dividend income (see note 4)	0.1	2.4
Investment income (see note 5)	2.8	6.2
Total revenue	1,516.2	1,581.7

During the year ended 31 March 2011, £0.4 million of revenue was derived from exchanges of goods or services in relation to IFRIC 18 'Transfers of Assets from Customers' (2010: £nil).

Total revenue information in respect of discontinued operations is given in note 8.

2 SEGMENT REPORTING

The group's revenue predominantly arises from the provision of services.

The group now has one operating division for management purposes, being regulated activities. This forms the basis on which the operating segment information, presented in accordance with IFRS 8 'Operating Segments', is reported.

During the year, the group completed its non-regulated disposal programme and, in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the results of the relevant disposal groups have been reclassified from the previously reported non-regulated activities operating segment to discontinued operations in the consolidated income statement and the comparative information has been restated accordingly (see note 8).

The segmental information presented has been restated to reflect the changes in the group. The elements of the previously reported non-regulated activities operating segment which have not been classified as discontinued operations no longer form a separately reportable segment as required by IFRS 8 and are therefore included within 'all other segments'. Segmental information in respect of discontinued operations is included in note 8.

The regulated activities segment is as previously reported and includes the results of the regulated businesses of United Utilities Water PLC.

The 'all other segments' category includes the results of United Utilities Property Services Limited, United Utilities Group PLC, the remaining non-regulated businesses not classified as discontinued and other group holding companies.

The disclosure correlates with the information provided to the board of United Utilities Group PLC (board) for the purposes of assessing performance and allocating resources. The board reviews revenue, underlying operating profit and operating profit by segment, but assets and liabilities are reviewed at a consolidated level. Investment income and finance expense and taxation are managed on a group basis and are not allocated to operating segments.

Trading between segments is carried out on an arm's length basis and transactions are priced accordingly. External market prices are used where available; where not available, margins generated are compared to those generated from external sales and adjusted where necessary.

Notes to the financial statements
continued

2 SEGMENT REPORTING CONTINUED

2011	Regulated activities £m	All other segments £m	Group £m
Continuing operations			
Total revenue	1,477.3	48.0	1,525.3
Inter-segment revenue	(0.4)	(11.6)	(12.0)
External revenue	1,476.9	36.4	1,513.3
Underlying segmental operating profit	580.1	16.3	596.4
Restructuring costs	(2.1)	(1.0)	(3.1)
Other reorganisation costs	(7.0)	(6.1)	(13.1)
Segmental operating profit	571.0	9.2	580.2
Investment income			2.8
Finance expense			(255.9)
Profit before taxation			327.1

2010 restated	Regulated activities £m	All other segments £m	Group £m
Continuing operations			
Total revenue	1,538.2	40.8	1,579.0
Inter-segment revenue	(0.8)	(5.1)	(5.9)
External revenue	1,537.4	35.7	1,573.1
Underlying segmental operating profit	700.8	5.5	706.3
Restructuring costs	(15.8)	(10.0)	(25.8)
Pension schemes curtailment gains arising on amendment of pension obligations	76.7	10.6	87.3
Segmental operating profit	761.7	6.1	767.8
Investment income			6.2
Finance expense			(365.3)
Profit before taxation			408.7

For further information on the pension schemes curtailment gains arising on amendment of pension obligations see note 20.

2011	Regulated activities £m	All other segments £m	Group £m
Other information			
Depreciation and amortisation	288.7	1.7	290.5
Statement of financial position			
Segment total assets	8,855.7	485.3	9,341.0

2010 restated	Regulated activities £m	All other segments £m	Discontinued operations* £m	Group £m
Other information				
Depreciation and amortisation	249.9	30.2	–	280.1
Statement of financial position				
Segment total assets	8,607.4	488.0	563.6	9,659.0

* Depreciation and amortisation in respect of the group's discontinued operations is disclosed in note 8.

Segment results and assets include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

			Continuing operations			*Discontinued operations*	*Total*
2011	UK £m	Rest of world £m	Total £m	UK £m	Rest of world £m	Total £m	Group £m
External revenue	1,496.2	17.1	1,513.3	296.3	57.1	353.4	1,866.7
Non-current assets*	8,321.1	55.0	8,376.1	–	–	–	8,376.1

			Continuing operations			*Discontinued operations*	*Total*
2010 restated	UK £m	Rest of world £m	Total £m	UK £m	Rest of world £m	Total £m	Group £m
External revenue	1,555.5	17.6	1,573.1	754.2	109.3	863.5	2,436.6
Non-current assets*	8,066.4	53.3	8,119.7	191.3	123.9	315.2	8,434.9

* Segmental non-current assets exclude financial instruments.

The group does not rely on any major customers.

Notes to the financial statements
continued

3 DIRECTORS AND EMPLOYEES

Directors' remuneration

	2011 £m	2010 £m
Fees to non-executive directors	0.5	0.6
Salaries	1.4	1.6
Benefits	0.1	0.1
Bonus	2.2	2.0
	4.2	4.3

Further information about the remuneration of individual directors and details of their pension arrangements are provided in the directors' remuneration report on pages 41 to 54.

Remuneration of key management personnel

	2011 £m	2010 £m
Salaries and short-term employee benefits	6.6	6.1
Post-employment benefits	0.5	0.6
	7.1	6.7

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

Employee benefits expense (including directors)

The employee benefits expense excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs in the consolidated income statement reconciles to the table on page 77 as follows:

Group	2011 £m	Restated 2010 £m
Continuing operations		
Wages and salaries	174.6	187.5
Social security costs	13.4	14.2
Post-employment benefits excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	17.1	24.8
Charged to capital schemes	(62.3)	(70.2)
Employee benefits expense excluding pension schemes curtailment gains and restructuring costs	**142.8**	**156.3**
Pension schemes curtailment gains arising on amendment of pension obligations	–	(87.3)
Restructuring costs	3.1	25.8
Employee benefits expense attributable to continuing operations	**145.9**	**94.8**

The employee benefits expense information in respect of discontinued operations is included in note 8.

Group	2011 £m	2011 £m	Restated 2010 £m	Restated 2010 £m
Continuing operations				
Wages and salaries		174.6		187.5
Social security costs		13.4		14.2
Post-employment benefits:				
Pension costs excluding curtailment gains arising on amendment of pension obligations and restructuring costs	17.1		24.8	
Pension schemes curtailment gains arising on amendment of pension obligations	–		(87.3)	
		17.1		(62.5)
Restructuring costs		3.1		25.8
		208.2		165.0
Charged to capital schemes		(62.3)		(70.2)
Employee benefits expense		145.9		94.8
Less: employee benefits expense attributable to joint ventures		(1.9)		(1.4)
Total employee benefits expense excluding joint ventures		144.0		93.4

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

	2011 £m	Restated 2010 £m
Defined benefit pension expense/(income) charged/(credited) to operating profit:		
Pension costs excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	11.9	19.3
Pension schemes curtailment gains arising on amendment of pension obligations	–	(87.3)
	11.9	(68.0)
Defined contribution pension costs (see note 20)	5.2	5.5
	17.1	(62.5)

In addition to the above, pension curtailments arising on reorganisation of £2.7 million (2010 restated: £9.3 million) are included within restructuring costs within continuing total employee benefits expense and £0.7 million (2010: £nil) are included within other reorganisation costs, resulting in total defined benefit pension expense of £15.3 million (2010: £58.7 million income) (see note 20).

Average number of employees during the year (full-time equivalent including directors)

	2011 number	Restated 2010 number
Continuing operations		
Regulated activities	4,218	4,257
All other segments	517	763
	4,735	5,020

The average number of employees in respect of discontinued operations is included in note 8.

The company has no employees.

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:

	2011 £m	Restated 2010 £m
Other operating costs		
Hired and contracted services	166.8	172.3
Materials	45.3	47.5
Power	49.1	62.4
Property rates	65.1	53.9
Charge for bad and doubtful receivables	30.6	56.3
Other operating leases payable:		
Property	4.9	4.9
Plant and equipment	0.8	0.9
Amortisation of deferred grants and contributions (see note 23)	(6.9)	(6.7)
Research and development expenses	0.9	0.8
Other	(1.2)	(70.5)
	355.4	321.8
Other income		
Dividend income	(0.1)	(2.4)
Loss on disposal of property, plant and equipment	2.7	3.0
Other income	(4.8)	(5.7)
	(2.2)	(5.1)
Depreciation and amortisation expense		
Depreciation of property, plant and equipment: owned assets	258.3	254.1
Amortisation of other intangible assets	32.2	26.0
	290.5	280.1

During the year, the group obtained the following services from its auditor, at the costs detailed below:

	2011 £m	2010 £m
Statutory audit of the financial statements	0.3	0.4
Other fees to the auditor:		
Local statutory audits for subsidiaries	0.2	0.4
Other audit related	0.1	–
Regulatory reporting	0.1	0.2
Due diligence and transaction support	0.6	5.5
	1.3	6.5

The considerations undertaken in appointing the external auditor to perform due diligence and transaction support are set out in the corporate governance report on page 30.

The operating profit information in respect of discontinued operations is included in note 8.

5 INVESTMENT INCOME

	2011 £m	Restated 2010 £m
Interest receivable on short-term bank deposits held at amortised cost	2.8	6.2

6 FINANCE EXPENSE

	2011 £m	Restated 2010 £m
Interest payable		
Interest payable on borrowings held at amortised cost	271.0	206.9
Intercompany interest – payable to discontinued operations	0.3	0.3
	271.3	207.2
Fair value (gains)/losses on debt and derivative instruments[(1)]		
Fair value hedge relationships:		
Borrowings	(20.2)	(110.6)
Designated swaps	11.1	124.7
	(9.1)	14.1
Financial instruments at fair value through profit or loss:		
Borrowings designated at fair value through profit or loss[(2)]	(0.8)	8.0
Held for trading derivatives – economic hedge	1.1	86.0
	0.3	94.0
Held for trading derivatives – 2005–10 regulatory hedges	(7.3)	(47.5)
Held for trading derivatives – 2010–15 regulatory hedges	1.4	49.7
Net (receipts)/payments on swaps and debt under fair value option	(6.2)	24.2
Held for trading derivatives – other[(3)]	(3.1)	0.7
Other	4.8	1.3
	(10.4)	28.4
Net fair value (gains)/losses on debt and derivative instruments[(4)]	(19.2)	136.5
Expected return on pension schemes' assets (see note 20)	(102.2)	(83.8)
Interest cost on pension schemes' obligations (see note 20)	106.0	105.4
Net pension interest expense	3.8	21.6
	255.9	365.3

Notes:

(1) Fair value (gains)/losses on debt and derivative instruments includes foreign exchange gains of £15.2 million (2010: £44.1 million), excluding those on instruments measured at fair value through profit or loss. These gains are largely offset by fair value losses on derivatives.

(2) Includes £4.1 million losses (2010: £48.2 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 £5.7 million income (2010: £22.2 million expense) due to interest on swaps and debt under fair value option.

Interest payable for the year ended 31 March 2011 is stated net of £4.4 million (2010: £0.5 million) borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment during the year. This has been calculated by applying a capitalisation rate of 4.6 per cent (2010: 3.3 per cent) to expenditure on such assets as prescribed by IAS 23 (Revised 2007) 'Borrowing Costs'.

Notes to the financial statements

continued

7 TAXATION

	2011 £m	Restated 2010 £m
Current taxation		
UK corporation tax	61.8	65.7
Foreign tax	1.9	0.9
Prior year adjustments	(29.1)	(47.1)
	34.6	19.5
Deferred taxation		
Current year	25.7	48.8
Prior year adjustments	11.3	(6.6)
	37.0	42.2
Change in tax rate	(99.0)	–
	(62.0)	42.2
Total taxation (credit)/charge for the year	(27.4)	61.7

The tables below reconcile the notional tax charge at the UK corporation tax rate to the effective tax rate for the year:

	Continuing operations		*Discontinued operations*		*Total*	
	2011 £m	2011 %	2011 £m	2011 %	2011 £m	2011 %
Profit before taxation	327.1		23.8		350.9	
Taxation at the UK corporation tax rate of 28 per cent	91.6	28.0	6.7	28.0	98.3	28.0
Adjustments in respect of prior periods	(17.8)	(5.4)	1.8	7.6	(16.0)	(4.5)
Change in tax rate	(99.0)	(30.3)	0.9	3.8	(98.1)	(28.0)
Net income not taxable	(2.2)	(0.7)	(0.2)	(0.8)	(2.4)	(0.7)
Total taxation (credit)/charge and effective tax rate for the year	(27.4)	(8.4)	9.2	38.6	(18.2)	(5.2)

Restated	*Continuing operations*		*Discontinued operations*		*Total*	
	2010 £m	2010 %	2010 £m	2010 %	2010 £m	2010 %
Profit before taxation	408.7		65.5		474.2	
Taxation at the UK corporation tax rate of 28 per cent	114.4	28.0	18.4	28.0	132.8	28.0
Adjustments in respect of prior periods	(53.7)	(13.1)	(0.8)	(1.2)	(54.5)	(11.5)
Net expense/(income) not deductible/(taxable)	1.0	0.2	(8.6)	(13.1)	(7.6)	(1.6)
Total taxation charge and effective tax rate for the year	61.7	15.1	9.0	13.7	70.7	14.9

The continuing operations deferred taxation credit for the year ended 31 March 2011 includes a credit of £99.0 million to reflect both the change enacted on 27 July 2010 to reduce the mainstream rate of corporation tax from 28 per cent to 27 per cent and subsquent change enacted on 29 March 2011 to reduce the mainstream corporation tax rate further to 26 per cent effective from 1 April 2011. There will be a further phased reduction in the mainstream corporation tax rate to 23 per cent by 1 April 2014. The total deferred taxation credit in respect of this further reduction is expected to be in the region of £150.0 million.

A taxation credit of £17.8 million (2010: £53.7 million) arose in the year in continuing operations in relation to the agreement of prior years' UK taxation matters.

8 DISCONTINUED OPERATIONS

Disposal of subsidiaries and joint ventures

During the year, the group completed its non-regulated disposal programme which, including the prior year disposals, achieved a total enterprise value of £579.2 million. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' the relevant disposal groups are therefore classified as discontinued operations in the consolidated income statement and consolidated statement of cash flows.

The businesses included in the group's non-regulated disposal programme and the related transactions were as follows:

- the principal non-regulated water interests in the United Kingdom and Europe to Veolia Water UK PLC on 9 November 2010;
- United Utilities Australia Pty Limited and related entities to a consortium led by Mitsubishi Corporation on 22 October 2010;
- the 50 per cent holding in the non-regulated gas and electricity meter ownership business, Meter Fit, to the existing joint venture partner, Marlin Acquisitions Limited, on 1 October 2010; and
- the other non-regulated businesses, including the electricity operations and maintenance business in the North West of England, the gas and electricity metering installation contract with British Gas Trading and the Derbyshire municipal solid waste (MSW) preferred bidder position and other MSW related interests.

The group has retained its holding in AS Tallinna Vesi (Tallinn Water) (see notes 12 and 14).

The results of the discontinued operations up until the point of disposal during the year ended 31 March 2011 and the comparative year, which have been disclosed separately in the consolidated income statement, as required by IFRS 5, are as follows:

	2011 £m	2010 £m
Revenue	353.4	863.5
Employee benefits expense:		
Excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	(88.6)	(206.1)
Pension schemes curtailment gains arising on amendment of pension obligations	–	5.0
Restructuring costs	(3.8)	(4.9)
Total employee benefits expense	(92.4)	(206.0)
Other reorganisation credits	7.0	–
Other operating costs	(223.5)	(580.7)
Other income	(2.4)	(2.0)
Depreciation and amortisation expense	(6.3)	(24.7)
Operating profit	35.8	50.1
Investment income and finance expense	(7.0)	(10.4)
Profit on disposal of investments	–	36.6
Evaluation and disposal costs relating to discontinued operations	(5.0)	(10.8)
Profit before taxation	23.8	65.5
Current taxation charge	(1.8)	(2.5)
Deferred taxation charge	(7.4)	(6.5)
Taxation	(9.2)	(9.0)
Profit after taxation	14.6	56.5
Profit on disposal of discontinued operations after taxation	89.1	
Total profit after taxation from discontinued operations	103.7	

Notes to the financial statements

continued

8 DISCONTINUED OPERATIONS CONTINUED

The net assets and liabilities at disposal and the profit on disposal were as follows:

	2011 £m
Total proceeds*	268.4
Property, plant and equipment	(176.7)
Goodwill (see note 12)	(17.9)
Other intangible assets	(119.6)
Investments (see note 14)	(6.6)
Non-current trade and other receivables	(59.4)
Inventories	(11.7)
Current trade and other receivables	(203.1)
Cash and short-term deposits	(50.0)
Trade and other payables	230.8
Joint venture debt	228.7
Provisions (see note 22)	17.9
Retirement benefit obligations (see note 20)	7.3
Deferred taxation assets (see note 21)	(4.0)
Net assets disposed of	(164.3)
Transaction and other costs of disposal	(45.9)
Reclassification from other reserves arising on disposal of financial asset investment	6.6
Reclassification from other reserves arising on disposal of subsidiaries	(1.8)
Reclassification from cumulative exchange reserve arising on disposal of subsidiaries	26.1
Profit on disposal of discontinued operations after taxation	**89.1**

* Total fair value of proceeds comprised cash of £268.4 million. The enterprise value of £447.1 million incorporates cash consideration received added to the market value of the debt disposed of which at the date of disposal totalled £178.7 million. Combined with the cash consideration received from the disposal of investments in the prior year of £132.1 million, the non-regulated disposal programme enterprise value totalled £579.2 million.

Disposal of investments

As reported in the prior year, the group disposed of its 11.7 per cent economic interest in Manila Water Company (MWC) to Ayala Corporation and Philwater Holdings Company Inc, both existing shareholders of MWC, for cash consideration of US$73 million (£46.3 million) on 12 November 2009.

In addition, the group disposed of its 15.0 per cent economic interest in Northern Gas Networks Holdings Limited (NGN) to Cheung Kong Infrastructure Holdings Limited (CKI) and SAS Trustee Corporation (managed by RREEF Alternative Investments), both existing shareholders of NGN, for a cash consideration of £85.8 million on 16 November 2009.

2010	MWC £m	NGN £m	Total £m
Proceeds	46.3	85.8	132.1
Carrying value of investment (see note 14)	(46.3)	(85.8)	(132.1)
Reclassification from other reserves arising on disposal of financial asset investment	36.6	–	36.6
Profit on disposal of investments	36.6	–	36.6

Supplementary information in respect of discontinued operations

Total revenue, disclosed as required by IAS 18 'Revenue', recognised from discontinued operations is analysed as follows:

	2011 £m	2010 £m
Provision of goods and services	353.4	863.5
Revenue	353.4	863.5
Investment income	6.3	7.9
Total revenue	359.7	871.4

Employee benefit expense for discontinued operations is analysed as follows:

	2011 £m	2010 £m
Wages and salaries	72.0	168.2
Social security costs	3.2	12.0
Post-employment benefits excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	13.4	25.9
Employee benefits expense excluding pension schemes curtailment gains and restructuring costs	88.6	206.1
Pension schemes curtailment gains arising on amendment of pension obligations	–	(5.0)
Restructuring costs	3.8	4.9
Employee benefit expense attributable to discontinued operations	92.4	206.0

The average number of employees during the period/year for discontinued operations is analysed as follows:

	2011 number	2010 number
Non-regulated activities	1,656	4,345

The following items have been charged/(credited) in arriving at operating profit reported by discontinued operations:

	2011 £m	2010 £m
Other operating costs		
Hired and contracted services	104.5	329.7
Materials	54.9	113.8
Power	4.9	31.5
Property rates	1.2	1.9
Charge for bad and doubtful receivables	2.0	1.4
Other operating leases payable:		
Property	1.7	2.7
Plant and equipment	1.2	1.7
Other	53.1	98.0
	223.5	580.7
Other income		
Loss on disposal of property plant and equipment	3.7	4.3
Other income	(1.3)	(2.3)
	2.4	2.0
Depreciation and amortisation expense		
Depreciation of property, plant and equipment: owned assets	5.4	21.2
Amortisation of other intangible assets	0.9	3.5
	6.3	24.7

The following information in respect of discontinued operations is disclosed in the relevant note: geographical analysis of external revenue and non-current assets (see note 2), taxation (see note 7), earnings per share (see note 10) and retirement benefit obligations (see note 20).

Notes to the financial statements

continued

9 DIVIDENDS

	2011 £m	2010 £m
Amounts recognised as distributions to equity holders of the company in the year comprise:		
Ordinary shares		
Final dividend for the year ended 31 March 2010 at 23.13 pence per share (2009: 22.03 pence)	157.6	150.1
Interim dividend for the year ended 31 March 2011 at 10.00 pence per share (2010: 11.17 pence)	68.2	76.1
	225.8	226.2
Proposed final dividend for the year ended 31 March 2011 at 20.00 pence per share (2010: 23.13 pence)	136.3	157.6

The proposed final dividends for the years ended 31 March 2011 and 31 March 2010 were subject to approval by equity holders of United Utilities Group PLC and hence have not been included as liabilities in the consolidated financial statements at 31 March 2011 and 31 March 2010 respectively.

10 EARNINGS PER SHARE

	2011 £m	Restated 2010 £m
Profit after taxation attributable to equity holders of the company – continuing and discontinued operations	458.2	403.5
Adjustment for profit after taxation from discontinued operations (see note 8)	(103.7)	(56.5)
Profit after taxation attributable to equity holders of the company – continuing operations	354.5	347.0

	2011 pence	Restated 2010 pence
Earnings per share from continuing and discontinued operations		
Basic	67.2	59.2
Diluted	67.2	59.2
Earnings per share from continuing operations		
Basic	52.0	50.9
Diluted	52.0	50.9
Earnings per share from discontinued operations		
Basic	15.2	8.3
Diluted	15.2	8.3

Basic earnings per share is calculated by dividing profit for the financial year attributable to equity holders of the company by 681.6 million, being the weighted average number of shares in issue during the year (2010: 681.5 million). Diluted earnings per share is calculated by dividing profit for the financial year attributable to equity holders of the company by 681.9 million, being the weighted average number of shares in issue during the year including dilutive shares (2010: 682.0 million).

The difference between the weighted average number of shares used in the basic and the diluted earnings per share calculations represents those ordinary shares deemed to have been issued for no consideration on the conversion of all potential dilutive ordinary shares in accordance with IAS 33 'Earnings per Share'.

The weighted average number of shares can be reconciled to the weighted average number of shares including dilutive shares as follows:

	2011 million	2010 million
Average number of ordinary shares – basic	681.6	681.5
Average number of potentially dilutive ordinary shares under option	0.6	0.5
Number of ordinary shares that would have been issued at fair value	(0.3)	–
Average number of ordinary shares – diluted	681.9	682.0

11 PROPERTY, PLANT AND EQUIPMENT

Group	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2009	221.5	3,579.9	4,413.8	592.2	924.8	9,732.2
Additions	9.5	76.0	96.6	55.8	309.2	547.1
Transfers	10.4	60.7	317.7	(9.1)	(379.7)	–
Disposals	(8.3)	(13.5)	(17.0)	(36.1)	(2.3)	(77.2)
Currency translation differences	(0.2)	(2.9)	0.1	0.2	(1.5)	(4.3)
At 31 March 2010 as previously reported	232.9	3,700.2	4,811.2	603.0	850.5	10,197.8
Adjustment for IFRIC 18 (see note 32)	–	34.4	2.6	–	–	37.0
At 31 March 2010 as restated	232.9	3,734.6	4,813.8	603.0	850.5	10,234.8
Additions	14.4	126.2	59.6	36.9	332.8	569.9
Transfers	4.2	84.0	323.1	12.4	(423.7)	–
Disposals	(3.3)	(67.7)	(33.0)	(224.7)	(13.6)	(342.3)
Currency translation differences	–	(3.0)	–	0.3	(0.1)	(2.8)
At 31 March 2011	248.2	3,874.1	5,163.5	427.9	745.9	10,459.6
Accumulated depreciation						
At 1 April 2009	70.4	145.4	1,368.0	281.6	–	1,865.4
Charge for the year	12.6	43.2	164.5	54.9	–	275.2
Transfers	–	2.6	10.2	(12.8)	–	–
Disposals	(8.3)	(13.5)	(17.0)	(26.7)	–	(65.5)
Currency translation differences	–	(0.4)	0.1	0.2	–	(0.1)
At 31 March 2010 as previously reported	74.7	177.3	1,525.8	297.2	–	2,075.0
Adjustment for IFRIC 18 (see note 32)	–	0.1	0.1	–	–	0.2
At 31 March 2010 as restated	74.7	177.4	1,525.9	297.2	–	2,075.2
Charge for the year	8.1	26.6	187.4	41.6	–	263.7
Disposals	(2.8)	(31.8)	(26.8)	(91.5)	–	(152.9)
Currency translation differences	–	(1.5)	–	0.2	–	(1.3)
At 31 March 2011	80.0	170.7	1,686.5	247.5	–	2,184.7
Net book value at 31 March 2011	168.2	3,703.4	3,477.0	180.4	745.9	8,274.9
Net book value at 31 March 2010 restated	158.2	3,557.2	3,287.9	305.8	850.5	8,159.6

At 31 March 2011, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £241.7 million (2010: £382.6 million).

The company has no property, plant and equipment. The company had no contractual commitments for the acquisition of property, plant and equipment at 31 March 2011 or 31 March 2010.

Notes to the financial statements
continued

12 GOODWILL

Group	£m
Cost	
At 1 April 2009	2.6
Currency translation differences	(0.1)
At 31 March 2010	2.5
Additions	20.4
Disposals (see note 8)	(17.9)
At 31 March 2011	5.0

The additions to goodwill relate to an increase in the group's shareholding in AS Tallinna Vesi (Tallinn Water) from 26.5 per cent to 35.3 per cent and Sofiyska Voda AD from 57.8 per cent to 77.1 per cent. Sofiyska Voda AD was subsequently disposed (see note 8).

The company has no goodwill.

13 OTHER INTANGIBLE ASSETS

Group	Computer software £m	Service concessions £m	Other £m	Total £m
Cost				
At 1 April 2009	181.9	122.0	24.3	328.2
Additions – purchased	34.2	–	0.2	34.4
Currency translation differences	–	5.8	(0.7)	5.1
At 31 March 2010	216.1	127.8	23.8	367.7
Additions – purchased	18.3	21.5	0.8	40.6
Disposals	(1.3)	(149.6)	(14.2)	(165.1)
Currency translation differences	–	0.3	(0.2)	0.1
At 31 March 2011	233.1	–	10.2	243.3
Amortisation				
At 1 April 2009	88.5	29.2	11.6	129.3
Charge for the year	25.7	3.0	0.8	29.5
Currency translation differences	–	0.8	(0.5)	0.3
At 31 March 2010	114.2	33.0	11.9	159.1
Charge for the year	32.0	0.7	0.4	33.1
Disposals	(0.1)	(33.7)	(8.9)	(42.7)
Currency translation differences	–	–	(0.1)	(0.1)
At 31 March 2011	146.1	–	3.3	149.4
Net book value at 31 March 2011	87.0	–	6.9	93.9
Net book value at 31 March 2010	101.9	94.8	11.9	208.6

The 'other' intangible assets category relates mainly to customer related intangibles such as customer contracts and customer lists. The service concession assets related to operations in Scotland, Australia and Bulgaria, which have been sold as part of the non-regulated activities disposal programme during the year (see note 8).

At 31 March 2011, the group had entered into contractual commitments for the acquisition of other intangible assets amounting to £43.9 million (2010: £19.4 million).

The company has no other intangible assets. The company had no contractual commitments for the acquisition of other intangible assets at 31 March 2011 or 31 March 2010.

14 INVESTMENTS

Group	Other investments £m
At 1 April 2009	136.8
Additions	0.8
Revaluations	3.4
Disposals (see note 8)	(132.1)
Currency translation differences	(1.2)
At 31 March 2010	7.7
Additions	0.1
Revaluations	1.1
Disposals (see note 8)	(6.6)
At 31 March 2011	2.3

At 31 March 2011, the group's other investments mainly comprise United Utilities PLC's preference shares in Philwater Holdings Company Inc.

The available for sale investment in respect of the group's accounting for the retirement benefit obligations of Northern Gas Networks Pension Scheme (see note 20), which represented a large part of the investment balance at 31 March 2010, was disposed of during the year.

As reported in the prior year, on completion of the disposal of its economic interest in Manila Water Company in March 2010, the group reinvested approximately US$1.2 million (£0.8 million) in new preference shares in Philwater Holdings Company Inc, which was classified as a loans and receivables investment in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

For details of the disposals refer to note 8.

Details of principal operating subsidiary undertakings and joint ventures are set out below. These undertakings are included within the consolidated financial statements.

	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 International Limited	Ordinary	100.0	Consulting services and project management
United Utilities Property Services Limited	Ordinary	100.0	Property management
Joint ventures			
Estonia			
AS Tallinna Vesi	Ordinary	35.3	Contract operations and maintenance services

* Shares are held by subsidiary undertakings rather than directly by United Utilities Group PLC.

Joint management of AS Tallinna Vesi (Tallinn Water) is based upon 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 2010.

In relation to the group's interests in joint ventures, the assets, liabilities, gross income and expenses are summarised below:

Group share of joint ventures	2011 £m	2010 £m
Non-current assets	52.4	326.7
Current assets	15.2	89.7
Non-current liabilities	(30.0)	(261.0)
Current liabilities	(6.7)	(59.2)
	30.9	96.2

Notes to the financial statements
continued

14 INVESTMENTS CONTINUED

Group share of joint ventures	2011 £m	2010 £m
Gross income	121.1	186.8
Expenses	(94.8)	(161.6)
Taxation	(2.4)	(4.1)
Profit after taxation	23.9	21.1

Included within the joint venture income statement measures disclosed in the table above are gross income of £108.3 million (2010: £175.2 million), expenses of £89.3 million (2010: £155.5 million) and taxation of £0.5 million (2010: £3.1 million) relating to entities that have been disposed of during the year ended 31 March 2011 and hence are recorded within the results for discontinued operations.

The joint ventures have no significant contingent liabilities to which the group is exposed and the group has issued guarantees of £5.9 million to its joint ventures (2010: £126.8 million) which are included in the contingent liabilities total disclosed in note 30.

Company	Shares in subsidiary undertakings £m
Cost	
At 1 April 2009, 31 March 2010 and 31 March 2011	6,326.8
Impairment	
At 1 April 2009	–
Impairment charge	(726.8)
At 31 March 2010 and 31 March 2011	(726.8)
Net book value at 31 March 2010 and 31 March 2011	5,600.0

During the year ended 31 March 2011, a review has been performed supporting the carrying value of the investment of £5,600.0 million in United Utilities PLC. As in the prior year, the review considered a 'fair value less costs to sell' valuation and whether there were any indications that the value of the underlying business may have changed. No indications of impairment or impairment reversal were identified.

As reported in the prior year, the investment was tested for impairment during the year ended 31 March 2010 following the acceptance of Ofwat's final determination by the group's principal operating company, United Utilities Water PLC (UUW). The final determination for 2010–15 set the returns on investment allowed by the regulator for this period.

The valuation of United Utilities PLC for the purposes of the impairment test was a 'fair value less costs to sell' approach, which was based upon the regulatory capital value (RCV) for UUW as at March 2010 plus a valuation for the non-regulated businesses. An impairment of £726.8 million was taken, reducing the value of the company's investment in United Utilities PLC to £5,600.0 million, resulting in a net investment, after taking account of intercompany balances, of £4,146.2 million.

15 INVENTORIES

Group	2011 £m	2010 £m
Raw materials and finished goods	4.7	18.9
Properties held for resale	42.9	54.1
Work in progress	–	1.8
	47.6	74.8

The company has no inventories.

16 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Trade receivables	188.3	201.1	–	–
Amounts owed by subsidiary undertakings	–	–	33.9	65.6
Amounts owed by related parties (see note 28)	2.7	19.2	–	–
Other debtors	15.6	79.0	–	–
Prepayments and accrued income	90.2	208.2	–	–
	296.8	507.5	33.9	65.6

Trade and other receivables have been analysed between non-current and current as follows:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Non-current	–	56.5	–	–
Current	296.8	451.0	33.9	65.6
	296.8	507.5	33.9	65.6

Trade receivables do not carry interest and are stated net of allowances for doubtful receivables, an analysis of which is as follows:

Group	2011 £m	2010 £m
At the start of the year	206.6	192.8
Amounts charged to operating expenses	32.6	57.7
Trade receivables written off	(170.1)	(43.9)
Disposed of during the year	(13.9)	–
At the end of the year	55.2	206.6

At each reporting date, the company and each of its subsidiaries evaluate the recoverability of trade receivables and record provisions for doubtful receivables based upon experience.

During the year ended 31 March 2011, £131.1 million of debt has been written off as a result of a detailed review of the group's trade receivables balance. This debt was significantly provided, therefore the charge for bad and doubtful receivables as a result of this exercise was a lower amount of £2.5 million.

Ageing of gross receivables

The following table provides information regarding the ageing of gross receivables:

Group At 31 March 2011	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Trade receivables – gross	147.2	43.4	52.9	243.5
Amounts owed by related parties	2.5	0.1	0.1	2.7
Other debtors	15.6	–	–	15.6
Prepayments and accrued income	90.2	–	–	90.2

Notes to the financial statements

continued

16 TRADE AND OTHER RECEIVABLES CONTINUED

At 31 March 2010	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Trade receivables – gross	210.3	61.6	135.8	407.7
Amounts owed by related parties	17.2	1.1	0.9	19.2
Other debtors	79.0	–	–	79.0
Prepayments and accrued income	208.0	–	0.2	208.2

The above analysis in respect of gross trade receivables reconciles to net trade receivables by deduction of the allowance for doubtful receivables of £55.2 million (2010: £206.6 million).

The group manages its regulated bad debt risk by providing against gross trade receivables. This allowance is calculated by reference to customer categories rather than solely on the age profile of gross debtor balances. It is therefore not possible to age the allowance for doubtful receivables.

Company At 31 March 2011	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Amounts owed by subsidiary undertakings – gross	33.9	–	–	33.9

At 31 March 2010	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
Amounts owed by subsidiary undertakings – gross	65.6	–	–	65.6

Amounts owed by subsidiary undertakings are a sum of all subsidiary balances where the total of debt and interest is in a net receivable position. Amounts owed by subsidiary undertakings are shown net of an allowance for doubtful receivables of £nil (2010: £nil).

Trade and other receivables is split as follows:

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Debtors in respect of unmetered water supplies	100.8	93.0	–	–
Debtors in respect of metered water supplies	113.2	115.0	–	–
Other regulated debtors	53.0	43.0	–	–
Total regulated debtors	267.0	251.0	–	–
Non-regulated debtors	29.8	256.5	33.9	65.6
Trade and other receivables	296.8	507.5	33.9	65.6

The directors consider that the carrying amount of trade and other receivables approximates to their fair value at 31 March 2011 and 31 March 2010.

The group's average credit period taken on sales is 51 days (2010 restated: 65 days).

17 CASH AND CASH EQUIVALENTS

	Group		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
Cash at bank and in hand	17.3	72.6	–	–
Short-term bank deposits	237.9	228.9	–	–
Cash and short-term deposits	255.2	301.5	–	–
Bank overdrafts (included in borrowings, see note 18)	(10.8)	(47.8)	(2.4)	(2.3)
Cash and cash equivalents in the statement of cash flows	244.4	253.7	(2.4)	(2.3)

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.

18 BORROWINGS

Group

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

Group	2011 £m	2010 £m
Non-current liabilities		
Bonds	4,208.5	4,159.0
Bank and other term borrowings	995.1	1,148.9
	5,203.6	5,307.9
Current liabilities		
Bank and other term borrowings	98.9	120.5
Bank overdrafts (see note 17)	10.8	47.8
	109.7	168.3
	5,313.3	5,476.2

Notes to the financial statements
continued

18 BORROWINGS CONTINUED

Terms and debt repayment schedule

The principal economic terms and conditions of outstanding borrowings were as follows:

Group	Currency	Year of final repayment	Fair value 2011 £m	Carrying value 2011 £m	Fair value 2010 £m	Carrying value 2010 £m
Borrowings in fair value hedge relationships						
5.625% 300m bond	GBP	2027	310.2	327.7	308.5	326.7
5.75% 375m bond	GBP	2022	390.7	371.6	383.2	367.9
5.375% 150m bond	GBP	2018	163.8	162.8	161.6	163.0
5.00% 200m bond	GBP	2035	186.3	208.2	184.6	208.2
4.25% 500m bond	EUR	2020	436.2	452.0	444.8	467.2
4.55% 250m bond	USD	2018	155.4	165.2	157.9	169.6
5.375% 350m bond	USD	2019	225.0	242.4	230.5	250.1
5.02% JPY 10bn dual currency loan	JPY/USD	2029	73.5	87.9	70.1	84.0
Borrowings designated at fair value through profit or loss						
6.875% 400m bond	USD	2028	264.3	264.3	266.8	266.8
1.135% 3bn bond	JPY	2013	22.5	22.5	20.8	20.8
Borrowings measured at amortised cost						
1.5802%+RPI 100m IL bond	GBP	2042	102.8	116.3	85.9	111.0
1.7829%+RPI 100m IL bond	GBP	2040	109.5	116.7	92.3	111.4
1.9799%+RPI 100m IL bond	GBP	2035	115.3	117.9	100.4	112.6
3.375%+RPI 50m IL bond	GBP	2032	79.1	62.6	74.0	59.7
1.3258%+RPI 50m IL bond	GBP	2041	48.5	58.2	40.4	55.6
1.397%+RPI 50m IL bond	GBP	2046	48.2	58.2	40.1	55.5
1.3805%+RPI 35m IL bond	GBP	2056	28.5	40.1	22.9	38.2
1.435%+RPI 50m IL bond	GBP	2056	41.6	57.3	33.5	54.5
1.556%+RPI 50m IL bond	GBP	2056	43.5	57.5	35.1	54.7
1.5865%+RPI 50m IL bond	GBP	2056	43.7	57.8	35.3	55.0
1.591%+RPI 25m IL bond	GBP	2056	21.8	28.8	17.6	27.4
1.662%+RPI 100m IL bond	GBP	2056	89.7	115.7	72.7	110.1
1.815%+RPI 100m IL bond	GBP	2056	94.3	115.9	76.8	110.3
1.847%+RPI 100m IL bond	GBP	2056	95.4	116.4	77.8	110.8
1.5366%+RPI 50m IL bond	GBP	2043	51.0	58.0	42.5	55.4
1.7937%+RPI 50m IL bond	GBP	2049	55.8	57.9	43.9	55.3
1.585%+RPI 100m IL bond	GBP	2057	87.3	111.3	70.5	105.9
1.702%+RPI 50m IL bond	GBP	2057	45.6	56.1	36.9	53.4
2.40%+RPI 70m IL bond	GBP	2039	73.8	75.1	67.1	71.4
1.66%+RPI 35m IL bond	GBP	2037	31.7	38.6	28.8	36.7
1.97%+RPI 200m IL loan	GBP	2016	207.0	228.5	203.6	217.5
1.61%+RPI 50m IL loan	GBP	2020	51.5	52.8	49.8	50.2
1.73%+RPI 50m IL loan	GBP	2020	52.0	52.7	50.4	50.2
1.84%+RPI 50m IL loan	GBP	2020	52.4	52.7	50.9	50.1
1.88%+RPI 50m IL loan	GBP	2020	52.7	52.5	51.0	49.9
1.90%+RPI 50m IL loan	GBP	2020	52.8	52.6	51.2	50.1
1.93%+RPI 50m IL loan	GBP	2020	52.9	52.6	51.3	50.0
2.10%+RPI 50m IL loan	GBP	2020	53.7	52.4	52.1	49.9
2.46%+RPI 50m IL loan	GBP	2020	55.3	52.5	53.9	49.9
1.23%+RPI 50m IL loan	GBP	2029	42.9	50.0	–	–
6.125% 425m bond	GBP	2015	472.3	430.9	473.2	432.0
0.24%+LIBOR (floating) 6.5m bond	GBP	2013	6.5	6.7	6.5	6.5
1.30%+LIBOR (floating) 5bn bond	JPY	2017	41.0	37.8	38.8	35.3
Long-term bank borrowings – floating	GBP	2011-2012	199.9	200.0	249.9	250.0
Commission for New Towns loan – fixed	GBP	2053	49.9	30.4	50.9	30.6
Other debt issued by joint ventures	Various	Various	30.1	30.1	233.7	233.7
Short-term bank borrowings – fixed	GBP	2011	46.3	46.3	53.3	53.3
Other borrowings						
Bank overdrafts	GBP	2011	10.8	10.8	47.8	47.8
			5,065.0	5,313.3	5,091.6	5,476.2

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

Abbreviations used in the previous table are defined below.

Notes:

Currency

GBP	pound sterling
EUR	euro
USD	United States dollar
JPY	Japanese yen

Index-linked debt

IL	Index-linked debt – This debt is adjusted for movements in the Retail Prices Index with reference to a base RPI established at trade date
RPI	The UK general index of retail prices (for all items) as published by the Office for National Statistics (Jan 1987=100)

Company

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

Company	2011 £m	2010 £m
Current liabilities		
Bank overdrafts (see note 17)	2.4	2.3
Amounts owed to subsidiary undertakings	1,499.8	1,505.1
	1,502.2	1,507.4

Borrowings are unsecured.

19 FINANCIAL INSTRUMENTS

Risk management

The board is responsible for treasury strategy and governance, which is reviewed on an annual basis. The annual treasury strategy review covers the group's funding, liquidity, capital management and interest rate management strategies, along with the delegation of specific funding and hedging authorities to the treasury committee.

The treasury committee, a sub-committee of the board, has responsibility for setting and monitoring the group's adherence to treasury policies, along with oversight in relation to the activities of the treasury function.

Treasury policies cover the key financial risks: liquidity risk, credit risk, market risk (inflation, interest rate, currency and electricity commodity price) 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 members, 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.

The group's exposure to risk and its objectives, policies and processes for managing risk and the methods used for measuring risk have not materially changed since the prior year.

Notes to the financial statements
continued

19 FINANCIAL INSTRUMENTS CONTINUED

Liquidity risk

Liquidity risk is the risk that the group will not have the appropriate level of liquid funding available to meet its requirements. Maintaining an inadequate amount of liquidity and being unable to access the debt markets when required exposes the group to the risk of insolvent trading, whilst maintaining excess liquidity potentially exposes the group to the risk of a higher cost of carry resulting in an adverse economic impact.

The group looks to manage its risk by maintaining liquidity within a board approved duration range. Liquidity is actively monitored by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 2011, the group had £1,184.6 million (2010: £1,368.3 million) of available liquidity, which comprised £255.2 million (2010: £301.5 million) cash and short-term deposits and £929.4 million (2010: £1,066.8 million) of undrawn committed borrowing facilities. Short-term deposits mature within three months and bank overdrafts are repayable on demand.

The group had available committed borrowing facilities as follows:

Group	2011 £m	2010 £m
Expiring within one year	375.0	100.0
Expiring after one year but in less than two years	250.0	525.0
Expiring after more than two years	320.0	520.0
Total borrowing facilities	945.0	1,145.0
Offsetting bank guarantees	(15.6)	(78.2)
Undrawn borrowing facilities	929.4	1,066.8

These facilities are arranged on a bilateral rather than a syndicated basis, which spreads the maturities more evenly over a longer time period, thereby reducing the refinancing risk by providing several renewal points rather than a large single refinancing point.

In addition to the committed facilities available, the group can use its €2 billion euro-commercial paper programme to help it manage its liquidity position.

The company does not have any committed facilities available.

Maturity analysis

Concentrations of risk may arise if large cash flows are concentrated within particular time periods. The maturity profile in the following table represents the forecast future contractual principal and interest cash flows in relation to the group's financial liabilities and derivatives on an undiscounted basis. Derivative cash flows have been shown net where there is a contractual agreement to settle on a net basis; otherwise the cash flows are shown gross.

Group At 31 March 2011	Total[1] £m	Adjust- ment[2] £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Bonds	10,119.2		166.3	173.9	191.8	169.0	595.0	8,823.2
Bank and other term borrowings	1,564.5		133.6	174.4	35.7	24.6	29.7	1,166.5
Adjustment to carrying value[2]	(6,370.4)	(6,370.4)						
Financial liabilities excluding derivatives	5,313.3	(6,370.4)	299.9	348.3	227.5	193.6	624.7	9,989.7
Derivatives:								
Payable	1,085.9		89.8	69.7	80.5	52.8	47.4	745.7
Receivable	(1,439.7)		(116.4)	(101.6)	(145.2)	(88.0)	(56.6)	(931.9)
Adjustment to carrying value[2]	73.5	73.5						
Derivatives – net assets	(280.3)	73.5	(26.6)	(31.9)	(64.7)	(35.2)	(9.2)	(186.2)

At 31 March 2010	Total[1] £m	Adjustment[2] £m	1 year or less £m	1–2 years £m	2–3 years £m	3–4 years £m	4–5 years £m	More than 5 years £m
Bonds	10,193.9		167.1	167.9	175.2	191.8	170.0	9,321.9
Bank and other term borrowings	1,874.6		205.7	89.3	196.3	41.9	37.7	1,303.7
Adjustment to carrying value[2]	(6,592.3)	(6,592.3)						
Financial liabilities excluding derivatives	5,476.2	(6,592.3)	372.8	257.2	371.5	233.7	207.7	10,625.6
Derivatives:								
Payable	1,252.5		156.9	74.8	68.6	82.3	57.0	812.9
Receivable	(1,577.3)		(139.9)	(99.5)	(93.2)	(142.1)	(88.3)	(1,014.3)
Adjustment to carrying value[2]	56.1	56.1						
Derivatives – net assets	(268.7)	56.1	17.0	(24.7)	(24.6)	(59.8)	(31.3)	(201.4)

Notes:

[1] Forecast future cash flows are calculated, where applicable, utilising forward interest rates based upon 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 2.65 per cent over the life of each bond.

[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.

The company has a total liability of £1,502.2 million (2010: £1,507.4 million), which is payable to its subsidiary undertaking within one year.

Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from trade finance (the supply of services to the public and other businesses) and treasury activities (the depositing of cash and holding of derivative and foreign exchange instruments). The group does not believe it is exposed to any material concentrations of credit risk.

The group manages its risk from trade finance through the effective management of customer relationships. Concentrations of credit risk with respect to trade receivables are limited due to the group's customer base consisting of a large number of unrelated households and businesses. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply and the limiting of supply with the intention of enforcing payment for certain premises including domestic dwellings. However, allowance is made by the water regulator in the price limits at each price review for a proportion of debt deemed to be irrecoverable. Considering the above, the directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables (see note 16).

The group manages its risk from treasury activities by establishing a total credit limit by counterparty, which comprises a counterparty credit limit and an additional settlement limit to cover intra day gross settlement cash flows. In addition, potential derivative exposure limits are also established to take account of potential future exposure which may arise under derivative transactions. These limits are calculated by reference to a measure of capital and credit ratings of the individual counterparties and are subject to a maximum single counterparty limit. A control mechanism to trigger a review of specific counterparty limits, irrespective of credit rating action, is in place. This entails daily monitoring of counterparty credit default swap levels and/or share price volatility. Credit exposure is monitored daily by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March, 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	
	2011 £m	2010 £m	2011 £m	2010 £m
Cash and short-term deposits (see note 17)	255.2	301.5	–	–
Trade and other receivables (see note 16)	296.8	507.5	33.9	65.6
Investments (see note 14)	2.3	7.7	–	–
Derivative financial instruments	365.3	396.8	–	–
	919.6	1,213.5	33.9	65.6

The credit exposure on derivatives is disclosed gross of any collateral held. At 31 March 2011, the group held £46.3 million (2010: £53.3 million) as collateral in relation to derivative financial instruments.

Notes to the financial statements

continued

19 FINANCIAL INSTRUMENTS CONTINUED

Market risk

Market risk is the risk that movements in market rates, including inflation, interest rates, foreign exchange rates and electricity commodity prices, will result in economic losses to the group.

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. As at the reporting date, there were no financial instruments in place in relation to electricity commodity prices.

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.

The group seeks to manage this risk by identifying opportunities to increase the economic hedge currently in place 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:

	2011 £m	2010 £m
Index-linked debt	2,215.7	2,062.7

Sensitivity analysis

As required by IFRS 7, the sensitivity analysis has been prepared on the basis of the amount of index-linked debt in place as at 31 March 2011 and 31 March 2010, 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:

Impact on profit before taxation and equity	2011 £m	2010 £m
1 per cent increase in RPI	(22.6)	(21.1)
1 per cent decrease in RPI	22.6	21.1

Brackets denote a reduction in profit.

This table excludes the hedging aspect of the group's regulatory assets which, being fixed assets, are not financial assets as defined by IAS 32 and are typically held at cost or deemed cost less accumulated depreciation on the consolidated statement of financial position.

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 upon the annual RPI change either three or eight months earlier.

The company has no material exposure to inflation risk.

Interest rate risk

The group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The group's floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The group uses interest rate swap contracts to hedge these exposures, where appropriate.

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 has fixed interest costs for a substantial proportion of the group's net debt for the duration of the current five-year regulatory pricing period.

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 regulatory swaps which swap the majority of the floating rate exposure to fixed rate for the five-year regulatory period;
- cash flow sensitivity in the statement of financial position to interest rates is calculated on floating interest rate net debt;
- the sensitivity excludes the impact of interest rates on post-retirement obligations;
- management has assessed one per cent as a reasonably possible movement in UK interest rates; and
- all other factors are held constant.

	Group		Company	
	2011	2010	2011	2010
Impact on profit before taxation and equity	£m	£m	£m	£m
1 per cent increase in interest rate	61.3	76.6	(15.0)	(15.1)
1 per cent decrease in interest rate	(64.0)	(81.6)	15.0	15.1

Brackets denote a reduction in profit.

The exposure largely relates to the fair value exposure on the group's fixed rate financing, which provides a partial economic hedge that is aligned to the five-year revenue cash flows allowed by the regulator.

Notes to the financial statements

continued

19 FINANCIAL INSTRUMENTS CONTINUED

Repricing analysis

The following tables categorise the group's borrowings, derivatives and cash deposits on the basis of when they reprice or, if earlier, mature. The repricing analysis demonstrates the group's exposure to floating interest rate risk.

Group At 31 March 2011	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	2,017.8	–	–	–	–	–	2,017.8
Effect of swaps	–	2,017.8	–	–	–	–	(2,017.8)
	2,017.8	2,017.8	–	–	–	–	–
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	286.8	–	–	22.5	–	–	264.3
Effect of swaps	–	286.8	–	(22.5)	–	–	(264.3)
	286.8	286.8	–	–	–	–	–
Borrowings measured at amortised cost							
Fixed rate instruments	507.6	46.6	0.3	0.3	0.3	431.3	28.8
Floating rate instruments	285.4	285.4	–	–	–	–	–
Index-linked instruments	2,215.7	2,215.7	–	–	–	–	–
	3,008.7	2,547.7	0.3	0.3	0.3	431.3	28.8
Effect of a fixed hedge for the term of the regulatory period	–	(1,831.3)	–	–	1,381.3	450.0	–
Total borrowings	5,313.3	3,021.0	0.3	0.3	1,381.6	881.3	28.8
Cash and short-term deposits	(255.2)	(255.2)	–	–	–	–	–
Net borrowings	5,058.1	2,765.8	0.3	0.3	1,381.6	881.3	28.8

At 31 March 2010	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	2,036.7	–	–	–	–	–	2,036.7
Effect of swaps	–	2,036.7	–	–	–	–	(2,036.7)
	2,036.7	2,036.7	–	–	–	–	–
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	287.6	–	–	–	20.8	–	266.8
Effect of swaps	–	287.6	–	–	(20.8)	–	(266.8)
	287.6	287.6	–	–	–	–	–
Borrowings measured at amortised cost							
Fixed rate instruments	598.9	55.6	2.2	4.3	2.6	3.1	531.1
Floating rate instruments	490.3	490.3	–	–	–	–	–
Index-linked instruments	2,062.7	2,062.7	–	–	–	–	–
	3,151.9	2,608.6	2.2	4.3	2.6	3.1	531.1
Effect of a fixed hedge for the term of the regulatory period	–	(1,831.3)	–	–	–	1,381.3	450.0
Total borrowings	5,476.2	3,101.6	2.2	4.3	2.6	1,384.4	981.1
Cash and short-term deposits	(301.5)	(301.5)	–	–	–	–	–
Net borrowings	5,174.7	2,800.1	2.2	4.3	2.6	1,384.4	981.1

Company At 31 March 2011	Total £m	2011 1 year or less £m	Total £m	2010 1 year or less £m
Borrowings measured at amortised cost				
Floating rate instruments	1,502.2	1,502.2	1,507.4	1,507.4
Total borrowings	1,502.2	1,502.2	1,507.4	1,507.4

Currency risk

Currency exposure principally arises in respect of funding raised in foreign currencies. Other less material currency exposures arise from overseas operations, investments in foreign currency denominated assets and trading with foreign suppliers.

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. Where material, foreign currency investments and strategic cash flows arising from the group's overseas activities are hedged into sterling through the foreign exchange market and operational cash flows are hedged at the discretion of the treasurer.

The group seeks to manage its risk by maintaining currency exposure within board approved limits. Currency risk in relation to foreign currency denominated financial instruments is reported monthly to the treasury committee through the operational compliance report.

The group and company have no material net exposure to movements in currency rates.

Capital risk management

Capital risk measures whether the group is adequately capitalised and financially solvent. The group's objective when managing capital is to maintain a capital structure that enables its primary 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 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 upon a number of key ratios (such as RCV gearing and adjusted interest cover) and threshold levels as updated and published from time to time by Moody's.

The group looks to manage its risk by maintaining the relevant key financial ratios used by the credit rating agencies to determine a corporate's credit rating, within the thresholds approved by the board. Capital risk is reported monthly to the treasury committee through the operational compliance report.

Further detail on the precise measures and methodologies used to assess water companies' credit ratings can be found in the methodology papers published by the rating agencies.

Notes to the financial statements
continued

19 FINANCIAL INSTRUMENTS CONTINUED

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

Group	Fair value 2011 £m	Carrying value 2011 £m	Restated Fair value 2010 £m	Restated Carrying value 2010 £m
Financial assets				
Non-current assets				
Available for sale investments	1.4	1.4	6.9	6.9
Loans and receivables:				
Investments	0.9	0.9	0.8	0.8
Trade and other receivables	–	–	56.5	56.5
Derivative financial instruments:				
Fair value hedge derivatives – swaps	280.0	280.0	293.8	293.8
Held for trading derivatives – swaps[2]	83.3	83.3	84.7	84.7
Current assets				
Loans and receivables:				
Trade and other receivables	296.8	296.8	451.0	451.0
Cash and short-term deposits	255.2	255.2	301.5	301.5
Derivative financial instruments:				
Held for trading derivatives – swaps[2]	2.0	2.0	18.3	18.3
Financial liabilities				
Non-current liabilities				
Trade and other payables at amortised cost	(249.8)	(249.8)	(182.9)	(182.9)
Borrowings:				
Financial liabilities in hedge relationships:				
Fair value hedge	(1,941.1)	(2,017.8)	(1,941.2)	(2,036.7)
Financial liabilities designated at fair value through profit or loss	(286.8)	(286.8)	(287.6)	(287.6)
Other financial liabilities	(2,727.4)	(2,899.0)	(2,694.5)	(2,983.6)
	(4,955.3)	(5,203.6)	(4,923.3)	(5,307.9)
Derivative financial instruments:				
Fair value hedge derivatives – swaps	(2.3)	(2.3)	(5.0)	(5.0)
Held for trading derivatives – swaps[2]	(82.3)	(82.3)	(97.3)	(97.3)
Current liabilities				
Trade and other payables at amortised cost	(433.0)	(433.0)	(594.4)	(594.4)
Borrowings:				
Other financial liabilities	(109.7)	(109.7)	(168.3)	(168.3)
	(109.7)	(109.7)	(168.3)	(168.3)
Derivative financial instruments:				
Held for trading derivatives – swaps[2]	(0.4)	(0.4)	(25.8)	(25.8)
Adjustment for accrued interest[1]	38.7	–	40.8	–
	(4,874.5)	(5,161.5)	(4,742.7)	(5,168.1)

Notes:

[1] Fair values quoted include accrued interest of £38.7 million (2010: £40.8 million) in respect of the associated borrowings. This accrued interest is also included in the fair value of trade and other payables. The impact on the total fair value of financial instruments has been removed in the adjustment for accrued interest.

[2] Derivatives forming an economic hedge of the currency exposure on borrowings included in these balances were £85.3 million (2010: £100.3 million).

In order to determine the fair values in the table above, all borrowings and derivatives are valued using a discounted cash flow valuation model as described within the accounting policies on pages 64 to 72. In determining fair values, assumptions are made with regard to credit spreads based upon indicative pricing data.

In respect of the total change during the year in the fair value of financial liabilities designated at fair value through profit or loss for continuing operations of £0.8 million gain (2010: £7.9 million loss), £4.1 million loss (2010: £48.2 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 £54.9 million profit (2010: £59.0 million profit). The difference between the carrying amount and the amount contracted to settle on maturity was a carrying amount increase of £62.6 million (2010: a carrying amount increase of £63.4 million).

Company	Fair value 2011 £m	Carrying value 2011 £m	Fair value 2010 £m	Carrying value 2010 £m
Financial assets				
Current assets				
Loans and receivables	33.9	33.9	65.6	65.6
Financial liabilities				
Current liabilities				
Trade and other payables at amortised cost	(2.3)	(2.3)	(14.3)	(14.3)
Borrowings:				
Other financial liabilities	(1,502.2)	(1,502.2)	(1,507.4)	(1,507.4)
	(1,470.6)	(1,470.6)	(1,456.1)	(1,456.1)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based upon the degree to which the fair value is observable.

- 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 upon observable market data (unobservable).

Group 2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available for sale financial assets				
Investments	–	1.4	–	1.4
Financial assets at fair value through profit or loss				
Derivative financial assets	–	365.3	–	365.3
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	–	(85.0)	–	(85.0)
Financial liabilities designated as fair value through profit or loss	–	(286.8)	–	(286.8)
	–	(5.1)	–	(5.1)

2010	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	–	396.8	–	396.8
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	–	(128.1)	–	(128.1)
Financial liabilities designated as fair value through profit or loss	–	(287.6)	–	(287.6)
	–	(12.0)	–	(12.0)

There were no transfers between level 1 and 2 during the year.

The company does not hold any financial instruments that are measured subsequent to initial recognition at fair value.

Notes to the financial statements

continued

20 RETIREMENT BENEFIT OBLIGATIONS

Defined benefit schemes

The group participates in a number of pension schemes principally in the United Kingdom. The two major schemes are funded defined benefit schemes – the United Utilities Pension Scheme (UUPS) and the United Utilities Group PLC section 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 group no longer participates in the Northern Gas Networks Pension Scheme (NGNPS) following the disposal of the vast majority of its non-regulated activities (see note 8).

The last actuarial valuations of UUPS and ESPS were carried out as at 31 March 2010. These valuations have been updated to take account of the requirements of IAS 19 'Employee Benefits' in order to assess the position at 31 March 2011 by projecting forward from the dates of the respective valuations, and have been performed by an independent actuary, Mercer Limited.

UUPS has entered into an inflation mechanism with the company as part of the funding and de-risking measures that have taken place during the year. The mechanism is based upon a long-term fixed inflation assumption for the scheme valuation of 2.75 per cent per annum. In periods when actual inflation is higher than 2.75 per cent, the company will make additional contributions (smoothed over a five-year period) in respect of the increased liabilities caused by higher inflation. Given the company, via its regulated capital structure, has a natural hedge against inflation, management believes that this is an appropriate structure to have put in place. This has been entered into as part of a de-risking mandate agreed with the Pension Trustee, including reducing equity and interest rate risks and is aimed at reducing the volatility in future funding and contributions. Whilst this reduces the pension scheme funding risk, it should be noted that it will not necessarily have a similar impact on the IAS 19 basis pension disclosures. IAS 19 assumptions are based upon current market expectations and will remain subject to market related inflation rates at future reporting dates. It should therefore be noted, in particular, that any disclosed IAS 19 material increases to market related inflation expectations will continue to negatively impact the disclosed IAS 19 basis position.

The group made total contributions of £133.0 million (2010: £44.1 million) to its pension schemes for the year ended 31 March 2011; United Utilities Water PLC having recommenced company contributions from 1 April 2010. As previously reported, on 31 March 2005, the group made lump sum payments of £216.0 million and £103.5 million to UUPS and ESPS respectively. The payments were in lieu of the estimated company contributions that were expected to have been payable for defined benefit members over the five years from 1 April 2005. Whilst some company contributions to UUPS and ESPS resumed in respect of the defined benefit members during 2008/09, significant elements of the company contribution holiday following the lump sum payments continued during the year ended 31 March 2010. The group also operates a series of unfunded, unregistered retirement benefit schemes. The cost of the unfunded, unregistered retirement benefit schemes is included in the total pension cost, on a basis consistent with IAS 19 and the assumptions set out below.

Included in the contributions above, the group made lump sum payments of £21.8 million and £10.0 million to ESPS and UUPS, respectively, during the year. The payments were in relation to the sale of the non-regulated businesses (see note 8). The group also made lump sum payments of £0.8 million and £16.0 million to ESPS and UUPS, respectively, in relation to the bulk transfer from the schemes to Welsh Water Dŵr Cymru's pension arrangements, following the termination of the Welsh Water contract.

The group also continues to pay contributions in respect of the defined contribution members and insurance premiums. Overall, the group expects to contribute around £77.0 million to its defined benefit schemes in the year ending 31 March 2012.

The total defined benefit pension expense from continuing operations for the year was £19.1 million (2010 restated: £37.1 million income), including pension expense charged to operating profit of £15.3 million (2010 restated: £58.7 million income credited), which reflects curtailment gains arising on amendment of pension obligations of £nil (2010 restated: £87.3 million), and curtailment losses arising on reorganisation of £3.4 million (2010: £9.3 million). A pension obligation of £195.0 million is included in the statement of financial position at 31 March 2011 (2010: £271.3 million). Information about the pension arrangements for executive directors is contained in the directors' remuneration report.

The credit of £87.3 million offsetting the pension expense for the year ended 31 March 2010 arose as a result of the amendment of pensions obligations (see pensions information in the business review on page 09). These included the introduction of a restriction on the rate of increase in pensionable pay for defined benefit members of the UUPS and the ESPS. This restriction took effect on 31 March 2010. Changes to the benefits accruing after 31 March 2010 for the defined benefit members of the UUPS were also implemented. The impact of these changes is reflected in the current service cost element of the pension expense for 2010/11.

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

Group	2011 % pa	2010 % pa
Discount rate	5.50	5.70
Expected return on assets – UUPS	5.65	6.20
Expected return on assets – ESPS	6.10	6.30
Pensionable salary growth	3.35	3.30
Pension increases	3.35	3.30
Price inflation	3.35	3.30

The main financial assumptions used by the actuary to calculate the defined benefit obligations of the NGNPS prior to the date of disposal were as follows:

Group	2010 % pa
Discount rate	5.70
Expected return on assets	6.10
Pensionable salary growth	4.30
Pension increases	3.30
Price inflation	3.30

The current life expectancies at age 60 underlying the value of the accrued liabilities for the schemes are:

Group	2011 years	2010 years
Retired member – male	25.1	24.9
Non-retired member – male	26.6	26.0
Retired member – female	28.9	28.0
Non-retired member – female	30.4	28.7

Studies in the last five years have shown faster rates of life expectancy improvement than had previously been expected. Studies have also illustrated that mortality rates vary significantly according to the demographics of the schemes' members. These factors have been taken into account in the life expectancies disclosed above and the calculation of the defined benefit obligations of the group.

At 31 March, the fair value of the schemes' assets and liabilities recognised in the statement of financial position were as follows:

Group	Schemes' assets %	2011 £m	Schemes' assets %	2010 £m
Equities	34.1	585.1	48.1	917.8
Gilts	2.5	43.7	8.8	168.4
Bonds	46.6	800.6	42.1	805.0
Property	–	–	0.8	15.6
Other	16.8	288.5	0.2	4.1
Total fair value of schemes' assets	100.0	1,717.9	100.0	1,910.9
Present value of defined benefit obligations		(1,912.9)		(2,182.2)
Net retirement benefit obligations		(195.0)		(271.3)

To develop the expected long-term rate of return on asset assumptions, the group considered the current level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based upon the actual asset allocation to develop the expected long-term rate of return on asset assumptions for the portfolio. The group's actual return on the schemes' assets was a gain of £134.9 million (2010: £459.3 million).

Notes to the financial statements

continued

20 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The assets as at 31 March 2011, in respect of the UUPS, included in the breakdown on the previous page, have been allocated to each asset class based upon the return the assets are expected to achieve and not based upon the physical assets held. The reason for this being that during the year to 31 March 2011 the UUPS entered into a variety of derivative transactions in order to change the return characteristics of the physical assets held and in order to reduce undesirable market and liability risks.

The 'Other' element of the portfolio is set aside for collateral purposes linked to the derivative contracts entered into during the year, as described above. The collateral portfolio, in addition to providing sufficient liquidity to maintain the derivative transactions, is expected to achieve a return in excess of LIBOR.

Movements in the present value of the defined benefit obligations are as follows:

Group	2011 £m	2010 £m
At the start of the year	(2,182.2)	(1,696.9)
Interest cost on schemes' obligations	(112.6)	(117.3)
Actuarial losses	(70.5)	(490.6)
Curtailments/settlements:		
Arising on reorganisation	392.1	(17.2)
Arising on amendment of pension obligations	–	92.3
Member contributions	(7.1)	(8.8)
Benefits paid	82.8	85.1
Current service cost	(15.4)	(26.0)
Past service cost	–	(2.8)
At the end of the year	(1,912.9)	(2,182.2)

At 31 March 2011, £7.6 million (2010: £7.2 million) of the defined benefit obligations related to unfunded, unregistered benefit plans.

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

Group	2011 £m	2010 £m
At the start of the year	1,910.9	1,483.8
Expected return on schemes' assets	109.1	94.1
Actuarial gains	25.8	365.2
Member contributions	7.1	8.8
Benefits paid	(82.8)	(85.1)
Curtailments/settlements arising on reorganisation	(385.2)	–
Company contributions	133.0	44.1
At the end of the year	1,717.9	1,910.9

The net pension (expense)/income before taxation recognised in the income statement in respect of the defined benefit schemes is summarised as follows:

Continuing operations	2011 £m	Restated 2010 £m
Current service cost	(11.9)	(16.5)
Curtailments/settlements:		
Arising on reorganisation	(3.4)	(9.3)
Arising on amendment of pension obligations	–	87.3
Past service cost	–	(2.8)
Pension (expense)/income (charged)/credited to operating profit (see note 3)	(15.3)	58.7
Expected return on schemes' assets	102.2	83.8
Interest on schemes' obligations	(106.0)	(105.4)
Net pension interest expense charged to finance expense (see note 6)	(3.8)	(21.6)
Net pension (expense)/income (charged)/credited before taxation	(19.1)	37.1

Defined benefit pension costs excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs included within employee benefit expense of £11.9 million (2010 restated: £19.3 million) comprise current service costs and past service costs. Total post-employment benefits expense excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs charged to operating profit of £17.1 million (2010 restated: £24.8 million) comprise the defined benefit costs described above of £11.9 million (2010 restated: £19.3 million) and defined contribution pension costs of £5.2 million (2010 restated: £5.5 million).

Curtailments arising on reorganisation of £2.7 million (2010 restated: £9.3 million) are included within restructuring costs within total employee benefits expense and £0.7 million (2010: £nil) are included within other reorganisation costs.

Discontinued operations	2011 £m	2010 £m
Current service cost	(3.5)	(9.5)
Curtailments/settlements:		
Arising on reorganisation	3.0	(7.9)
Arising on amendment of pension obligations	–	5.0
Pension expense charged to operating profit	(0.5)	(12.4)
Expected return on schemes' assets	6.9	10.3
Interest on schemes' obligations	(6.6)	(11.9)
Net pension interest income/(expense) credited/(charged) to investment income and finance expense	0.3	(1.6)
Curtailment/settlement arising on disposal and credited to profit on disposal of discontinued operations (see note 8)	7.3	–
Net pension income/(expense) credited/(charged) before taxation	7.1	(14.0)

Employee related pension costs have been charged to operating profit within discontinued operations where the employing entity has been included as a discontinued operation. Pension interest income/(expense) has been included within investment income and finance expense where the underlying pension obligation has been disposed of during the year. Curtailments/settlements arising on the transfer of employees' pension obligations with businesses disposed of during the year are included within the profit on disposal of discontinued operations.

The reconciliation of the opening and closing statement of financial position balances is as follows:

Group	2011 £m	2010 £m
At the start of the year	(271.3)	(213.1)
(Expense)/income recognised in the income statement – continuing operations	(19.1)	37.1
Income/(expense) recognised in the income statement – discontinued operations	7.1	(14.0)
Contributions paid	133.0	44.1
Actuarial losses gross of taxation	(44.7)	(125.4)
At the end of the year	(195.0)	(271.3)

Actuarial gains and losses are recognised directly in the statement of comprehensive income. At 31 March 2011, a cumulative pre-tax loss of £265.2 million (2010: £220.5 million) had been recorded directly in the statement of comprehensive income.

The history of the schemes for the current and prior years is as follows:

Group	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit obligations	(1,912.9)	(2,182.2)	(1,696.9)	(1,964.4)	(2,835.3)
Fair value of schemes' assets	1,717.9	1,910.9	1,483.8	1,863.2	2,896.6
Net retirement benefit (obligations)/surplus	(195.0)	(271.3)	(213.1)	(101.2)	61.3
Experience adjustments on schemes' liabilities	25.2	1.8	(8.9)	23.8	92.6
Experience adjustments on schemes' assets	25.8	365.2	(496.4)	(239.9)	(43.3)

Notes to the financial statements
continued

20 RETIREMENT BENEFIT OBLIGATIONS CONTINUED

The group has previously applied defined benefit accounting in respect of the NGNPS scheme. During the year, the group disposed of the related legal entity (see note 8). At disposal, the gross pension liabilities in respect of retirement benefit obligations for the NGNPS were £252.2 million (2010: £233.5 million) and gross pension assets in respect of NGNPS were £243.0 million (2010: £225.8 million), giving a net position of £9.2 million. The group did not have the responsibility to fund the net pension deficit and reflected this by the recognition of an available for sale asset within investments of £6.6 million at the date of sale (2010: £5.5 million); this has also been disposed (see note 14).

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 £5.2 million (2010 restated: £5.5 million) of contributions (see note 3) to defined contribution schemes relating to continuing operations and £4.0 million (2010 restated: £4.4 million) relating to discontinued operations, which are included in arriving at operating profit.

Various companies in the United Kingdom electricity industry participate in the Electricity Supply Pension Scheme (ESPS), which is an industry-wide defined benefit scheme. The United Utilities Electricity Services Limited (UUES) section of the Electricity North West (ENW) Group of the scheme was created in December 2007 to accommodate the transfer of employees from ENW (formerly United Utilities Electricity Limited) to UUES. At that date, the UUES section of the scheme was fully funded. The group disposed of UUES, its electricity operations and maintenance business in the North West of England, during the year and therefore ceased to make any further cash contributions to the scheme (see note 8). The group made cash contributions over the period of the Asset Services Agreement (ASA) between UUES and ENW, up to the date of disposal, which were fully recoverable from ENW under the terms of the ASA. There is no obligation brought forward, or carried forward, for which the group is responsible.

Cash contributions of £5.9 million were made to the UUES section of the ESPS during the year ended 31 March 2011 (2010: £12.0 million), these costs being charged to operating profit from discontinued operations, within employee benefit expense, as defined contribution pension costs. Therefore, in total, the group incurred defined contribution pension costs of £9.9 million relating to discontinued operations (2010: £16.4 million).

The company does not participate in any of the group's pension schemes.

21 DEFERRED TAX LIABILITIES

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

Group	Accelerated taxation depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
At 1 April 2009	1,458.0	(59.7)	(57.0)	1,341.3
Charged to the income statement	3.7	18.8	26.2	48.7
(Credited)/charged to equity	–	(35.1)	0.5	(34.6)
At 31 March 2010	1,461.7	(76.0)	(30.3)	1,355.4
(Credited)/charged to the income statement	(89.7)	34.3	0.8	(54.6)
Credited to equity	–	(11.6)	(0.1)	(11.7)
Disposals (see note 8)	(4.0)	2.6	5.4	4.0
At 31 March 2011	1,368.0	(50.7)	(24.2)	1,293.1

Certain deferred tax assets and liabilities have been offset in accordance with IAS 12 'Income Taxes'.

The company had no deferred tax assets or liabilities at 31 March 2011 or 31 March 2010.

22 PROVISIONS

Group	Restructuring £m	Other £m	Total £m
At 1 April 2009	11.4	28.4	39.8
Charged to the income statement	30.7	18.6	49.3
Utilised in the year	(23.5)	(11.8)	(35.3)
At 31 March 2010	18.6	35.2	53.8
Charged to the income statement	9.8	23.9	33.7
Utilised in the year	(24.2)	(21.6)	(45.8)
Disposals (see note 8)	(0.2)	(17.7)	(17.9)
At 31 March 2011	4.0	19.8	23.8

The restructuring provision as at 31 March 2011 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 upon the resolution of the relevant legal claims.

Provisions have been analysed between non-current and current as follows:

Group	Restructuring £m	Other £m	Total £m
At 31 March 2011			
Non-current	–	9.3	9.3
Current	4.0	10.5	14.5
	4.0	19.8	23.8
At 31 March 2010			
Non-current	–	8.3	8.3
Current	18.6	26.9	45.5
	18.6	35.2	53.8

The company had no provisions at 31 March 2011 or 31 March 2010.

23 TRADE AND OTHER PAYABLES

	Group		Company	
Non-current	2011 £m	Restated 2010 £m	2011 £m	2010 £m
Deferred grants and contributions	241.1	175.7	–	–
Other creditors	8.7	7.2	–	–
	249.8	182.9	–	–

	Group		Company	
Current	2011 £m	Restated 2010 £m	2011 £m	2010 £m
Trade payables	39.7	67.6	–	–
Amounts owed to subsidiary undertakings	–	–	2.3	14.3
Amounts owed to related parties (see note 28)	–	0.9	–	–
Other taxation and social security	4.4	7.6	–	–
Deferred grants and contributions	6.7	6.9	–	–
Other creditors	2.9	3.0	–	–
Accruals and deferred income	379.3	508.4	–	–
	433.0	594.4	2.3	14.3

The average credit period taken for trade purchases is 31 days (2010 restated: 38 days).

Notes to the financial statements
continued

The directors consider that the carrying amount of trade payables approximates to their fair value at both 31 March 2011 and 31 March 2010.

Deferred grants and contributions

Group	2011 £m	Restated 2010 £m
At the start of the year	182.6	142.3
Received in the year	72.1	47.0
Credited to the income statement (see note 4)	(6.9)	(6.7)
At the end of the year	247.8	182.6

Deferred grants are those amounts received under government grant schemes. Deferred contributions are those amounts received from customers in respect of new connections to the network.

24 SHAREHOLDERS' EQUITY

Group	2011 £m	2010 £m
Share capital	499.8	499.8
Share premium account	1.3	0.9
Revaluation reserve	158.8	158.8
Treasury shares	–	(0.1)
Cumulative exchange reserve	(3.1)	22.3
Merger reserve	329.7	329.7
Other reserves	–	3.8
Retained earnings	691.0	492.7
	1,677.5	1,507.9

As previously reported, on 24 July 2008, the High Court approved the scheme of arrangement of United Utilities PLC to establish a new listed company, United Utilities Group PLC, as the holding company of United Utilities PLC. The merger reserve arises on consolidation and represents the capital adjustment to reserves required to effect the reverse acquisition, being the difference between the existing share capital and share premium of United Utilities PLC at the date of the reverse acquisition and the share capital, including B shares now redeemed, of United Utilities Group PLC following the reduction of capital of United Utilities Group PLC.

Company	2011 £m	2010 £m
Share capital	499.8	499.8
Share premium account	1.3	0.9
Capital redemption reserve	1,033.3	1,033.3
Retained earnings	2,595.0	2,609.9
	4,129.4	4,143.9

76,012 ordinary shares were allotted during the year ended 31 March 2011 (2010: 50,400 ordinary shares) for the exercise of options in accordance with the rules of the employee ShareSave scheme and the executive share option scheme for a total consideration of £0.4 million (2010: £0.2 million).

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement. The amount of group profit for the financial year dealt with in the company's income statement is £211.8 million profit (2010: £522.9 million loss) after accounting for dividends received from subsidiary undertakings of £233.8 million (2010: £231.2 million).

25 SHARE CAPITAL

Company	2011 million	2011 £m	2010 million	2010 £m
Issued, called up and fully paid				
Ordinary shares of 5.0 pence each	681.6	34.1	681.5	34.1
Deferred shares of 170.0 pence each	274.0	465.7	274.0	465.7
	955.6	499.8	955.5	499.8

Refer to the directors' report for details of the voting rights of each category of shares.

26 OPERATING LEASE COMMITMENTS

Group	Property 2011 £m	Plant and equipment 2011 £m	Property 2010 £m	Plant and equipment 2010 £m
Commitments under non-cancellable operating leases due				
Within one year	3.6	0.7	5.0	1.4
In the second to fifth years inclusive	11.9	0.5	10.5	1.5
After five years	249.0	–	247.5	0.1
	264.5	1.2	263.0	3.0

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. The group does not have the right to renew such leases in every case; however, where renewal rights do not exist, there are appropriate strategies to ensure that suitable alternative property and accommodation solutions are in place in each case. Escalation of rents is via rent reviews over a minimum five-year period.

The company had no operating lease commitments at 31 March 2011 or 31 March 2010.

27 SHARE-BASED PAYMENTS

The company operates several share option schemes. Options are exercisable at a price equal to the average quoted market price of the company's shares on the date of grant. Options are forfeited if the employee leaves the group through resignation or dismissal before the options vest.

Cash-settled and equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the date of grant of equity-settled share-based payments, as calculated by KPMG LLP, is expensed on a straight-line basis over the vesting period, based upon the group's estimate of shares that will eventually vest.

Fair value is measured by use of both simulation and binomial models according to the relevant measures of performance. The models include adjustments, based upon management's best estimate, for the effects of exercise restrictions, behavioural considerations and expected dividend payments. The option life is derived from the models based upon these assumptions and other assumptions identified below.

The total income included within operating profit from continuing operations in respect of equity-settled share-based payments was £0.1 million (2010: £2.4 million expense; £1.7 million relating to continuing operations and £0.7 million relating to discontinued operations) and £0.2 million expense (2010: £nil) in respect of cash-settled share-based payments, plus £nil accrual of national insurance contributions (2010: £0.3 million).

The United Utilities Employee Share Trust was established by a trust deed executed on 21 August 1996. The Trustees hold the trust fund for the benefit of the beneficiaries (being employees or former employees of the group's companies and their relatives) to the extent determined by the rules of the share schemes. As at 31 March 2011, the Trust held no (2010: 41,418) shares on trust. During the year, these shares were used to satisfy awards payable under the group's performance share plan. All dividends payable on the shares during the current and prior years were waived.

Notes to the financial statements

continued

27 SHARE-BASED PAYMENTS CONTINUED

Further details of the different types of share-based payments are as follows:

Company share option scheme 1999

The company share option scheme 1999 is for senior executives (excluding, with effect from the introduction of the group's long-term incentive plan, executive directors and other executives participating in that plan and its successor, the performance share plan).

Options under the company share option scheme 1999 are exercisable in a period beginning no earlier than three years (five years for discounted options under the former executive share option scheme, which are no longer granted) and ending no later than 10 years from the date of grant.

Performance share plan

The performance share plan (PSP) is for senior executives of the group. Options under the PSP are exercisable no earlier than three years from the 31 March preceding the date of grant and have an exercise period of three months. PSP awards granted prior to 31 March 2008 are subject to a total shareholder return (TSR) performance condition (a market-based measure of performance). PSP awards granted from 1 April 2008 onwards are 50 per cent subject to a TSR performance condition; the remaining 50 per cent of the awards are subject to operational performance conditions.

Matching share award plan

The matching share award plan (MSAP) is for senior executives of the group. Options under this scheme are exercisable no earlier than three years from the 31 March preceding the date of grant and have an exercise period of three months. MSAP awards are 50 per cent subject to a TSR performance condition; the remaining 50 per cent of the award is subject to operational performance conditions.

Deferred share plan

The deferred share plan (DSP) is for the employees at the level below senior executive. An annual award in deferred group shares is made on the basis of a maximum of 30 per cent of salary, apportioned according to the extent of the employee's achievement of the annual cash incentive plan maximum for the financial year. A limited number of employees at the next level below senior executive may also be nominated to receive a one-off award of a fixed number of deferred group shares in recognition of exceptional performance during the year. Shares are released after a three-year holding period and are conditional on continued employment with the group during this time. These options may, at the group's discretion, be settled in cash. DSP awards grant employees free shares with no performance conditions which are entitled to dividend equivalents; therefore, the fair value of the award is equal to the market price of the share at the grant date (2011 weighted average fair value at date of award: £5.62, 2010: £5.41).

Other share-based payment plan

The main all-employee scheme is the HM Revenue & Customs approved share incentive plan, 'ShareBuy'. This is a flexible way for employees to acquire shares in the company by buying 'partnership' shares up to the lower of £1,500 or 10 per cent of taxable pay each year. The funds are deducted from pre-taxable pay and passed to an independent trustee who makes a monthly purchase of shares at full market price. Employees can reinvest the dividends on partnership shares to buy more shares under the plan. The group gives one free share for every five partnership shares bought. The shares need to be held in trust for a five-year term in order to retain the maximum taxation advantages.

The following tables show the inputs to the model used to calculate the fair value of equity-settled share options granted during the years ended 31 March 2011 and 31 March 2010 respectively.

Year ended 31 March 2011	Matching share award plan[(1)] TSR 50%	Matching share award plan[(1)] Operational 50%	Performance share plan[(1)] TSR 50%	Performance share plan[(1)] Operational 50%	Performance share plan[(2)] TSR 50%	Performance share plan[(2)] Operational 50%
Weighted average exercise price (£ per share)	–	–	–	–	–	–
Vesting period (years)	2.7	2.7	2.7	2.7	2.0	2.0
Expected volatility (%)	27.8	–	27.8	–	25.9	–
Risk-free rate (%)	1.4	–	1.4	–	1.3	–
Expected dividend yield (%)	–	–	–	–	–	–
Fair value (£ per share)	2.71	5.60	2.71	5.60	2.36	5.89

Notes:
(1) Awarded in July 2010.
(2) Awarded in March 2011.

Year ended 31 March 2010	Matching share award plan[3] TSR 50%	Matching share award plan[3] Operational 50%	Performance share plan[3] TSR 50%	Performance share plan[3] Operational 50%
Weighted average exercise price (£ per share)	–	–	–	–
Vesting period (years)	2.8	2.8	2.8	2.8
Expected volatility (%)	26.8	–	26.8	–
Risk-free rate (%)	2.4	–	2.4	–
Expected dividend yield (%)	–	–	–	–
Fair value (£ per share)	1.64	5.10	1.64	5.10

Note:
[3] Awarded in June 2009.

Cash-settled share options amounting to £0.5 million were granted during the year (2010: £nil).

The expected volatility is based upon the historical volatility of the company's share price over the expected life of the option.

The movement in total outstanding options in respect of grants of equity instruments after 7 November 2002 unvested as of 1 April 2004, and therefore within the scope of IFRS 2 'Share-based Payments', is provided below:

	Company share option scheme 1999		Matching share award plan	Performance share plan	Deferred share plan
	Number of options	Weighted average exercise price £	Number of options	Number of options	Number of options
Outstanding at 1 April 2009	108,531	5.44	272,858	583,334	234,091
Granted	–	–	73,270	391,574	74,279
Dividend reinvestment	–	–	24,036	68,108	17,567
Forfeited	(7,720)	–	(5,886)	(14,374)	(43,025)
Exercised	–	–	–	–	(61,425)
Expired	–	–	–	–	–
Outstanding at 31 March 2010	100,811	5.44	364,278	1,028,642	221,487
Granted	–	–	24,612	275,275	92,382
Dividend reinvestment	–	–	10,842	49,417	13,079
Forfeited	(29,362)	–	(227,581)	(694,612)	(16,432)
Exercised	(15,805)	5.44	(15,082)	–	(110,039)
Expired	–	–	–	–	–
Outstanding at 31 March 2011	55,644	5.44	157,069	658,722	200,477
Range of prices					
31 March 2011		5.44			
31 March 2010		5.44			
Weighted average share price at date of exercise					
31 March 2011		6.01	5.38	n/a	5.71
31 March 2010		n/a	n/a	n/a	4.86
Contractual remaining life					
31 March 2011		1.7 years	0.3 years	1.0 years	1.5 years
31 March 2010		2.7 years	0.9 years	1.1 years	1.3 years

None of the share options identified above as outstanding at 31 March 2011 had vested at that date.

Notes to the financial statements
continued

27 SHARE-BASED PAYMENTS CONTINUED

For the purpose of IFRS 2, expiry of performance share plan awards is measured with reference to the achievement of the performance conditions within the vesting conditions at the reporting date, not the end of the notional vesting period of three years from grant date. Therefore, options with performance conditions measured at the end of a reporting period are treated as expired if their performance conditions are not achieved at the reporting date.

Options outstanding at 31 March under the share option schemes which are outside the scope of IFRS 2, together with their exercise prices and dates, were:

	2011 Number of options	2010 Number of options	Exercise price[1] £	Normal dates of exercise
Company share option scheme 1999	–	100,598	6.80	2003 to 2010
	–	25,923	6.66	2003 to 2010
	79,503	110,291	6.52	2004 to 2011
	7,357	40,104	5.89	2005 to 2012
	133,636	191,163	6.11	2005 to 2012
	220,496	468,079		

Note:
[1] The exercise price equalled the market price at the date the option was granted.

28 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:

	Sales of services		Purchases of goods and services	
	2011 £m	2010 £m	2011 £m	2010 £m
Joint ventures	44.2	92.9	9.5	4.8

	Amounts owed by related parties		Amounts owed to related parties	
	2011 £m	2010 £m	2011 £m	2010 £m
Joint ventures (see notes 16, 23)	2.7	19.2	–	0.9

Included within the table above are amounts relating to entities that have been disposed of during the year ended 31 March 2011. A list of the principal joint ventures is included in the group's Annual Report and Financial Statements for the year ended 31 March 2010.

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 £5.9 million (2010: £126.8 million) to its joint ventures (see note 14). A £0.3 million provision has been made for doubtful receivables in respect of the amounts owed by related parties (2010: £0.4 million). No expense has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (2010: £0.3 million).

Company

The parent company receives dividend income and pays and receives interest to and from subsidiary undertakings in the normal course of business. Total dividend income received during the year amounted to £233.8 million (2010: £231.2 million) and total net interest payable during the year was £29.6 million (2010: £31.9 million). Amounts outstanding at 31 March 2011 and 31 March 2010 between the parent company and subsidiary undertakings are provided in notes 16, 18 and 23.

At 31 March 2011 and 31 March 2010, no related party receivables and payables were secured and no guarantees were issued in respect thereof. Balances will be settled in accordance with normal credit terms. No allowance for doubtful receivables has been made for amounts owed by subsidiary undertakings as at 31 March 2011 and 31 March 2010.

29 CASH GENERATED FROM OPERATIONS

	Group		Company	
		Restated		
	2011	2010	2011	2010
Continuing operations	£m	£m	£m	£m
Profit/(loss) before taxation	327.1	408.7	204.1	(527.5)
Adjustment for investment income and finance expense	253.1	359.1	29.7	31.9
Operating profit/(loss)	580.2	767.8	233.8	(495.6)
Adjustments for:				
Depreciation of property, plant and equipment	258.3	254.1	–	–
Amortisation of other intangible assets	32.2	26.0	–	–
Loss on disposal of property, plant and equipment	2.7	3.0	–	–
Loss on disposal of other intangible assets	2.8	–	–	–
Equity-settled share-based payments (credit)/charge	(0.1)	1.7	–	–
Other non-cash movements*	–	(87.3)	–	726.8
Changes in working capital:				
Decrease/(increase) in inventories	2.1	(1.6)	–	–
(Increase)/decrease in trade and other receivables	(20.1)	12.1	1.3	1.8
Decrease in provisions and payables	(73.5)	(30.3)	–	–
Cash generated from continuing operations	784.6	945.5	235.1	233.0

* There were no material non-cash transactions during the year ended 31 March 2011. In the prior year, material non-cash transactions included, for the group, the pension schemes curtailment gains arising on amendment of pension obligations (£87.3 million, see note 20) and, for the company, the impairment of the company's investment in its subsidiary United Utilities Group PLC (£726.8 million, see note 14).

30 CONTINGENT LIABILITIES

The group has entered into performance guarantees as at 31 March 2011, where a financial limit has been specified of £104.5 million (2010: £201.2 million).

The company has not entered into performance guarantees as at 31 March 2011 or 31 March 2010.

31 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 2011.

Notes to the financial statements
continued

32 PRIOR YEAR ADJUSTMENTS

The group and company have adopted IFRIC 18 'Transfer of Assets from Customers' (see accounting policies). In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the comparative information of the relevant disposal groups has been restated. The impact on the March 2010 comparatives on the adoption of this new interpretation and on the application of IFRS 5 to discontinued operations is set out below:

2010 Consolidated statement of financial position	31 March 2010 as previously reported £m	Restatement for IFRIC 18 £m	31 March 2010 restated £m
ASSETS			
Non-current assets			
Property, plant and equipment	8,122.8	36.8	8,159.6
Goodwill	2.5	–	2.5
Other intangible assets	208.6	–	208.6
Investments	7.7	–	7.7
Trade and other receivables	56.5	–	56.5
Derivative financial instruments	378.5	–	378.5
	8,776.6	36.8	8,813.4
Current assets			
Inventories	74.8	–	74.8
Trade and other receivables	451.0	–	451.0
Cash and short-term deposits	301.5	–	301.5
Derivative financial instruments	18.3	–	18.3
	845.6	–	845.6
Total assets	9,622.2	36.8	9,659.0
LIABILITIES			
Non-current liabilities			
Trade and other payables	(146.5)	(36.4)	(182.9)
Borrowings	(5,307.9)	–	(5,307.9)
Retirement benefit obligations	(271.3)	–	(271.3)
Deferred tax liabilities	(1,355.4)	–	(1,355.4)
Provisions	(8.3)	–	(8.3)
Derivative financial instruments	(102.3)	–	(102.3)
	(7,191.7)	(36.4)	(7,228.1)
Current liabilities			
Trade and other payables	(594.0)	(0.4)	(594.4)
Borrowings	(168.3)	–	(168.3)
Current income tax liabilities	(89.0)	–	(89.0)
Provisions	(45.5)	–	(45.5)
Derivative financial instruments	(25.8)	–	(25.8)
	(922.6)	(0.4)	(923.0)
Total liabilities	(8,114.3)	(36.8)	(8,151.1)
Total net assets	1,507.9	–	1,507.9
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital	499.8	–	499.8
Share premium account	0.9	–	0.9
Revaluation reserve	158.8	–	158.8
Treasury shares	(0.1)	–	(0.1)
Cumulative exchange reserve	22.3	–	22.3
Merger reserve	329.7	–	329.7
Other reserves	3.8	–	3.8
Retained earnings	492.7	–	492.7
Shareholders' equity	1,507.9	–	1,507.9

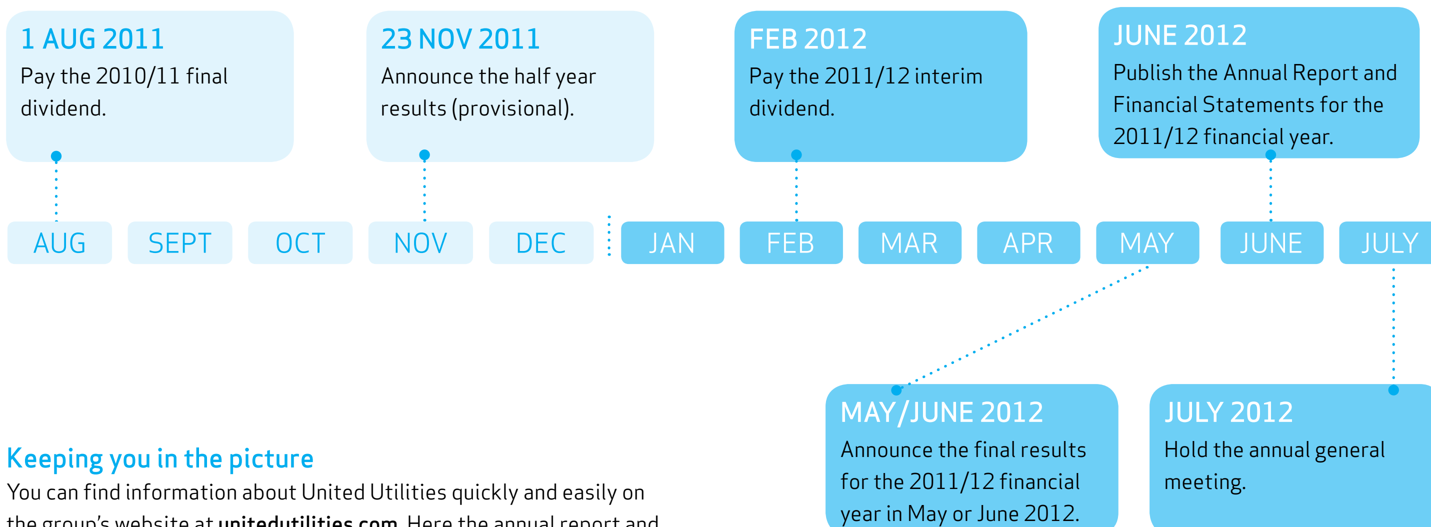
This has had no impact on the company only financial statements.

2010 Consolidated income statement	2010 as previously reported £m	Restatement for IFRIC 18 £m	Transfer to discontinued operations £m	2010 restated £m
Continuing operations				
Revenue	2,439.1	(2.5)	(863.5)	1,573.1
Employee benefits expense:				
excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	(362.4)	–	206.1	(156.3)
pension schemes curtailment gains arising on amendment of pension obligations	92.3	–	(5.0)	87.3
restructuring costs	(30.7)	–	4.9	(25.8)
Total employee benefit expense	(300.8)	–	206.0	(94.8)
Other operating costs	(905.1)	2.6	580.7	(321.8)
Other income	3.1	–	2.0	5.1
Depreciation and amortisation expense	(304.7)	(0.1)	24.7	(280.1)
Infrastructure renewals expenditure	(113.7)	–	–	(113.7)
Total operating expenses	(1,621.2)	2.5	813.4	(805.3)
Operating profit	817.9	–	(50.1)	767.8
Investment income	14.1	–	(7.9)	6.2
Finance expense	(383.6)	–	18.3	(365.3)
Investment income and finance expense	(369.5)	–	10.4	(359.1)
Profit on disposal of investments	36.6	–	(36.6)	–
Evaluation and disposal costs relating to non-regulated business	(10.8)	–	10.8	–
Profit before taxation	474.2	–	(65.5)	408.7
Current taxation charge	(22.0)	–	2.5	(19.5)
Deferred taxation charge	(48.7)	–	6.5	(42.2)
Taxation	(70.7)	–	9.0	(61.7)
Profit after taxation from continuing operations	403.5	–	(56.5)	347.0
Discontinued operations				
Profit after taxation from discontinued operations	–	–	56.5	56.5
Profit after taxation	403.5	–	–	403.5

Shareholder information

Key dates

We plan to:



Keeping you in the picture

You can find information about United Utilities quickly and easily on the group's website at **unitedutilities.com**. Here the annual report and financial statements, corporate responsibility report, other reports, company announcements, the half year and final announcements and associated presentations are published.

For investor information go to unitedutilities.com/investors

For an online version of this report go to unitedutilities.com/annualreport2011

Communications

- If you want to receive future notifications by email rather than post, you can arrange this at **shareview.co.uk**.
- To obtain a paper copy of our annual report and financial statements 2011, write to the company secretariat at our registered office.
- If you wish to change how you receive shareholder documents, please write to our registrar, Equiniti, at the address below stating your name, shareholding and shareholder reference number.

Registrar

The registrar, Equiniti, can be contacted on **0871 384 2041** or textphone for those with hearing difficulties: **0871 384 2255**. Calls to these numbers cost 8 pence per minute from a BT landline, other providers' costs may vary. Lines are open 8.30 am to 5.30 pm, Monday to Friday (excluding bank holidays).
Their address is: Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.
Overseas shareholders may contact them on: **+44 (0) 121 415 7048**.

Equiniti offers a low cost share dealing service by telephone: **0845 603 7037** and online: **shareview.co.uk/dealing**. It also offers a stocks and shares ISA for United Utilities' shares. For more information, call 0845 300 0430 or go to **shareview.co.uk/dealing**.

Tax vouchers

In line with many PLCs we have introduced annual tax vouchers which will be issued with the interim dividend normally paid in February for those shareholders who have their dividend paid electronically into their bank account.

Should those shareholders electronically receiving their dividends wish to have a tax voucher for each payment, they should make arrangements with Equiniti via the contact details on this page.

American Depositary Receipts (ADRs)

United Utilities' shares are traded in the USA in the form of American Depositary Receipts (ADRs), and trade under the symbol UUGRY on the OTC market. Each ADR represents two shares. JPMorgan Chase & Co. is the depositary and its address for enquiries is JPMorgan Chase & Co, P.O. Box 64504, St. Paul, MN 55164-0504.
adr.com/ShareholderServices/ShareholderServices.aspx.
Telephone: **(800) 990-1135** or outside the US: **+1 (651) 453 2128**, or by email: **jpmorgan.adr@wellsfargo.com**.

Donating shares to ShareGift

ShareGift is a charity that accepts donations of small numbers of shares which are uneconomic to sell on their own. Shares donated to ShareGift are aggregated and sold with the proceeds passed on to a wide range of UK charities. For further details go to **ShareGift.org** or write to ShareGift at 17 Carlton House Terrace, London, SW1Y 5AH. Telephone: **+44 (0)207 930 3737**.

Warning to shareholders

Please be very wary of any unsolicited contact about your investments or offers of free company reports. It may be from an overseas 'broker' who could sell you worthless or high risk shares. If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme. Further information and a list of unauthorised firms that have targeted UK investors is available from the Financial Services Authority at **fsa.gov.uk/pages/consumerinformation**.

Avoiding unsolicited mail

United Utilities is legally obliged to make its register of members available for inspection in some circumstances. This may lead to you receiving unsolicited mail. If you have a UK registered address and want to limit the amount of personally addressed unsolicited mail you receive, please write to the Mailing Preference Service, Freepost 29, LON20771, London, W1E 0ZT, or register by telephoning **+44 (0)845 703 4599** or online at **mpsonline.org.uk**.

United Utilities is proud to have retained platinum plus ranking in the Business in the Community Corporate Responsibility Index and to be leading the water sector for the second year running in the Dow Jones Sustainability Index.

Designed and produced by Jones and Palmer Ltd.

Printed by Taylor Bloxham Limited on FSC certified material, sourced from well managed and sustainable forests.
Printed using vegetable based inks, on presses utilising solvent reducing technologies.
Taylor Bloxham operates an Environmental Management System conforming to BS EN ISO 14001:2004 and the company is also FSC certified.
All process waste is reused and recycled wherever possible, in full compliance with current legislation.

The cover for this report is printed on ClaroBulk, a high-bulk coated board. The wood fibres used in the production of ClaroBulk are FSC certified, made using ECF pulp and produced at an EMAS certified mill.

The text for this report is printed on UPM Fine, a white uncoated offset paper made from FSC certified pulp.
UPM Fine is produced from 100% ECF pulp and produced at an EMAS certified mill and also carries the EU Eco-label or EU Flower, which has been awarded to most of UPM's mills.

Back cover photograph:
Katie from Warrington, Cheshire.

unitedutilities.com
Telephone +44 (0)1925 237000

United Utilities Group PLC

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

Registered in England and Wales
Registered number 6559020

LSE Stock Code: UU.