Registered No: 2366616

United Utilities PLC

Report and Financial Statements

31 March 2011

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Registered no. 2366616

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Terms used in this report
United Utilities PLC is the intermediate holding company of the UK's largest listed water business. The 'company' means United Utilities PLC, the 'group' means United Utilities PLC and its subsidiary undertakings, 'UUG' means United Utilities Group PLC and 'UUG group' 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.

Chief executive officer's statement

Overview

In line with the UUG group's strategy of focusing on core activities, the group completed its non-regulated disposal programme in November 2010. The last four years have seen the group 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

During the year an interim dividend of 8.64 pence per ordinary share was declared and paid. No final dividend has been recommended for the year ended 31 March 2011 (2010: £17.87 pence per ordinary share).

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 smooth the spend profile to optimise efficiency and reduce risk. We are pleased to have made good early progress in the delivery of outputs.

Chief executive officer’s statement (continued)

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.

In light of the UUG 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 group’s continued focus on corporate responsibility, it retained its ‘World Class’ rating, as measured by the Dow Jones Sustainability Index.

Health and safety is paramount and we believe that everybody in the group 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 the group 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 the UUG group during the last five years. Philip led the reshaping of the company’s strategy and capital structure and he leaves the UUG group 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 of UUG. 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.

Chief executive officer's statement (continued)

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 the group's success.

Steve Mogford
Chief executive officer, United Utilities Group PLC
7 July 2011

Business review

KEY PERFORMANCE INDICATORS

The group 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 our 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
Financial KPIs		
Underlying [2] operating profit from continuing operations	£596.4m	£706.3m
Underlying [2] profit before taxation from continuing operations	£358.7m	£514.5m
Underlying [2] profit after taxation from continuing operations	£260.4m	£369.5m
Revenue from continuing operations	£1,513.3m	£1,573.1m
Operating profit from continuing operations	£580.2m	£767.8m
Profit before taxation from continuing operations	£356.6m	£440.6m
Profit after taxation from continuing operations	£375.3m	£370.0m
Non-financial KPIs		
Best service to customers		
Serviceability [3]	4 x stable	4 x stable
Overall customer satisfaction (in response to enquiries)	83%	82%
Lowest sustainable cost		
Water – relative efficiency banding [4]	Band B	Band B
Wastewater – relative efficiency banding [4]	Band C	Band C
Leakage – rolling annual average leakage	464Ml/day	462Ml/day
Responsible manner		
Environment Agency performance assessment [5]	6th	10th
Dow Jones Sustainability Index rating [6]	'World Class'	'World Class'

Notes:

(1) Contributions from non-regulated entities disposed of in the year have been removed from prior year comparatives.
(2) See pages 14 and 15 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.

Business review (continued)

BUSINESS DESCRIPTION

United Utilities PLC is the intermediate holding company of 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.

The group now 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 kilometres of water pipes
- 57,000 hectares of catchment land
- 575 wastewater treatment works
- Over 43,000 kilometres of sewers
- Serving a population of seven 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 next five years, the average annual household 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 bathing water standards across the North West 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.

Business review (continued)

BUSINESS DESCRIPTION (continued)

In the 2005-10 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.

The group 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 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-tax, 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.

Business review (continued)

BUSINESS DESCRIPTION (continued)

All other segments

As part of UUG group’s strategy of focusing on its core activities, the group completed its non-regulated disposal programme in November 2010.

The non-regulated disposal programme has included the disposal of the group’s 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 the group 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.

Business review (continued)

PERFORMANCE SUMMARY

Group results (continuing operations)

	Year ended 31 March 2011 £m	Restated (1) Year ended 31 March 2010 £m
Underlying operating profit (2)	596.4	706.3
Underlying profit before taxation (2)	358.7	514.5
Underlying profit after taxation (2)	260.4	369.5
Revenue	1,513.3	1,573.1
Operating profit	580.2	767.8
Profit before taxation	356.6	440.6
Profit after taxation	375.3	370.0

(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 pages 14 and 15.
(3) 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 (3)

FINANCIAL PERFORMANCE

The group 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, the group will have a single segment for financial reporting purposes.

Business review (continued)

FINANCIAL PERFORMANCE (continued)

Investment income and finance expense
Investment income and finance expense of £224 million was £104 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. In addition, the net pension interest expense was £18 million lower than the prior year due to a higher return in the scheme's assets.

Partially offsetting the favourable variances above is an increase of £72 million on the prior year from indexation of the principal on index-linked debt primarily due to the effects of RPI deflation in the prior year on 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.

Profit before taxation
Underlying profit before taxation was £359 million, 30 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 19 per cent to £357 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 taxation charge relating to continuing activities was £43 million in the year and the current taxation effective rate was 12 per cent, compared with six per cent in the previous year. The current year charge includes a £29 million credit following agreement with HM Revenue and Customs (HMRC) of prior years' taxation matters, without which the effective taxation rate would have been 20 per cent. The prior year current taxation charge included a £47 million credit in relation to the agreement with HMRC of prior years' taxation matters, without which the effective taxation rate would have been 17 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 taxation from 28 per cent to 27 per cent and the subsequent change enacted on 29 March 2011 to reduce the mainstream rate of corporation taxation 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 £19 million relating to continuing operations has been recognised for the year ended 31 March 2011. Excluding the impact of the reduction in the corporation taxation rate and the impact of the prior year taxation adjustments, the total taxation charge relating to continuing operations would be £98 million or 27 per cent compared with a £124 million charge or 28 per cent last year.

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

Business review (continued)

FINANCIAL PERFORMANCE (continued)

Profit after taxation

Reported profit after taxation was £375 million compared with £370 million in the prior year. Underlying profit after taxation was £260 million. This is based upon the underlying profit before taxation figure less an underlying taxation charge of £98 million, which includes an adjustment for the deferred taxation credit in relation to the change in the mainstream rate of corporation taxation.

Cash flow

Net cash generated from continuing operating activities for the year ended 31 March 2011 was £609 million, compared with £763 million last year. This reflects the impact of the regulatory price review and a taxation payment of £47 million in 2010/11, compared with a small net taxation 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 £4,809 million, compared with £4,967 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.

Debt financing and interest rate management

Gearing (measured as group net debt divided by UUW’s regulatory capital value) decreased to 59 per cent at 31 March 2011, compared with 65 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. The group now has headroom to cover its projected financing needs into 2013.

Business review (continued)

FINANCIAL PERFORMANCE (continued)

Debt financing and interest rate management (continued)
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.

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, the group aims to maintain a healthy headroom position. Available headroom at 31 March 2011 was £669 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.

The group 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. The group’s 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.

The group 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.

Business review (continued)

FINANCIAL PERFORMANCE (continued)

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. The group has also reduced its future pension obligations as a result of the sale of non-regulated activities. Further detail is provided in note 19 'Retirement benefit obligations' of these financial statements. The group will continue to evaluate its pensions investment strategy to de-risk further its pension provision.

Underlying profit (continuing activities)

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

	Regulated activities £m	All other segments £m	Group £m
Operating profit for the year ended 31 March 2011			
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

	Regulated activities £m	All other segments £m	Group £m
Operating profit for the year ended 31 March 2010 (restated)			
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

Business review (continued)

FINANCIAL PERFORMANCE (continued)

Underlying profit (continuing activities) (continued)

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Underlying net finance expense		
Finance expense	(255.9)	(365.4)
Investment income	32.3	38.2
Net finance expense	(223.6)	(327.2)
Net fair value (gains)/losses on debt and derivative instruments	(19.2)	136.5
Adjustment for interest on swaps and debt under fair value options	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	(237.7)	(191.8)

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit before taxation		
Profit before taxation per published results	356.6	440.6
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	358.7	514.5

	Year ended 31 March 2011 £m	Year ended 31 March 2010 £m
Profit after taxation		
Underlying profit before taxation	358.7	514.5
Reported taxation	18.7	(70.6)
Deferred taxation credit	(99.0)	-
Agreement of prior years' UK taxation matters	(17.4)	(53.7)
Taxation relating to underlying profit before taxation adjustments	(0.6)	(20.7)
Underlying profit after taxation	260.4	369.5

(1) Principally relates to restructuring and other reorganisation costs within the business.

Business review (continued)

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 the group's 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.

The group 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

The group 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 the company and it 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.

Business review (continued)

REGULATED ACTIVITIES (continued)

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.

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. 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 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.

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.

Business review (continued)

REGULATED ACTIVITIES (continued)

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.

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 – The group 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 moved 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.

Business review (continued)

REGULATED ACTIVITIES (continued)

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. 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.

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.

Business review (continued)

REGULATED ACTIVITIES (continued)

Responsible manner

Actions:

Corporate responsibility – Sustainability is fundamental to the manner in which the group 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 group'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 the group is carrying out capital works. This has contributed to the UUG group 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. The group's 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 – The group 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 – The group 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** – The group 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.

Business review (continued)

REGULATED ACTIVITIES (continued)

Outperformance of regulatory contract

Financing outperformance – The group 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

The group 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 parliament has approved 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.

Business review (continued)

REGULATED ACTIVITIES (continued)

Political and regulatory developments (continued)

For private sewers expenditure in 2011–15, under Ofwat's regulatory framework, the group 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, the group 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's 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 afore mentioned £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, the UUG group 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. The UUG group 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 UUG group 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

In line with the UUG group's strategy of focusing on core activities, the group 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.

Business review (continued)

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.

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 that assesses, throughout the year, the nature and magnitude of internal and external risks to the achievement of business goals. 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. The principal risks and uncertainties are summarised here.

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.

Business review (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Government market reform agenda (continued)

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, the group 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.

Business review (continued)

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

The group 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 net 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 the extent to which additional deficits are recoverable through the regulatory price determination process. In the 2009 water price review, Ofwat took account of broadly 50 per cent of the pension deficit payable over a ten year recovery period shown in UUW's final business plan 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.

Business review (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Failure to comply with applicable law or regulations

Risk

The group is subject to various laws and regulations in the UK. 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 appointed 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.

Business review (continued)

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Events, service interruptions, systems failures, water shortages or contamination of water supplies (continued)

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.

Material litigation

Risk

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), owners of the Manchester Ship Canal (the ‘canal’), 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. Accordingly, the relevant legal principles need to be tested through court process. UUW have filed a defence and counterclaim in support of its believed entitlement to make discharges into the canal without charge and MSCC’s claim will be vigorously defended thereafter. We now await MSCC’s response to our defence and counterclaim.

Mitigation

The group faces the general risk of litigation in connection with its business. 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 dispute referred to in this risk section having a material adverse effect on the group’s financial position is remote.

Directors' report

The directors present their report and the audited financial statements of United Utilities PLC and its subsidiaries for the year ended 31 March 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 intermediate 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 (pages 3 to 27), which includes the Chief executive officer's statement and the financial performance section (pages 10 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 in the performance section of the business review on page 6. A summary of the principal risks and uncertainties can be found on pages 23 to 27. An indication of likely future developments of the group can be found on pages 4 and 5. The company's principal subsidiary undertakings, and the associated companies and joint ventures in which the group participates, are listed in note 13 to the consolidated financial statements.

Dividends

The directors have not recommended a final dividend for the year ended 31 March 2011. An interim dividend of 8.64 pence per ordinary share was declared and paid. The interim and final dividends paid in respect of the 2009/10 financial year were 9.07 pence and 17.87 pence per ordinary share respectively.

Directors

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

PA Aspin	(appointed 21 May 2010)
M Carmedy	(appointed 21 May 2010)
SL Mogford	(appointed 4 April 2011)
JR Houlden	(appointed 1 October 2010)
TP Weller	(resigned 21 May 2010)
C Cornish	(resigned 30 September 2010)
PN Green	(resigned 31 March 2011)

Directors' indemnities and insurance

UUG has in place contractual entitlements for directors of subsidiary and certain associated companies to claim indemnification by UUG 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 UUG to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of subsidiary or associated companies of UUG. UUG also procures an appropriate level of directors' and officers' liability insurance for both UUG and all its subsidiary companies. Directors and officers of the UUG group are covered under this insurance policy where they have been asked by the group to carry out duties on behalf of the group.

Directors' report (continued)

Political and charitable donations

The group 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 the group's 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 United Utilities Group PLC annual general meeting, an authority was taken to cover such expenditure. A similar resolution will be put to the shareholders at the 2011 United Utilities Group PLC 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 group 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, the group 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. The group 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. The group provides health monitoring arrangements through its partner Serco in particular, employment, surveillance, absence interventions and lifestyle services as part of our 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. The group's 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.

Directors' report (continued)

Employees (continued)

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. The group was recognised by the National Apprenticeship Service for its commitment and support to the training and skills of apprentices. In 2010 the group 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 includes two defined benefit (closed to new members) and a defined contribution scheme.

The group 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. Equal consideration is given to applicants with disabilities 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.

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) and 43 days (2010: 17 days) for the company.

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.

Directors' report (continued)

Financial instruments
The risk management objectives and policies of the company in relation to the use of financial instruments can be found in note 18 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 30 to the consolidated financial statements on page 109.

Cautionary statement
The Report and Financial Statements (the Report) contains certain forward-looking statements with respect to the operations, performance and financial condition of both the UUG group and 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 Report and the company undertakes no obligation to update these forward-looking statements. Nothing in this Report should be construed as a profit forecast. Certain regulatory performance data contained in this Report is subject to regulatory audit.

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 is aware, there is no relevant audit information of which the company's auditor is unaware; and

(2) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Reappointment of auditor
During the year, the UUG group audit committee took into account the tenure of the UUG group's 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 UUG group since 2002, the committee concluded that given the strategic refocus of the UUG group, a change in auditor was appropriate. The audit committee therefore recommended to the board that KPMG Audit Plc be appointed auditor to the UUG group and therefore to the group, following the conclusion of Deloitte's audit of the 2011 financial statements. The appropriate resolution to approve this will be put to shareholders at the forthcoming UUG group annual general meeting.

Approved by the board on 7 July 2011 and signed on its behalf by:

Russ Houlden
Director

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- 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 7 July 2011 and signed on its behalf by:

Russ Houlden
Director

Independent auditor's report

to the members of United Utilities PLC

We have audited the financial statements of United Utilities PLC for the year ended 31 March 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 and 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.

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditor's report (continued)

to the members of United Utilities PLC

Matters on which we are required to report by exception

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

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

Douglas King (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester
7 July 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	3,19	-	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	32.3	38.2
Finance expense	6	(255.9)	(365.4)
Investment income and finance expense		(223.6)	(327.2)
Profit before taxation		356.6	440.6
Current taxation charge		(43.3)	(28.4)
Deferred taxation charge		(37.0)	(42.2)
Deferred taxation credit – change in taxation rate		99.0	-
Taxation	7	18.7	(70.6)
Profit after taxation from continuing operations		375.3	370.0
Discontinued operations			
Profit after taxation from discontinued operations	8	103.7	56.5
Profit after taxation		479.0	426.5

* 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	Restated 2010 £m
Profit after taxation		479.0	426.5
Actuarial losses on defined benefit pension schemes	19	(44.7)	(125.4)
Deferred taxation on actuarial losses on defined benefit pension schemes	20	11.6	35.1
Revaluation of investments	13	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	20	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		416.7	309.8

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	10	8,274.9	8,159.6	0.4	0.4
Goodwill	11	5.0	2.5	-	-
Other intangible assets	12	93.9	208.6	-	-
Investments	13	2.3	7.7	6,176.5	6,161.0
Trade and other receivables	15	-	56.5	-	-
Deferred tax asset	20	-	-	29.5	9.9
Derivative financial instruments	18	363.3	378.5	99.1	107.8
		8,739.4	8,813.4	6,305.5	6,279.1
Current assets					
Inventories	14	47.6	74.8	-	-
Trade and other receivables	15	1,798.7	1,970.7	1,682.6	1,636.8
Cash and short-term deposits	16	255.2	301.5	237.0	239.3
Derivative financial instruments	18	2.0	18.3	-	-
		2,103.5	2,365.3	1,919.6	1,876.1
Total assets		10,842.9	11,178.7	8,225.1	8,155.2
LIABILITIES					
Non-current liabilities					
Trade and other payables	22	(249.8)	(182.9)	-	-
Borrowings	17	(5,203.6)	(5,307.9)	(660.8)	(686.6)
Retirement benefit obligations	19	(195.0)	(271.3)	(52.1)	(32.4)
Deferred tax liabilities	20	(1,293.1)	(1,355.4)	-	-
Provisions	21	(9.3)	(8.3)	-	-
Derivative financial instruments	18	(84.6)	(102.3)	(12.8)	-
		(7,035.4)	(7,228.1)	(725.7)	(719.0)
Current liabilities					
Trade and other payables	22	(433.0)	(596.5)	(1,800.0)	(1,683.9)
Borrowings	17	(140.8)	(229.5)	(861.3)	(898.3)
Current income tax liabilities		(87.3)	(104.7)	-	-
Provisions	21	(14.5)	(45.5)	(2.2)	(7.8)
Derivative financial instruments	18	(0.4)	(25.8)	(0.4)	(0.2)
		(676.0)	(1,002.0)	(2,663.9)	(2,590.2)
Total liabilities		(7,711.4)	(8,230.1)	(3,389.6)	(3,309.2)
Total net assets		3,131.5	2,948.6	4,835.5	4,846.0
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	23,24	881.8	881.8	881.8	881.8
Share premium account	23	1,430.0	1,430.0	1,430.0	1,430.0
Revaluation reserve	23	158.8	158.8	-	-
Cumulative exchange reserve	23	(3.1)	22.3	-	-
Other reserves	23	-	3.8	-	-
Retained earnings	23	664.0	451.9	2,523.7	2,534.2
Shareholders' equity		3,131.5	2,948.6	4,835.5	4,846.0

The consolidated comparatives for 31 March 2010 have been restated to reflect the adoption of IFRIC 18 'Transfers of Assets from Customers'. See note 32 and the accounting policies for details. These financial statements for the group and United Utilities PLC (company number: 2366616) were approved by the board of directors on 7 July 2011 and signed on its behalf by:

Russ Houlden
Director

Consolidated statement of changes in equity

for the year ended 31 March

	Share capital £m	Share premium account £m	Revaluation reserve £m	Cumulative exchange reserve £m	Other reserves £m	Retained earnings £m	Total £m
Group							
At 1 April 2010	881.8	1,430.0	158.8	22.3	3.8	451.9	2,948.6
Profit after taxation	-	-	-	-	-	479.0	479.0
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 disposal 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)	445.9	416.7
Transactions with owners							
Dividends	-	-	-	-	-	(233.8)	(233.8)
At 31 March 2011	881.8	1,430.0	158.8	(3.1)	-	664.0	3,131.5

	Share capital £m	Share premium account £m	Revaluation reserve £m	Cumulative exchange reserve £m	Other reserves £m	Retained earnings £m	Total £m
Group							
At 1 April 2009	881.8	1,430.0	158.8	15.9	36.6	346.9	2,870.0
Profit after taxation	-	-	-	-	-	426.5	426.5
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 disposal 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)	336.2	309.8
Transactions with owners							
Dividends	-	-	-	-	-	(231.2)	(231.2)
At 31 March 2010	881.8	1,430.0	158.8	22.3	3.8	451.9	2,948.6

Company statement of changes in equity

for the year ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
Company				
At 1 April 2010	881.8	1,430.0	2,534.2	4,846.0
Profit after taxation	-	-	247.4	247.4
Other comprehensive income				
Actuarial losses on defined benefit pension schemes	-	-	(32.6)	(32.6)
Deferred taxation on actuarial losses on defined benefit pension schemes	-	-	8.5	8.5
Total comprehensive income	-	-	223.3	223.3
Transactions with owners				
Dividends	-	-	(233.8)	(233.8)
At 31 March 2011	881.8	1,430.0	2,523.7	4,835.5

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
Company				
At 1 April 2009	881.8	1,430.0	3,258.6	5,570.4
Loss after taxation	-	-	(479.8)	(479.8)
Other comprehensive (expense)/income				
Actuarial losses on defined benefit pension schemes	-	-	(18.6)	(18.6)
Deferred taxation on actuarial losses on defined benefit pension schemes	-	-	5.2	5.2
Total comprehensive expense	-	-	(493.2)	(493.2)
Transactions with owners				
Dividends	-	-	(231.2)	(231.2)
At 31 March 2010	881.8	1,430.0	2,534.2	4,846.0

Consolidated and company statements of cash flows

for the year ended 31 March

	Note	2011 £m	**Group** Restated 2010 £m	2011 £m	**Company** 2010 £m
Operating activities					
Cash generated from continuing operations	28	780.6	934.6	323.0	455.0
Interest paid		(165.8)	(200.5)	(24.8)	(33.9)
Interest received and similar income		40.2	29.2	1.5	4.0
Tax paid		(46.5)	(51.2)	(54.3)	(51.2)
Tax received		-	50.5	-	50.6
Net cash generated from operating activities (continuing operations)		608.5	762.6	245.4	424.5
Net cash generated from operating activities (discontinued operations)		13.7	51.7	-	-
Investing activities					
Proceeds from disposal of discontinued operations		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	-	-	-
Investment in subsidiaries		-	-	-	(1.0)
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	13	-	(0.8)	-	-
Net cash used in investing activities (continuing operations)		(320.3)	(531.2)	-	(1.0)
Net cash (used in)/generated by investing activities (discontinued operations)		(52.7)	78.5	-	-
Financing activities					
Proceeds from borrowings		94.1	265.0	30.9	42.7
Repayment of borrowings		(112.6)	(362.1)	(25.2)	(112.7)
Dividends paid to equity holders of the company	9	(233.8)	(231.2)	(233.8)	(231.2)
Net cash used in financing activities (continuing operations)		(252.3)	(328.3)	(228.1)	(301.2)
Net cash used in financing activities (discontinued operations)		(4.8)	(2.6)	-	-
Effects of exchange rate changes (continuing operations)		-	-	(1.9)	-
Effects of exchange rate changes (discontinued operations)		(1.3)	13.5	-	-
Net increase/(decrease) in cash and cash equivalents (continuing operations)		35.9	(96.9)	15.4	122.3
Net (decrease)/increase in cash and cash equivalents (discontinued operations)		(45.1)	141.1	-	-
Cash and cash equivalents at beginning of the year	16	256.0	211.8	221.5	99.2
Cash and cash equivalents at end of the year	16	246.8	256.0	236.9	221.5

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.

Accounting policies (continued)

a) Basis of preparation (continued)
Going concern
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 company's budget for 2011/12, the company's five-year business plan and investment programme, together with a review of the cash and committed borrowing facilities available to the company (discussed in further detail in the liquidity section on page 13 and the debt financing and interest rate management section on pages 12 and 13). That review 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.

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 are included in the consolidated financial statements on a proportionate consolidation basis using the same accounting methods as adopted for subsidiaries.

Accounting policies (continued)

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.

Accounting policies (continued)

e) Property, plant and equipment (continued)
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.

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-taxation 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.

Accounting policies (continued)

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.

Accounting policies (continued)

g) Financial instruments (continued)
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 18).

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 18).

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.

Accounting policies (continued)

j) Long-term contract accounting (continued)
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.

k) Taxation
The taxation expense represents the sum of current taxation and deferred taxation.

Current taxation
Current taxation, including UK corporation taxation and foreign taxation, is based upon the taxable profit for the period and is provided at amounts expected to be paid or recovered using the taxation 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 taxation expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding taxation bases used in the computation of taxable profit. Deferred taxation liabilities are provided, using the liability method, on all taxable temporary differences at each reporting date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation is measured at the average taxation rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based upon taxation 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.

Accounting policies (continued)

l) Employee benefits (continued)
Retirement benefit obligations (continued)
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.

Accounting policies (continued)

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 12). 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 15 and 12).

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.

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

Accounting policies (continued)

s) Critical accounting judgements and key sources of estimation uncertainty (continued)
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 policies (continued)

s) Critical accounting judgements and key sources of estimation uncertainty (continued)
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 29, 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 19. 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 value 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.

Accounting policies (continued)

s) Critical accounting judgements and key sources of estimation uncertainty (continued)
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.

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;

Accounting policies (continued)

t) Recently issued accounting pronouncements (continued)
International Financial Reporting Standards (continued)

- 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;
- 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;
- IAS 19 ' Employee benefits', revised June 2011, is effective for periods commencing on or after 1 January 2013 but has not yet been endorsed by the EU; and
- IAS 1 'Presentation of financial statements – amendments', issued in June 2011, is effective for periods commencing on or after 1 July 2012 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)	32.3	38.2
Total revenue	1,545.7	1,613.7

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 nonregulated 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 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 PLC (‘the 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)

Year ended 31 March 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			32.3
Finance expense			(255.9)
Profit before taxation			356.6

Year ended 31 March 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 gain arising on amendment of pension obligations	76.7	10.6	87.3
Segmental operating profit	761.7	6.1	767.8
Investment income			38.2
Finance expense			(365.4)
Profit before taxation			440.6

For further information on the pension schemes curtailment gains arising on amendment of pension obligations see note 19.

Notes to the financial statements (continued)

2. Segment reporting (continued)

Year ended 31 March 2011	Regulated activities £m	All other segments £m	Group £m
Other information			
Depreciation and amortisation	288.7	1.8	290.5
Statement of financial position			
Segment total assets	8,855.7	1,987.2	10,842.9

Year ended 31 March 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	2,007.7	563.6	11,178.7

* 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
Salaries	1.7	1.6
Benefits	0.2	0.1
Bonus	2.3	2.0
	4.2	3.7

Included within the above is salary of £0.8 million (2010: £0.8 million) and bonus of £1.0 million (2010: £0.9 million) in respect of the highest paid director. The group paid £0.2 million in the year (2010: £0.2 million) to the group's defined contribution pension scheme on behalf of the highest paid director. The highest paid director exercised share options in the year.

	2011 £m	2010 £m
Aggregate amounts receivable under long-term incentive plans	0.9	-

	2011 Number	2010 Number
Number of directors who received shares in respect of qualifying services	4	5
Number of directors who exercised share options	3	-
Number of directors accruing benefits under defined benefit schemes	1	-
Number of directors accruing benefits under defined contribution schemes	4	3

There were three directors with incentive plans which vested during the year ended 31 March 2011 (2010: nil).

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

All executive directors were either members of the defined benefit section or the defined contribution section of the group's pension scheme during the year or had opted for a cash allowance in lieu of their defined contribution pension entitlement (see note 19).

Remuneration of key management personnel

	2011 £m	2010 £m
Salaries and short-term employee benefits	7.1	6.1
Post-employment benefits	0.5	0.6
	7.6	6.7

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

Notes to the financial statements (continued)

3. Directors and employees (continued)

Employee benefits expense (including directors)

	Group		Company	
		Restated		
	2011	2010	2011	2010
	£m	£m	£m	£m
Continuing operations				
Wages and salaries	174.6	187.5	23.8	34.1
Social security costs	13.4	14.2	2.4	3.4
Post-employment benefits excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	17.1	24.8	2.5	3.2
Charged to capital schemes	(62.3)	(70.2)	-	-
Employee benefits expense excluding pension schemes curtailment gains and restructuring costs	142.8	156.3	28.7	40.7
Pension schemes curtailment gains arising on amendment of pension obligations	-	(87.3)	-	(5.4)
Restructuring costs	3.1	25.8	0.6	9.2
Employee benefits expense attributable to continuing operations	145.9	94.8	29.3	44.5

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

			Restated	Restated
	2011	2011	2010	2010
	£m	£m	£m	£m
Group				
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

Notes to the financial statements (continued)

3. Directors and employees (continued)

	2011 £m	2011 £m	2010 £m	2010 £m
Company				
Continuing operations				
Wages and salaries		23.8		34.1
Social security costs		2.4		3.4
Post-employment benefits:				
pension costs excluding curtailment gains arising on amendment of pension obligations and restructuring costs	2.5		3.2	
pension schemes curtailment gains arising on amendment of pension obligations	-		(5.4)	
		2.5		(2.2)
Restructuring costs		0.6		9.2
		29.3		44.5
Charged to capital schemes		-		-
Total employee benefits expense		29.3		44.5

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

	Group 2011 £m	Group Restated 2010 £m	Company 2011 £m	Company 2010 £m
Continuing operations				
Defined pension expense/(income) charged/(credited) to operating profit:				
pension costs excluding pensions schemes curtailment gains arising on amendment of pension obligations and restructuring costs	11.9	19.3	1.1	0.9
pension schemes curtailment gains arising on amendment of pension obligations	-	(87.3)	-	(5.4)
	11.9	(68.0)	1.1	(4.5)
Defined contribution pension costs (see note 19)	5.2	5.5	1.4	2.3
	17.1	(62.5)	2.5	(2.2)

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 19).

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

	2011 number	Restated 2010 number
Group		
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 average number of employees during the year employed by the company was 406 (2010: 627).

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 22)	(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

Included in the above statutory audit fee is £30,000 in relation to the company for the year ended 31 March 2011 (2010: £30,000). 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
Interest receivable from ultimate parent undertaking	29.5	32.0
	32.3	38.2

Notes to the financial statements (continued)

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
Interest payable to ultimate parent undertaking	-	0.1
	271.3	207.3
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 – 2005-2010 regulatory hedges	(7.3)	(47.5)
Held for trading derivatives – 2010-2015 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 19)	(102.2)	(83.8)
Interest cost on pension schemes' obligations (see note 19)	106.0	105.4
Net pension interest expense	3.8	21.6
Total finance expense	255.9	365.4

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) 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	70.1	74.6
Foreign tax	1.9	0.9
Prior year adjustments	(28.7)	(47.1)
	43.3	28.4
Deferred taxation (see note 20)		
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 tax (credit)/charge for the year	(18.7)	70.6

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

	Continuing operations 2011 £m	Continuing operations 2011 %	Discontinued operations 2011 £m	Discontinued operations 2011 %	Total 2011 £m	Total 2011 %
Profit before taxation	356.6		23.8		380.4	
Tax at the UK corporation tax rate of 28 per cent	99.8	28.0	6.7	28.0	106.5	28.0
Adjustments in respect of prior periods	(17.4)	(4.9)	1.8	7.6	(15.6)	(4.1)
Change in tax rate	(99.0)	(27.7)	0.9	3.8	(98.1)	(25.8)
Net income not taxable	(2.1)	(0.6)	(0.2)	(0.8)	(2.3)	(0.6)
Total tax (credit)/charge and effective tax rate for the year	(18.7)	(5.2)	9.2	38.6	(9.5)	(2.5)

Restated	Continuing operations 2010 £m	Continuing operations 2010 %	Discontinued operations 2010 £m	Discontinued operations 2010 %	Total 2010 £m	Total 2010 %
Profit before taxation	440.6		65.5		506.1	
Tax at the UK corporation tax rate of 28 per cent	123.4	28.0	18.4	28.0	141.8	28.0
Adjustments in respect of prior periods	(53.7)	(12.2)	(0.8)	(1.2)	(54.5)	(10.8)
Net expense/(income) not deductible/(taxable)	0.9	0.2	(8.6)	(13.1)	(7.7)	(1.5)
Total tax charge and effective tax rate for the year	70.6	16.0	9.0	13.7	79.6	15.7

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 subsequent 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 £17.4 million (2010: £53.7 million) arose in the year in continuing operations in relation to the agreement of prior years' UK taxation matters.

Notes to the financial statements (continued)

8. Discontinued operations

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 11 and 13).

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[1]	268.4
Property, plant and equipment	(176.7)
Goodwill (see note 11)	(17.9)
Other intangible assets	(119.6)
Investments (see note 13)	(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 21)	17.9
Retirement benefit obligations (see note 19)	7.3
Deferred taxation assets (see note 20)	(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

(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.

	MWC £m	NGN £m	Total £m
Group			
2010			
Proceeds	46.3	85.8	132.1
Carrying value of investment (see note 13)	(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

Notes to the financial statements (continued)

8. Discontinued operations (continued)

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
Group		
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 benefits expense attributable to discontinued operations	92.4	206.0

The average number of employees during the period / year (full-time equivalent including directors) for discontinued operations is analysed as follows:

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

Notes to the financial statements (continued)

8. Discontinued operations (continued)

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	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) and retirement benefit obligations (see note 19).

9. Dividends

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

	2011 £m	2010 £m
Ordinary shares		
Final dividend for the year ended 31 March 2010 at 17.87 pence per share (2009: 17.15 pence)	157.6	151.2
Interim dividend for the year ended 31 March 2011 at 8.64 pence per share (2010: 9.07 pence)	76.2	80.0
	233.8	231.2
Proposed final dividend for the year ended 31 March 2011 at nil pence per share (2010: 17.87 pence)	-	157.6

The proposed final dividend for the year ended 31 March 2010 was subject to approval by equity holders of United Utilities PLC and hence has not been included as a liability in the consolidated financial statements at 31 March 2010.

Notes to the financial statements (continued)

10. Property, plant and equipment

	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Group						
Cost						
At 1 April 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).

Notes to the financial statements (continued)

10. Property, plant and equipment (continued)

	Fixtures, fittings, tools and equipment £m
Company	
Cost	
At 1 April 2009, 31 March 2010 and 31 March 2011	4.8
Accumulated depreciation	
At 1 April 2009, 31 March 2010 and 31 March 2011	4.4
Net book value at 31 March 2010 and 31 March 2011	0.4

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

11. Goodwill

	£m
Group	
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.

Notes to the financial statements (continued)

12. Other intangible assets

	Computer software £m	Service concessions £m	Other £m	Total £m
Group				
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.

Notes to the financial statements (continued)

13. Investments

	Other investments £m
Group	
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 19), 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 owed/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 PLC.

Notes to the financial statements (continued)

13. Investments (continued)

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:

	2011 £m	2010 £m
Group share of joint ventures		
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

	2011 £m	2010 £m
Group share of joint ventures		
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 29.

	Shares in subsidiary undertakings and total £m
Company	
At 1 April 2009	11,481.3
Additions	1,500.8
Impairment charge	(6,821.1)
At 31 March 2010	6,161.0
Additions	3,017.0
Impairment charge	(1,501.7)
Disposals	(1,499.8)
At 31 March 2011	6,176.5

Notes to the financial statements (continued)

13. Investments (continued)

Additions of £3,017.0 million include £1,499.8 million investments in the ordinary shares of United Utilities Investments (No.7) Limited and a capital contribution of £17.4 million to United Utilities Utility Solutions Holdings Limited. Also, during the year ended 31 March 2011, the company entered into a stock lending agreement with United Utilities Investment Partnerships (No.2) LP (UUIP), transferring 476 million ordinary shares in United Utilities North West PLC resulting in additional investments in the parent companies of UUIP, being £1,187.9 million in United Utilities Employee Share Trust, £296.9 million in United Utilities (Jersey) Investments (No.6) Limited and £15.0 million in United Utilities Investments (No.5) Limited.

An impairment of £1,500.8 million has been taken against investments in United Utilities One Limited following a £1,500.8 million realisation of value through receipt of dividends. An impairment of £0.9 million has been taken against investments in United Utilities Investments (No.3) Limited.

The abovementioned transfer of ordinary shares in United Utilities North West PLC resulted in a disposal of £1,499.8 million.

During the year ended 31 March 2011, a review has been performed supporting the carrying value of the investment of £1,713.2 million in United Utilities North West PLC (UUNW). 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 reversals were identified.

Prior year additions of £1,500.8 million relate to investments in ordinary shares in United Utilities One Limited.

As reported in the prior year, an impairment of £6,127.0 million was taken against investments in United Utilities (Jersey) Investments No. 1 Unlimited, United Utilities (Jersey) Investments No. 2 Unlimited, United Utilities (Jersey) Investments No. 3 Unlimited and United Utilities (Jersey) Investments No. 4 Unlimited, following a £6,128.9 million realisation of value through receipt of dividends.

Also in the prior year, the investment of £3,907.1 million in United Utilities North West PLC (UUNW) was tested for impairment during the year ended 31 March 2010 following the acceptance of Ofwat's final determination by UUW'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 UUNW for the purposes of the impairment test was based upon a 'fair value less costs to sell' approach, which incorporated the regulatory capital value (RCV) for UUW as at March 2010. An impairment of £694.1 million was taken, reducing the value of the company's investment in UUNW at 31 March 2010 to £3,213.0 million.

14. Inventories

	2011	2010
Group	£m	£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 (2010: £nil).

Notes to the financial statements (continued)

15. Trade and other receivables

	Group		Company	
	2011	2010	2011	2010
	£m	£m	£m	£m
Trade receivables	188.3	201.1	3.3	0.9
Amounts owed by subsidiary undertakings	-	-	1,672.7	1,623.4
Amounts owed by ultimate parent undertaking (see note 27) *	1,501.9	1,519.7	0.1	4.7
Amounts owed by related parties (see note 27)	2.7	19.2	-	-
Other debtors	15.6	79.0	0.3	0.3
Prepayments and accrued income	90.2	208.2	6.2	7.5
	1,798.7	2,027.2	1,682.6	1,636.8

* Included in net amounts owed by the ultimate parent undertaking is £0.1 million for the group (2010: £5.1 million) and £0.1 million for the company (2010: £5.1 million) relating to net group tax relief receivable from United Utilities Group PLC.

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

	Group		Company	
	2011	2010	2011	2010
	£m	£m	£m	£m
Non-current	-	56.5	-	-
Current	1,798.7	1,970.7	1,682.6	1,636.8
	1,798.7	2,027.2	1,682.6	1,636.8

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

	2011	2010
	£m	£m
Group		
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.

Any allowance for doubtful receivables is determined by a detailed review of balances due on a company by company basis and by reference to the ongoing activities of each company within the group.

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.

Notes to the financial statements (continued)

15. Trade and other receivables (continued)

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

Group	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
At 31 March 2011				
Trade receivables - gross	147.2	43.4	52.9	243.5
Amounts owed by ultimate parent undertaking	-	37.4	1,464.5	1,501.9
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
At 31 March 2010				
Trade receivables - gross	210.3	61.6	135.8	407.7
Amounts owed by ultimate parent undertaking	37.4	1,482.3	-	1,519.7
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 on the age profile of gross debtor balances. It is therefore not possible to age the allowance for doubtful receivables.

Company	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
At 31 March 2011				
Trade receivables - gross	3.3	-	0.6	3.9
Amounts owed by subsidiary undertakings – gross	310.2	19.8	1,423.4	1,753.4
Other debtors	-	0.3	-	0.3
Prepayments and accrued income	6.2	-	-	6.2
At 31 March 2010				
Trade receivables - gross	1.5	0.2	0.6	2.3
Amounts owed by subsidiary undertakings – gross	315.3	482.7	908.3	1,706.3
Amounts owed by ultimate parent undertaking – gross	4.7	-	-	4.7
Other debtors	0.3	-	-	0.3
Prepayments and accrued income	7.5	-	-	7.5

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

Notes to the financial statements (continued)

15. Trade and other receivables (continued)

The above analysis in respect of gross trade receivables reconciles to net trade receivables by the deduction of the allowance for doubtful receivables of £0.6 million (2010: £1.4 million).

The above analysis in respect of gross amounts owed by subsidiary undertakings reconciles to net amounts due by deduction of the allowance for doubtful receivables of £80.6 million (2010: £82.9 million) relating to non-trading subsidiary undertakings.

Trade and other receivables is split as follows:

		Group		**Company**
	2011	2010	2011	2010
	£m	£m	£m	£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	1,531.7	1,776.2	1,682.6	1,636.8
Trade and other receivables	1,798.7	2,027.2	1,682.6	1,636.8

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).

16. Cash and cash equivalents

		Group		**Company**
	2011	2010	2011	2010
	£m	£m	£m	£m
Cash at bank and in hand	17.3	72.6	1.3	10.4
Short-term bank deposits	237.9	228.9	235.7	228.9
Cash and short-term deposits	255.2	301.5	237.0	239.3
Bank overdrafts (included in borrowings, see note 17)	(8.4)	(45.5)	(0.1)	(17.8)
Cash and cash equivalents in the statement of cash flows	246.8	256.0	236.9	221.5

Cash and short-term deposits include cash at bank and in hand, deposits and other short-term highly liquid investments which are readily convertible into known amounts of cash and have a maturity of three months or less.

Notes to the financial statements (continued)

17. Borrowings

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	8.4	45.5
Amounts owed to ultimate parent undertaking	33.5	63.5
	140.8	229.5
	5,344.4	5,537.4

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

Group	Currency	Year of final re-payment	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

Notes to the financial statements (continued)

17. Borrowings (continued)

	Currency	Year of final re-payment	Fair value 2011 £m	Carrying value 2011 £m	Fair value 2010 £m	Carrying value 2010 £m
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 bond	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	2011-12	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						
Amounts owed to ultimate parent undertaking	GBP	2011	33.5	33.5	63.5	63.5
Bank overdrafts	GBP	2011	8.4	8.4	45.5	45.5
			5,096.1	5,344.4	5,152.8	5,537.4

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 above table are defined on page 78.

Notes to the financial statements (continued)

17. Borrowings (continued)

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

Company	2011 £m	2010 £m
Non-current liabilities		
Bonds	660.8	686.6
	660.8	686.6
Current liabilities		
Bank and other term borrowings	46.3	53.3
Bank overdraft	0.1	17.8
Amounts owed to subsidiary undertakings	781.4	763.7
Amounts owed to ultimate parent undertaking	33.5	63.5
	861.3	898.3
	1,522.1	1,584.9

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

Company	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						
5.375% 350m bond	USD	2019	225.0	242.4	230.5	250.1
4.55% 250m bond	USD	2018	155.4	165.2	157.9	169.6
Borrowings measured at amortised cost						
Amounts owed to subsidiary undertakings	GBP	2011	781.4	781.4	763.7	763.7
Amounts owed to ultimate parent undertaking	GBP	2011	33.5	33.5	63.5	63.5
Short-term bank borrowings – fixed	GBP	2011	46.3	46.3	53.3	53.3
0.24%+LIBOR (floating) 6.5m bond	GBP	2013	6.5	6.7	6.5	6.5
6.875% 400m bond	USD	2028	264.3	246.5	266.8	260.4
Other borrowings						
Bank overdrafts	GBP	2011	0.1	0.1	17.8	17.8
			1,512.5	1,522.1	1,560.0	1,584.9

Borrowings are unsecured.

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 Price Index with reference to a base RPI established at trade date
RPI The UK general index of retail prices (for all items) as published by the Office for National Statistics (Jan 1987=100)

Notes to the financial statements (continued)

18. Financial instruments

Risk management

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

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

Treasury policies cover the key financial risks: liquidity risk, credit risk, market risk (inflation, interest rate, 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.

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 UUG board approved duration range. Liquidity is actively monitored by the group's treasury function and is reported monthly to the treasury committee through the operational compliance report.

At 31 March 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 and company had available committed borrowing facilities as follows:

		Group		**Company**
	2011	2010	2011	2010
	£m	£m	£m	£m
Expiring within one year	375.0	100.0	250.0	75.0
Expiring after one year but in less than two years	250.0	525.0	125.0	400.0
Expiring after more than two years	320.0	520.0	170.0	270.0
Total borrowing facilities	945.0	1,145.0	545.0	745.0
Offsetting bank guarantees	(15.6)	(78.2)	(15.6)	(78.2)
Undrawn borrowing facilities	929.4	1,066.8	529.4	666.8

Notes to the financial statements (continued)

18. Financial instruments (continued)

Liquidity risk (continued)

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

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

Group	Total[(1)] £m	Adjust-ment[(2)] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2011								
Bonds	10,119.2		166.3	173.9	191.8	169.0	595.0	8,823.2
Bank and other term borrowings	1,562.1		131.2	174.4	35.7	24.6	29.7	1,166.5
Amounts owed to ultimate parent undertaking	33.5		33.5	-	-	-	-	-
Adjustment to carrying value[(2)]	(6,370.4)	(6,370.4)						
Financial liabilities excluding derivatives	5,344.4	(6,370.4)	331.0	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)

Group	Total[(1)] £m	Adjust-ment[(2)] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2010								
Bonds	10,193.9		167.1	167.9	175.2	191.8	170.0	9,321.9
Bank and other term borrowings	1,872.3		203.4	89.3	196.3	41.9	37.7	1,303.7
Amounts owed to ultimate parent undertaking	63.5		63.5	-	-	-	-	-
Adjustment to carrying value[(2)]	(6,592.3)	(6,592.3)						
Financial liabilities excluding derivatives	5,537.4	(6,592.3)	434.0	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 to the financial statements (continued)

18. Financial instruments (continued)

Maturity analysis (continued)

Company	Total[1] £m	Adjust-ment[2] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2011								
Bonds	1,082.8		36.2	43.0	36.6	36.6	36.7	893.7
Bank and other term borrowings	46.4		46.4	-	-	-	-	-
Amounts owed to ultimate parent undertaking	33.5		33.5	-	-	-	-	-
Amounts owed to subsidiary undertakings	781.4		781.4	-	-	-	-	-
Adjustment to carrying value[2]	(422.0)	(422.0)						
Financial liabilities excluding derivatives	1,522.1	(422.0)	897.5	43.0	36.6	36.6	36.7	893.7
Derivatives:								
Payable	310.0		40.5	8.9	14.4	16.6	9.1	220.5
Receivable	(405.9)		(55.6)	(19.0)	(50.5)	(11.9)	(12.0)	(256.9)
Adjustment to carrying value[2]	10.0	10.0						
Derivatives – net assets	(85.9)	10.0	(15.1)	(10.1)	(36.1)	4.7	(2.9)	(36.4)

Company	Total[1] £m	Adjust-ment[2] £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2010								
Bonds	1,145.1		38.1	38.2	44.7	37.8	37.7	948.6
Bank and other term borrowings	71.1		71.1	-	-	-	-	-
Amounts owed to ultimate parent undertaking	63.5		63.5	-	-	-	-	-
Amounts owed to subsidiary undertakings	763.7		763.7	-	-	-	-	-
Adjustment to carrying value[2]	(458.5)	(458.5)						
Financial liabilities excluding derivatives	1,584.9	(458.5)	936.4	38.2	44.7	37.8	37.7	948.6
Derivatives:								
Payable	292.6		24.4	6.3	9.7	10.4	9.3	232.5
Receivable	(416.7)		(39.9)	(19.9)	(19.9)	(51.5)	(12.3)	(273.2)
Adjustment to carrying value[2]	16.5	16.5						
Derivatives – net assets	(107.6)	16.5	(15.5)	(13.6)	(10.2)	(41.1)	(3.0)	(40.7)

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.

Notes to the financial statements (continued)

18. Financial instruments (continued)

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 and company do not believe they are 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.

The group manages its risk from treasury activities by establishing a total credit limit by counterparty, which is 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	2010	2011	2010
	£m	£m	£m	£m
Cash and short-term deposits (see note 16)	255.2	301.5	237.0	239.3
Trade and other receivables (see note 15)	1,798.7	2,027.2	1,682.6	1,636.8
Investments (see note 13)	2.3	7.7	-	-
Derivative financial instruments	365.3	396.8	99.1	107.8
	2,421.5	2,733.2	2,018.7	1,983.9

Included within trade and other receivables for group are amounts owed by the ultimate parent undertaking of £1,501.9 million (2010: £1,519.7 million).

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

Notes to the financial statements (continued)

18. 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.

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

Notes to the financial statements (continued)

18. Financial instruments (continued)

Sensitivity analysis (continued)

The analysis assumes a one per cent change in RPI having a corresponding one per cent impact on this position over a twelve 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 UUG 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 have assessed one percent as a reasonably possible movement in UK interest rates; and
- all other factors are held constant.

Notes to the financial statements (continued)

18. Financial instruments (continued)

Sensitivity analysis (continued)

	Group		Company	
	2011	2010	2011	2010
	£m	£m	£m	£m
Impact on profit before taxation and equity				
1 per cent increase in interest rate	61.0	75.9	(23.7)	(9.8)
1 per cent decrease in interest rate	(63.6)	(80.9)	26.2	11.0

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.

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

Group **At 31 March 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 the 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	283.0	283.0	-	-	-	-	-
Index-linked instruments	2,215.7	2,215.7	-	-	-	-	-
	3,006.3	2,545.3	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 external borrowings	5,310.9	3,018.6	0.3	0.3	1,381.6	881.3	28.8
Amounts owed to ultimate parent undertaking	33.5	33.5	-	-	-	-	-
Total borrowings	5,344.4	3,052.1	0.3	0.3	1,381.6	881.3	28.8
Cash and short-term deposits	(255.2)	(255.2)	-	-	-	-	-
Net borrowings	5,089.2	2,796.9	0.3	0.3	1,381.6	881.3	28.8

Notes to the financial statements (continued)

18. Financial instruments (continued)

Repricing analysis (continued)

Group **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 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 the 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	488.0	488.0	-	-	-	-	-
Index-linked instruments	2,062.7	2,062.7	-	-	-	-	-
	3,149.6	2,606.3	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 external borrowings	5,473.9	3,099.3	2.2	4.3	2.6	1,384.4	981.1
Amounts owed to ultimate parent undertaking	63.5	63.5	-	-	-	-	-
Total borrowings	5,537.4	3,162.8	2.2	4.3	2.6	1,384.4	981.1
Cash and short-term deposits	(301.5)	(301.5)	-	-	-	-	-
Net borrowings	5,235.9	2,861.3	2.2	4.3	2.6	1,384.4	981.1

Company **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 hedge relationships							
Fixed rate instruments	407.6	-	-	-	-	-	407.6
Effect of swaps	-	407.6	-	-	-	-	(407.6)
	407.6	407.6	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	292.8	46.3	-	-	-	-	246.5
Floating rate instruments	6.8	6.8	-	-	-	-	-
	299.6	53.1	-	-	-	-	246.5
Total external borrowings	707.2	460.7	-	-	-	-	246.5
Amounts owed to subsidiary undertakings measured at amortised cost	781.4	781.4	-	-	-	-	-
Amounts owed to ultimate parent undertaking	33.5	33.5	-	-	-	-	-
Effect of a fixed hedge with a subsidiary undertaking	-	400.0	-	-	(400.0)	-	-
Total borrowings	1,522.1	1,675.6	-	-	(400.0)	-	246.5
Cash and short-term deposits	(237.0)	(237.0)	-	-	-	-	-
Net borrowings	1,285.1	1,438.6	-	-	(400.0)	-	246.5

Notes to the financial statements (continued)

18. Financial instruments (continued)

Repricing analysis (continued)

Company	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
At 31 March 2010							
Borrowings in hedge relationships							
Fixed rate instruments	419.7	-	-	-	-	-	419.7
Effect of swaps	-	419.7	-	-	-	-	(419.7)
	419.7	419.7	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	313.7	53.3	-	-	-	-	260.4
Floating rate instruments	24.3	24.3	-	-	-	-	-
	338.0	77.6	-	-	-	-	260.4
Total external borrowings	757.7	497.3	-	-	-	-	260.4
Amounts owed to subsidiary undertakings measured at amortised cost	763.7	763.7	-	-	-	-	-
Amounts owed to ultimate parent undertaking	63.5	63.5	-	-	-	-	-
Total borrowings	1,584.9	1,324.5	-	-	-	-	260.4
Cash and short-term deposits	(239.3)	(239.3)	-	-	-	-	-
Net borrowings	1,345.6	1,085.2	-	-	-	-	260.4

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 UUG board approved limits. Currency risk in relation to foreign currency denominated financial instruments is reported monthly to the treasury committee through the operational compliance report.

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

Notes to the financial statements (continued)

18. Financial instruments (continued)

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 UUG 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)

18. 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	1,798.7	1,798.7	1,970.7	1,970.7
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 hedged 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)	(596.5)	(596.5)
Borrowings:				
Other financial liabilities	(140.8)	(140.8)	(229.5)	(229.5)
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	-
	(3,403.7)	(3,690.7)	(3,286.3)	(3,711.7)

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).

Notes to the financial statements (continued)

18. Financial instruments (continued)

Fair values (continued)

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 41 to 53. 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				
Non-current assets				
Derivative financial instruments:				
Fair value hedge derivatives – swaps	99.1	99.1	107.8	107.8
Current assets				
Loans and receivables	1,682.6	1,682.6	1,636.8	1,636.8
Cash and short-term deposits	237.0	237.0	239.3	239.3
Financial liabilities				
Non-current liabilities				
Borrowings:				
Financial liabilities in hedged relationships:				
Fair value hedge	(380.4)	(407.6)	(388.4)	(419.7)
Other financial liabilities	(270.8)	(253.2)	(273.3)	(266.9)
	(651.2)	(660.8)	(661.7)	(686.6)
Derivative financial instruments:				
Held for trading derivatives - swaps[2]	(12.8)	(12.8)	-	-
Current liabilities				
Trade and other payables at amortised cost	(1,800.0)	(1,800.0)	(1,683.9)	(1,683.9)
Borrowings:				
Other financial liabilities	(861.3)	(861.3)	(898.3)	(898.3)
Derivative financial instruments:				
Held for trading derivatives - swaps	(0.4)	(0.4)	(0.2)	(0.2)
Adjustment for accrued interest[1]	6.2	-	6.5	-
	(1,300.8)	(1,316.6)	(1,253.7)	(1,285.1)

Notes:

(1) Fair values quoted include accrued interest of £6.2 million (2010: £6.5 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) Includes amounts owed to subsidiary undertakings of £12.8 million (2010: £nil million).

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on 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).

Notes to the financial statements (continued)

18. Financial instruments (continued)

Fair values (continued)

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)

Group 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)

Company 2011	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets	-	99.1	-	99.1
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(13.2)	-	(13.2)
	-	85.9	-	85.9

Company 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets	-	107.8	-	107.8
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(0.2)	-	(0.2)
	-	107.6	-	107.6

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

Notes to the financial statements (continued)

19. Retirement benefit obligations

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 PLC Group of the Electricity Supply Pension Scheme (ESPS), both of which are closed to new employees. The assets of these schemes are held in trust funds independent of the group's finances. The 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 company made total contributions of £62.1 million (2010: £5.2 million) to its pension schemes for the year ended 31 March 2011. Overall, the company expects to contribute around £23.8 million to its defined benefit schemes in the year ending 31 March 2012.

Notes to the financial statements (continued)

19. Retirement benefit obligations (continued)

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 note 3.

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 14). 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:

	2011 %	2010 %
Group and Company		
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:

	2010 %
Group and Company	
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:

	2011 years	2010 years
Group and Company		
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.

Notes to the financial statements (continued)

19. Retirement benefit obligations (continued)

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

	Schemes' assets %	2011 £m	Schemes' assets %	2010 £m
Group				
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)

	Schemes' assets %	2011 £m	Schemes' assets %	2010 £m
Company				
Equities	39.1	240.7	51.3	184.9
Gilts	6.0	36.6	10.0	36.1
Bonds	42.3	260.5	38.6	139.2
Property	-	-	-	-
Other	12.6	77.8	0.1	0.4
Total fair value of schemes' assets	100.0	615.6	100.0	360.6
Present value of defined benefit obligations		(667.7)		(393.0)
Net retirement benefit obligations		(52.1)		(32.4)

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) and the company's actual return on the schemes' assets was a gain of £32.9 million (2010: £87.9 million gain).

The assets as at 31 March 2011, in respect of the UUPS, included in the breakdown above, 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.

Notes to the financial statements (continued)

19. Retirement benefit obligations (continued)

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

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
At the start of the year	(2,182.2)	(1,696.9)	(393.0)	(303.2)
Interest cost on schemes' obligations	(112.6)	(117.3)	(31.1)	(20.7)
Actuarial losses	(70.5)	(490.6)	(34.6)	(88.9)
Curtailments/settlements:				
arising on reorganisation	392.1	(17.2)	(0.2)	(0.7)
arising on amendment of pension obligations	-	92.3	2.9	5.4
Member contributions	(7.1)	(8.8)	(0.6)	(0.3)
Benefits paid	82.8	85.1	23.9	16.3
Current service cost	(15.4)	(26.0)	(1.1)	(0.7)
Past service cost	-	(2.8)	-	(0.2)
Business combinations	-	-	(233.9)	-
At the end of the year	(1,912.9)	(2,182.2)	(667.7)	(393.0)

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

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

	Group 2011 £m	Group 2010 £m	Company 2011 £m	Company 2010 £m
At the start of the year	1,910.9	1,483.8	360.6	283.5
Expected return on schemes' assets	109.1	94.1	30.9	17.6
Actuarial gains	25.8	365.2	2.0	70.3
Member contributions	7.1	8.8	0.6	0.3
Benefits paid	(82.8)	(85.1)	(23.9)	(16.3)
Curtailments/settlements arising on reorganisation	(385.2)	-	(5.5)	-
Company contributions	133.0	44.1	62.1	5.2
Business combinations	-	-	188.8	-
At the end of the year	1,717.9	1,910.9	615.6	360.6

Notes to the financial statements (continued)

19. Retirement benefit obligations (continued)

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

	Group		Company	
		Restated		
	2011	2010	2011	2010
	£m	£m	£m	£m
Continuing operations				
Current service cost	(11.9)	(16.5)	(1.1)	(0.7)
Curtailments/settlements:				
arising on reorganisation	(3.4)	(9.3)	(47.9)	(0.7)
arising on amendment of pension obligations	-	87.3	-	5.4
Past service cost	-	(2.8)	-	(0.2)
Pension (expense)/income (charged)/credited to operating profit (see note 4)	(15.3)	58.7	(49.0)	3.8
Expected return on schemes' assets	102.2	83.8	30.9	17.6
Interest on schemes' obligations	(106.0)	(105.4)	(31.1)	(20.7)
Pension expense charged to investment income and finance expense (see note 6)	(3.8)	(21.6)	(0.2)	(3.1)
Net pension (expense)/income (charged)/ credited before taxation	(19.1)	37.1	(49.2)	0.7

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).

Company defined benefit pension costs excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs included within employee benefit expense of £1.1 million (2010: £0.9 million) comprise current service costs and past service costs. Total company post-employment benefits expense excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs charged to operating profit of £2.5 million (2010: £3.2 million) comprise the defined benefit costs described above of £1.1 million (2010: £0.9 million) and defined contribution pension costs of £1.4 million (2010: £2.3 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.

Notes to the financial statements (continued)

19. Retirement benefit obligations (continued)

Group

	2011 £m	2010 £m
Discontinued operations		
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 (see note 4)	(0.5)	(12.4)
Expected return on schemes' assets	6.9	10.3
Interest on schemes' obligations	(6.6)	(11.9)
Pension income/(expense) credited/(charged) to investment income and finance expense (see note 6)	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		Company	
	2011 £m	2010 £m	2011 £m	2010 £m
At the start of the year	(271.3)	(213.1)	(32.4)	(19.7)
(Expense)/income recognised in the income statement - continuing operations	(19.1)	37.1	(49.2)	0.7
Income/(expense) recognised in the income Statement - discontinued operations	7.1	(14.0)	-	-
Contributions paid	133.0	44.1	62.1	5.2
Actuarial losses gross of taxation	(44.7)	(125.4)	(32.6)	(18.6)
At the end of the year	(195.0)	(271.3)	(52.1)	(32.4)

Actuarial gains and losses are recognised directly in the statement of comprehensive income. At 31 March 2011, a cumulative pre-taxation loss of £265.2 million (2010: £220.5 million) had been recorded directly in the statement of comprehensive income and a cumulative loss of £119.4 million (2010: £86.8 million) for the company had been recorded directly in the statement of comprehensive income.

Notes to the financial statements (continued)

19. Retirement benefit obligations (continued)

The history of the schemes for the current and prior years is as follows:

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Group					
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)

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Company					
Present value of defined benefit obligations	(667.7)	(393.0)	(303.2)	(361.4)	(388.8)
Fair value of schemes' assets	615.6	360.6	283.5	346.0	398.9
Net retirement benefit (obligations)/surplus	(52.1)	(32.4)	(19.7)	(15.4)	10.1
Experience adjustments on schemes' liabilities	(12.7)	-	2.0	16.4	13.3
Experience adjustments on schemes' assets	2.0	70.3	(91.0)	(68.6)	(1.1)

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 13).

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. The company made £1.4 million (2010: £2.3 million) of contributions to defined contribution schemes.

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.

Notes to the financial statements (continued)

19. Retirement benefit obligations (continued)

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).

20. Deferred tax liabilities

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
Group				
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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m
Company				
At 1 April 2009	(0.1)	(5.6)	(2.2)	(7.9)
Charged to the income statement	-	1.7	1.5	3.2
(Credited)/charged to equity	-	(5.2)	-	(5.2)
At 31 March 2010	(0.1)	(9.1)	(0.7)	(9.9)
(Credited)/charged to the income statement	-	4.0	(15.1)	(11.1)
Credited to equity	-	(8.5)	-	(8.5)
At 31 March 2011	(0.1)	(13.6)	(15.8)	(29.5)

Certain deferred tax assets and liabilities have been offset in accordance with IAS 12 ‘Income Taxes’.

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

Notes to the financial statements (continued)

21. Provisions

	Group			Company		
	Restructuring £m	Other £m	Total £m	Restructuring £m	Other £m	Total £m
At 1 April 2009	11.4	28.4	39.8	-	2.5	2.5
Charged to the income statement	30.7	18.6	49.3	9.3	-	9.3
Utilised in the year	(23.5)	(11.8)	(35.3)	(4.0)	-	(4.0)
At 31 March 2010	18.6	35.2	53.8	5.3	2.5	7.8
Charged to the income statement	9.8	23.9	33.7	(5.0)	(5.3)	(10.3)
Utilised in the year	(24.2)	(21.6)	(45.8)	1.4	3.3	4.7
Disposals (see note 8)	(0.2)	(17.7)	(17.9)	-	-	-
At 31 March 2011	4.0	19.8	23.8	1.7	0.5	2.2

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 current and non-current as follows:

	Group			Company		
	Restructuring £m	Other £m	Total £m	Restructuring £m	Other £m	Total £m
At 31 March 2011						
Non-current	-	9.3	9.3	-	-	-
Current	4.0	10.5	14.5	1.7	0.5	2.2
	4.0	19.8	23.8	1.7	0.5	2.2
At 31 March 2010						
Non-current	-	8.3	8.3	-	-	-
Current	18.6	26.9	45.5	5.3	2.5	7.8
	18.6	35.2	53.8	5.3	2.5	7.8

22. Trade and other payables

	Group	
	2011 £m	Restated 2010 £m
Non-current		
Deferred grants and contributions	241.1	175.7
Other creditors	8.7	7.2
	249.8	182.9

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

Notes to the financial statements (continued)

22. Trade and other payables (continued)

	Group 2011 £m	Group Restated 2010 £m	Company 2011 £m	Company 2010 £m
Current				
Trade payables	39.7	67.6	3.3	2.4
Amounts owed to ultimate parent undertaking	-	2.1	0.1	-
Amounts owed to subsidiary undertakings:				
Group tax relief payable	-	-	39.5	19.0
Other	-	-	1,730.1	1,630.4
Amounts owed to related parties (see note 27)	-	0.9	-	-
Other tax and social security	4.4	7.6	0.7	1.0
Deferred grants and contributions	6.7	6.9	-	-
Other creditors	2.9	3.0	2.9	3.0
Accruals and deferred income	379.3	508.4	23.4	28.1
	433.0	596.5	1,800.0	1,683.9

The average credit period taken for trade purchases is 31 days for the group (2010 restated: 38 days) and is 43 days (2010: 17 days) for the company.

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

	2011 £m	Restated 2010 £m
Group		
At the start of the year	182.6	142.3
Received in the year	72.1	47.0
Credited to the income statement	(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.

23. Shareholders' equity

	2011 £m	2010 £m
Group		
Share capital	881.8	881.8
Share premium account	1,430.0	1,430.0
Revaluation reserve	158.8	158.8
Cumulative exchange reserve	(3.1)	22.3
Other reserves	-	3.8
Retained earnings	664.0	451.9
	3,131.5	2,948.6

	2011 £m	2010 £m
Company		
Share capital	881.8	881.8
Share premium account	1,430.0	1,430.0
Retained earnings	2,523.7	2,534.2
	4,835.5	4,846.0

Notes to the financial statements (continued)

23. Shareholders' equity (continued)

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 £247.4 million (2010: £479.8 million loss) after accounting for dividends received from subsidiary undertakings of £1,783.5 million (2010: £6,365.6 million) and impairment of investments of £1,501.7 million (2010: £6,821.1 million).

24. Share capital

Company	2011 number	2011 £	2010 number	2010 £
Issued, called up and fully paid				
Ordinary shares of 100.0 pence each	881,787,478	881,787,478	881,787,478	881,787,478
Deferred A shares of 100.0 pence each	1	1	1	1
	881,787,479	881,787,479	881,787,479	881,787,479

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

25. Operating lease commitments

Group **Commitments under non-cancellable operating leases due**	Property 2011 £m	Plant and equipment 2011 £m	Property 2010 £m	Plant and equipment 2010 £m
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.

Company **Commitments under non-cancellable operating leases due**	Property 2011 £m	Plant and equipment 2011 £m	Property 2010 £m	Plant and equipment 2010 £m
Within one year	0.4	0.1	0.5	0.1
In the second to fifth years inclusive	0.7	0.1	1.1	-
	1.1	0.2	1.6	0.1

Notes to the financial statements (continued)

26. 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.

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.

Notes to the financial statements (continued)

26. Share-based payments (continued)

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.

	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%
2011						
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.

	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%
2010				
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

Notes:
(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.

Notes to the financial statements (continued)

26. Share-based payments (continued)

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	n/a
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.

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.

Notes to the financial statements (continued)

26. Share-based payments (continued)

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.

27. 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 15, 22)	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 United Utilities PLC 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 13). 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).

Notes to the financial statements (continued)

27. Related party transactions (continued)

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

	Interest receivable		Interest payable	
	2011	2010	2011	2010
	£m	£m	£m	£m
Ultimate parent undertaking	29.6	32.0	-	0.1

	Amounts owed by related parties		Amounts owed to related parties	
	2011	2010	2011	2010
	£m	£m	£m	£m
Ultimate parent undertaking	1,501.9	1,519.7	33.6	65.6

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

Total dividend income received during the year amounted to £1,783.5 million (2010: £6,365.6 million), total interest receivable during the year from subsidiary undertakings was £17.0 million (2010: £18.7 million), total fair value losses during the year from subsidiary undertakings was £26.2 million (2010: £17.9 million), in addition, total interest receivable during the year from the ultimate parent company was £25.6 million (2010: £16.0 million payable) and total recharges were £75.5 million (2010: £102.2 million). Amounts outstanding at 31 March 2011 between the parent company, subsidiary undertakings and ultimate parent undertaking are provided in notes 15, 17, 20 and 22.

The company has entered into performance guarantees with joint ventures as at 31 March 2011, where a financial limit has been specified of £nil (2010: £157.3 million). The company guaranteed intra-group loans made by subsidiary undertakings of £343.9 million (2010: £343.9 million). Balances will be settled in accordance with normal credit terms. An allowance for doubtful receivables of £80.6 million (2010: £82.9 million) has been made for amounts owed by subsidiary undertakings. In the year ended 31 March 2011, an expense of £2.2 million was recorded in respect of bad or doubtful receivables due from subsidiary undertakings (2010: £2.9 million).

The company entered into a £400 million intercompany interest rate swap with UU Water PLC with a 5 year maturity date up to 31 March 2015, as part of the 2010-2015 regulatory hedging programme. During the year the company received net interest of £1.6 million and £12.8 million of fair value movements was credited through the income statement.

Notes to the financial statements (continued)

28. Cash generated from operations

	Group	Group	Company	Company
		Restated		
	2011	2010	2011	2010
	£m	£m	£m	£m
Continuing operations				
Profit/(loss) before taxation	356.6	440.6	235.7	(474.3)
Adjustment for investment income and finance expense	223.6	327.2	(8.3)	2.6
Operating profit/(loss)	580.2	767.8	227.4	(471.7)
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)	(24.6)	686.8
Changes in working capital:				
Decrease/(increase) in inventories	2.1	(1.6)	-	-
(Increase)/decrease in trade and other receivables	(22.8)	3.0	43.1	112.1
(Decrease)/increase in provisions and payables	(74.8)	(32.1)	77.1	127.8
Cash generated from continuing operations	780.6	934.6	323.0	455.0

* There were no material non-cash transactions for the group during the year ended 31 March 2011. Material non-cash transactions for the company during the year ended 31 March 2011 include impairment of the company's investment in its subsidiary United Utilities One Limited (£1,500.7 million, see note 13) offset by non-cash settled dividends received from United Utilities One Limited of £1,517.5 million. There were no other material transactions for the company in the year. Material non-cash transactions during the prior year include, for the group, the pension schemes curtailment gains arising on amendment of pension obligations (£92.3 million, see note 19) and, for the company, the impairment of the company's investment in its subsidiary United Utilities North West PLC (£694.1 million, see note 13) and its four Jersey subsidiaries (£6,127.0 million, see note 13) offset by non-cash settled dividends received from the four Jersey subsidiaries (£6,128.9 million) and pension schemes curtailment gains arising on amendment of pension obligations (£5.4 million, see note 19).

The company acquired £1,499.8 million of ordinary shares in United Utilities Investment (No.7) Limited by transfer of an inter-company receivable balance (see note 13).

The company increased its investments by £1,187.9 million in United Utilities Employee Share Trust, £296.9 million in United Utilities (Jersey) Investments (No.6) Limited and £15.0 million in United Utilities Investments (No.5) Limited, following its transfer of 476 million ordinary shares in United Utilities North West PLC to United Utilities Investment Partnerships (No.2) LP (see note 13).

In the prior year the company acquired £1,500.8 million of ordinary shares in United Utilities One Limited by transfer of an inter-company receivable balance (see note 13).

29. Contingent liabilities

The company guaranteed loans of group undertakings up to a maximum of £1,246.1 million (2010: £1,165.1 million), including £902.2 million (2010: £821.2 million) relating to United Utilities Water PLC's loans from European Investment Bank and £343.9 million (2010: £343.9 million) relating to intra-group loans made by subsidiary undertakings.

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 entered into performance guarantees as at 31 March 2011, where a financial limit has been specified of £94.6 million (2010: £194.7 million).

Notes to the financial statements (continued)

30. Events after the reporting period

Subsequent to the year end, a conclusion has been reached in respect of the arbitration proceedings in Thailand, in relation to a 1993 contract with the Bangkok Metropolitan Administration, to which the NOSS Consortium of which North West Water International Limited, a wholly owned subsidiary of United Utilities PLC, was a member, was party. The provision that existed in the group balance sheet at 31 March 2011 adequately covered the settlement amounts and therefore no significant adjustment was necessary.

31. Ultimate parent undertaking

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

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

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

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.

Notes to the financial statements (continued)

32. Prior year adjustments (continued)

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	1,970.7	-	1,970.7
Cash and short-term deposits	301.5	-	301.5
Derivative financial instruments	18.3	-	18.3
	2,365.3	-	2,365.3
Total assets	11,141.9	36.8	11,178.7
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	(596.1)	(0.4)	(596.5)
Borrowings	(229.5)	-	(229.5)
Current income tax liabilities	(104.7)	-	(104.7)
Provisions	(45.5)	-	(45.5)
Derivative financial instruments	(25.8)	-	(25.8)
	(1,001.6)	(0.4)	(1,002.0)
Total liabilities	(8,193.3)	(36.8)	(8,230.1)
Total net assets	2,948.6	-	2,948.6
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital	881.8	-	881.8
Share premium account	1,430.0	-	1,430.0
Revaluation reserve	158.8	-	158.8
Cumulative exchange reserve	22.3	-	22.3
Other reserves	3.8	-	3.8
Retained earnings	451.9	-	451.9
Shareholders' equity	2,948.6	-	2,948.6

Notes to the financial statements (continued)

32. Prior year adjustments (continued)

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 benefits 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	46.1	-	(7.9)	38.2
Finance expense	(383.7)	-	18.3	(365.4)
Investment income and finance expense	(337.6)	-	10.4	(327.2)
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	506.1	-	(65.5)	440.6
Current taxation charge	(30.9)	-	2.5	(28.4)
Deferred taxation charge	(48.7)	-	6.5	(42.2)
Taxation	(79.6)	-	9.0	(70.6)
Profit after taxation from continuing operations	426.5	-	(56.5)	370.0
Discontinued operations				
Profit after taxation from discontinued operations	-	-	56.5	56.5
Profit after taxation	426.5	-	-	426.5