

UNITED UTILITIES PLC

ANNUAL REPORT AND ACCOUNTS 2008

COMPANY NO: 2366616

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Cautionary statement

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



For more information please visit
www.unitedutilities.com

We are well placed to build on recent achievements

On behalf of the board I am pleased to report good financial results for the year ended 31 March 2008. Revenue from continuing operations rose 18.9 per cent to £2,363 million while operating profit from continuing operations was up by 3.3 per cent at £663 million and underlying operating profit from continuing operations was up by 7.4 per cent at £677m.

The board is proposing a final dividend for the year of 31.47 pence per ordinary share – an increase of 3.87 per cent. Together with the interim dividend of 15.20 pence per ordinary share, the total ordinary dividend relating to the year is 46.67 pence. The final dividend will be paid to shareholders on 8 August 2008. Details of the revised dividend strategy from 2008/09 are on page 15.

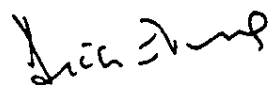
Following the sale of United Utilities Electricity, principally comprising our electricity distribution assets and a review of our capital structure, we intend to return £1.5 billion or 170 pence per share to our shareholders. The return of value is scheduled for August 2008 and is summarised in the shareholder information section on page 112.

We say farewell to Norman Broadhurst who will leave the board in July after nine years. Norman has given valuable service to the

group and we thank him for his contribution, particularly as chairman of the audit committee. The board, meanwhile, has been strengthened by the appointment of Dr John McAdam who, subject to election at this year's annual general meeting, will immediately succeed me as chairman.

As part of our commitment to the highest standards of governance, we have introduced a community investment committee to approve and monitor the group's corporate responsibility strategy and action plan.

With a more focused portfolio, a sharper concentration on our core capabilities and renewed emphasis on operational performance, we are well placed to build on recent achievements and continue to meet expectations in the current financial year.



Dick Evans
Chairman

Revenue from continuing operations

£2,363m

Total dividends per ordinary share

46.67p

A year of progress

ethos at United Utilities, while also helping to sharpen the focus on operational and financial performance

The key to this cultural change lies in our leadership and here we've made decisive changes. We have placed greater emphasis on leadership at every level and of the ten members of our top executive team, half have been recruited in the last two years. We've also established a wider group of senior leaders, responsible for bringing new thinking into United Utilities and for helping us to achieve the changes we need to make and to inspire our people to deliver it.

We're also working on the motivation of our people. This year we've taken further steps to measure our employees' sense of engagement and improve the areas where we're weak. As people become more committed and involved, they're more likely to demonstrate our values which in turn will propel us towards better operational performance and the fulfilment of our vision.

As we change and improve, we also seek to operate more sustainably. We know that sustainability makes good business sense and helps to attract and retain good people. We've committed ourselves to reducing our carbon emissions by 26 per cent by 2012*. I'm proud that our record on sustainability is one of the best in the industry and pleased that Ofwat is increasingly minded to factor climate change into the requirements of the next regulatory review. With this due in 2009, we continue to work with our regulator to ensure the best outcome for the business, our customers, the environment and our shareholders.

There is a long journey ahead, particularly in terms of the mindset and ethos of the organisation. I'm heartened by the progress of the last 12 months and confident of further gains in the year ahead.



Philip Green
Chief executive officer

We are pleased to report a good set of results for both our regulated and our non-regulated activities. Along with our achievement in meeting Ofwat's revised target for our capital investment programme and in out performing our leakage target, the figures mark a year of excellent progress for the group.

I wrote last year that we had started on a journey towards our vision of becoming a world class operator of utility infrastructure and I defined this in the context of three topics:

The first has been to reshape our portfolio to allow us to focus on our core skills – the operation of water, wastewater, gas and electricity infrastructure and the design and build of that infrastructure. As I explain in the strategic review on pages 10 to 11, this has now been done.

The second has been to set a capital structure and dividend policy appropriate for the future of the group. Following the sale of United Utilities Electricity, principally comprising our electricity distribution assets, and the review of our capital structure, we intend to return £1.5 billion to our shareholders, adjust our gearing to a level more appropriate to the business and implement a new dividend policy.

Once the value has been returned, our review of capital structure and dividend policy will have been completed.

The third is to raise our operational performance. Here we've made good progress, particularly in out performing Ofwat's leakage target and in raising our customer satisfaction scores to levels dramatically higher than any we achieved before 2006. There are, however, areas where there is more to be done. We need to improve compliance with environmental standards at our wastewater treatment works, manage better any unplanned supply interruptions to our customers and reduce incidents of sewer flooding. We are working hard to address these areas.

In respect of our non-regulated business activities, we secured the £1.5 billion contract to manage the electricity distribution assets of Electricity North West. This was in addition to extending our contracts for Southern Water and British Gas Trading.

To continue our momentum towards world class performance, we need to go further in instilling our company values. I defined these last year as 'team, trust, passion and commitment'. These are crucial in reinforcing the sense of public duty that has always been part of our

* Target consists of at least 8.0% carbon reduction from our own activities and the remainder from certified renewable energy contracts.

Our business

Group activities

	2008 £m	Re-presented* 2007 £m
Revenue (continuing operations)		
Regulated activities	1,416	1,321
Non-regulated activities	949	729
Other activities	41	53
Inter-segment revenue	(43)	(116)
	2,363	1,987

* See footnote 1 on page 12

Business description

United Utilities PLC (United Utilities) is registered in England and Wales. Our regulated subsidiary, United Utilities Water PLC (United Utilities Water), holds licences to provide water and sewage services to a population of some seven million people in north west England. We also apply our expertise in operating utility infrastructure in competitive markets.

Organisational structure

For management purposes, the group is organised into two principal operating divisions, being regulated and non-regulated activities.

Since 1 April 2007, we have reported through three business segments: regulated activities, non-regulated activities and other activities.

- regulated activities – comprise the regulated activities of United Utilities Water (water and wastewater),
- non-regulated activities – we apply the core utility skills of the regulated business through outsourcing contracts. In addition, this segment includes our interests in Northern Gas Networks and our overseas businesses, and
- other activities – includes United Utilities Property Solutions Limited, the property trading and management business of the group, which owns land and property assets. The segment also includes the results of other group holding companies.

Regulated activities

Our regulated activities comprise the operation of the licensed water and wastewater assets owned by United Utilities Water in north west England. This involves the removal and treatment of wastewater from, and the treatment and distribution of around 1.9 billion litres of water a day to, approximately 3.2 million homes and businesses.

Our water business is regulated in terms of price and performance. Ofwat reviews price limits every five years. The next price review (known as PR09) will take place in 2009 and will set price limits for the five years from 1 April 2010. Water companies will be required to submit their draft business plans for this period to Ofwat (and to publish summaries) in August 2008. Final business plans are expected to be submitted in April 2009 and Ofwat is planning to issue its draft determinations for comment in July 2009. Final determinations are expected in November 2009, following which water companies will have two months to decide whether to accept the determination or instead to have price limits referred to and set by the Competition Commission.

Our regulated activities are

- capital intensive – improvements to the water and wastewater infrastructure are required in order to comply with applicable United Kingdom and European Union environmental and drinking water quality regulations. Capital investment (including infrastructure renewals expenditure) relating to water and wastewater in the year ended 31 March 2008 was £826 million,

Continued on page 7

Regulated business

We provide water to seven million people in the North West of England. We manage the catchment areas to collect and store water in our reservoirs before treating it and delivering it through over 42,000 kilometres of water pipes.

We are responsible for collecting and treating wastewater before returning it safely to the environment. 43,000 kilometres of sewers take the wastewater from homes and industry for treatment at one of 582 wastewater treatment works.

Key facts

7 million
customers

42,000km
of water pipes

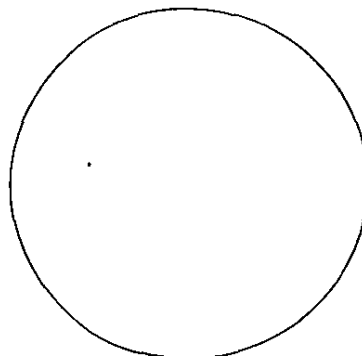
138
impounding reservoirs

582
wastewater treatment works

over £3 billion
invested between 2005 – 10 to improve our utility infrastructure and the environment

Water

Water and wastewater business



Non-regulated business

Our clients

Northern Gas Networks
Operating and maintaining the gas network in the North of England, serving

2.5 million
customers

Southern Water
Delivering water and wastewater schemes on behalf of Southern Water, serving

4 million
customers

Dŵr Cymru Welsh Water
Operating and maintaining assets serving
1.2 million
homes in Wales

Scottish Water
Delivering a £1.1 billion capital investment programme across Scotland with our partners

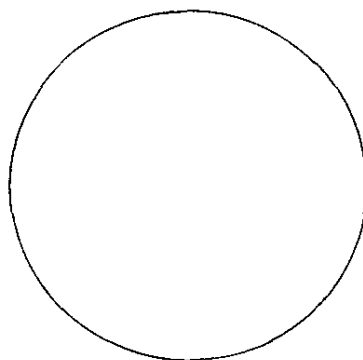
Electricity North West
Operating and maintaining the electricity distribution network on behalf of Electricity North West

British Gas Trading (BGT)
Installing and maintaining gas and electricity meters across north west and north east England

International operations
Providing and improving water services in Australia, Bulgaria, Estonia, the Philippines and Poland

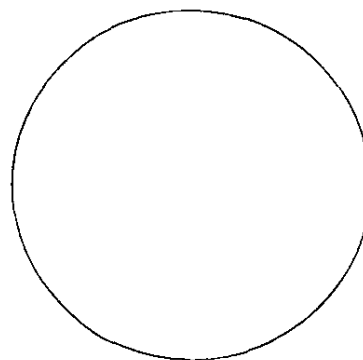
Gas

Operations for Northern Gas Networks



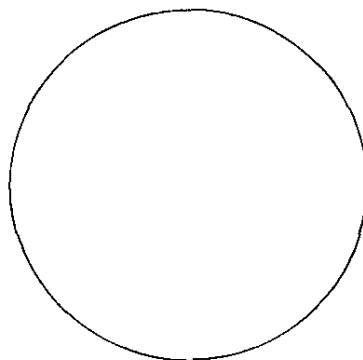
Metering

Installing and maintaining meters for BGT



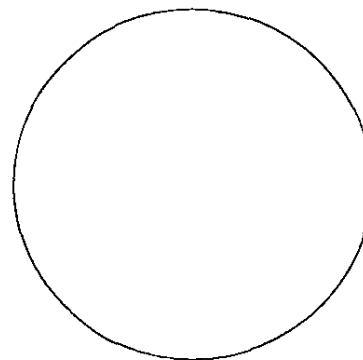
Electricity

Operations for Electricity North West



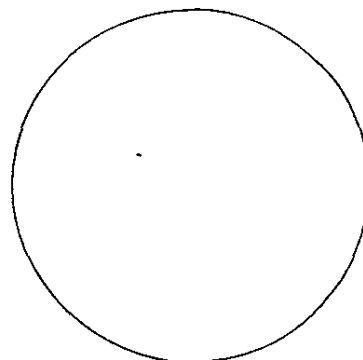
Water

Operations and maintenance for Dŵr Cymru Welsh Water



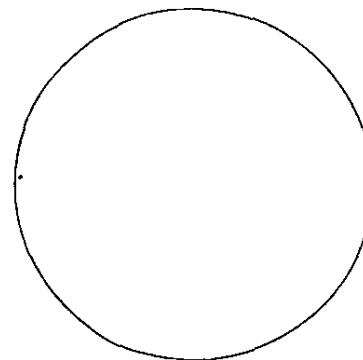
Water

Capital programme delivery for Southern Water



Water

Capital programme delivery for Scottish Water



Business review: business description continued

Principal property assets

Principal wastewater operations facilities of United Utilities Water at 31 March 2008

Location	Description	Hectares	Tenure
Davyhulme, Greater Manchester	Wastewater treatment works	113	Freehold
Shell Green, Widnes	Sludge processing centre	5	Freehold
Sandon Dock, Liverpool	Wastewater treatment works	8	Leasehold

Principal water operations facilities of United Utilities Water at 31 March 2008

Location	Description	Hectares	Tenure
Bowland Estate, Lancashire	Reservoir/gathering grounds	10,120	Freehold
Haweswater Estate, Cumbria	Reservoir/gathering grounds	10,522	Freehold
Longdendale Estate, Derbyshire	Reservoir/gathering grounds	10,215	Freehold
West Pennine Moors, Lancashire	Reservoir/gathering grounds	5,564	Freehold
Thirlmere Estate, Cumbria	Reservoir/gathering grounds	4,850	Freehold
Huntington, Cheshire	Water treatment works	107	Freehold
Prescot, Merseyside	Water treatment works	84	Freehold
Woodgate Hill, Greater Manchester	Water treatment works	40	Freehold

Principal offices of United Utilities Water at 31 March 2008

Location	Use	Floor area in sq ft	Utilisation	Tenure
Lingley Mere, Warrington	Company offices	259,622	100%	Freehold
Winsford	Company offices	20,441	70%	Freehold

Principal offices of United Utilities Property Solutions at 31 March 2008

Location	Use	Floor area in sq ft	Utilisation	Tenure
Borron Street, Stockport	Company offices	15,383	100%	Freehold
Dawson House, Warrington	Company (and 3rd party) offices	134,800	95%	Freehold
Hadrian Mill, Carlisle	Company (and 3rd party) offices	92,362	100%	Freehold
Hathersage Road, Manchester	Company (and 3rd party) offices	86,412	25%	Freehold
Manchester Road, Bolton	Company (and 3rd party) offices	117,898	60%	Freehold
Linley House, Manchester	Company (and 3rd party) offices	83,479	50%	Freehold
Whitebirk, Blackburn	Company offices	45,040	100%	Freehold

Principal offices leased by the group

Location	Use	Floor area in sq ft	Utilisation	Tenure
Gemini, Warrington	Company offices	10,300	100%	Leasehold
Oakland House, Manchester	Company offices	40,732	100%	Leasehold
Clearwater, Lingley Mere, Warrington	Company offices	27,405	100%	Leasehold
Whitehaven, Cumbria	Company offices	22,141	100%	Leasehold

- subject to economic regulation – in general, our business is subject to incentive-based economic regulation. This imposes caps on increases in customer prices, rewards efficiency and high standards of customer service and penalises inefficiency and poor standards of customer service, and
- subject to environmental regulations – these govern the abstraction of water, the quality of drinking water supplied to our customers, the discharges we make into the water environment and the management of potentially contaminated land we own, occupy or work upon

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, the Drinking Water Directive and the Environmental Liability Directive)

The wastewater business

United Utilities Water is responsible for the reception, conveyance, treatment and disposal of domestic wastewater, trade effluent (non-domestic wastewater) and surface water in north west England

Our wastewater treatment works provide a range of treatments. These include primary, secondary and tertiary treatment involving a variety of physical, chemical and biological processes. These aim to ensure the constituents of wastewater are effectively modified before discharge. Fully treated final effluent is discharged into rivers, estuaries or via sea outfalls. The Environment Agency consents to and stringently monitors all these discharges to ensure they comply with all relevant limits. A by-product of the treatment of wastewater is sewage sludge, which we treat further to produce an end product that is suitable for recycling.

Our wastewater operations involve owning and managing assets, which include

- 582 wastewater treatment works,
- 43,419 kilometres of sewers,
- 1,826 pumping stations,
- 143 detention tanks,

- 2,275 combined sewer overflows and 375 emergency overflows, and
- 42 sludge treatment facilities

The water business

We obtain water from various sources including reservoirs, rivers and aquifers. A large proportion of water we supply flows freely by gravity and does not need to be pumped. However, due to the nature of the water catchment areas, being peaty moorlands or coal measure strata, enhanced treatment methods are required to ensure the water satisfies all regulatory and quality standards.

This untreated water is conveyed to treatment works by aqueducts. Treated water is delivered to our customers through a network of large diameter trunk mains to smaller trunk mains, service reservoirs, water towers and distribution mains.

We own, operate and manage the water network assets in north west England which include

- 137 operational and one emergency impounding reservoirs and associated catchments,
- 95 operational and five emergency water treatment works,
- 450 service reservoirs and water towers storing treated water,
- 609 pumping stations, and
- 42,219 kilometres of clean water mains

We own approximately 57,800 hectares of catchment land. The key reason for owning and managing this land is to protect and improve the quality of raw water supplies and thus reduce the risk of non-compliance at water treatment works and avoid unnecessary operating costs.

In the 2004 periodic review, we obtained funds of £10 million for an innovative approach to land management entitled the 'Sustainable Catchment Management Programme' (SCaMP). This programme seeks to restore moorland areas so as to meet the government's Public Service Agreement targets to bring Sites of Special Scientific Interest into good condition.

Hectares of catchment land

57,800

Pumping stations

609

Sewers

43,419km

Business review: business description continued

At the same time, we seek to enter into long-term agreements with tenant farmers to reduce livestock to acceptable levels so that, once restored, the moorland areas will be protected for the future. This integrated holistic approach should bring multiple benefits. As well as delivering the government's biodiversity targets, it is anticipated that there will be improvements in raw water quality (relating in particular to colour) and potentially reduced risk of downstream flooding. The programme has just completed its third year and is being applied to all the farms we own on our Bowland and southern estates, and we have been successful in concluding agreements with tenant farmers covering over 90 per cent of the land area in the programme to enable this to happen. Substantial work is now underway in both areas. For further details see page 22.

For our regulated business as a whole, capital investment (including infrastructure renewals expenditure) for the year to 31 March 2008 was £826 million. This represents an increase in expenditure of 44.8 per cent when compared with the previous financial year and reflects the planned profile of the group's investment programme. Cumulative capital expenditure on water assets matched regulatory assumptions as at 31 March 2008.

Non-regulated activities

Our non-regulated activities apply the core utility skills of our regulated business through outsourcing contracts. Details of these contracts in the United Kingdom (UK) are contained on pages 5 and 21. We provide gas services which support the infrastructure for over six million people and in total, including all our businesses, we now serve a population of around 17 million people in the UK. In addition, we provide asset management and operational services in respect of our former electricity distribution business.

Our international business develops and operates contracts in selected overseas utility markets and provides services for over seven million people. In Australia, we focus on maintaining our current portfolio of contracts and securing long-term investment returns and operational sources of income while managing the overall exposure arising from the contracts.

Elsewhere, we focus on applying core skills on an asset-light basis, primarily in the Gulf region, with other existing overseas investments being managed alongside existing UK investments. We continue to manage our existing portfolio of water and wastewater operations through a number of joint ventures in parts of Australia, Estonia, Bulgaria, the Philippines and Poland.

Our connections business provides multi-utility connections, connecting domestic, industrial and commercial consumers to the existing utility network infrastructure. In providing this service, we design and install new electricity, water and gas infrastructure.

Our metering business provides installation and maintenance services for electricity and gas meters. We completed around 583,000 gas and electricity meter installations in the year ended 31 March 2008 under a contract with British Gas Trading to which an extension to 30 June 2010 was secured in January 2008. Under this contract, both gas and electricity meters are installed, with rental income then being received for up to 20 years after installation by a joint venture company (in which we have a 50 per cent interest) which owns the meter assets.

Our non-regulated activities have grown rapidly since they began in 2000. The discipline of operating within strict contractual frameworks ensures that significant focus is placed on improving performance both within our own regulated water and wastewater business and our non-regulated businesses for the benefit of our customers. This experience has improved our commercial skillsets and places us in a strong position from which to pursue other infrastructure outsourcing opportunities.

Non-regulated revenue for the year ended 31 March 2008 increased by 30.2 per cent to £949 million compared with the previous year. Our non-regulated strategy is to apply our core skills where opportunities are identified to generate additional shareholder value with little impact on our risk profile. In addition to our core UK utility outsourcing market, we are focusing our business development resources on specific opportunities in the UK municipal solid

waste treatment market, Australia and the fast developing Gulf region.

Having sold United Utilities Electricity, principally comprising our electricity distribution assets, we retained the asset operator function, consistent with our core skills strategy. The services we provide to the new asset owner are operation, maintenance and repair of the electricity network, design and construction of new assets to replace and refurbish the existing network, design and construction of new connections to the network, and the provision of services ancillary to the distribution of electricity through the network. An asset services agreement is in place between Electricity North West Limited (formerly called United Utilities Electricity Limited) and United Utilities Electricity Services Limited. It has an initial eight-year term (which commenced on 1 April 2007) with the potential to extend the contract for a further five years, and contains a mechanism for price negotiation at 31 March 2010 following a regulatory review.

We hold major utility outsourcing contracts in the United Kingdom with Dŵr Cymru Welsh Water, Southern Water, Scottish Water and Northern Gas Networks (in which we hold a 15 per cent equity stake). We have a meter installation contract with British Gas Trading, as well as three Scottish private finance initiative operations (relating to water/wastewater infrastructure renewal contracts).

Principal property assets

At 31 March 2008, the key facilities of our non-regulated business included leased office accommodation at Clearwater, Lingley Mere and Old Trafford, Manchester. In addition to these sites, we occupy various properties in support of specific contracts, typically within the geographic boundaries of the contracts, both in the United Kingdom and overseas. These sites consist of offices, depots and other operational facilities that are primarily owned or leased by the client or commercial landlords. It is anticipated that we will be able to negotiate renewals of any expiring leases, or relocate the relevant facilities, without having a material adverse impact on the business.

Lingley Mere Business Park development

In February 2004, we entered into a 15-year joint venture agreement with Muse Developments Limited (formerly AMEC Developments Limited) to develop land at Lingley Mere, Warrington. Over a period of time, we will invest up to £20 million in this joint venture, mainly in the form of land.

Environmental issues

The contaminated land regime in Part IIA of the Environmental Protection Act 1990 places liability for the clean-up of contaminated land upon any person who caused the contamination or, in some circumstances, who knew of its presence and failed to prevent it. If no such person can be found after a reasonable enquiry has been made, liability for clean-up falls upon the current owner or occupier of the land. The regime provides for exemptions from liability in certain cases. We have a programme of improving, replacing and disposing of property when considered appropriate to meet the needs of our business operations.

None of the land we own or occupy or on which we are required to work is currently designated as contaminated but we own, or are required to work within sites that, by virtue of prior use, are potentially contaminated and may in the future be designated as contaminated land.

Our vision is to be a world class operator of utility infrastructure

To support our vision, we set out a clear strategy 18 months ago to focus on our core skills of managing water, wastewater, gas and electricity networks

In line with this strategy, we reviewed our portfolio and sold businesses that were not aligned with these core skills. These included the business process outsourcing company, Vertex, the group's telecoms business, including its stake in THUS Group plc, and our facilities management and industrial liquid waste operations. As a result of these sales we are now a focused utility company.

We generated net equity proceeds of £1,050 million from the sale of United Utilities Electricity, which principally comprised our electricity distribution assets, achieving a substantial premium on the regulatory asset value. This represents a total sales price of £1,782 million less United Utilities Electricity's net debt of £686 million at fair value at the date of disposal, including United Utilities' group debt apportioned to the electricity business, and transaction costs of £46 million. In light of this sale, we reviewed our capital structure and dividend policy and details of the proposed £1.5 billion return to shareholders are provided on page 112.

The four key elements of our strategy are: continuing to improve our operational performance, successfully delivering our 2005-10 regulatory contract, preparing for the 2009 water price review, and delivering growth in our non-regulated business. Our vision, strategy and objectives are part of our overall goal of delivering shareholder value.

Improving operational performance
We aspire to be in the top quarter of the UK water sector on the most important measures and have highlighted five key performance indicators by which our progress can be measured. These are:

- relative efficiency,
- security of water supply (leakage),
- pollution,
- sewer flooding, and
- overall customer satisfaction (in response to enquiries)

Over the last two years we have raised operational performance levels and,

Vision, strategy, goals and values

in 2007/08, we met our regulatory leakage target for the second consecutive year. This was a tougher target than the previous year and represents a year-on-year improvement.

Successfully delivering our 2005-10 regulatory contract

We are investing over £3 billion between 2005 and 2010 to improve our network assets on behalf of our customers and the environment.

Successfully delivering the outputs required by our regulators is of key importance. Now that we have agreed a new strategy with Ofwat for processing and disposing of sewage sludge, our capital expenditure is broadly in line with regulatory assumptions as at 31 March 2008.

We have a clear plan for the remainder of this price review period and are confident of meeting our regulatory targets.

Preparing for the 2009 water price review

The 2009 water price review is a key value driver for United Utilities as it will set the price limits from 1 April 2010 to 31 March 2015.

We are currently developing our draft five-year business plan, scheduled for submission to Ofwat in August 2008. This plan forms the first element of our long-term vision for our business as it adapts to the changing climate and demographics of the North West.

Our carbon action plan is progressing well through schemes which, in addition to helping the environment, also contribute to improving the efficiency of the group. These schemes include increasing the efficiency of our pumping stations and using our wastewater processes to generate electricity and heat.

In December 2007, we published our Strategic Direction Statement (SDS) entitled 'where we are heading'. This outlines the key issues facing the business over the next 25 years and includes the outcome of a survey into our customers' willingness to pay. Covering 2,000 households and 500 businesses, the survey found that key concerns include supply interruptions, sewer flooding, odour and reductions in greenhouse gas emissions. Customers' priorities can help shape

future investment, enabling us to align expenditure to the areas they consider important. The SDS is part of our preparations for the forthcoming price review and we are already in active discussions with our regulators. The six key elements of our SDS are described on pages 19 and 20.

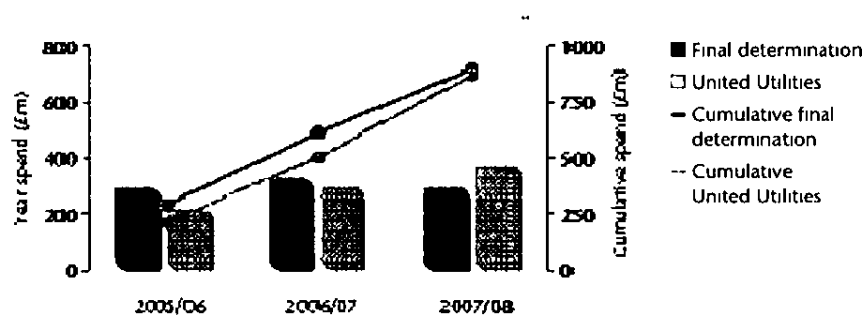
Investment in the water industry will be increasingly influenced by the need to adapt to climate change and flooding risk and to make further environmental improvements. We expect significant levels of capital investment to continue beyond 2010, generating future growth in our regulatory capital value.

Delivering the strategy for our non-regulated business. We continue to seek opportunities to grow our non-regulated business by applying our core skills on an asset-light basis,

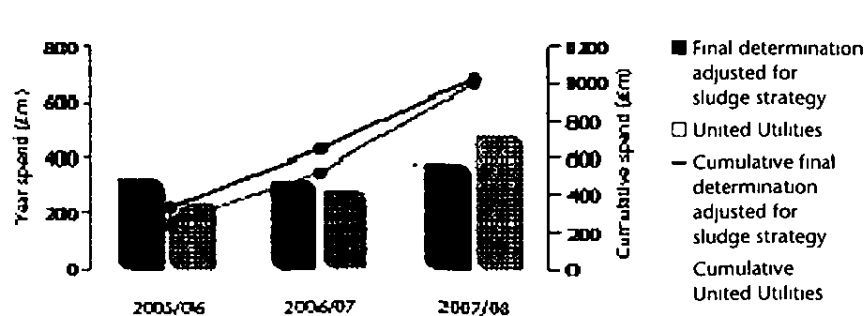
where we identify opportunities to generate additional shareholder value with little impact on the risk profile of the group. In addition to our core UK utility outsourcing market, we are focusing our business development resources on specific opportunities in the UK municipal solid waste treatment market, as well as Australia and in the fast-developing Gulf region.

Capital expenditure

Water capital expenditure profile



Wastewater capital expenditure profile



The following responses to this meeting have been received

Name	Attendance	Response
UU Communications Team	Meeting Organizer	None
Barnes, John A	Required Attendee	Declined
Bessley, Mattin	Required Attendee	Declined
Bell, Lee	Required Attendee	Declined
Cabral, Salk	Required Attendee	None
Sammsby, Mick	Required Attendee	Accepted
Edwards, Mike	Required Attendee	None
Fahy, Brendan	Required Attendee	Tentative
Fallon, Tom	Required Attendee	Declined
Frazier, Steve	Required Attendee	Accepted
Harby, John	Required Attendee	Declined
Hurd, Brian	Required Attendee	Declined
Kohler, Simon	Required Attendee	Accepted
Blarem, Christine	Required Attendee	None
Maloney, Colin	Required Attendee	Accepted
Perrie, Jim	Required Attendee	Declined
Sims, Graeme	Required Attendee	Accepted
Starling, Kevin (UU Australia)	Required Attendee	None
Dixon, Gary	Required Attendee	Accepted
Shaw, William	Required Attendee	Tentative
Edwards, Garry	Required Attendee	Tentative
O'Neill, Mike	Required Attendee	Accepted
Wright, Chris (Operations Dir)	Required Attendee	Declined
Fering, Greg	Required Attendee	Declined
Deehan, Martin	Required Attendee	Accepted
Cowan, Andrew	Required Attendee	Accepted
Coburn, Neil	Required Attendee	Accepted

Group results

Financial performance

United Utilities has delivered a good financial performance in the year ended 31 March 2008. Underlying profit before tax⁽²⁾ increased by 16.7 per cent to £476 million and underlying operating profit⁽²⁾ was up by 7.4 per cent to £677 million.

The group is pre-funded for its capital investment programme through to 2010. We recently improved our liquidity position by enhancing our committed medium-term bank facilities. This provides us with increased flexibility in terms of when and how we raise further debt finance.

Our regulated activities have delivered strong growth in the period with operating profit up 5.3 per cent, an increase of 8.3 per cent on an underlying basis⁽²⁾. This growth primarily reflects the regulated price increase, which supports the high levels of essential investment in our infrastructure. This investment enables us to deliver better service for customers and make environmental improvements.

Capital investment in our regulated water and wastewater operations, including infrastructure renewals expenditure, amounted to £826 million during the year. This is 44.8 per cent higher than last year as we are now in the peak phase of our capital expenditure programme. We have agreed a new strategy with Ofwat for processing and disposing of sludge, based on increasing capacity at an existing site rather than developing a new site. Our capital investment programme has been re-profiled to reflect this agreement and we are now broadly in line with regulatory assumptions. This new strategy will reduce our carbon footprint compared with the original solution. Our business improvement initiatives are delivering cost savings and we remain confident of delivering our regulatory outputs and meeting our efficiency targets across this price review period.

In our non-regulated activities, underlying operating profit⁽²⁾ was slightly higher than the prior year reflecting the first time inclusion of the results of the outsourcing contract with Electricity North West. We have a strong order book worth over £6 billion in revenue and we were pleased to announce recently that we have

Performance summary

- Underlying profit before tax⁽²⁾ up 16.7 per cent to £476 million
- Regulated activities operating profit increased by 5.3 per cent to £612 million, with underlying operating profit⁽²⁾ up 8.3 per cent
- Capital expenditure in regulated activities up 44.8 per cent to £826 million and in line with regulatory assumptions
- Robust liquidity – pre-funded to 2010
- Extended major outsourcing contracts with Southern Water and British Gas Trading in our key UK utility outsourcing market
- Proposed £1.5 billion return of value on schedule with first return expected in August 2008

Preliminary results^{1,3+} for the year ended 31 March 2008

£m (except dividends)	Year ended		% change
	31 March 2008	31 March 2007 re-presented	
Operating profit from continuing operations	£663m	£642m	3.3
Underlying operating profit from continuing operations ⁽²⁾	£677m	£631m	7.4
Profit before tax from continuing operations	£478m	£502m	(4.8)
Underlying profit before tax from continuing operations ⁽²⁾	£476m	£408m	16.7
Total dividends per ordinary share (pence)	46.67p	44.93p	3.9

Notes

- (1) Contribution from United Utilities Electricity, facilities management operations, industrial liquid waste operations and telecoms and the profits or losses on disposal of each of these operations are treated as discontinued operations in these results. Results from continuing operations for the year ended 31 March 2007 have therefore been re-presented.
- (2) Underlying profit before tax from continuing operations and underlying operating profit from continuing operations are defined in the underlying profit measure table on page 13.

In considering the results for the year, the directors have adjusted the group's statutory measures for fair value movements on debt and derivative instruments and those significant items identified as non-recurring. Operating profit and profit before taxation from continuing operations are reconciled to underlying operating profit from continuing operations and underlying profit before taxation from continuing operations as follows

Underlying profit measures

Continuing operations

	Regulated £m	Non-regulated £m	Other £m	Total £m
Operating profit for the year ended 31 March 2008				
Operating profit per published results	611.6	50.6	1.0	663.2
Restructuring costs	2.6	11.6	(0.2)	14.0
Underlying operating profit	614.2	62.2	0.8	677.2

Continuing operations

	Regulated £m	Non-regulated £m	Other £m	Total £m
Operating profit for the year ended 31 March 2007 (re-presented) ⁽¹⁾				
Operating profit per published results	581.0	62.6	(1.5)	642.1
Restructuring costs	5.3	0.3	5.0	10.6
Settlement claims ⁽³⁾	(27.6)	(3.0)	-	(30.6)
Ofwat transfer pricing fine	8.5	-	-	8.5
Total adjustments	(13.8)	(2.7)	5.0	(11.5)
Underlying operating profit	567.2	59.9	3.5	630.6

Continuing operations

	Year ended 31 March 2008	Re-presented ⁽¹⁾ Year ended 31 March 2007
Profit before taxation		
Profit before taxation per published results	478.3	502.3
Operating profit adjustments (see above)	14.0	(11.5)
Fair value losses/(gains) on debt and derivative instruments	42.7	(26.0)
Interest on swaps and debt under fair value option	(41.7)	(57.3)
Interest associated with cash proceeds from UUE sale ⁽⁴⁾	(17.7)	-
Underlying profit before taxation	475.6	407.5

	Year ended 31 March 2008	Re-presented ⁽¹⁾ Year ended 31 March 2007
Underlying cost of net borrowings from continuing operations		
Finance expense	331.6	258.1
Fair value (losses)/gains	(42.7)	26.0
Interest on swaps and debt under fair value option	41.7	57.3
Underlying interest payable	330.6	341.4
Investment income	(146.7)	(118.3)
Adjustment for net pension interest income	23.5	17.6
Underlying cost of net borrowings	207.4	240.7
Add back adjustment for net pension interest income	(23.5)	(17.6)
Interest associated with cash proceeds from UUE sale	17.7	-
Underlying net interest payable	201.6	223.1

Notes

- (3) During the prior year, the group's regulated and non-regulated activities benefited from one-off credits worth £27.6 million and £3.0 million respectively. These credits were in respect of settlement of claims made by the group against contractors and the end of the statutory period of potential claims against the group. Although such claims are a regular occurrence in the ongoing business of United Utilities, these particular claims were unusual in size.
- (4) The interest associated with the cash proceeds from the sale of United Utilities Electricity has been deducted to provide a more representative view of underlying performance. Since the group intends to return £1.5 billion to shareholders later in the year, the cash proceeds from the sale are expected to result in a short-term net debt and interest reduction.

Business review: business performance

Group results continued

extended the contract with Southern Water through to March 2015. In January we also agreed an 18-month extension to our metering contract with British Gas Trading to June 2010. In addition, we have recently been selected as preferred bidder by Townsville City Council in Australia to undertake its water supply upgrade project.

Revenue and operating profit from continuing operations

Revenue from continuing operations rose 18.9 per cent to £2,363 million, reflecting the allowed price rise in the regulated business and the first year of the electricity distribution outsourcing contract in the non-regulated business.

Group operating profit from continuing operations increased by 3.3 per cent to £663 million, with group underlying operating profit from continuing operations² up by 7.4 per cent. This increase was underpinned by a strong performance in the regulated business.

Investment income and finance expense

Finance expense of £332 million was £74 million higher than in the prior year. This expense included a £43 million fair value loss on debt and derivative instruments, whereas the prior year included a £26 million fair value gain. This volatility in financing expense reflects the fact that, in order to hedge the interest cost implicit in the regulatory contracts, the group fixes interest rates for the duration of each five-year review period for the majority of its debt using interest rate swaps. IAS 39 limits the use of hedge accounting for these commercial hedges, thereby increasing the potential volatility in the income statement. In addition the impact of changes in credit spread on debt accounted for at fair value through profit or loss can result in significant additional volatility. However, this volatility has no cashflow impact. Interest expense on swaps (on a pre IAS 39 basis) and debt under the fair value option was £42 million, £16m lower than prior year.

Investment income was £147 million, compared with £118 million in the prior year partly reflecting the higher level of cash held following the sale of United Utilities Electricity. The underlying cost of net borrowing for continuing operations

of £207 million is lower than the prior year and reflects a lower average net debt and a reduction in the group's average net borrowing rate from around 6.3 per cent to 5.8 per cent. The group redeemed a €1 billion 6.625 per cent bond in November 2007 which has served to reduce the underlying cost of net borrowings, partly offset by the impact of higher inflation on the index-linked debt. However, the higher inflation rates will result in increased allowed revenues and growth in the regulatory capital value of United Utilities Water since both of these are linked to the UK Retail Price Index (RPI).

Profit before taxation

Profit before taxation⁽¹⁾ decreased by 4.8 per cent to £478 million. Adjusting for the impact of restructuring costs, other one-off items, fair value movements in respect of debt and derivative instruments, and the expected short-term interest benefit associated with the cash proceeds from the sale of United Utilities Electricity, underlying profit before taxation² was £476 million, 16.7 per cent ahead of the results for the year ended 31 March 2007.

Taxation

The current tax charge relating to continuing operations is £89 million and the current tax effective rate is 18.5 per cent compared with 10.7 per cent in the prior year. The increase in current tax primarily relates to the fair value movement in derivatives, and is matched by an equal and opposite movement in deferred tax, resulting in no net impact on the total effective rate. Deferred tax has been calculated after taking into account the reduction in the corporation tax rate from 30 per cent to 28 per cent with effect from April 2008. The deferred tax credit on continuing operations arising from the adjustment of the opening deferred tax liability is £82 million. The overall deferred tax credit relating to continuing operations is £27 million compared with a deferred tax charge in the prior year of £90 million.

Excluding the impact of the change in corporation tax rate, the total tax charge relating to continuing operations would be £144 million or 30.0 per cent, compared with a £144 million charge or 28.6 per cent in the prior year. A total tax charge

of £62 million relating to continuing operations has been recognised for the year ended 31 March 2008.

The company is forecasting a one-off deferred tax charge in 2008/09 relating to the abolition of industrial buildings allowances. This one-off adjustment is anticipated to be over £200 million and is likely to result in a significant increase in the effective tax rate for the year ended 31 March 2009, however the cash impact will be spread over a period of approximately 20 years.

Discontinued operations

United Utilities Electricity, which principally comprised the group's electricity distribution assets, is treated as a discontinued operation in the results for the year ended 31 March 2008. In the period 1 April 2007 to the date of disposal on 19 December 2007, profit after tax generated from United Utilities Electricity assets was £122 million compared with £119 million for the year ended 31 March 2007. The profit on disposal of United Utilities Electricity amounted to £371 million.

United Utilities had previously announced its intention to dispose of its industrial liquid waste operations and facilities management operations in line with its strategy to focus on its core skills. The contribution from these operations has therefore been treated as discontinued. In 2007/08, the group completed the disposal of its industrial liquid waste operations to Group Tradebe, the parent company of Advanced Waste Solutions Limited and its facilities management operations were sold to Europa Facility Holdings Limited.

In the period 1 April 2007 to 26 October 2007, a loss after tax of £0.1 million was recorded from the group's industrial liquid waste operations compared with a profit after tax of £1.7 million for the year ended 31 March 2007. The facilities management operations made a profit after tax of £1.3 million for the period 1 April 2007 to 22 February 2008 compared with a profit after tax of £3.4 million for the year ended 31 March 2007. These results have all been included within discontinued operations in the

consolidated income statement

United Utilities sold its 22.63 per cent stake in THUS Group plc earlier in the financial year, which completed its exit from the telecoms sector. The £10 million loss on disposal of the stake in THUS Group plc is treated as an adjustment to the consideration arising on the disposal of Your Communications and so both the loss and the group's share of THUS Group plc's results prior to disposal are disclosed as discontinued operations.

Earnings per share

Basic earnings per share relating to continuing operations increased by 15.6 per cent to 47.3 pence.

Dividends per share and future dividend policy

The board is proposing a final dividend of 31.47 pence per ordinary share in respect of the year ended 31 March 2008. Taken together with the interim dividend of 15.20 pence per ordinary share, the total proposed dividend for 2007/08 is 46.67 pence per ordinary share. This is an increase of 3.87 per cent, consistent with the group's previous policy of growing dividends in line with inflation (based on the issued share capital prior to the share reduction associated with the £1.5 billion proposed return of value to shareholders). The inflationary increase is based on the RPI element included within the allowed regulated price increase in United Utilities Water for the 2007/08 financial year (i.e. the movement in RPI between November 2005 and November 2006).

The proposed final dividend is expected to be paid on 8 August 2008 to shareholders on the register at the close of business on 27 June 2008. The ex-dividend date for the final dividend is 25 June 2008.

As announced at the group's half year results on 29 November 2007, the board has outlined a new dividend policy which will apply from 2008/09 to reflect the revised composition and earnings profile of the group. In light of the sale of United Utilities Electricity and the proposed £1.5 billion return of value to shareholders, the dividend per share from 2008/09 will be reduced by 30 per cent compared with the proposed 2007/08 dividend per share. Thereafter, the group's revised dividend

policy is intended to target a sustainable and growing level of dividends. The new target real growth rate of RPI+2 per cent will be applied from 2009/10 to the 2008/09 dividend per share.

Cashflow

Cash generated from the group's continuing operations for the year ended 31 March 2008 was £877 million compared with £811 million in the prior year. High levels of capital expenditure continue, principally in the regulated water and wastewater investment programmes. The group's net capital expenditure on property, plant and equipment for 2007/08 was £630 million, excluding infrastructure renewals expenditure which is included as an operating cost in the income statement under IFRS.

Cash and short-term deposits at 31 March 2008 amounted to £1,811 million which, inclusive of medium-term committed bank facilities and net of short-term debt, results in total available liquidity of £2,494 million. During the year United Utilities redeemed a €1 billion 6.625 per cent bond from existing cash resources primarily generated from issuances of index-linked debt.

The group retains an excellent pre-funded position for its capital investment programme through to 2010 and enhanced its liquidity further by arranging or extending the maturity dates of £500 million of committed medium-term bank credit facilities since 30 September 2007. Furthermore, the group is in discussions with the European Investment Bank with which it has a long-standing relationship regarding a new £400 million term loan for United Utilities Water.

Net debt, including derivatives, at 31 March 2008 was £2,903 million, a decrease of £741 million compared with 31 March 2007 (after adjusting for £482 million of net debt relating to discontinued operations which has exited the group). This movement principally reflects the receipt of cash proceeds from the sales of United Utilities Electricity and the group's stake in THUS Group plc, plus cashflow from operating activities, offset by expenditure on the regulated water and wastewater capital investment programmes and payments of interest,

tax and dividends. This reduction in net borrowings is expected to be short-term since the group intends to return £1.5 billion to shareholders.

Gearing (net borrowings divided by the regulatory capital value) decreased to 39 per cent at 31 March 2008, compared with 52 per cent at 31 March 2007. Following the proposed £1.5 billion return to shareholders, gearing will increase and is expected to move United Utilities towards the upper end of Ofwat's assumed range of 55 per cent to 65 per cent by the end of this regulatory review period. The board will continue to target an A3 credit rating for United Utilities Water.

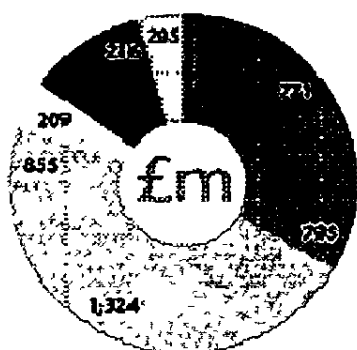
In the year ended 31 March 2008, the group issued a total of £185 million of long-term, index-linked notes through its multi-issuer euro medium-term note programme. This comprised a £50 million issue at a real interest rate of 1.702 per cent with a 50.5 year maturity, a £100 million issue at a real interest rate of 1.585 per cent with a 50-year maturity and a £35 million issue at a real interest rate of 1.66 per cent with a 30-year maturity.

United Utilities now has index-linked funding totalling approximately £1.5 billion, including indexation of the principal. However, as a result of the current economic climate and the uncertainty in the monoline insurance sector, the group sees limited opportunity for further index-linked debt issuance.

The principal amount of the index-linked borrowings is adjusted to track movements in RPI. This form of liability is a good match for the group's regulated assets, which are also linked to RPI, and delivers a cashflow benefit to United Utilities since compensation for inflationary risk is provided via adjustment to the principal rather than through regular cash payments.

Liquidity and capital resources

Gross debt = £4,667m



- Yankee bonds
- GBP bonds
- GBP Index-linked bonds
- ⌘ Euro bonds (ELIR)
- ⋄ EIB index-linked loan
- Other borrowings
- Joint venture debt
- ⌘ EIB loans

Overview

The board has reviewed the group's business plan and considers that the group has sufficient liquidity to meet the anticipated financial commitments for at least the next twelve months

The group's primary source of liquidity is cash generated from its ongoing business operations. As reflected in the consolidated cashflow statement on page 57, in the year ended 31 March 2008, net cash generated from the group's continuing operating activities was £877 million, compared with £811 million in 2006/07. The water regulator has established price increase limits to 2010 which provide certainty for a major element of the group's revenues from ongoing operations

Liquidity

The table below details the group's short-term liquidity position at the year end. Short-term liquidity requirements are met from the group's normal operating cashflow and its short-term bank deposits. Further liquidity is provided by committed but undrawn credit facilities. This liquidity supports the company's US\$1.5 billion euro-commercial paper programme

	£m
Cash and short-term deposits	1,810
Medium-term committed bank facilities	1,550
Short-term debt	(105)
Term debt maturing within one year	(761)
Total headroom/prefunding	2,494

The European Investment Bank is currently appraising a new £400 million term loan to United Utilities Water. This potential long-term loan is not reflected as committed funding in the table opposite

The group also has access to the international debt capital markets through its €7 billion medium-term note programme which provides for the periodic issuance by United Utilities and United Utilities Water of debt instruments on terms and conditions determined at the time that the instruments are issued. The programme does not represent a funding commitment, with funding dependent on the successful issue of the debt securities. A detailed list of the group's borrowings is disclosed in note 17 to the consolidated financial statements

Debt financing and interest rate management

The structure and sources of the group's gross debt is analysed in the chart opposite

Long-term borrowings are structured or hedged to match earnings and assets, which are largely in sterling, indexed to UK retail price inflation and, in the case of revenues, 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 earnings and assets. At the year end, the group had in excess of £1.5 billion of such funding, representing approximately 21 per cent of the regulatory asset value of United Utilities Water, 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 group's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile of in excess of 30 years

Where debt is raised in a currency other than sterling and/or with a fixed interest rate it is generally swapped to create a floating rate sterling liability for the term of the liability

The group's interest rate management policy is to seek to match the debt service costs to regulatory cashflow which is impacted by the general interest rate

environment at the time of each price control determination and is then fixed for the five-year period of that price control. To hedge the exposure to each price control determination, the group enters into interest rate swaps, around the time of each price control determination, to fix interest costs for a substantial proportion of the group's debt for the duration of that price control period. Residual interest rate exposure is hedged annually, largely through the use of exchange traded financial futures contracts.

Further details of the group's borrowings and interest rate management are provided in notes 4, 5, 17 and 18 to the consolidated financial statements.

Credit ratings

During the year, the group announced that the board intends to target an investment grade credit rating of A3 for United Utilities Water, which it believes best mirrors regulatory assumptions.

At the year end, United Utilities Water had stable long-term credit ratings of A3/A- and United Utilities had long-term stable credit ratings of Baa1/BBB+ from Moody's Investors Service and Standard and Poor's Ratings Services respectively.

Treasury policy

The group's treasury function operates within the policies approved by the board, and which are administered by the treasury committee through delegated authority from the board, it does not act as a profit centre and does not undertake any speculative trading activity.

Contractual obligations

Capital commitments of the group as at 31 March 2008 were £485 million, for which the group has contractual commitments for property, plant and equipment. The group also has obligations under its licence to comply with the capital programmes as specified by the regulators. Purchase obligations of the group as at 31 March 2008 total £15 million and primarily relate to services for which the group has purchase orders or contractual commitments.

Performance guarantees

The company and certain subsidiary undertakings have, in the normal course of business, given guarantees and entered into counter-indemnities in respect of bonds relating to the group's own contracts and given guarantees in respect of the group's share of certain contractual obligations of joint ventures.

Joint ventures

The group enters into joint ventures with consortium partners. The financial and legal structure of joint ventures is designed to limit the group's exposure to the extent of the equity investment and loans provided by the group, with no further recourse should the joint venture default. All joint venture arrangements have been incorporated into the group's results on a proportionate consolidation accounting basis.

Regulated activities

Performance summary

Regulated revenue increased by 7.2 per cent to

£1,416m

Regulated operating profit increased by 5.3 per cent to

£612m

with underlying operating profit[†] up 8.3 per cent

(2) See footnote on page 12

United Utilities is making a good progress against its KPIs and remains on course to meet its targets.

Revenue from regulated activities increased by 7.2 per cent to £1,416 million, principally as a result of allowed price increases of 8.3 per cent (including inflation) offset to a small extent by lower water consumption and trade effluent volumes and retrospective claims by unmetered customers. The increase in price supports the investment of significant sums in improving the infrastructure which provides vital clean water and wastewater services to customers.

Reported operating profit⁽¹⁾ for the year increased by 5.3 per cent. After adjusting for a number of one-off items in the current and prior years (as outlined in the underlying profit measures table on page 13), underlying operating profit for the year increased by 8.3 per cent to £614 million. This growth in underlying profit primarily reflects the allowed price increase offset by a higher depreciation expense as a consequence of increased capital spend and growth in infrastructure renewals expenditure which was 18.7 per cent higher than the prior year, in line with the planned profile of the renewals programme.

Capital investment in the period, including £120 million of infrastructure renewals expenditure, was £826 million. This represents a 44.8 per cent increase in expenditure compared with the prior year and reflects the peak phase of the 2005-10 investment programme. A revised strategy on processing and disposing of sewage sludge has recently been agreed with Ofwat. After adjusting for this strategy, cumulative capital expenditure on water and wastewater assets was broadly in line with regulatory assumptions as at 31 March 2008. The business remains on course to meet its regulatory efficiency targets and deliver its outputs across the 2005-10 period.

Efficiency initiatives

United Utilities Water is confident of meeting its regulatory efficiency targets despite increasing cost pressures in areas such as power and property rates.

This company's principal efficiency initiatives include an integrated performance management project, which increases

remote operational site management and optimises chemical and power usage, and its asset improvement programme which is improving the efficiency of operational pumps. These schemes are key elements of United Utilities' plan to mitigate its carbon emissions, alongside its combined heat and power assets which recycle energy generated from wastewater treatment processes.

Other key initiatives include a workforce management project, which is designed to improve data systems, deliver more efficient field operations and enhance customer service, and supply chain management which has now been centralised and is delivering procurement economies. There is a strong drive to improve customer service and the business is focusing on reducing the number of customer queries, improving staff productivity, implementing improved cash collection procedures and enhancing the overall customer experience.

Operational performance

United Utilities has a vision to be a world class operator of utility infrastructure and is targeting an upper quartile position among UK water companies on key operational measures in the medium-term. The business continues to upgrade its infrastructure and replaced 650 kilometres of water mains during 2007/08. United Utilities Water supplies a high quality of drinking water, with a mean zonal compliance water quality performance of 99.94 per cent for the year. United Utilities was ranked first among the UK's water and sewerage companies in 2006/07 by Ofwat for both water and sewerage in its most recent asset serviceability assessment, reflecting the group's long-term stewardship of its assets.

Although United Utilities has delivered real progress, there is more to do in improving operational performance. During 2007/08 there was a higher level of sewer flooding incidents influenced by adverse weather conditions. This together with environmental underperformance at our Fleetwood wastewater treatment works will lead to a lower Overall Performance Assessment (OPA) score from Ofwat for 2007/08, compared with the prior year.

Regulatory developments

Strategic direction statement

Consistent with its approach to longer-term asset planning, in December 2007 United Utilities Water published its strategic direction statement (SDS) which considers the needs of the north west region out to 2035. The SDS enables this company to set its plans for the next price review period (2010-15) in this longer-term context, develop sustainable solutions and respond to future challenges.

The six key elements identified in the SDS are:

- **Responsible long-term stewardship of networks** This includes protecting health and the environment, improving

understanding of network performance and investing in research and new technology with clear efficiency and service benefits.

- **Listening and responding to the views of customers and other stakeholders**

Ensuring that our plans meet their changing needs and priorities of customers and other stakeholders and provide good value for money. United Utilities recently undertook a substantial customer survey which identified key areas where customers are willing to pay for improvements including supply interruptions, sewer flooding, odour and reductions in greenhouse gas emissions. Customer priorities can help

shape future investment programmes, aligning expenditure to those areas that customers consider most important.

- **Making water resources more sustainable and resilient** This means improving both our own and customers' water efficiency, ensuring United Utilities Water enhances and protects its network and developing water resources to help address increasing drought risk and meet supply and demand requirements.

- **An integrated approach to drainage to reduce flooding risk** Storm water volumes entering the sewer system need to be reduced and the government's proposal to transfer responsibility for

Our performance against KPIs

Operational KPI	Performance update
Relative efficiency	We have closed the operational efficiency gap to the most efficient water companies over the last two years. For the water service the group has narrowed the gap from 16 per cent to 12 per cent and for the wastewater service from 27 per cent to 18 per cent (based on United Utilities' internal estimates). This is reflected in Ofwat's 2006/07 assessment of United Utilities as band B for the water service and band C for the wastewater service and represents a one band improvement for both services over the two-year period.
Security of water supply (leakage)	We outperformed the tougher economic level of leakage rolling target of 465 megalitres per day, as set by Ofwat for 2007/08. This is the second consecutive year that we have met or outperformed our leakage target. In addition, there were no water restrictions on customers during the year.
Pollution	One water and eight wastewater Category 1&2 incidents were recorded in 2007 compared with the base position of two water and 21 wastewater incidents in 2005. We again outperformed our target of a 50 per cent reduction in the medium-term.
Sewer flooding	We continue to remove properties from our sewer flooding register. We have set a medium-term target of reducing the number of properties on this register by 50 per cent compared with a start point of 641 properties in 2005/06. This target is based on properties at risk of experiencing at least one sewer flooding incident in ten years. Further progress has been made in 2007/08 with 434 properties now on the register. This represents a 32 per cent reduction over the last two years and the business remains on track to meet its medium-term target.
Overall customer satisfaction	Good progress was made in 2007/08 and 73 per cent of United Utilities' water and wastewater customers surveyed who had made an enquiry were satisfied with the overall service they received. This compares with a start point satisfaction level of less than 50 per cent in 2005. These satisfaction levels are based on a comprehensive independent survey conducted on behalf of United Utilities each month. Going forward, the business has a strong focus on resolving customer queries on the first contact which should improve customer satisfaction and lower the cost of service.

Regulated activities continued

private sewers from householders to water companies will facilitate a more integrated approach to this challenge

- **Reduce the group's carbon impact**
We aim to halve its greenhouse gases by 2035, supported by achieving energy neutrality for its wastewater operations
- **Bills to rise, on average, no faster than incomes**
United Utilities believes that the water and wastewater services it provides are already of good value, but there will be future upward pressure on costs

Climate change and sustainability

The implications of climate change on drought and flood risk are set to feature strongly in United Utilities' plans for decades to come and these implications will be incorporated in the forthcoming price review submission. The importance of this is recognised by the government, which intends to publish a draft Floods and Water Bill for consultation later in the year

2009 water price review

United Utilities Water's preparations for the forthcoming price review are well advanced and it is in active deliberations with its regulators and other key stakeholders. In March 2008, Ofwat published its methodology for the 2009 water price review which will set price limits for the five-year period starting 1 April 2010. In many respects, the methodology is similar to that used in previous price reviews but we are pleased to note the increased focus on the issues of climate change and sustainability

Following the outcome of the group's recent capital structure review, the board announced that it will be targeting an A3 credit rating for United Utilities Water which it believes best mirrors Ofwat's assumptions for the 2005-10 regulatory period. The board believes this to be an appropriate investment grade rating to allow the group to raise finance to fund its substantial capital investment programmes

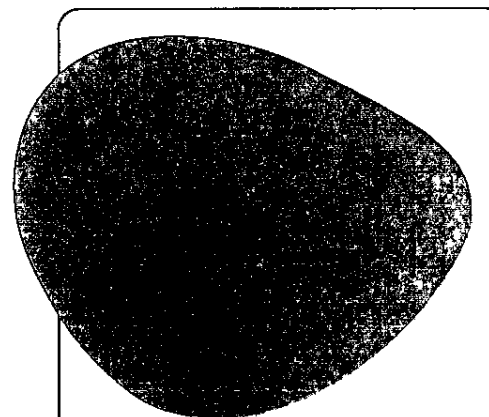
United Utilities believes that Ofwat should ensure that companies can at least maintain an A3 rating and should consider recent developments in the credit markets. The raising of debt finance is particularly important given the likely scale of investment that is still required in the water industry to replace and refurbish

ageing infrastructure, address flooding risk and climate change and deliver further statutory environmental obligations and customer priorities. United Utilities believes significant investment will be required during the next price review period (2010-15) and beyond

United Utilities has been consistent in its approach that the regulator should consider both short and long-term economic data in the price review. Sub-prime debt problems and US recession fears have seen higher risk premiums on the cost of debt and difficulties experienced by the monoline credit insurance industry have implications for the raising of further index-linked debt

Unsatisfactory Intermittent Discharges (UIDs)

It is likely that there will be additional investment, mainly in respect of UID projects, that were not part of United Utilities' 2005-10 regulatory contract. A large proportion of this investment, if endorsed by Defra and Ofwat, is expected to fall into the 2010-15 period and be considered as part of the forthcoming price review. United Utilities estimates that the additional funding likely to be required to complete this UID programme, which is designed to meet statutory obligations and deliver environmental benefits, could be in the order of £700 million



In Manchester city centre we are upgrading the water network at a cost of over £8 million. Customers living and working in Manchester will benefit from even better water quality, fewer leaks and improved water pressure

Non-regulated activities

Performance summary

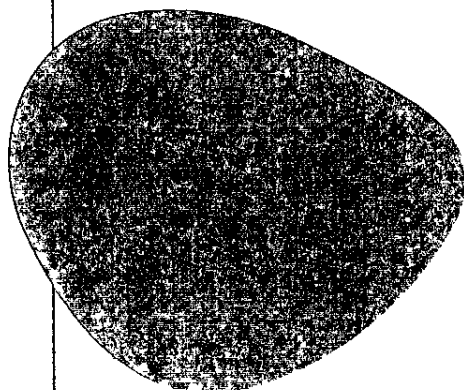
Non-regulated revenue increased by 30.2 per cent to

£949m

Non-regulated underlying operating profit⁽²⁾ marginally increased to

£62m

(2) See footnote on page 12



Award winning waste management
Sheepscar Aggregate Recycling Centre, operated by our gas business, won two Rushlight Awards in 2007. These awards recognise technology and innovation that helps to address climate change, waste and pollution management.

The centre takes material excavated from gas mains works, sorts it and mixes the useable pieces with cement. This is then placed back in trenches to reinstate them once work is complete.

Non-regulated revenue in the year increased by 30.2 per cent to £949 million compared with the prior year, reflecting the contribution from the first year of the electricity distribution outsourcing contract. Underlying operating profit⁽²⁾ was slightly higher than last year. This reflects the first time inclusion of contribution from the group's electricity outsourcing activities, partly offset by the expected reduction in contribution from the Southern Water contract where the investment profile peaked in 2006/07. Reported operating profit was down 19.2 per cent compared with 2006/07 reflecting £12 million of restructuring costs, principally relating to planned efficiency delivery in gas and electricity outsourcing activities.

Business update

The non-regulated business incorporates the former United Utilities Contract Solutions' activities and applies the core utility skills of the regulated business through outsourcing contracts. We hold major water and wastewater utility outsourcing contracts, working on behalf of Dŵr Cymru Welsh Water, Southern Water and Scottish Water, and we are the leading utility infrastructure outsourcing company in the UK.

United Utilities also has three Scottish PFI operations and currently operates in Australia, Bulgaria, Estonia, Poland and the Philippines.

United Utilities holds the only outsourced contracts to operate electricity and gas distribution networks in the UK, working on behalf of Electricity North West and Northern Gas Networks (NGN). United Utilities' electricity outsourcing contract extends through to 2015 and is projected to generate revenues of around £1.5 billion over the eight-year period, with the potential for the contract to be extended by a further five years to 2020. United Utilities also has a 15 per cent stake in NGN, which provides a steady income stream. In addition, United Utilities has a meter installation contract with British Gas Trading which was extended to 30 June 2010 earlier in this year, building on a good performance on the contract to date. Furthermore this provides an enhanced revenue stream to United Utilities through rental income from meter ownership.

In May 2008, we were awarded a three-year contract to provide the Greater Manchester Waste Disposal Authority with water, electricity and gas connections to 27 sites across the Manchester region. Whilst this is a relatively small contract it is a useful addition to the portfolio.

United Utilities has a strong order book worth over £6 billion in revenue which secures long-term income streams for the group. This was enhanced further through the recent extension of the contract with Southern Water, which now runs through to 31 March 2015. Overall, the business is pleased with its performance across the contract portfolio, reinforced by positive feedback received from its customers during the year.

In line with its business development strategy, United Utilities was recently named preferred bidder for the water supply upgrade project in Townsville, Australia. The project involves upgrading the water facilities in Townsville and designing, building and operating two water treatment plants. Facilities are due to be completed and operational by mid 2010 and upon award, United Utilities expects to hold a 20-year operations and maintenance contract with a minimal equity investment requirement. The project forms part of an AUD\$300 million water and sewerage infrastructure programme in Townsville.

Other activities

Operating profit from other activities for the year ended 31 March 2008 was £1 million. This segment includes central costs and the contribution from United Utilities Property Solutions. This is the property sales and management business of United Utilities and it made an operating profit of £19 million in the year. It owns a land and property portfolio and is expected to continue to deliver a positive contribution for the next few years, although, due to the nature of the business, profits may not follow a smooth profile.

Corporate responsibility

Central to our vision of being a world class utility operator is our reputation for high standards in respect of business and ethics. Our success depends on reinforcing this reputation among all those with an interest in our business as well as in the communities in which we operate. Our commitment to such standards is reflected in our business principles which summarise our business philosophy and the main policies we apply across our operations.

Strategy and governance

Traditionally, our approach to corporate responsibility (CR) has centred on the environmental effects of the business, our employees and customers and our work in the community. Given the restructuring of the group in the last 18 months, we have reviewed our CR strategy with the aim of focusing on those areas that matter most to the business and where the work we do can support the group's wider vision. As a result, we are placing greater emphasis on two particular areas – climate change (where the water sector faces tougher challenges than most other industries) and promoting and attracting the skills we need to develop solutions to the future challenges of running our business.

To support this new policy, we have reviewed and reinforced our CR governance process. The changes include the introduction of a community investment committee of the board to approve and monitor the group's CR policy and action plan and report progress to the board. We have also strengthened our internal governance around all key CR policies and performance indicators.

The environment and sustainability
Our plans for tackling climate change include reducing our emissions of greenhouse gases and responding to the long-term effects of a changing climate. In 2007 we set out our carbon management strategy with targets for cutting emissions and influencing our stakeholders in support of these goals. To meet our targets, we are expanding our generation of renewable energy and making greater use of sewage gas as a source of energy. As for adapting to the impact of climate change, future investment plans will take greater account of the risk of flooding and the need to protect water resources.

We are also improving our performance in terms of waste management. We are using more products derived from waste thereby reducing volumes sent to landfill, as well as recycling sludge to generate heat and power.

The way we source resources is important in operating in a more sustainable manner. In 2007 we developed a sustainable supply chain strategy integrating sustainability into procurement decisions, overseen by a dedicated sustainable supply chain manager.

Our responsibilities extend to the land we own. We are now three years into a £10 million, five-year programme which aims to improve the condition of our Peak District and Bowland estates along with their wildlife habitats. Nearly a third of our land is designated Sites of Special Scientific Interest. At present, 83 per cent of this is rated 'favourable' or 'recovering' and we aim to raise the figure to 95 per cent by 2010.

The community

Other activities relate to our policy of developing and attracting relevant talent. As part of our work in education, we support schools and other establishments in promoting environmental science – now with a greater focus on climate change and encouraging a measurable change in behaviour both in schools and at home. By engaging and educating children in science and engineering subjects, we play a part in developing the skills, and encouraging the uptake of subjects, that could contribute to the future success of our business.

We encourage and support our employees to become involved in community activity by enabling them to volunteer in company time, by matching their fundraising efforts up to £250 and by making grants of up to £250 to community groups to which our people give their time. Our employees have been actively involved in a number of our partnerships this year, including Wateraid and the Changing Lives Challenge which supports The Youth Sport Trust and Hope Through Action to encourage leadership and make a lasting difference in people's lives.

We invested around £2.5 million in the communities in which we operate last year, including cash, time and in-kind help. Our activities have focused around our strategy and benefit communities impacted by our operational activities, through community partnerships with United Futures (a regeneration programme), with Groundwork UK and Mersey Basin Campaign.

Bryan Homan is one of 23 carbon champions across our business. He has been encouraging colleagues to play a part in reducing our carbon emissions. He promoted a motor efficiency project which was the first to receive monies from our £1 million carbon funding scheme. This scheme helps fund new United Utilities projects with a carbon benefit.



THE PRINCE'S
MAY DAY
NETWORK



People

Leadership

We have been working over the past year to define what leadership across our business should look like. 150 of our most senior leaders have attended development workshops as part of this process and we are establishing a leadership communications forum aimed at sharing knowledge and information, with a membership of more than 600 people.

Employee engagement

Our employees are fundamental to our business success. It is vital they understand our business direction, feel pride in their work and are motivated to go the extra mile for our customers. Therefore we now measure how engaged our employees feel, rather than how satisfied they are with their jobs.

In 2007, 63 per cent of our people said they felt engaged and fully supported us. Our ambition for 2008 is to increase this score to 70 per cent through targeted action plans.

Health and safety

We recognise the importance of strong and consistent health and safety performance in protecting our people, assets and integrity. Last year we brought all the health and safety teams operating across our group into one central team. We now have consistent health and safety standards supported by improved checks and a greater safety awareness and competence among our employees. This will allow us to focus on reducing and measuring risk control rather than just dealing with accidents in isolation. In our new approach to health and safety management we will also be ensuring that our employees maintain the right knowledge, skills and competence levels to work as safely as possible.

Employee relations

Over the last year, the structure of our organisation has changed significantly and we have been meeting with the trade unions to discuss how we need to work together to develop a long-term relationship to support this change.

Developing our people

To attract, retain and develop skills and talent across the company a key part of our human resources strategy focuses on building our skills and talent pipeline.

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

	2008	2007
Continuing operations		
Regulated activities	3,888	3,633
Non-regulated activities	4,517	3,201
Other activities	268	221
	8,673	7,055
Discontinued operations		
Vertex	–	8,277
United Utilities Electricity	57*	1,198
Facilities management	145	176
Industrial liquid waste	34	162
	8,909	16,868

* Relates to the employees who did not transfer as operational staff to the group's non-regulated segment to deliver the operations and maintenance contract retained by the group.

This strategy details the skills, capabilities and numbers of people we need for future success. We intend to grow internal talent and attract talent from the external market to bridge any gaps we have.

A 'university' concept has been developed to provide development support in leadership, technical and core skills. This will be launched to employees during 2008.

In 2007, 47 apprentices and 11 graduates joined United Utilities, as a result of our successful recruitment campaigns. We are expecting a further 85 apprentices and 40 graduates to join the company in September 2008.

Benefits and lifestyle

We offer our employees a set of core benefits which range from holidays and pension schemes to health checks and family friendly benefits. Pension provision is a valued core benefit and 92.8 per cent of employees are members of schemes, some of which offer an Additional Voluntary Contribution facility.

We recognise the importance of work-life balance and have developed a range of initiatives that go beyond our legal obligations as an employer. These include our policies on maternity, paternity, adoption, family, personal and special leave. We offer flexible working, career breaks, part time working, job-share, home working and a range of additional benefits.

This year we extended the flexible benefits scheme to all our employees.

Dignity and equality

Our business principles make it clear that in everything we do, we act with integrity and fairness and observe legal requirements. Any employee with serious concerns that we may not be adhering to these principles is encouraged to speak up via their line manager or by using a voicemail number that can be called in confidence. A full copy of our business principles document is available at www.unitedutilities.com.

Employees with disabilities

We are committed to fulfilling our obligations in accordance with the Disability Discrimination Act 1995 and best practice. As an equal opportunities employer, we give equal consideration to applicants with disabilities in our employment criteria and will modify equipment and working practices wherever it is safe and practical to do so. We are committed to providing full support and appropriate training for employees who become disabled during the course of their employment so that they can continue to work in a position appropriate to their experience and abilities.

Risk factors

We are exposed to a variety of risks and uncertainties which, if they materialise, could adversely affect our reputation, profitability or financial position, and the pricing and liquidity of our securities. The principal risks and uncertainties to which we are exposed are summarised below, but other risks and uncertainties, or risks and uncertainties that are unforeseen or unforeseeable could also have an adverse impact on our reputation, profitability or financial position, and the pricing and liquidity of our securities.

Risks relating to the group and our business

Regulation

We operate in a regulated industry and our water and wastewater businesses are substantially influenced by the service levels, regulatory targets and price determinations made by our primary regulator, Ofwat, and Ofwat's assessment of our delivery against those service levels, regulatory targets and price determinations. The most recent price determination in 2004 set price limits for the five years from April 2005. The next price determination in 2009 will take effect for five years from April 2010. Ofwat's price determinations limit the prices we can charge our customers.

An adverse price determination could occur for a number of reasons, including an inadequate allowed cost of capital or inadequate assumptions by Ofwat concerning our future operating and capital expenditure, as well as turnover forecasts proving not to be sufficiently accurate. In addition, unforeseen or unforeseeable costs may arise after a price determination which were not taken into account by Ofwat in setting price limits and cannot be passed on to our customers.

Scope for us to review a particular price determination within the relevant five-year period is limited. These review mechanisms can also be invoked by Ofwat to reduce the prices we can charge our customers.

Ofwat is empowered to impose fines on United Utilities Water of up to 10 per cent of our regulated turnover if we fail to comply with our regulatory obligations. For instance, if we provided sub-standard services to customers or failed to comply with reporting requirements, then in serious cases, our licences could be revoked.

Our businesses also operate or provide services to customers in regulated industries or in industries that are affected by general and specific laws and regulatory regimes.

We engage regularly with Ofwat and other regulators within the applicable statutory framework, and endeavour to ensure the assumptions and projections underlying Ofwat's price determinations are accurate and achievable.

Operational performance and cost savings implicit in price determinations

Operating cost savings are implicit in Ofwat's price determinations. To assist the achievement of these operating cost savings, we introduced a business change programme. If these efficiencies are not achieved, this may adversely affect our group's profitability and may be reflected by less favourable outcomes in Ofwat's future price determinations.

Capital investment programmes

Our regulated business requires significant capital expenditure, particularly in relation to new and replacement plant and equipment for water and wastewater networks and treatment facilities. The price determinations made by Ofwat take into account the level of capital expenditure that Ofwat expects us to incur during the relevant five-year price review period and the associated funding costs.

Historically, we have financed this capital expenditure from operating cashflow and from external debt financing. There can be no assurance that operating cashflows will not decline or that, in the longer term, external debt financing or other sources of capital will be available at similar expense in order to meet these capital expenditure requirements.

If we are unable to deliver on our capital expenditure programmes or adverse legacy effects of earlier capital investment emerge or amounts budgeted in prior capital expenditure programmes prove insufficient to meet the actual capital expenditure required, our profitability or financial position may be adversely affected. In addition, our ability to meet regulatory and other environmental performance standards could be adversely affected by such failure, which may result in fines imposed by Ofwat of an amount of up to 10 per cent of regulated turnover, or other sanctions.

At the beginning of the 2005-10 price determination period, there had been around 3,000 intermittent discharges recorded in north west England from wastewater overflows, of which a number were determined by the Environment Agency as 'unsatisfactory' (UIDs). There have been ongoing discussions between United Utilities, Ofwat and the Environment Agency regarding the responsibility, scope and cost of the required solutions for a number of these UIDs. The majority of these UID projects were not part of the 2005-10 regulatory contract and will require additional investment.

In October 2007 we submitted a funding submission, or change protocol, to Ofwat relating to discharges into inland waters. This submission followed a planning inquiry which dealt with a small number of such UIDs but which was intended to establish precedent for a larger number of similar discharges that were under discussion. The required investment at the sites included in the change protocol submission requires confirmation by Defra. A response to this change protocol is expected later in the year. A further planning inquiry dealing with discharges to bathing waters was heard in December 2007. We will be making further submissions to Ofwat dealing with those UIDs affected by that planning inquiry and as well as other UIDs.

Taken together, we currently estimate that funding for capital expenditure of approximately £700 million is likely to be required in order to remedy these UIDs. A large proportion of this capital expenditure is likely to fall into the 2010-15 regulatory period and so the funding of this investment will be considered as part of the forthcoming 2009 price review. This investment programme, if fully endorsed by Defra and Ofwat, should be funded through price limits and deliver additional growth in our regulatory capital values as well as benefits for customers and the environment. We cannot be certain, however, that all these additional costs will be recoverable on this basis and will not adversely affect our profitability or financial position.

Environmental laws

There are various environmental laws with which United Utilities must comply. These laws establish, amongst other things,

standards for water abstraction, drinking water, the discharge of sewage and other pollutants into the environment, and procedures governing operational development. We are required to obtain various environmental consents from regulators.

In particular, we are required to comply with laws intended to control the release of, or exposure to, contaminants that are potentially harmful to health, safety or the environment. Land that is designated as contaminated land may need to be remediated, and the group could be liable for the cost of remediation of land owned or occupied by it if the original polluter cannot pay. The group owns a significant number of sites and operates upon or within land owned, tenanted or trafficked by third parties. None of the group's land is currently designated as contaminated but it owns, or is required to work within or may in future own or be required to work within, sites that, by virtue of prior use, are potentially contaminated. Whilst we have implemented risk controls intended to effect compliance, it is possible that we may have liability in relation to contaminated land in future and could face sanctions imposed by the relevant regulator or the courts or claims by third parties.

While we endeavour to comply with all legal requirements, we cannot guarantee that in the future we will be in full compliance at all times with all applicable environmental laws and the terms and conditions in our environmental consents. Should we fail to comply, we could face fines imposed by the courts or otherwise face sanction by the relevant regulator or claims from third parties and additional costs to bring the group into compliance.

In addition to regulatory compliance proceedings, we could become involved in a range of third party legal proceedings relating to land use, environmental protection and water quality, which could include planning permission applications, for example, sewage treatment or water treatment works, challenges by third parties to decisions relating to the group that have been made by regulators, and civil actions by third parties for the alleged infringement of their common law rights, such as nuisance claims relating to odour or other matters. These risks could adversely affect

the way that we operate, prejudice our reputation and result in the imposition of substantial fines, damages and other costs, each of which could adversely affect our profitability and financial position.

The Water Act 2003 (the act) implemented changes to the regulatory regime. The scope and timing of the government's plans under the act to transfer ownership of parts of the sewerage system which are in private ownership to sewerage undertakers (including United Utilities) have yet to be finalised and we may incur costs as a result of such a transfer, for example in meeting the costs of any upgrading and maintenance work that may need to be carried out in respect of the transferred sewers. Further, the act has introduced new time-limited water abstraction licences which must be renewed upon expiry. The renewal of these licences is now subject to certain tests and our abstraction licences may not be renewed and additional costs could be incurred in implementing replacement projects.

Events, service interruptions, water shortages or contamination of water supplies could adversely affect profitability

We control and operate utility networks and maintain the associated assets with the objective of providing a continuous service. In exceptional circumstances the failure of an asset, or an element of a network, or supporting plant, or equipment could result in catastrophic damage, including significant loss of life and/or environmental damage and/or economic and social disruption. In less exceptional circumstances, the failure of a key asset could cause a significant interruption to the supply of services. Although we have continued to refine our risk management and business continuity procedures, it is only possible to be reasonably, but not absolutely, certain 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.

We are under a duty to supply water that is wholesome at the time of supply. The Drinking Water Inspectorate is required to take enforcement action against the group for any breach of quality standards or other statutory obligations. In addition, we may

be prosecuted and fined or face claims from third parties for supplying water that is unfit for human consumption.

Water supplies may be subject to interruption or contamination, including contamination from the presence of naturally occurring compounds and pollution from man-made sources or third parties' actions. We could be fined for breaches of statutory obligations or held liable to third parties for human exposure to hazardous substances in its water supplies or other environmental damage.

If a water supply provided by United Utilities is contaminated or interrupted and we are unable to substitute water supply from an uncontaminated water source, or to treat adequately the contaminated water source, we are required to provide an alternative water supply of equivalent quality, which could increase costs.

Water shortages may be caused by periods of below average rainfall, long-term increases in demand, short-term exceptional demand or operational problems involving water abstraction, transmission, treatment, storage or distribution. Environmental considerations such as climate change may exacerbate seasonal fluctuations in supply availability. A combination of any or all of these factors may require restrictions on the use or supply of water, including hosepipe bans and drought orders. If there are water shortages, we may incur additional costs in order to provide emergency reinforcement to supplies in areas of shortage, which may have an adverse effect on our profitability or financial position.

Although these costs may be recoverable in part through the regulatory price determination process, there can be no assurance of this. We actively monitor these risks and maintain insurance policies in relation to losses and liabilities likely to be associated with these risks, although there can be no assurance that cover will extend to the entirety of such losses or liabilities, or that coverage will continue to be available in the future.

Non-recovery of customer debt

We manage the billing, cash collection and debt management activities for over three million domestic and business wastewater and water customers. Legislation prohibits the disconnection of a water supply to

Business review: business performance continued

Risks factors continued

domestic premises for non-payment, as well as the limiting of a supply with the intention of enforcing payment in respect of certain connections, including those to domestic dwellings

Non-recovery of customer debt may cause our profitability to suffer. Although allowance is made by Ofwat in its periodic price determinations for a proportion of debt deemed to be irrecoverable, we can also initiate a review during a price determination period when certain regulatory assumptions (including as to the level of non-recoverable debt) are materially inaccurate, although there can be no guarantee that these reviews will be successful.

Risks in our non-regulated business

Our non-regulated business provides services relating to the operation and management of assets for clients operating in a number of regulated sectors. These services include the maintenance and operation of electricity, gas and water networks, the design and construction of new assets, the design and construction of new connections to the relevant network and the provision of ancillary services. Adverse price determinations by the regulators of the clients to which we provide services, or the failure by United Utilities to meet operating performance targets, maintain service continuity or achieve specified operating efficiencies in relation to its regulated clients could have an adverse effect on our reputation, profitability or financial condition.

Rapid growth in our non-regulated business

Our non-regulated business is expanding into new markets domestically and internationally. The delivery of contracts, both existing and future, will be achieved by exploiting our core infrastructure management skills. The overstretching of such skills could lead to a loss of customers or the inability to meet contractual commitments, or to the incurring of penalties, which may in turn have an adverse effect on our reputation, profitability or financial condition.

Pension scheme obligations

We participate in a number of pension schemes, principally in the UK. The principal schemes are funded defined benefit schemes and the assets of the schemes are held in trust funds independent of group finances.

Our current schemes had a combined deficit of £101 million as at 31 March 2008, compared with a surplus of £61 million (re-presented) as at 31 March 2007. This funding position may vary over time, in particular if short-term investment performance does not match changes to the value of the liabilities. However, further increases to the deficit may result in a liability

for the group, even though some of the additional deficit may be recoverable through the regulatory price determination process.

Operating risk

Managing our businesses is dependent on the ability to process a large number of transactions efficiently and accurately. Operational risk and losses can arise from, among other things, fraud, employee errors, supply chain disruption, failure to document transactions properly or to obtain proper internal authorisation, failure to comply with regulatory requirements and business principles, resource shortages, failure or under-performance of business processes, assets or equipment, natural disasters, the failure of internal or external systems, or the actions or inactions of third parties.

Although we have implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to employee training, it is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling each of the operational risks we face.

Material litigation

We face the risk of litigation in connection with our businesses. In general, 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. Litigation may be adverse to the group's reputation, profitability or financial position.

NOSS Consortium (NOSS), (of which North West Water International Limited (NWWIL), a wholly owned subsidiary of United Utilities, is a member and the sole remaining active participant, is party to arbitration proceedings in Thailand in relation to a design and construction contract dated 1 November 1993 between NOSS and the Bangkok Metropolitan Administration (BMA) to build a wastewater treatment plant and network in central Bangkok.

Following disagreements with the engineer (Dorsch Consult) and disputes with the BMA, NOSS terminated the contract with the BMA and served a notice of arbitration. NOSS has total claims against the BMA of approximately 6 billion baht (approximately £83 million). The BMA has counter-claimed for approximately 3 billion baht (approximately £44 million). Although there have been some delays in the arbitral process, the arbitration now appears set to proceed.

Changes in laws

We cannot accurately predict the impact of future changes in law or the introduction of new laws that could affect our businesses

anywhere in the world. From time to time, interpretation of existing laws may also change or the approach to their enforcement may become more rigorous. Future changes in law, the introduction of new laws and new judicial or regulatory interpretation of existing or future laws could affect our business and might impose additional costs which may not be recoverable through the regulatory price determination process.

Corporate information systems failure

Managing our business is dependent on 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 our control. Although we have implemented risk controls and loss mitigation actions, and substantial resources are devoted to enhancing the resilience of such applications, hardware and networks, it is only possible to be reasonably, but not absolutely, certain that such procedures will be effective in controlling their resilience and recovery. In the event that such recovery is not possible, or is protracted, this could have an adverse effect on our reputation, profitability or financial position.

Current capital market conditions

The current problems that are impacting the domestic and international debt and equity capital markets generally for all companies have resulted in the cost of capital increasing significantly over the period since the summer of 2007 and, in particular, made issuance of new debt capital more expensive and difficult.

If the current problems persist, it is likely that the costs we incur may be materially more than those experienced in respect of similar issues of debt capital in the recent past. This would increase our cost of capital, and adversely affect our profitability and financial position.

The intended return of approximately £1.5 billion to shareholders during August 2008 will, after it is implemented, result in a material reduction in the amount of liquidity (comprising cash and undrawn committed bank facilities), available to United Utilities. This means that we will need to raise new debt capital earlier than we might otherwise have needed to without the return of capital. We continually monitor developments in domestic and international capital markets and endeavour to raise capital at appropriate times and in a cost-effective manner.

Governance

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Board of directors

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The business of the company is managed by the board of directors. There are no family relationships between any of the directors or senior managers. There are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any of the persons referred to below was selected as a director or member of senior management.

Chairman**1 Sir Richard Evans****Position** Non-executive chairman**Age** 65**Appointment to the board** Sir Richard Evans was appointed a non-executive director on 1 September 1997 and chairman in January 2001**Committee membership** Nomination committee**Current directorships/business interests** Chairman of Samruk, the Kazakhstan state holding company**Career experience** Sir Richard started his career in the Military Aircraft Division of British Aircraft Corporation (BAC), joining the board of British Aerospace plc as marketing director in January 1987. In 1990 he became its chief executive. He was also a director of the Airbus company. He was appointed chairman of British Aerospace plc (now BAE Systems plc) in May 1998, a post from which he retired in July 2004 after more than 30 years with the company and its predecessors. He was also a non-executive director of NatWest plc from 1998 to 2000.**Directors****2 Philip Green****Position** Chief executive officer**Age** 55**Appointment to the board** 20 February 2006**Committee membership** Nomination committee**Current directorships/business interests** Non-executive director of Lloyds TSB Group plc. A director of Business in the Community and a Trustee of the Philharmonia Orchestra Trust.**Career experience** Before Philip joined United Utilities, he led the container shipping company Royal P&O Nedlloyd through its successful listing in 2004 and subsequent agreed acquisition by AP Moller-Maersk A/S, delivering significant value for shareholders. He has also been a main board director and chief operating officer at the global information company Reuters Group PLC, and chief operating officer at DHL for Europe and Africa.**Qualifications** BA (Hons) Economics and Politics, MBA**3 Tim Weller****Position** Chief financial officer**Age** 44**Appointment to the board** 1 August 2006**Committee membership** Community investment committee and treasury committee**Current directorships/business interests** A director of The Carbon Trust**Career experience** Tim was previously group finance director at RWE Thames Water plc and prior to that group finance director of Innogy Holdings plc from 2002 to 2004. He has been a partner at KPMG and director of financial control with the Granada group of companies and a non-executive director of Stanley Leisure plc.**Qualifications** Bsc (Hons) Engineering Science, Chartered Accountant, FCA**4 Charlie Cornish****Position** Managing director, business development and international**Age** 48**Appointment to the board** 27 January 2004**Committee membership** None**Current directorships/business interests** None**Career experience** After graduating from Strathclyde University, Charlie worked for British Aerospace, Plessey Telecommunications and Associated British Foods and also served as an executive director of NHS Trusts. In 1998, he joined the West of Scotland Water Authority as human resources director and was involved with major change programmes. He went on to become its customer services director and later chief executive. He joined Thames Water in 2002 as global business performance director, working across Europe, Asia-Pacific and the Americas, eventually becoming chief operating officer with Thames Water UK and Ireland with responsibility for service delivery, including operations and capital programmes. He was also chairman of Young Enterprise North West.**Qualifications** BA (Hons) Economics/Business Studies**5 Dr Catherine Bell****Position** Independent non-executive director**Age** 57**Appointment to the board** 19 March 2007**Committee membership** Nomination committee, audit committee and community investment committee**Current directorships/business interests**

A non-executive director of the Civil Aviation Authority and Ensus Limited

Career experience Catherine is a former civil servant and was acting permanent secretary at the Department for Trade and Industry from March to October 2005. Prior to that, she was the director general of the Corporate Services Group and the Competition and Markets Group overseeing employment law, competition and consumer policy, company law and corporate governance, and was previously the head of Competition and Utility Regulation. Until May 2008, she was a non-executive director of Swiss Re GB Plc.**Qualifications** MA Geography, PhD Economic History

Board of directors continued

6 Norman Broadhurst

Position Independent non-executive director

Age 66

Appointment to the board 1 April 1999

Committee membership Audit committee and nomination committee

Current directorships/business interests Norman is currently chairman of Chloride Group plc, Freightliner Ltd and Cattles plc

Career experience Until 8 May 2008, Norman was a non-executive director of Old Mutual plc having served nine years. Until 22 May 2006, Norman was a non-executive director of Tomkins plc. He was group finance director of Railtrack plc from 1994 to 2000 and a non-executive director of Taylor Woodrow plc (now called Taylor Wimpey plc) from March 2000 to November 2003.

Qualifications Chartered Accountant, FCA, FCT

7 Paul Heiden

Position Independent non-executive director

Age 51

Appointment to the board 5 October 2005

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

Current directorships/business interests Chief executive of FKI plc

Career experience From 1992, Paul held various senior management positions at Rolls-Royce plc prior to joining the board in 1997 as director of Industrial Businesses and being appointed group finance director in 1999. After qualifying as a chartered accountant at Peat Marwick Mitchell & Co, he worked in senior finance roles at Hanson PLC and Mercury Communications. He was a non-executive director of Bunzl plc from 1998 to 2005 and was a non-executive director of Filtrona plc from 2005 to 2006.

Qualifications BSc (Hons) Biology, Chartered Accountant, ACA

8 David Jones CBE

Position Independent non-executive director

Age 66

Appointment to the board 3 January 2005

Committee membership Audit committee, nomination committee and remuneration committee (chairman)

Current directorships/business interests Chairman of UK Coal plc

Career experience David was the group chief executive of The National Grid Company plc from 1994 to 2001, taking National Grid to the stock market and leading it successfully through an extensive business transformation programme. Prior to that, he was chief executive of South Wales Electricity, having previously held senior engineering, commercial and management posts on the South Western and Midlands Electricity Boards.

Qualifications MSc Control System Engineering, BSc Electrical Engineering

9 Dr John McAdam

Position Independent non-executive director

Age 60

Appointment to the board 4 February 2008

Committee membership Audit committee, remuneration committee and nomination committee

Current directorships/business interests Chairman of Rentokil Initial plc, senior independent director of J Sainsbury plc, non-executive director of Rolls-Royce Group plc and a member of the University of Cambridge Chemistry Advisory Board

Career experience John became a member of the board of ICI plc in 1999 and was subsequently appointed as its chief executive in 2003, a position he held until ICI's recent takeover by Akzo Nobel. He was a non-executive director of Severn Trent plc between 2000 and 2005. Subject to his election by shareholders at the United Utilities' annual general meeting on 25 July 2008, he will take over from Sir Richard Evans as chairman of the board at the annual general meeting.

Qualifications BSc Chemical Physics, Diploma Advanced Studies in Science, PhD

10 Andrew Pinder CBE

Position Independent non-executive director

Age 61

Appointment to the board 1 September 2001

Committee membership Nomination committee and remuneration committee

Current directorships/business interests Senior independent non-executive director of Spring Group plc, senior executive of Entrust, chairman of Becta (British Educational Communications and Technology Agency) and a member of the Intel Global Advisory Board

Career experience As the e-Envoy to the UK government from 2000 to 2004, he was responsible to the Prime Minister for the delivery of internet access to all British citizens and businesses. Before his appointment as e-Envoy, he was a partner in a venture capital firm and carried out a number of management consultancy assignments for the British government. Previous executive leadership roles also include positions as the head of European operations and technology at Citibank, director of operations and technology at Prudential Corporation and as director of information technology at the Office of the Inland Revenue.

Qualifications BA (Hons) Economics and Geography

11 Nick Salmon

Position Senior independent non-executive director

Age 55

Appointment to the board 4 April 2005

Committee membership Nomination committee and remuneration committee

Current directorships/business interests Chief executive of Cookson Group plc

Career experience From 2001 to 2004, Nick was executive vice-president of Alstom S A, the global energy and transport infrastructure group. From 1997 to 2001 he was executive vice-president of ABB Alstom Power and was chief executive of Babcock International Group plc from 1993 to 1997. Prior to joining Babcock, he held senior management positions at GEC and GEC Alsthom in the UK and France, and previously spent 11 years with China Light & Power Company Limited in Hong Kong.

Qualifications BSc (Hons) Mechanical Engineering

Senior managers

Martin Bradbury

Position Chief information officer

Age 52

Martin was appointed to the new role of chief information officer on 11 May 2007, to focus on developing the structure of the function and its transformation to the new organisation structure. He was formerly chief operating officer for Scottish Water Solutions, a public-private partnership to upgrade Scotland's water infrastructure. He is a former trustee of WaterAid and a past chairman of Business in the Arts North West. He took over as managing director of contract solutions following the death of Gordon Waters in December 2006, a position he held until 30 April 2007.

Alison Clarke

Position Human resources director

Age 41

Alison joined the group on 21 May 2007. Previously she was group international human resources director for global retailer AS Watson in Hong Kong. She started her early career in Ford Motor Company, holding a variety of industrial relations roles, and then moved into media to specialise in management development. In 1997 she became human resources director for Hilton, then Whitbread Restaurants. She is responsible for the human resources teams across United Utilities.

Clive Elphick

Position Managing director, asset management and regulation

Age 51

Clive was appointed as managing director of asset management and regulation on 8 March 2007. His external roles include non-executive director of the Northern Ireland Authority for Utility Regulation, chair of the CBI in the north west of England, and a member of the Water UK Council. He joined what was North West Water Group PLC in 1991 and has held positions including being regulation director, group strategic planning director and chief operating officer of the regulated business. Prior to joining United Utilities, he qualified as an accountant with ICI and then worked as a management consultant with Deloitte & Touche. He has also had secondments to the Cabinet Office and Ofwat and for five years was a non-executive director of a Department of State. He has a degree in natural sciences from Queens' College, Cambridge and a doctorate in operational research from Birmingham University.

Tom Keevil

Position Company secretary and general counsel

Age 47

Tom was appointed company secretary and general counsel on 3 December 2007. From 2002 until 2007 he was company secretary and general counsel of Gallaher Group Plc and a board appointed member of Gallaher's corporate responsibility committee. As such, he was responsible for managing the corporate affairs, legal and security and brand protection departments and acting as secretary to the Plc board and its principal committees. Prior to that, he was a senior legal adviser for Gallaher from 2000 to 2002, having been appointed to that role following 16 years with Simmons & Simmons, where he was appointed a partner in May 1991. He is a Fellow of the Chartered Institute of Arbitrators, an accredited mediator and is a member of the European advisory board of FM Global.

Gaynor Kenyon

Position Communications director

Age 47

Gaynor was appointed communications director on 22 May 2006 and joined United Utilities from ScottishPower where she was UK government and community affairs director. In this role, she was responsible for ScottishPower's political strategy in the Scottish Parliament, Welsh Assembly and Westminster and for the group's US and UK corporate responsibility strategy. She previously worked for Manweb until 1995, and before that at the Government's Central Office of Information.

Ian McAulay

Position Managing director, capital programmes

Age 43

Ian was appointed managing director, capital programmes in April 2007 to manage the delivery of United Utilities Water's capital programme, valued at over £3 billion. In addition, he also oversees United Utilities' inputs to major water capital programmes in the south of England (4Delivery) and Scotland (Scottish Water Solutions). Prior to joining United Utilities, he was managing director of MWH UK LTD, the UK's largest provider of consultancy services to the water industry. For several years prior to this he was the director of programme management for Europe, Middle East, Africa and India.

Matthew Wright

Position Managing director, operations

Age 43

Matthew was appointed managing director, operations on 1 April 2008. His role includes management of the operations, maintenance and customer service activities of United Utilities' regulated (water and wastewater) business as well as overseeing the company's external contracts with Dŵr Cymru Welsh Water, Scottish PFI projects and other industrial customers. He has over 20 years' experience of utility management in both UK and international markets. He joined United Utilities on 1 March 2007, as managing director, water operations and maintenance from ScottishPower's US operation, where he was executive vice president of PacifiCorp's transmission, distribution and customer service division. He has also held senior management positions in regulation, corporate strategy and commercial utility functions.

Directors' report

The directors present their report and the audited financial statements of United Utilities PLC ('the company') and its subsidiaries (together referred to as 'the group') for the year ended 31 March 2008

Principal activities and business review

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

The company is the holding company of a group which owns and operates water and wastewater assets and also manages infrastructure and business processes for other businesses, predominantly within the United Kingdom. In December 2007, the group sold its subsidiary company United Utilities Electricity Limited which owned the licensed electricity distribution network in the north west of England. On disposal, the group's eight-year term (commencing on 1 April 2007 and running to 31 March 2015) asset services agreement continued. Under this agreement the group will continue to be involved, amongst other matters, in the operation and maintenance of the north west's electricity network infrastructure. There is potential to extend the contract for a further five years subject to the agreement of the parties. There is also a requirement to agree appropriate costs for the final five years of the initial term (2010-15) following the electricity distribution price control in 2010. A failure to agree these could lead to a break in the contract but there is a contractual mechanism to cater for the agreement of these costs.

The business review (pages 2 to 26), which includes the chairman's and chief executive's statements (pages 2 to 3), provides a fuller description of the group's activities during the year and of likely future developments, and forms part of this directors' report. A summary of key performance indicators can be found in the highlights of the year and on page 19. 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 are recommending a final dividend of 31.47p for each ordinary share for the year ended 31 March 2008, which together with the interim dividend of 15.20p gives a total dividend for the year of 46.67p for each ordinary share (the interim and final dividends paid in respect of the 2007 financial year were 14.63p and 30.30p respectively). Subject to the final dividend being approved by shareholders at the annual general meeting, it will be paid on 8 August 2008 to shareholders on the register at the close of business on 27 June 2008. United Utilities Employee Share Trust Limited has waived its rights to dividends, including dividends paid in respect of the year ended 31 March 2008, and future dividends, in respect of the ordinary shares held by it, which as at 2 June 2008 amounted to 53,601 ordinary shares.

Directors

The names of the present directors and their biographical details are given on pages 29 to 30.

Several board changes occurred during the year. Sir Peter Middleton, non-executive director, stood down at the annual general meeting on 27 July 2007 and Paul Capell resigned from the board on 27 September 2007. Dr John McAdam was appointed as an additional non-executive director on 4 February 2008, as the intended successor to the chairman, Sir Richard Evans. Sir Richard Evans and Norman Broadhurst will retire from the board at the forthcoming annual general meeting.

Under the articles of association, a director appointed by the board must retire at the annual general meeting of the company next following such appointment. As a director appointed during the year, Dr John McAdam will be retiring and offering himself for re-appointment at the annual general meeting. The articles of association also provide that a director must retire at the third annual general meeting following his or her last appointment or re-appointment by shareholders. Both David Jones and Nick Salmon were last appointed at the annual general meeting held in 2005 and are therefore retiring and offering themselves for re-appointment at the 2008 annual general meeting.

Details of the board's policies and procedures regarding the appointment of directors are included in the corporate governance report on pages 35 to 36. Details of the interests in the company's shares held by the directors and persons connected with them are set out in the directors' remuneration report on pages 41 to 51.

The annual general meeting

The annual general meeting will be held on 25 July 2008 at the Bridgewater Hall, Manchester. Full details of the resolutions to be proposed to shareholders can be found in the accompanying circular which includes a letter from the chairman, the notice of meeting and explanatory notes on the resolutions to be proposed.

At the meeting, resolutions will be proposed, amongst other matters, to receive the annual report and financial statements, to approve the directors' remuneration report, to declare a final dividend, and to re-appoint Deloitte & Touche LLP as auditors.

In addition, shareholders will be asked to renew the directors' general authority to allot shares and the authority to issue shares without first applying statutory rights of pre-emption, and to authorise the company to make market purchases of its own shares. Shareholders will also be asked to approve the adoption of new articles of association, incorporating changes resulting from the implementation of the Companies Act 2006 and to authorise the making of limited political donations by the company and its subsidiaries.

Share capital, transfers of shares and voting rights

At 31 March 2008 the authorised share capital of the company was £1,300,000,000 divided into 1,300,000,000 ordinary shares of £1 each. All ordinary shares have the same rights, including the right to one vote at a general meeting, the right to an equal proportion of any dividend declared and payable, and to an equal amount of any surplus assets which are distributed in the event of a winding up.

The rights attaching to shares in the company are provided by the articles of association, which may be amended or replaced by means of a special resolution of the company in general meeting. The company annually renews its power to issue and buy back shares at its annual general meeting, and such resolutions will be proposed at the 2008 annual general meeting.

There are no restrictions on the transfer of shares in the company, nor any limitations on the holding of shares in the company, save that the articles of association give a limited right for the directors to suspend the transferability of shares if the holder of those shares has failed to provide information requested by the company in accordance with company law.

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

Major interests in shares

At 2 June 2008, the directors had been notified of the following interests in the company's issued ordinary share capital in accordance with the Disclosure and Transparency Rules of the Financial Services Authority

Shareholder	Number of shares	% of issued share capital
Invesco PLC	44,644,578	5.07
Pictet Asset Management S A	44,072,064	5.00
Legal and General	35,472,365	4.02

Purchase of own shares

At the annual general meeting held on 27 July 2007, the company was authorised by shareholders to purchase, in the market, up to 88,003,259 of its own ordinary shares of £1 each. No shares were purchased pursuant to this authority during the year. This authority is normally renewable annually and approval will be sought from shareholders at the 2008 annual general meeting to renew the authority for a further period.

Change of control

The trustee of the United Utilities Employee Share Trust has the ability to exercise voting rights which relate to shares which it holds under the trust deed constituting the trust. In the event of a takeover offer which could lead to a change of control of the company, the trustee must consult with the company before accepting the offer or voting in favour of the offer. Subject to that requirement, the trustee may take into account a prescribed list of interests and considerations prior to making a decision in relation to the offer, including the interests of the beneficiaries under the trust.

Directors' indemnities and insurance

During the year the company put in place contractual entitlements for directors of the company and of its subsidiaries to claim indemnification by the company in respect of certain liabilities which might be incurred by them in the course of their duties as directors, including their duties as directors of any company which acts as trustee of any of the group's pension schemes. These arrangements comprise qualifying third party indemnity provision and qualifying pension scheme indemnity provision and have been established in accordance with the applicable provisions of the Companies Act 2006. The company also maintains an appropriate level of directors' and officers' liability insurance.

Political and charitable donations

The group's policy is not to make any donations for political purposes. However, the Companies Act 2006 requires certain types of expenditure on political events to be pre-approved by shareholders. At the 2005 annual general meeting, an authority was taken to cover such expenditure. Pursuant to that authority, in the year, the company incurred expenditure of £5,314 (2006/07: £nil) as part of the process of engaging in dialogue with government regionally and nationally. Resolutions to renew this authority for the company and its subsidiaries will be put to the 2008 annual general meeting.

Charitable donations by the group in the year amounted to £3,790,569 (2006/07: £3,080,070).

Employees

The company's policies on employee involvement and on equal opportunities for disabled employees are contained within the people section of the business review on page 23. The board encourages employees to own shares in the company. Details of employee share schemes are in the remuneration report on page 51.

Policy on payment of creditors

United Utilities PLC'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 1DW). Payment terms are specific to the type of contract and the relevant commercial arrangements, and are agreed with suppliers in advance.

As at 31 March 2008, the average credit period taken for trade purchases was 29 days for the group (2006/07: 23 days) and was 18 days (2006/07: re-presented 14 days) for the company. The prior year comparative figure for the company has been re-presented to bring the calculation in line with that utilised for the group (see note 22 page 102 of the financial statements).

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 properly focuses its investment in the development of technology, that it has the right skills to apply technology to achieve sustainable competitive advantage and that it continues to be alert to emerging technological opportunities.

Financial instruments

The risk management objectives and policies of the company 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 of which are an integral and essential part of the operation of the group's largest business segment. 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 does not have a market value materially different from historic cost.

Events occurring after the balance sheet date

Details of events after the balance sheet date are included in note 30 to the consolidated financial statements on page 111.

Information given to the auditors

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

- (1) so far as he or she is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (2) he or she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of s234ZA of the Companies Act 1985.

Re-appointment of auditors

The board is proposing that shareholders re-appoint Deloitte & Touche LLP as auditors at the forthcoming annual general meeting and authorise directors to fix the auditors' remuneration.

Approved by the board on 2 June 2008 and signed on its behalf by



Tom Keevil
Company secretary and general counsel

Corporate governance report

The Combined Code

United Utilities PLC is subject to the Combined Code on Corporate Governance which was published by the Financial Reporting Council in June 2006 (the 'Code')

During the financial year ended 31 March 2008, the company has complied fully with the provisions of Section 1 of the Code. This report (which incorporates a report from the audit committee, see pages 38 to 40), together with the remuneration report on pages 41 to 51, gives details of how the principles of the Code have been applied during the year.

The board of directors

The names of the directors who served during the year, and their full biographical details, are set out on pages 29 to 30. The board is scheduled to meet ten times each year with additional meetings called if required. The following table shows the number of meetings of the board and of the principal board committees, which are subject to Code requirements, which were attended by each of the directors during the year ended 31 March 2008. The figures in brackets show the maximum number of meetings which the directors could have attended.

	Board	Audit committee	Nomination committee	Remuneration committee
Philip Green	10 (10)	n/a	4 (5)	n/a
Charlie Cornish	10 (10)	n/a	n/a	n/a
Tim Weller	9 (10)	n/a	n/a	n/a
Paul Capell	2 (4)	n/a	n/a	n/a
Sir Richard Evans	10 (10)	n/a	4 (5)	n/a
Dr Catherine Bell	10 (10)	4 (4)	5 (5)	n/a
Norman Broadhurst	9 (10)	4 (4)	5 (5)	n/a
Paul Heiden	9 (10)	4 (4)	4 (5)	n/a
David Jones	10 (10)	4 (4)	5 (5)	5 (5)
Dr John McAdam	2 (2)	0 (1)	1 (1)	0 (1)
Sir Peter Middleton	3 (4)	0 (1)	2 (3)	n/a
Andrew Pinder	10 (10)	n/a	5 (5)	5 (5)
Nick Salmon	10 (10)	n/a	5 (5)	5 (5)

Notes

- n/a in the above table denotes that the director is not a member of that committee
- Due to the timing of public holidays, the board meeting which was scheduled for the end of March 2008 actually took place on 1 April 2008. Attendance at that meeting is included in the above table. On accepting his appointment Dr John McAdam had unavoidable diary commitments which meant he was unable to attend the audit committee meeting held on 26 February 2008 and the remuneration committee held on 31 March 2008. Sir Richard Evans and Philip Green did not attend the meeting of the nomination committee held on 26 July 2007 when the job specification of the future chairman was the sole item of business. Sir Richard Evans did not chair the meeting of the nomination committee held on 29 January 2008 which dealt with the appointment of his successor as chairman.

Summary of approach to governance

The board recognises its responsibility to provide entrepreneurial and responsible leadership to the company within a framework of prudent and effective controls (which is described below) allowing assessment and management of the key issues and risks impacting the business. In addition to its scheduled meetings, the board met during the year specifically to consider and develop the company's strategy and long-term plan. The board has a formal schedule of matters reserved to it, which ensures that it takes all major strategy, policy and investment decisions affecting the group. Accordingly, the board sets the company's overall strategic direction, reviews management performance and assesses whether the company has the necessary financial and human resources in place to meet its objectives. It also reviews the company's business planning, approach to risk management and development of policies. Via the remuneration committee (whose

report is set out on pages 41 to 51) it is responsible for the directors' and senior managers' remuneration.

The board is responsible for promoting the long-term success of the company and ensuring that the principal goal of the company is to create shareholder value, while having regard to other stakeholder interests. The board takes responsibility for setting the company's values and standards. Accordingly, the long-term interests of shareholders, together with consideration of the wider interests of stakeholders represented by employees, customers, suppliers, the community and the environment are factored into the group's management processes. Appropriate account is also given, within the company's control and risk assessment processes, to social, environmental and ethical issues. The steps taken to achieve these goals are communicated to shareholders and other interested parties through dedicated communication and investor relations departments, the company's website (www.unitedutilities.com) and to employees via the intranet and through formal and informal briefings and newsletters. Through its vision, core values, formal policies and the 'business principles' statement, which sets out what the company expects from employees in the conduct of the company's business, the board seeks to engender a culture where business ethics, integrity and fairness are values that all employees endorse and apply in their everyday conduct.

The board has established a governance framework which encourages all directors to bring independent judgement to bear on issues of strategy, performance and resources, including key appointments and standards of conduct. Directors have a right to ensure that any concerns they have about the running of the company or a proposed action which cannot be resolved are recorded in the board minutes. In addition, upon resignation, a non-executive director is asked to provide a written statement addressed to the chairman should he or she have any concerns about the running of the company, which would then be circulated to the board.

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

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

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

Principal committees of the board (summary)

The board has formally delegated specific responsibilities to certain committees, including the following: approvals, audit (see page 38), community investment, nomination (see page 35), remuneration (see page 41) and treasury. All board committees are provided with sufficient resources to undertake their duties, have authority to seek independent advice, if appropriate, and are supported by the company's secretariat.

In addition to the board committees featured in the Code, the board has delegated certain of its powers and functions to the following committees:

- **Approvals committee** This considers and approves expenditure and investment proposals within limits delegated by the board. Its members are the executive directors and the company secretary.
- **Community investment committee** This has responsibility for developing and overseeing the corporate responsibility strategy of the company and for approving its charitable donations. Its members are certain board directors and such executive leadership team members as may be appointed by the board from time to time. Two employee representatives are also invited to attend meetings and participate in its assessment of items of business. Its current chair is Tim Weller, with Catherine Bell and Gaynor Kenyon being its other members.
- **Treasury committee** This considers and approves borrowing, leasing, bond and other banking facilities within limits set by the board. It is chaired by Paul Heiden and its other members are the executive directors together with the treasurer. The treasury committee has sub-delegated some of its powers, subject to certain limits, to the chief financial officer and the treasurer.

Chairman and chief executive

The positions of chairman and chief executive are separate appointments and the board has agreed clearly defined responsibilities for these roles. It has also adopted a set of guiding principles to govern the working relationship between them. The chairman is primarily responsible for the working of the board, ensuring that the non-executive directors are fully engaged in their roles and that they provide an effective contribution to the operation of the board and the promotion of the success of the company. In essence, the responsibility of the chief executive officer is to manage the group's business and to implement board strategy and policy. Sir Richard Evans will stand down as chairman and as a director at the annual general meeting in July 2008. It is envisaged that he will be replaced by Dr John McAdam, subject to his re-appointment as a director at the annual general meeting. The board has considered the business commitments of Dr John McAdam and has determined that he will be able to devote the time and attention required to serve as chairman of the company.

Board balance and independence

The board aims to maintain a balance of executive and non-executive directors and, at the date of adoption of this statement, comprises the non-executive chairman, three executive directors and seven non-executive directors. After nine years' service as a non-executive director, Norman Broadhurst will step down from the board at the annual general meeting.

All seven of the non-executive directors are determined by the board to be independent in accordance with the Code and free from any business or other relationship which could compromise their independent judgement. The chairman is not deemed to be independent under the Code (following appointment to that role) although Sir Richard Evans was deemed to be independent at the time of his initial appointment to the board. Dr John McAdam was considered by the board to be independent at the date of his appointment to the board and up until the date of this report. The board considers Norman Broadhurst to be independent notwithstanding a close family tie with one of the company's advisers, his daughter being a tax partner in Deloitte & Touche LLP's Birmingham office. Deloitte & Touche LLP have confirmed in writing to the company that she had not, and would not, be involved with the United Utilities account in any way.

Senior independent director

Nick Salmon was appointed as senior independent director on 27 July 2007. The senior independent director is available to shareholders if they have concerns which dialogue with

management representatives has failed to resolve. The terms of reference for the senior independent director are available on the company's website. They include the authority to call a meeting of the non-executive directors if, in his opinion, it is necessary, the convening of a meeting of the non-executive directors without the chairman present at least annually to appraise the chairman's performance, and attendance at sufficient meetings with a range of major shareholders to listen to their views in order to help develop a balanced understanding of their issues and concerns.

The nomination committee and appointments to the board. The nomination committee meets at least once each year and otherwise as required. Its role is primarily to make recommendations to the board on the composition, balance and membership of the board and refreshment of the board's principal committees.

The nomination committee's terms of reference are available to shareholders on request and are also available on the company's website. The nomination committee evaluates the balance of skills, knowledge and experience on the board and, in the light of such evaluation, prepares descriptions of the roles and capabilities required for a particular appointment and makes recommendations to the board from time to time on its composition. It may use executive search consultants to assist it when considering board member succession. It is proposed, subject to shareholders approving the adoption of new articles of association at the annual general meeting, that the nomination committee will be responsible for considering the authorisation of directors' conflict situations in accordance with the Companies Act 2006.

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

During the financial year ended 31 March 2008, amongst other matters, the nomination committee prepared a job specification of the role and capabilities required for the appointment of a non-executive director who could succeed Sir Richard Evans. The brief expressly recognised the responsibilities of the chairman's role and the time commitment required. Having done so, it engaged the services of Whitehead Mann and made recommendations to the board as part of the final selection process which led to the appointment of Dr John McAdam as a non-executive director and as the proposed successor to Sir Richard Evans as chairman of the company. Additionally, the committee also considered the appointment and made a recommendation to the board to appoint Paul Capell. It also considered and made a recommendation that, in the light of Norman Broadhurst's proposed retirement at the 2008 annual general meeting, Paul Heiden replaced him as chairman of the audit committee which happened in February 2008.

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

Corporate governance report continued

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

Re-appointment of directors

The board initially appoints all new directors, after assessing the recommendation of the nomination committee and following an appropriate recruitment process. Further to the appointment of a new director, he or she is then required to retire and seek appointment at the next annual general meeting. The company's articles of association require all directors to retire and seek re-appointment at least every three years, and include additional provisions which require one third of the directors to retire at each annual general meeting, including those who are proposed for re-appointment at an annual general meeting and those who are not. Biographical details of directors being submitted for appointment or re-appointment are set out in the notes accompanying the relevant notice of meeting.

Non-executive directors are appointed for specified terms subject to re-appointment under the company's articles of association and to Companies Acts provisions relating to the removal of directors. The board explains to shareholders, in the notes accompanying a resolution to elect a non-executive director, why they believe that non-executive director should be appointed. The chairman will confirm to shareholders when proposing re-appointment that, following formal performance evaluation, the individual's performance continues to be effective and that they demonstrate commitment to the role. Any term beyond six years for a non-executive director will be subject to particularly rigorous review, and will take into account the need for progressive refreshing of the board. Any non-executive director serving for longer than nine years will be subject to annual re-appointment.

Information, support and advice

The chairman is responsible for ensuring that directors receive comprehensive information on a regular basis to enable them to perform their duties properly, supported by the company secretary. As part of the preparation process for board meetings, the chairman has implemented a programme of informal briefings with the non-executive directors and chief executive, the evening before the scheduled board meetings.

Board papers are generally distributed five days in advance of scheduled board meetings to enable directors to obtain a thorough understanding of the matters to be discussed, and seek clarification if required. All directors have access to the advice and services of the company secretary and his team, who are responsible to the board for ensuring that board procedures are complied with. The appointment and removal of the company secretary are matters reserved to the board.

The board has adopted a protocol under which directors have access, through the company secretary, to independent professional advice at the company's expense where they judge it necessary to discharge their responsibilities as directors and the company maintains an appropriate level of directors' and officers' insurance. In 2008, in line with emerging practice, the company established arrangements for the provision of indemnities for the benefit of its current directors and officers and those of its subsidiaries. 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 and include provision for the company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the company or its subsidiaries.

Induction and training

New directors receive appropriate induction on joining the board, typically including meeting with members of the senior management team and visits to operational sites. During the year, separate induction programmes were organised for Dr Catherine Bell and Dr John McAdam. Major shareholders are also invited to meet with new non-executive directors and more generally shareholders will have the opportunity to meet Dr John McAdam at the annual general meeting in July. Directors are provided with details of seminars and training courses relevant to their role and are encouraged to attend those relevant to their roles and development needs. Additionally, where a special training need is identified, training is provided to the whole board on topics such as the Companies Act 2006.

Performance evaluation

During the year, the board conducted an evaluation of its own performance and that of its committees and individual directors. The process involved the completion by each director of a confidential questionnaire in a form consistent with previous years and which was modelled on the 'Chairman's Guide to the Board Performance Review' published by the Chairman's Forum. Each director was required to score the board's performance (and that of the principal committees) on 40 topics, including contribution to strategy, risk management, financial and operational reporting, matters reserved for the board, communication, company and board advisers, relations with the group's regulators and investors, and board procedures. In addition, the members of the audit, nomination and remuneration committees, together with the managers and advisers to those committees, completed separate confidential questionnaires about the functioning of those committees.

The company secretary analysed the completed questionnaires and summarised the findings in a report for the chairman, which highlighted and prioritised the key areas of feedback and provided a comparison with the previous year's evaluation. The chairman subsequently conducted one-to-one discussions with each of the board members based on the summary report, after which the chairman reported back to the whole board on the evaluation process. The responses to the questionnaires demonstrated a high degree of consistency and the evaluation process affirmed the board's confidence in the group's system of corporate governance. Nevertheless there is always room for improvement and, arising from the 2007/2008 exercise, the board has asked that more work is undertaken by management in the area of succession planning. It has also decided to receive an enhanced number of presentations from senior managers responsible for operational areas and/or for managing or mitigating potential material risks to the group.

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

Internal controls

Introduction

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

An overview of some of the principal risks surrounding the company is contained in the business review section of the annual report on pages 24 to 26. To manage these and other commercial and operational risks the company has an established risk management programme that assists management to identify, assess and mitigate business, financial, operational and compliance risks on a continuous basis. The board views management of risk as integral to good business practice. The programme is designed to support management's decision making and to improve the reliability of business performance and is supported by the dedicated team of internal risk specialists and internal auditors who report to the newly appointed director of audit and risk.

Internal controls

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

Control systems

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

Function of controls

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

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

Annual review of risk management and internal control systems. In addition to the regular reports received by the audit committee and the board on internal controls and key risks and periodic reviews, the board conducts an annual review of the effectiveness of the systems of risk management and internal control in operation during the year and up to the date of the approval of the annual report and financial statements. Through operational reports from management the board reviews controls designed to mitigate risks, and would receive, via these reports, information in the event of any significant control failings occurring. The board, through the audit committee, also controls the review that is conducted by internal audit. Management of all the business divisions of the group are required to complete and sign-off control self-assessment questionnaires that confirm that the key internal controls are in place and are operating effectively. Where weaknesses have been identified plans and timetables for putting them right are also reported. Internal audit monitors and selectively checks the results of this exercise, ensuring that the representations made are consistent with the results of the internal audit function's work during the year. The results of this exercise are summarised for the audit committee and the board.

Corporate governance report continued

In the event that any significant losses were incurred during any year as a result of the failure of internal controls, an analysis would be reported to the audit committee and the board and a plan would be implemented to take the necessary action to remedy any significant weaknesses. In the year ended 31 March 2008, there were no such losses and the board was satisfied with

- the changes since the last annual assessment in the nature and extent of significant risks identified by management,
- the company's ability to respond to changes in its business and the external environment to the extent that such changes are events that management can materially influence,
- the scope and quality of management's ongoing monitoring of risks and of the system of internal control, and, where applicable, the work of its internal audit function and other providers of assurance,
- the extent and frequency of communication of the results of the monitoring to the board (or board committee(s)) which enables it to build up a cumulative assessment of the state of controls in the company and the effectiveness with which risk is being managed, and
- the company's external reporting processes

Financial reporting and going concern

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

The 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 is based, amongst other matters, upon a review of the group's budget for 2008/09, on a review of the group's five-year business plan and investment programme, together with a review of the cash and committed borrowing facilities available to the group. The board also took into account potential contingent liabilities and other risk factors as interpreted by the guidance given in 'Going Concern and Financial Reporting: Guidance for Directors of Listed Companies registered in the United Kingdom', published in November 1994.

Audit committee

Members

The audit committee's members are Paul Heiden (chairman since 26 February 2008), Dr Catherine Bell, Norman Broadhurst (chairman until 26 February 2008), David Jones and Dr John McAdam. On taking up the position as chairman of the board (assuming he is re-appointed by shareholders), Dr John McAdam will formally step down from the committee. The board is satisfied that Paul Heiden has recent and relevant financial experience and that all members have extensive commercial experience and are independent within the meaning of the Code. Appointments to the committee are made by the board, on the recommendation of the nomination committee in consultation with the audit committee chairman. Appointments are initially for a period of up to three years, extendable by no more than two additional three-year periods, so long as committee members continue to be deemed to be independent. Notwithstanding the ninth

anniversary of his appointment, as part of succession planning it was agreed that Norman Broadhurst should continue as a member of the committee until July 2008, to ensure a smooth handover of the role of chairman to Paul Heiden. The terms of reference of the audit committee are available to shareholders on request and are also available on the company's website.

Attendees at meetings

The chief executive and chief financial officer of the group and other senior management attend committee meetings by invitation of the committee. Representatives of the group's external auditors and the director of audit and risk (whose responsibilities include internal audit and security) also attend meetings by invitation. During the year ended 31 March 2008, the external and internal auditors attended all audit committee meetings, had direct access to the committee during the meetings and time was also set aside for them to have private discussions with the committee, in the absence of management.

Audit committee compliance with the Code

The audit committee's terms of reference comply with the Code. During the year ended 31 March 2008, the formal calendar of matters considered by the committee embraced the Code requirements to

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

Audit committee activities

An overview of the work undertaken by the audit committee during the year ended 31 March 2008 is described within the following sections of this report.

The audit committee met four times during the financial year ended 31 March 2008. It has a formal policy, endorsed by the board, to keep under review the independence and objectivity of the external auditors. The audit committee determined that it was satisfied that the independence of the external auditors had been maintained, having taken into account the external auditors' written representations and the committee's own enquiries. These were facilitated by a private meeting with the external auditors.

without executive management being present. The independence policy sets out certain disclosure requirements by the external auditors to the audit committee, including restrictions on mutual hiring of personnel, rules for rotation of audit partners and procedures for the approval of non-audit services provided by the external auditors. The audit committee has monitored the application of the policy both during the year ended 31 March 2008 and up to the date of this report.

The audit committee reviewed the external auditors' audit scope, plans and materiality levels and the resources proposed to execute the plans. Having done so, the committee approved the terms of engagement and the audit fees. The committee also reviewed the findings of the external auditors and their management letters on internal financial controls.

The audit committee also assessed the qualifications, expertise and resources and independence of the external auditors and the effectiveness of the audit process. Through an embedded regular audit effectiveness review, the audit committee has continued to keep the performance of the company's auditors and audit effectiveness under review. Mindful of the costs associated with the company's compliance requirements, the audit committee continues to seek the most cost-effective approach to compliance and external audit generally.

The policy relating to the provision of non-audit services by the external auditors specifies the types of work from which the external auditors are excluded, for which the external auditors can be engaged without referral to the audit committee, and for which a case-by-case decision is required. The ratio of non-audit fees to audit fees was monitored by the committee throughout the year ended 31 March 2008. The audit committee is satisfied that this policy in respect of the provision of non-audit services was applied during the year ended 31 March 2008 and up to the date of this report.

Fees

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

Non-audit services are allowed under the procurement of audit and non-audit services policy where they do not affect the independence of the external auditors, but do require the pre-approval of the audit committee prior to the engagement. Specific approval may be delegated to a designated member of the audit committee, with such approvals to be reported at the next audit committee meeting. In granting such approval, the designated member of the audit committee is required to consider the cumulative proportion of fees paid for such work compared with the statutory audit fees. In the financial year ended 31 March 2008 all such services were approved by the audit committee.

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

The fees paid or payable to the auditors in the year ended 31 March 2008 and the preceding year were as follows:

Year ended 31 March	2008 £'000	2007 £'000
Audit services		
– Statutory audit	936	1,179
– Audit related regulatory reporting ⁽¹⁾	281	2,463
Further assurance services		
– Compliance services ⁽²⁾	3,563	850
– Advisory services ⁽³⁾	40	100
Total	4,820	4,592

Notes

- (1) Audit-related regulatory reporting fees are fees billed for work on regulatory returns and assurance work reasonably related to the statutory audit, including the Sarbanes Oxley work in 2007.
- (2) Compliance services fees mainly relate to transaction support and due diligence work.
- (3) Advisory services fees are fees incurred for tax compliance, tax advice and related tax work. In addition to the above, fees relating to joint ventures of the group were paid to Deloitte & Touche LLP in 2008 totalling £20,600 (2006/07 £41,900).

For the year ended 31 March 2008, the substantial majority of non-audit related fees relate to the services provided by Deloitte & Touche LLP in their advisory capacity on the disposal of United Utilities Electricity where they provided vendor due diligence. Given the complex nature of the transaction and the need for separation of the business into the roles of asset owner and asset operator, the audit committee and the board concluded that Deloitte & Touche LLP, given their detailed knowledge of the business and industry, were best placed to advise the company on the transaction and that this was the most cost-effective option for the company. Furthermore, non-audit fees have been payable to Deloitte & Touche LLP in relation to their provision of due diligence services to United Utilities PLC to support the creation and listing of a new holding company to facilitate the necessary distributable reserves to allow the proposed return of capital to shareholders referred to on page 112.

Having undertaken a review of the nature and the amount of non-audit related work, the audit committee has satisfied itself that the services undertaken during the financial year ended 31 March 2008 did not prejudice the auditors' independence.

Other activities

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

At each of its meetings, the committee reviewed and considered reports from the director of audit and risk and/or the head of internal audit. Those reports included the status of the company's risk management systems, findings from the internal audit function concerning internal controls and reports on the status of the correction of any weaknesses in internal controls identified by the internal or external auditors.

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

Corporate governance report continued

Disclosure policy

The audit committee reviews, at least annually, the arrangements by which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. During the year, the audit committee approved a revised disclosure policy which, amongst other provisions, provides a confidential voicemail box for employees who want to report any concerns which they may have anonymously. The committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

Communication with shareholders

Annually, the company produces a stakeholder report for shareholders and other interested parties, which summarises the most important features of the group's activity during the year. This document, together with interim and annual reports and financial statements, are the principal annual communications with shareholders. Additionally, the internet is also used as a means of communicating information effectively and in an environmentally friendly way. Accordingly, a substantial amount of information about the company is available via its website www.unitedutilities.com.

Additionally, there is a programme of regular investor meetings and presentations which take place throughout the year, both in the UK and overseas. During the year, the board met or offered to meet with 86 different funds, representing 35 per cent of the company's issued share capital. Such briefings, together with regular announcements of significant events affecting the group and frequent updates on current trading, are part of a dedicated investor relations programme undertaken by the company to keep the company's equity and debt investors informed of developments affecting the group. The board regards this programme as an important contribution to improve continually investors' awareness of the business and for the board to maintain an understanding of investors' priorities. Board members also receive regular updates in their board papers about investor relations and reports from sector analysts. Additionally, the board commissions an annual survey of shareholders by Makinson Cowell. Non-executive directors also have the opportunity to attend meetings with major shareholders at either party's request.

Constructive use of the annual general meeting

The notice calling the annual general meeting and related papers are sent to shareholders at least 20 working days before the meeting. All directors normally attend annual general meetings, and presentations are made on the progress and performance of the business prior to the formal business of the meeting. Additionally, the board encourages shareholders to participate in meetings through question and answer sessions with individual directors or, where appropriate, the chairman of the relevant committee. To that end, the chairmen of the audit, nomination and remuneration committees will always endeavour to be available to answer questions relevant to the work of those committees.

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

The corporate governance statement and report of the audit committee were approved by the board on 2 June 2008.

Directors' remuneration report

Note This report is unaudited save where stated

Approach to reward

The company aims to ensure that its remuneration arrangements attract and keep people of the right calibre in order to achieve corporate success and to enhance shareholder value. Its overall approach is to attract, develop, motivate and keep talented people at all levels, pay competitive salaries and benefits to its employees and encourage employees to hold shares in the group. When pay levels are set, account is taken of the work that an employee does and the analogous remuneration for the same role in other companies. The company seeks to reward its people fairly and give them the opportunity to increase earnings by linking pay to achieving business and individual performance targets.

Aggregate remuneration

As detailed in this report, during the financial year, the aggregate remuneration paid to all directors was £4,039,062 (2006/07 £5,536,159). These figures include salaries, benefits-in-kind (excluding pensions), annual bonuses earned and accrued in the year ended 31 March 2008 but paid after the year end, and the value of long-term incentives earned for the period ended 31 March 2007 and paid during the year.

Non-executive directors (including the chairman)

A committee of the board decides the remuneration of all of the non-executive directors other than the chairman. Its members are the chairman (Sir Richard Evans) and the executive directors Philip Green, Charlie Cornish, Tim Weller and Paul Capell (from 1 May 2007 to 27 September 2007). The committee may take independent advice and is also advised by the company's human resources director, Alison Clarke, who will typically provide research information on the level of fees paid in other similar organisations. The committee met once during the year to review the fees paid to non-executive directors, which were increased with effect from 1 September 2007 (see below). The remuneration committee (details of which are set out below) determines the remuneration of the chairman.

Terms of appointment

Non-executive directors' appointments are for an initial period of three years. They are subject to re-appointment at the first annual general meeting after their initial appointment and at an annual general meeting at least every three years thereafter (if they are to be re-appointed). After nine years in office, a non-executive

director is required to seek re-appointment each year at the annual general meeting. Non-executive directors have letters of appointment, as opposed to contracts of service. In the event of early termination, for whatever reason, they are not entitled to receive compensation for loss of office.

Non-executive directors' letters of appointment can be inspected at the group's registered office and on the group's website at www.unitedutilities.com. The letters set out the expected time commitment and non-executives agree to devote sufficient time to meet what is expected of them. Table 1 summarises the terms of appointment for each non-executive director.

Policy statement on non-executive directors' remuneration
The group's policy is to pay annual fees that reflect the responsibilities placed upon the non-executive directors. Fees are reviewed each year when account is taken of the level of fees paid in companies of similar size and complexity. There are separate annual fees for the chairman and the other non-executive directors. Additional fees are paid to the chairmen of the audit committee (Norman Broadhurst until 26 February 2008 and now Paul Heiden) and remuneration committee (David Jones). Non-executive directors do not participate in any annual bonus or incentive plans, pension schemes, healthcare arrangements, the group's long-term incentive plans or employee share schemes. The group repays the reasonable expenses that non-executive directors incur in carrying out their duties as directors.

Non-executive directors' remuneration

Non-executive directors' fees were increased on 1 September 2007. The base fee is £52,000 per year (2007 £50,000). On 27 July 2007, Nick Salmon replaced Sir Peter Middleton as the senior independent non-executive director. As deputy chairman, Sir Peter Middleton received a higher fee than any other non-executive director (save for the chairman). The position of deputy chairman was not replaced following Sir Peter Middleton's resignation from the board. The additional fees paid to each of the chairmen of the audit and remuneration committees are £10,000 per year.

The chairman's fee increased to £230,000 a year (2007 £220,000). The next review of non-executive directors' fees will be undertaken in September 2008.

Non-executive directors' remuneration for the year ended 31 March 2008 is set out in table 2.

Table 1 Non-executive directors' terms of appointment

	Date first appointed to board	Date of last appointment AGM in	Re-appoint no later than AGM in	Notice period	Compensation upon early termination
Sir Richard Evans	01 09 1997	2007	n/a	None	None
Sir Peter Middleton	01 01 1994	2006	n/a	None	None
Dr Catherine Bell	19 03 2007	2007	2010	None	None
Norman Broadhurst	01 04 1999	2005	n/a	None	None
Paul Heiden	05 10 2005	2006	2009	None	None
David Jones	03 01 2005	2005	2008	None	None
Dr John McAdam	04 02 2008	n/a	2008	None	None
Andrew Pinder	01 09 2001	2007	2010	None	None
Nick Salmon	04 04 2005	2005	2008	None	None

Notes

- Sir Richard Evans will not be standing for re-appointment at the 2008 annual general meeting
- Sir Peter Middleton resigned from the board at the annual general meeting on 27 July 2007
- Norman Broadhurst will not be standing for re-appointment at the 2008 annual general meeting

Directors' remuneration report continued

Table 2 Non-executive directors' fees (audited information)

	Total fees	
	2008 £'000	2007 £'000
Sir Richard Evans	225.8	215.8
Dr Catherine Bell	51.2	1.7
Norman Broadhurst	59.8	58.9
Paul Heiden	52.0	48.9
David Jones	61.2	57.8
Dr John McAdam	8.7	n/a
Sir Peter Middleton	30.0	87.5
Jane Newell	n/a	15.4
Andrew Pinder	51.2	48.9
Nick Salmon	51.2	48.9
Total	591.1	583.8

Notes

- Sir Peter Middleton resigned from the board on 27 July 2007
- Dr John McAdam was appointed to the board on 4 February 2008

Executive directors

The remuneration committee

The remuneration committee makes recommendations to the board on the group's framework of executive remuneration. It approves, on the board's behalf, the general recruitment terms, remuneration, benefits, employment conditions and severance terms for senior executive management. In particular, it decides the specific recruitment terms, remuneration benefits, employment conditions, pension rights, compensation payments and severance terms for the executive board directors and senior executives who form the executive leadership team.

The committee's members are David Jones, Dr John McAdam (with effect from 4 February 2008), Andrew Pinder and Nick Salmon. All are non-executive directors determined by the board to be independent in accordance with the Code. The committee's members have no personal financial interest in the company, other than as shareholders and in respect of the fees paid to them as non-executive directors. They have no conflicts of interest arising from cross-directorships and are not involved in the day-to-day running of the group's businesses. Sir Richard Evans attends meetings but is not a member of the committee. The committee's terms of reference are available to shareholders on request and are on the group's website at www.unitedutilities.com.

The committee has retained Hewitt New Bridge Street to advise it on executive remuneration. They also advise the group on the remuneration of a limited number of senior executives whose specific terms of employment do not fall within the remit of the remuneration committee. This is to ensure consistency of the application of the board's policies on executive remuneration and the general terms of employment approved by the remuneration committee. Mercer Human Resource Consulting advise the committee on pensions matters. They are also the actuaries to one of the group's pension schemes (United Utilities Pension Scheme) and advise the group on matters relating to its operation. Eversheds LLP provide legal advice on the operation of the company's share incentive and share option plans, including drafting the rules and advising on their interpretation. Slaughter and May provided advice to the committee on the effects of the proposed return of capital to shareholders by way of a scheme of arrangement on the company's share plans. Slaughter and May also provided advice to the company on general legal matters relating to the proposed scheme of arrangement (see page 112). Addleshaw Goddard LLP provided advice on individual termination arrangements. Both Addleshaw Goddard LLP and Eversheds LLP also provide general legal advice to the company.

The committee is assisted by the chief executive Philip Green and the company's human resources director Alison Clarke, who are consulted on proposals relating to the remuneration of the other executive directors and senior executives (other than in respect of their own remuneration). They and the company secretary attend meetings by invitation (except when the committee discusses matters relating to their own remuneration). The committee can and does seek advice or information directly from other employees where the committee feels that such additional contributions will assist the committee in its decision-making.

The committee follows the principles of good governance and the Code. It met five times in the year ended 31 March 2008.

Individual attendance at the meetings is stated in the table in the corporate governance report on page 34. During the year, matters considered by the committee included:

- the 2007 salary review for executive directors and other senior executives,
- awards payable under the 2006/07 annual bonus plans and the measures and targets for subsequent years,
- the size of, and the performance conditions to apply to, the 2007/08 grant of awards under the performance share plan and the monitoring of ongoing performance against the conditions applying to previous awards,
- pension provision for executives,
- monitoring of executive shareholdings against target,
- the terms of appointment and departure of executive directors and other senior executives,
- the potential impact of the proposed return of capital upon share schemes, and
- the form and content of the 2006/07 directors' remuneration report.

The committee also reviewed the incentive arrangements for executive directors and members of the executive leadership team. Details of revised annual bonus arrangements, proposed changes to be made in 2008/09 to the level of performance share plan awards for executive directors and the total shareholder return performance measure are given later in this report. Following approval of the matching share plan at the 2007 annual general meeting, matching share plan awards were made to Philip Green, Tim Weller and Charlie Cornish. Details of these awards are stated later in this report on page 48 in table 11.

The board accepted the committee's recommendations without amendment. The chairman of the board ensures the company talks to its major shareholders, when appropriate, about matters relating to remuneration.

Policy statement on executive directors' remuneration

The board's policy for executive directors' and senior executives' remuneration is to:

- pay a basic salary which compares with other companies of comparable size and complexity,
- use short-term and long-term incentives to encourage executives to out-perform key targets, thereby linking their rewards to the interests of shareholders and other stakeholders and giving them the opportunity to increase their earnings,
- encourage executives to hold shares in the group, and
- reward executives fairly and responsibly for their contribution to the group's short-term and long-term performance and avoid paying more than is appropriate.

In deciding the executive directors' total remuneration package and the individual elements of it, the remuneration committee assesses both the performance of the individual and the company.

as well as the range of pay in similar companies. In making these comparisons it considers the results carefully. The company aims to pay within a range of the mid-market rate over time but may pay higher salaries and total remuneration for out-performing individuals (or to attract or retain executives of the right calibre) and where the company itself out-performs. Account is also taken of a range of other factors, including the general increases in base salaries taking place within the company. Below mid-market pay may result from under-performance by an individual and/or the company or where an individual is new to the role.

Fixed rewards include basic salary, a car allowance or company car and fuel for private mileage, life, medical and permanent health insurance and pension benefits. Variable rewards take the form of an annual bonus where executives are incentivised to receive a proportion of their bonus in shares which are matched by a corresponding performance related award from the company and a long-term incentive plan (the performance share plan). The rewards are designed to establish a clear link between pay and performance by encouraging out-performance in both the short-term and long-term. They are based on business and individual performance, linking executives' rewards directly to the interests of shareholders and other stakeholders. Annual and long-term awards are non-pensionable.

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

During the year ended 31 March 2008, the committee considered the balance of incentive remuneration between annual and long-term remuneration and the associated performance measures. The committee decided to make changes in respect of the 2008/09 remuneration structure with the objective of providing a greater focus on incentivising management to improve operational performance targets across all areas of the business. This was viewed as being particularly important given that the operational performance standards achieved during 2008/09 will be an important consideration for the company leading into the discussions with its key stakeholders, including the water regulator, for the next regulatory review period commencing April 2010. Although the proposed changes in respect of 2008/09 result in higher levels of remuneration in respect of annual performance it should be noted that there is a corresponding reduction in the quantum of future long-term incentive awards.

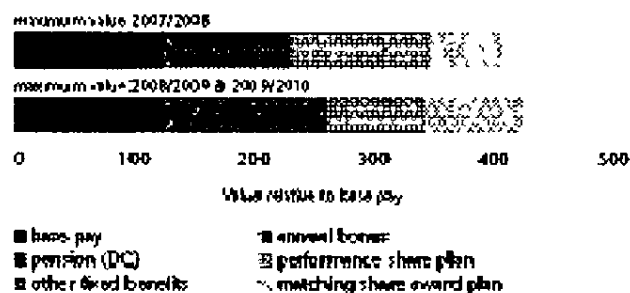
It is the board's policy that shareholders will be invited to approve all new long-term incentive schemes (as defined in the Listing Rules) and significant changes to existing schemes, save in the circumstances permitted by the Listing Rules. No changes were made to the terms and conditions of any existing share awards during the year. At the 2007 annual general meeting, shareholders approved the introduction of a matching share award plan. Details were given in the directors' remuneration report for 2007 and awards under the plan are described later in this report.

The group operates a defined contribution pension scheme which newly appointed directors (and senior executives) can join. Further details of pension benefits provided for executive directors are provided on pages 49 to 51 of this report.

Chart 1 sets out the impact of the board's policy on an executive director's annual total reward. It compares the arrangements for 2007/08 with the arrangements for 2008/09, expressed in terms of the maximum reward opportunity. The changes outlined in this report will maintain the proportion of the maximum reward opportunity that is 'at risk' to approximately 69 per cent in 2008/09.

Chart 1

Executive directors' maximum annual total reward



- Notes**
- The shading represents the value of each element of the reward package relative to base pay (base pay = 100).
 - Pension refers to the defined contribution section of the pension scheme with a company contribution of 25 per cent of basic pay.
 - The maximum values apply only where maximum annual bonus is achieved and the performance share plan and matching share award plan have paid out fully.
 - The values for the performance share plan and matching share award plan assume a dividend reinvestment value of five per cent per year for each of the three years of the performance period and, in the case of the matching share award plan, that a director has invested to the full extent initially allowed i.e. 50 per cent of annual bonus paid for the previous year.

Table 3 Executive directors' emoluments and long-term incentive payments (audited information)

	Gross salary		Annual bonus		Other benefits		Compensation for loss of office		Total emoluments		Long-term incentive vesting during the year ended 31 March	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Philip Green	725.9	686.7	654.7	488.2	26.0	28.4	-	-	1,406.6	1,203.3	-	-
Paul Capell	145.8	-	-	-	7.4	-	341.5	-	494.7	-	-	-
Charlie Cornish	352.8	340.0	305.0	241.7	20.2	17.5	-	-	678.0	599.2	-	107.5
Tim Weller	417.5	266.7	417.5	185.1	33.6	40.1	-	-	868.6	491.9	-	-
Total	1,642.0	1,293.4	1,377.2	915.0	87.2	86.0	341.5	-	3,447.9	2,294.4	-	107.5

- Notes**
- Other benefits include the taxable value of the car or car allowance, private fuel and medical insurance.
 - Paul Capell was appointed to the board on 1 May 2007 and resigned on 27 September 2007. His compensation for loss of office costs includes salary and payments paid through payroll and benefits provided after his resignation from the board, but while he was still employed by the company, until 31 December 2007.

Directors' remuneration report continued

The group expects executive directors and other senior executives to acquire and hold shares at least to the value of their basic salary within five years of appointment

Detailed policy in relation to executive directors' remuneration is set out overleaf

Executive directors' remuneration 2007/08

Executive directors' emoluments and the value of the long-term incentives vesting during the year ended 31 March 2008 are set out in table 3

A – Salary

The remuneration committee reviews salaries each year taking account of both company and personal performance. It commissions independent assessments of market rates based on the practice of other utility companies and companies of a similar size and complexity and takes account of the levels of pay awards elsewhere in the group. In this way it aims to establish whether an increase should apply and, if so, what it should be. It also considers whether there should be any departures from the norm, for example, to ensure that salaries are competitive and consistent with the application of board policy on executive remuneration.

The following changes were made to the annual salaries of executive directors during the year

Table 4 Executive directors' salaries

	Salary at 31 March 2008 £'000	Salary at 31 March 2007 £'000	Date of change
Philip Green	748 0	695 0	1 Sept 2007
Paul Capell	n/a	n/a	n/a
Charlie Cornish	362 0	340 0	1 Sept 2007
Tim Weller	430 0	400 0	1 Sept 2007

Note

• Paul Capell was appointed a director on 1 May 2007 on a salary of £350,000 and resigned on 27 September 2007. His salary was not reviewed during the period. He remained an employee until 31 December 2007.

B – Annual bonus

The annual bonus is designed to motivate executive directors and other senior executives to achieve the company's key financial, operational and strategic objectives. Directors are rewarded according to the company's financial and operational performance for the year and the achievement of individual targets, which are set each year. The operational and individual targets may include performance against key stakeholder measures and personal objectives. Executives may be invited to join the matching share award plan and elect to receive up to 50 per cent of their bonus in the form of United Utilities shares. There is a match from the company whereby, for 2008/09, the first 20 per cent of bonus results in a two for one match by the company and the balance up to the other 30 per cent in a one for one match. The matching shares are released after three years subject to the achievement of performance conditions. If these conditions are not achieved, a partial release may, in some circumstances, be made. The performance conditions are on the basis of an equal weighting of total shareholder return (TSR) performance, as used in the performance share plan as described below, and the achievement of operational performance measures within the categories of quality and environment, customer service, finance and efficiency and employee related. Full details of the operational performance measures for the 2007/08 grant were disclosed in the 2007 remuneration report and included in the circular to shareholders prior to approval of the matching share plan at the 2007 annual general meeting.

(a) 2008/09

The remuneration committee has decided that, for the 2008/09 annual bonus plan, the maximum potential bonus will be increased from 100 to 130 per cent of salary for executive directors and from

60 to 70 per cent for other members of the executive leadership team. As noted above, this does not represent an increase in the overall quantum of reward as there is a corresponding reduction in the value of future long-term incentive awards. In addition, to participate fully in the matching share award plan, executives will have to elect to receive a greater proportion of their 2008/09 bonus in United Utilities shares (up to 61 per cent of the higher bonus opportunity) with no overall increase in the quantum of matching shares awarded by the company. For executive directors, company financial measures will account for bonus payments worth up to 65 per cent of salary. These financial measures were

- group profit before restructuring costs, other non-recurring items, investment income, finance expense and taxation (PBEIT), and
- profit before restructuring costs, other non-recurring items and taxation (PBET) (weighted equally)

For each of the financial measures, one quarter of the maximum award allocated to that measure becomes payable once the threshold target is met. Awards increase in value on a straight-line basis until half of the maximum award is payable for achieving an intermediate target between the threshold and stretch targets. Awards continue to increase in value on a straight-line basis between the intermediate and stretch targets, at which point the maximum award is payable. The stretch targets are demanding and achievement represents results which exceed expectations.

The value of each executive director's annual bonus payment will also depend on operational performance in other areas of the company's activities. These measures include operational and customer service targets in the water and wastewater businesses, improving the group's corporate responsibility performance in the Dow Jones European and World Sustainability Index and achieving improvements in employee engagement measured by responses to questions in an externally conducted and verified employee opinion survey. These performance measures were chosen to complement the financial measures and to incentivise executives to achieve a series of balanced operational measures that are aligned to the interests of key stakeholders including customers, regulators and employees.

Personal objectives account for the balance of the bonus opportunity. The executive directors' annual bonus plan measures for 2008/09 are summarised in table 5.

(b) 2007/08

The 2007/08 annual bonus plan permitted a maximum bonus of 100 per cent of salary for executive directors and 60 per cent for other members of the executive leadership team. For executive directors, company financial measures PBEIT and PBET (weighted equally) accounted for bonus payments worth up to 50 per cent of salary.

For each of the financial measures, one quarter of the maximum award allocated to that measure became payable once the threshold target was met. Awards increased in value on a straight-line basis until half of the maximum award was payable for achieving an intermediate target between the threshold and stretch targets. Awards continued to increase in value on a straight-line basis between the intermediate and stretch targets, at which point the maximum award became payable. The stretch targets were intended to be demanding and achievement would represent results exceeding expectations.

Executive directors' annual bonus payment also depended on operational performance in other areas of the group's activities. In respect of the year ended 31 March 2008 the committee also considered the extent to which each director had contributed to the successful sale of United Utilities Electricity.

These measures include operational targets in the water, wastewater and electricity distribution businesses, improving the group's corporate responsibility performance in the Dow Jones

Table 5 Executive directors' annual bonus plan measures 2008/09

	Financial performance measures		Operational performance measures					Total
	Group PBEIT	Group PBET	Operational measures	Customer service	Employee engagement	Corporate responsibility	Personal objectives	
Philip Green	32.5	32.5	10	10	10	5	30	130
Tim Weller	32.5	32.5	10	10	10	5	30	130
Charlie Cornish	32.5	32.5	10	10	10	5	30	130

Note

- Figures are a percentage of base earnings during the year

Table 6 Executive directors' annual bonus plan measures 2007/08

	Financial performance measures		Operational performance measures				Total
	Group PBEIT	Group PBET	Operational targets	Corporate responsibility	Employee satisfaction	Personal objectives	
Philip Green	25	25	20	2.5	2.5	25	100
Tim Weller	25	25	20	2.5	2.5	25	100
Charlie Cornish	25	25	20	2.5	2.5	25	100

Note

- The above figures are a percentage of base earnings during the year
- No bonus was paid to Paul Capell

European and World Sustainability Index, maintaining the Business in the Community Platinum status, and achieving improvements in employee satisfaction measured by responses to questions in an externally conducted and verified employee opinion survey

Personal objectives accounted for the balance of the bonus opportunity

C – Other benefits

Directors are paid a car allowance of £14,000 per year or are entitled to have the use of a company car and are reimbursed the cost of fuel for business and private use. They are also provided with medical, life and permanent health insurance.

D – Long-term incentives**(i) Performance share plan**

Executive directors and other senior executives participate in the performance share plan. Awards are granted at the discretion of the plan's trustee (United Utilities Employee Share Trust Limited) on the recommendation of the remuneration committee. Each year, participants may be awarded a right to acquire a maximum number of shares worth up to a fixed percentage of their annual salary at the date of the award, at no cost to them. The number of shares awarded is based on the market price of shares at that time. The plan's rules provide for a maximum award of 100 per cent of annual salary which may be increased above this level in circumstances which the committee considers to be exceptional. Annual awards made to date to directors have not exceeded 100 per cent of salary. Participation in the plan has, with effect from 1 April 2007, been restricted to members of the executive leadership team only, with an award percentage of 60 per cent of salary for those executives who are not directors. For a limited number of senior managers below the executive leadership team level the company intends to arrange, during 2008/09, for payment of a proportion of annual bonuses earned in the form of United Utilities shares through a new plan. The shares will be released after a period of three years from when the bonus is earned subject to continued employment with the group and with no additional performance conditions. No executive directors will participate in the new plan and no newly issued or treasury shares will be used to facilitate awards.

With effect from 1 April 2008, as explained earlier in this report, the committee has decided to reduce the level of awards to executive directors from 100 per cent of salary to 70 per cent and for members of the executive leadership team from 60 per cent to 50 per cent. Grants are normally made within 42 days

of the publication of the group's results, and the main grant normally occurs after the publication of the preliminary results. A subsequent grant may be made after the publication of the interim results for executives who have become eligible after the main grant has been made.

The proportion of the award that will vest depends upon the company's performance against specified targets over a performance period. This period is not less than three years, beginning at the start of the financial year during which the award is made. There is no re-testing if the performance criteria are not met.

To date, the performance criteria have been (i) the company's TSR performance when compared with the TSR performance of a comparator group or index of other companies, and (ii) underlying business performance.

TSR is widely used as an externally verifiable measure of a shareholder's return. Relating awards to the group's relative TSR performance supports the policy objectives of linking executives' rewards directly to the company's performance and shareholders' interests and gives executives the opportunity to increase their earnings by meeting and out-performing key long-term measures.

The remuneration committee has the discretion to make adjustments to the comparator group or to the period over which relative TSR is measured during the performance period in order to maintain the integrity of the plan – for example, following a takeover bid, takeover activity, merger/demerger announcement regarding a member of the comparator group an appropriate adjustment may be made. During the year, the remuneration committee considered the treatment of changes affecting companies in the comparator groups for awards made in 2004/05, 2005/06 and 2006/07.

External advisers regularly assess and report to the committee on the group's TSR performance and ranking in the comparator group and performance against the index. Their report at the end of the performance period enables the committee to determine the extent to which this performance condition has been met.

The vesting of awards is also subject to the remuneration committee being satisfied that the group's recorded TSR performance is consistent with underlying business performance. The committee tests whether this condition has been satisfied after the end of each performance period in accordance with the terms of each award. Reference may be made to actual against

Directors' remuneration report continued

planned performance in respect of key corporate financial measures. The committee takes account of the impact of the transition to International Financial Reporting Standards when assessing underlying business performance against the performance measures.

There is no automatic waiving of performance conditions if there is a change of control, capital reconstruction or winding up of the company. The extent, if any, to which awards will vest and any modifications of performance conditions are made, are at the trustee's discretion, with the consent of the remuneration committee.

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

Participants normally have three months from the date at which the award vests in which to exercise their right to acquire the number of shares that have vested. Awards are normally satisfied by the transfer of shares from the trustee to participants. The trustee may periodically buy shares in the market to ensure that it can satisfy its liabilities when an award vests. These purchases are normally financed by the group making a loan to the trustee. The group takes account of the vesting timetable and likely scale of vesting in determining the financial assistance it provides for the trustee. The group reviews this arrangement from time to time to ensure its cost-effectiveness. Awards may also be satisfied by allotting shares. Details of the number of shares held by the trust at 2 June 2008 are given in the notes to table 16 on page 50.

(a) 2008/09 and 2007/08 grants

Grants made in respect of 2007/08 and to be made in respect of 2008/09 are based on a performance condition which measures the group's comparative TSR performance against a TSR index (the Index) rather than a comparator group ranking. Using an index allows for a meaningful comparison of performance to be made and a smoother sliding scale of vesting of awards. The index is constructed by assessing the TSR performance of the following companies with their influence on the Index being weighted according to their relevance and size. Table 7 below reflects the composition of the Index in respect of the grant made during 2007/08. Any grant made in 2008/09 will be based upon the same Index approach with the composition of the Index adjusted to reflect any change in the comparator companies. For example, companies that have been acquired (e.g. Kelda Group) will be removed from the Index or new comparable companies may be included.

Table 7 TSR – weighting of comparator companies

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

None of the award would vest if United Utilities' performance fell below the Index, 25 per cent of the award would vest for a performance equal to the Index, and 100 per cent of the award would vest on out-performing the Index by 12 per cent over the three-year performance period. Vesting would be on a sliding scale for performance between these points. Any vesting of awards

would also be subject to the remuneration committee being satisfied that the group's recorded TSR performance was consistent with underlying business performance.

(b) 2006/07 grant

Awards to a maximum value of 80 per cent of annual salary were made to directors in respect of the 2006/07 performance share plan. The extent to which awards vest will be based on the group's TSR performance relative to the comparator group of companies over the period from 1 April 2006 to 31 March 2009. The TSR comparator group comprises the following 16 companies in addition to United Utilities: AMEC, AWG, Balfour Beatty, BG Group, British Energy, BT Group, Centrica, International Power, Kelda Group, National Grid, Northumbrian Water, Pennon Group, Scottish & Southern Energy, ScottishPower, Severn Trent and Viridian. The committee has taken account of corporate events affecting AWG, ScottishPower, Severn Trent and Viridian since the start of the performance period. Awards will vest after the end of the performance period provided that the remuneration committee is satisfied that the group's recorded TSR performance is consistent with the group's underlying business performance.

The vesting scale is shown in table 8.

Table 8 2006/07 Performance share plan vesting scale

Ranking in comparator group	% of max award vesting	% of salary
1 to 4	100	80
5	92	73.6
6	75	60
7	63	46.4
8	58	33.6
9	42	20
10 or below	–	–

(c) 2005/06 grant

Directors have awards to a maximum value of 80 per cent of annual salary in respect of the 2005/06 performance share plan. The extent to which awards vest will be based on the group's TSR performance relative to the comparator group of companies over the period 1 April 2005 to 31 March 2008. The TSR comparator group comprises the following 16 companies in addition to United Utilities: AMEC, AWG, BAA, Balfour Beatty, BG Group, BT Group, Centrica, International Power, Kelda Group, National Grid, Northumbrian Water, Pennon Group, Scottish & Southern Energy, ScottishPower, Severn Trent and Viridian. The committee has taken account of corporate events affecting AWG, BAA, ScottishPower, Severn Trent and Viridian since the start of the performance period. Awards will vest after the end of the performance period provided that the remuneration committee is satisfied that the group's recorded TSR performance is consistent with the group's underlying business performance.

The vesting scale is shown in table 9.

Table 9 2005/06 Performance share plan vesting scale

Ranking in comparator group	% of max award vesting	% of salary
1 to 4	100	80.0
5	93	74.4
6	78	62.4
7	63	50.4
8	48	38.4
9	33	26.4
10 or below	–	–

Table 10 Executive directors' continuing scheme interests in the performance share plan (audited information)

	Award details						Contingent scheme interest at 1 April 2007	Contingent scheme interest awarded during the year		Contingent scheme interest at 31 March 2008		
	Award date	Performance period	% of salary	Market price of a share at award price (p)	Maximum number of shares	Value at award date £'000	Maximum number of shares	Value £'000	Maximum number of shares	Value £'000	Maximum number of shares	Value £'000
Philip Green												
2005/06 Ordinary	13 2 06	1 4 05 to 31 3 08	80	688 5	78,432	540 0	78,432	592 6	–	–	78,432	541 6
2006/07 Ordinary	8 9 06	1 4 06 to 31 3 09	80	676 0	82,249	556 0	87,489	661 0	5,931	40 4	93,420	645 0
2007/08 Ordinary	11 6 07	1 4 07 to 31 3 2010	100	752 5	92,359	695 0	–	–	98,620	737 7	98,620	681 0
Total						1,791 0	165,921	1,253 6	104,551	778 1	270,472	1,867 6
Charlie Cornish												
2004/05 Ordinary A shares	30 6 04	1 4 04 to 31 3 07	80	547 0	25,407	118 0	35,965	248 0	(35,965)	n/a	–	–
	30 6 04			347 8	14,115	–	–	–	–	–	–	–
2005/06 Ordinary	30 6 05	1 4 05 to 31 3 08	80	657 5	30,419	200 0	30,419	229 8	–	–	30,419	210 0
2006/07 Ordinary	8 9 06	1 4 06 to 31 3 09	80	676 0	40,237	272 0	42,799	323 3	2,901	19 8	45,700	315 6
2007/08 Ordinary	11 6 07	1 4 07 to 31 3 2010	100	752 2	45,183	340 0	–	–	48,245	360 9	48,245	333 1
Total						930 0	109,183	801 1	51,146	380 7	124,364	858 7
Tim Weller												
2006/07 Ordinary	8 9 06	1 4 06 to 31 3 09	80	676 0	47,338	320 0	50,354	380 4	3,413	23 3	53,767	371 2
2007/08 Ordinary	11 6 07	1 4 07 to 31 3 2010	100	752 5	53,157	400 0	–	–	56,760	424 5	56,760	391 9
Total						720 0	50,354	380 4	60,173	447 8	110,527	763 1
Paul Capell												
2007/08 Ordinary	11 6 07	1 4 07 to 31 3 2010	100	752 5	46,512	350 0	–	–	48,592	364 1	nil	nil
Total						350 0	–	–	48,592	364 1	nil	nil

Notes

- The values shown for 1 April 2007 have been calculated using the mid-market price of a share at close of business on 30 March 2007 of 755 5 pence
- The values shown for 31 March 2008 have been calculated using the mid-market price of an ordinary share at close of business on 31 March 2008 of 690 5 pence
- The market price of a share at award is the mid-market price of an ordinary share at close of business on the last trading day immediately prior to the award date. This is used to calculate the maximum number of shares comprising the award
- The contingent scheme interest at 1 April 2007 for the 2004/05 plan incorporates an adjustment in the number of shares in the award to take account of the second stage of the rights issue. The number of ordinary shares increased by a factor of 1.41559048 and the number of A shares reduced to zero. This reflects the position of shareholders taking up their rights and takes account of the subscription cost
- The contingent scheme interest awarded during the year in respect of the 2006/07 plan comprises shares resulting from the notional reinvestment of notional dividend payable during the year on the number of shares subject to the award
- The value of contingent scheme interest awarded during the year 2006/07 is the value of the notional dividends payable during the year
- The contingent scheme interest awarded during the year in respect of the 2007/08 plan comprises the number of award shares granted, and the additional shares resulting from the notional reinvestment of notional dividend payable during the year on the number of shares subject to the award
- The value of contingent scheme interest awarded during the year 2007/08 is the value of the initial award plus the value of notional dividends payable during the year
- During the year 1 April 2007 to 31 March 2008 the share price ranged between 633 5 pence and 796 0 pence
- Paul Capell's scheme interest lapsed after he ceased to be a director

Directors' remuneration report continued

Details of executive directors' continuing scheme interests in the performance share plan, including those awarded during the year, are set out in table 10. Other than as set out below, no directors have any interests in any performance share plan.

(ii) Matching share award plan

The 2007 matching share award plan was approved at the 2007 annual general meeting and full details were disclosed in the remuneration report for 2007.

In accordance with the rules of that plan, all executive directors, except for Paul Capell, invested in shares and a conditional matched award of shares was made to them on 30 July 2007 which will transfer to them in whole or part after the end of the three-year performance period ending 31 March 2010, subject to their still being employed by the group at that date and the satisfaction of performance criteria. The number of shares subject to the matching share award will be increased by the notional reinvestment of dividends payable on the matched shares over the course of the three-year period. Details of their scheme interests are shown in table 11.

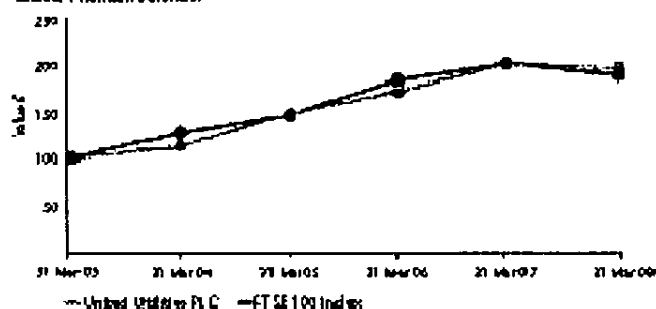
Performance graph

Chart 2 compares the group's annual TSR performance for the past five years against the FTSE 100 Index. This index was chosen as it is the most appropriate broad equity market index. This comparison also supplements the information on the group's TSR performance relative to the comparator groups in the performance share plan. The TSR indices used in the chart have been calculated in accordance with the Directors' Remuneration Report Regulations 2002 relative to a base date of 31 March 2003.

Chart 2

Total shareholder return

Source: Thomson Financial



Note

- This graph shows the value of £100 invested in United Utilities compared with the value of £100 invested in the FTSE 100 Index in each case from 31 March 2003 to 31 March 2008. The other points plotted are the values at intervening financial year ends.

Share options

Grants of executive share options were made under the group share option plan 1999 up to and including 31 March 2002. From 1 April 2002, awards under the performance share plan have replaced further grants of executive share options.

Executive directors are eligible to participate in the all-employee Save As You Earn (SAYE) scheme (ShareSave). Neither the award nor the exercise of ShareSave options is dependent upon the satisfaction of performance conditions. The last grant of options was ShareSave 2004. No director who served during the year has any SAYE options.

Table 11 Executive directors' continuing scheme interests in the matching share award plan (audited information)

	Award details		Market price of a share at award price (p)	Number of shares	Contingent scheme interest at 1 April 2007		Contingent scheme interest awarded during the year		Contingent scheme interest at 31 March 2008		
	Award date	Performance period			Value £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Value £'000
Philip Green	30 7 07	1 4 07 to 31 3 10	662 0	51,624	341 7	–	–	55,123	365 5	55,123	380 6
Charlie Cornish	30 7 07	1 4 07 to 31 3 10	662 0	14,606	96 9	–	–	15,596	103 4	15,596	107 6
Tim Weller	30 7 07	1 4 07 to 31 3 10	662 0	22,015	145 7	–	–	23,507	155 9	23,507	162 3

Notes

- The market price of a share at award is the mid-market price of a share at close of business on the award date.
- The contingent scheme interest awarded during the year comprises the initial award and shares added in respect of notional dividends payable on the shares during the year.
- The value of contingent scheme interest awarded during the year is the value of the initial award plus the value of notional dividends payable during the year.
- The value of the contingent scheme interest at 31 March 2008 has been calculated using the mid-market price of a share of 690.5 pence at close of business on 31 March 2008.

Table 12 Executive directors' shareholdings

	Salary £'000	Value of shareholding £'000	Value relative to salary %	Target to be achieved by
Philip Green	748 0	857 4	115	13 02 11
Charlie Cornish	362 0	104 5	29	27 01 09
Tim Weller	430 0	341 0	79	01 07 11

Note

- The value of the shareholding is based on a share price of 699.5 pence. This is the share price averaged over the final three months of the financial year.

Executive directors' shareholdings

Executive directors are expected to build up and retain a target shareholding equal to the value of their basic salary, normally within five years of appointment. Performance share plan awards are delivered in shares and executives can retain all the shares that vest if they make a cash payment to meet their PAYE statutory liabilities. The company prefers a flexible approach to the accumulation of a shareholding, which takes account of individual circumstances, and has decided not to require executives to retain a proportion of shares that vest under its incentive plans. Executive directors' interests in shares, as at 31 March 2008, are among those listed in table 16 on page 50. The value of these interests relative to their annual salaries is shown in table 12 on page 48.

Matched share investment scheme for Philip Green

Full details of the matched share investment scheme for Philip Green, introduced as part of his terms of appointment, were disclosed in the remuneration report for 2005/06. In accordance with the rules of that scheme, Philip Green invested in 100,000 shares and a conditional matched award of 100,000 shares was made to him on 16 January 2007 which will transfer to him at the end of the five-year retention period on 12 February 2011, subject to his still being employed by the group at that date. The number of shares subject to the matching share award will be increased by the notional reinvestment of dividends payable on the matched shares over the course of the five-year retention period.

Details of his scheme interests are shown in table 13.

Matched share investment scheme for Tim Weller

Full details of the matched share investment scheme for Tim Weller, introduced as part of his terms of appointment, were disclosed in the remuneration report for 2006/07. In accordance with the rules of that scheme, Tim Weller invested in 39,000 shares and a conditional matched award of 39,000 shares was made to him on 14 February 2007 which will transfer to him at the end of

the five-year retention period on 30 June 2011, subject to his still being employed by the group at that date. The number of shares subject to the matching share award will be increased by the notional reinvestment of dividends payable on the matched shares over the course of the five-year retention period.

Details of his scheme interests are shown in table 14.

Share interests

Details of beneficial interests as at 31 March 2008 and as at 2 June 2008 in the company's ordinary shares and options to subscribe for shares (other than such options set out above) held by the directors and their connected persons are set out on page 50 in table 16. Except as described below and, in the case of the options granted as part of the incentive schemes of the company, as set out above, none of the directors had any interest in any share capital of any other group company or in any debenture of any group company.

Pension arrangements

The company operates several pension schemes. The company has, with relevant pension scheme trustee agreement where required, made the rule changes necessary to ensure that the schemes qualify as registered pension schemes under the new legislative regime. The executive directors are all members of the United Utilities Pension Scheme (UUPS).

The remuneration committee recognises that pensions are an important but potentially costly element of remuneration. Decisions have previously been made to close entry to the defined benefit section of UUPS to newly recruited directors and other senior executives, not to introduce any new unfunded unapproved arrangements to provide pension benefits above those approved by HM Revenue & Customs and to close entry to the defined benefit executive section (which provides enhanced benefits for existing scheme members).

Table 13 Philip Green's continuing scheme interests in the matched share investment scheme (audited information)

Award date	Retention period	Market price of a share at award (p)	Number of shares	Award details		Contingent scheme interest at 1 April 2007		Contingent scheme interest awarded during the year		Contingent scheme interest at 31 March 2008	
				Value £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares
16 1 07	13 2 06 to 12 2 11	761 0	100,000	761 0	106,371	804	7,212	49 1	113,583	784 3	

Notes

- The market price of a share at award is the mid-market price of a share at close of business on the award date.
- The contingent scheme interest awarded during the year comprises shares added in respect of notional dividends payable on the shares during the year.
- The value of contingent scheme interest awarded during the year is the value of the initial award plus the value of notional dividends payable during the year.
- The value of the contingent scheme interest at 31 March 2008 has been calculated using the mid-market price of a share of 690.5 pence at close of business on 31 March 2008.

Table 14 Tim Weller's continuing scheme interests in the matched share investment scheme (audited information)

Award date	Retention period	Market price of a share at award (p)	Number of shares	Award details		Contingent scheme interest at 1 April 2007		Contingent scheme interest awarded during the year		Contingent scheme interest at 31 March 2008	
				Value £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares
14 2 07	1 7 06 to 30 6 11	772 5	39,000	301 3	41,484	313 0	2,812	19 2	44,296	305 9	

Notes

- The market price of a share at award is the mid-market price of a share at close of business on the award date.
- The contingent scheme interest awarded during the year comprises shares added in respect of notional dividends payable on the shares during the year.
- The value of contingent scheme interest awarded during the year is the value of the initial award plus the value of notional dividends payable during the year.
- The value of the contingent scheme interest at 31 March 2008 has been calculated using the mid-market price of a share of 690.5 pence at close of business on 31 March 2008.

Directors' remuneration report continued

Special long-term incentive scheme for Charlie Cornish

Full details of the special long-term incentive scheme for Charlie Cornish, introduced to facilitate his retention, were disclosed in the remuneration report for 2006/07. In accordance with the rules of that scheme, an award equal in value to his annual salary was granted to Charlie Cornish on 16 March 2007 in the form of an option over 47,027 shares. The number of shares under option is subject to the notional reinvestment of dividends payable on them during and until the date the award vests.

Details of his scheme interest are shown in table 15.

Table 15 Charlie Cornish's continuing scheme interests in his special long-term incentive scheme (audited information)

Award date	Retention period	Award details		Contingent scheme interest at 1 April 2007		Contingent scheme interest awarded during the year		Contingent scheme interest at 31 March 2008		
		Market price of a share at award (p)	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Value £'000	Number of shares	Value £'000
16 3 07	1 4 06 to 31 3 10	723 0	47,027	340 0	50,022	377 9	3,391	23 1	53,413	368 9

Notes

- The market price of a share at award is the mid-market price of a share at close of business on the award date.
- The contingent scheme interest awarded during the year comprises shares added in respect of notional dividends payable on the shares during the year.
- The value of contingent scheme interest awarded during the year is the value of the initial award plus the value of notional dividends payable during the year.
- The value of the contingent scheme interest at 31 March 2008 has been calculated using the mid-market price of a share of 690.5 pence at close of business on 31 March 2008.

Table 16 Details of interests in shares held by directors

	At 1 April 2007 or date of appointment if later	At 31 March 2008	At 2 June 2008
Sir Richard Evans	381	381	381
Philip Green	100,527	122,570	122,612
Dr Catherine Bell	-	-	-
Norman Broadhurst	530	530	530
Paul Capell	n/a	n/a	-
Charlie Cornish	10,383	14,943	14,985
Paul Heiden	1,852	1,852	1,852
David Jones	-	-	-
Dr John McAdam	-	-	-
Sir Peter Middleton	7,115	n/a	n/a
Andrew Pinder	6,222	6,222	6,222
Nick Salmon	1,300	1,300	1,300
Tim Weller	39,020	48,747	48,789

Notes

- Paul Capell was appointed as a director on 1 May 2007 and resigned on 27 September 2007 but at no time held any shares in the capital of the company other than as a participant in the ShareBuy scheme, the shares from which were sold automatically under the provisions of the plan after his employment ended.
- Sir Peter Middleton retired as a director on 27 July 2007.
- Dr John McAdam was appointed as a non executive director on 4 February 2008.
- Each executive director is a member of the class of discretionary beneficiaries of the United Utilities Employee Share Trust (the Trust) and is therefore treated as having an interest in the 53,601 ordinary shares held by United Utilities Employee Share Trust Limited as a trustee of the Trust as at 31 March 2008 and as at 2 June 2008.

Newly appointed executive directors may join the defined contribution section of UUPS. They may make a regular contribution of up to seven per cent of basic pay and may make additional voluntary contributions. The group contributes up to 25 per cent of basic pay.

When scheme members reach the lifetime allowance they are given the choice of continuing to accrue benefits within the pension scheme (and pay the higher tax charge for which no compensation will be paid) or be paid a cash allowance instead of accruing further pension benefits. The cash allowances are calculated as a percentage of salary and do not exceed the cost of the group's pension contributions. A cash allowance of 12 per cent is payable in lieu of the standard defined contribution rate of 14 per cent and 22 per cent in lieu of the enhanced defined contribution rate of 25 per cent. As at 31 March 2008, no executive director had taken the cash alternative.

Directors' regular contribution rates are levied on their pensionable pay, provided the amount for the year, when added to the group's contribution, does not exceed the annual allowance.

During the year the company made available the opportunity to participate in a 'salary sacrifice' arrangement to all members of the company's pension schemes. The arrangement allows pension scheme members to cease making their regular pension contributions. Their gross salary is correspondingly reduced by the value of the regular contributions they would have made to the pension scheme. For members of the defined contribution section, the group makes an additional contribution equal to the regular contribution that would have been paid by the member.

Directors' pension arrangements

Philip Green, Charlie Cornish, Tim Weller and Paul Capell were members of the defined contribution section during the year.

Prior to participating in the salary sacrifice arrangement, Philip Green's regular contribution rate was three per cent of basic salary. The company contributed six per cent of basic salary to the pension scheme and an additional 19 per cent to his private pension plan. Charlie Cornish and Tim Weller contributed seven per cent and the company contributed 25 per cent of their basic salary to the pension scheme. Paul Capell joined the company pension scheme with a contribution rate of seven per cent that was matched at three per cent by the company. An additional lump sum payment equivalent to 22 per cent was paid to his own individual pension arrangement prior to the termination of his employment. The normal pension age for a director is 65.

Directors' accrued pension benefits

During the year ended 31 March 2008, the company paid contributions totalling £203,257 (2006/07 £182,349) to the defined contribution section of the pension scheme and to a personal pension plan for Philip Green. Contributions totalling £112,907 (2006/07 £96,900) for Charlie Cornish and £136,485 (2006/07 £85,073) for Tim Weller were made to the defined contribution section of the pension scheme. Contributions of £68,092 were paid to the defined contribution section of the pension scheme and to the personal pension plan for Paul Capell. These figures include amounts of £21,777, £24,698, £29,224 and £8,166 respectively for Philip Green, Charlie Cornish, Tim Weller and Paul Capell in substitution for their regular pension scheme contributions and for which there was a corresponding reduction in the amounts shown as their gross salaries in table 3.

Contracts of service and compensation for termination

The group's policy is that the executive directors normally have one-year notice periods. The group may offer a longer notice period if it considers it necessary to recruit a new director. If it offers an initial notice period of more than one year, it will usually reduce that to a rolling one-year notice period after the initial period has expired. At 31 March 2008, all current executive directors had one-year notice periods.

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

As at 31 March 2008, service contracts did not provide explicitly for termination payments (other than for holidays due but not taken), liquidated damages or payments in lieu of notice. If a contract is to be terminated, the remuneration committee will, in each circumstance, determine the compensation that will be paid, normally by reference to fixed elements of remuneration and the notice period. There is no automatic entitlement to payments under the annual bonus or performance share plan. Any annual bonus payment is at the discretion of the group. Performance share plan vesting is at the discretion of the trustees based on a recommendation from the remuneration committee and an award will not normally vest unless the termination is for a 'good leaver' reason such as retirement or because of ill health, or there are other special circumstances. Payments are then pro-rated and subject to the performance conditions on which awards were granted (modified if appropriate) being satisfied.

The committee will apply such mitigation it considers is fair and reasonable. It will take into account the best practice provisions of the Code and will take legal advice on the company's liability to pay compensation. The company's policy is to take a robust line on reducing compensation, and it may phase payments to reflect a departing employee's obligation to mitigate loss. The committee reviews this policy each year.

Details of executive directors' contracts as at 31 March 2008 are set out in table 17.

Table 17 Executive directors' service contracts as at 31 March 2008

	Date of contract	Unexpired term (to 65th birthday)	Notice period
Philip Green	13 02 06	12 05 18	12 months (rolling)
Tim Weller	01 07 06	08 06 28	12 months (rolling)
Charlie Cornish	05 01 04	30 11 24	12 months (rolling)

Notes

- No explicit contractual compensation for early termination (other than payment for outstanding holidays)

Non-executive directorships

The group recognises that its executive directors may be invited to become non-executive directors of companies outside the group and exposure to such non-executive duties can broaden experience and knowledge, which will be to the benefit of the group. Subject to board approval (which will not be given if the proposed appointment is with a competing company, would otherwise lead to a material conflict of interest or could have a detrimental effect on a director's performance), executive directors are allowed to accept one non-executive directorship and to retain the fee. Philip Green was appointed as a non-executive director of Lloyds TSB Bank plc on 10 May 2007 and received and retained £55,598 in fees for the period to 31 December 2007. Tim Weller was appointed a non-executive director of The Carbon Trust on 19 June 2007 and received and retained £13,338 in fees for the period to 31 March 2008.

Employee share schemes

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

The main all-employee scheme is the 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 ten per cent of taxable pay each year. The funds are deducted from pre-tax pay and passed to an independent trustee who makes a monthly purchase of shares at full market price. Employees can reinvest the dividends received from partnership shares to buy more shares under the plan. In 2004, the company introduced 'matching' shares. It 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 tax advantages.

Grants have in previous years also been made to employees through the SAYE share option savings scheme, ShareSave, whereby an employee is granted an option to buy shares at the end of a three-year or five-year term during which they can save up to £250 each month from their net pay. The option price is fixed at a price not lower than 20 per cent below the market price at the date of grant. The number of shares that can be bought is determined by the amount saved by the employee over the term. In addition to the executive directors, a limited number of senior executives also have the opportunity to acquire shares by participating in the group's performance share plan. This plan has replaced the grant of executive share options. Further information on the operation of the company's share schemes can be found in note 26 to the accounts on page 105.

Approved by the board of directors on 2 June 2008 and signed on its behalf by

David Jones
Remuneration committee chairman

Statement of directors' responsibilities

The directors are responsible for preparing the annual report, the directors' remuneration 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. The directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cashflows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to

- select and apply accounting policies properly,
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information, and
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance

The directors are responsible for keeping proper accounting records that 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 1985. 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

Under applicable law and regulations, the directors are also responsible for preparing the directors' report, directors' remuneration report and report on corporate governance that comply with that law and those regulations

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

The directors confirm to the best of their knowledge that

- a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group taken as a whole, and
- b) the business review, which is incorporated into the directors' report, includes a fair review of the development and performance of the business taken as a whole, together with a description of the principal risks and uncertainties

Approved by the board on 2 June 2008 and signed on its behalf by

Sir Richard Evans
Chairman

Tim Weller
Chief financial officer

Independent auditors' report

Independent auditors' report to the members of United Utilities PLC

We have audited the group and parent company financial statements (the 'financial statements') of United Utilities PLC for the year ended 31 March 2008 which comprise the consolidated income statement, the consolidated and parent company balance sheets, the consolidated and parent company statements of recognised income and expense, the consolidated and parent company cashflow statements, the accounting policies and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the directors' remuneration report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' 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 auditors

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (United Kingdom and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the chairman's and chief executive's statements and the business review that is cross-referred from the principal activities and business review section of the directors' report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the annual report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the directors' remuneration report to be audited.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its profit for the year then ended,
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2008,
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation, and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester, United Kingdom

2 June 2008

Consolidated income statement

for the year ended 31 March

	Note	2008 £m	Re-presented 2007 £m
Continuing operations			
Revenue	1	2,362 9	1,986 7
Other income		21 3	8 9
Employee benefits expense	2	(317 5)	(254 1)
Depreciation and amortisation expense	3	(248 2)	(221 3)
Infrastructure renewals expenditure		(120 1)	(101 2)
Other operating costs	3	(1,035 2)	(776 9)
Total operating expenses		(1,699 7)	(1,344 6)
Operating profit	1,3	663 2	642 1
Investment income	4	146 7	118 3
Finance expense	5	(331 6)	(258 1)
Investment income and finance expense		(184 9)	(139 8)
Profit before taxation		478 3	502 3
Taxation	6	(62 0)	(143 9)
Profit for the year from continuing operations		416 3	358 4
Discontinued operations			
Profit for the period from discontinued operations	7	492 9	75 1
Profit for the year		909 2	433 5
Earnings per share			
From continuing and discontinued operations			
Basic		103 3p	49 4p
Diluted		103 2p	49 2p
From continuing operations			
Basic		47 3p	40 9p
Diluted		47 3p	40 7p

The results of United Utilities Electricity, the group's industrial liquid waste and facilities management operations and its share of results from its associate have been disclosed within discontinued operations in 2008 (see notes 1 and 7). Corresponding amounts for 2007 have also been re-presented, as required by IFRS 5, accordingly.

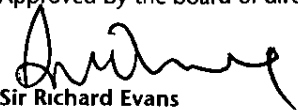
Balance sheets

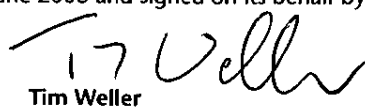
at 31 March

	Note	Re-presented Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
ASSETS					
Non-current assets					
Property, plant and equipment	10	7,591.8	8,894.6	0.5	0.6
Goodwill	11	2.3	5.0	-	-
Other intangible assets	12	85.3	115.5	-	-
Investments	13	155.5	202.4	5,352.3	5,268.3
Trade and other receivables	15	28.2	21.6	-	-
Retirement benefit surplus	19	-	61.3	-	10.1
Deferred tax asset	20	-	-	4.8	7.3
Derivative financial instruments	18	44.3	15.2	-	-
		7,907.4	9,315.6	5,357.6	5,286.3
Current assets					
Inventories	14	63.3	62.8	-	-
Trade and other receivables	15	456.2	418.2	1,299.9	993.6
Cash and short-term deposits	16	1,810.5	2,403.3	663.8	336.7
Derivative financial instruments	18	99.0	61.0	0.9	18.8
		2,429.0	2,945.3	1,964.6	1,349.1
Total assets		10,336.4	12,260.9	7,322.2	6,635.4
LIABILITIES					
Non-current liabilities					
Trade and other payables	22	(125.5)	(414.3)	-	-
Borrowings	17	(3,788.9)	(4,854.9)	(521.3)	(765.2)
Retirement benefit obligations	19	(101.2)	-	(15.4)	-
Deferred tax liabilities	20	(1,164.0)	(1,550.5)	-	-
Provisions	21	(18.7)	(30.4)	(8.5)	(12.5)
Derivative financial instruments	18	(53.2)	(173.5)	(30.1)	(100.1)
		(5,251.5)	(7,023.6)	(575.3)	(877.8)
Current liabilities					
Trade and other payables	22	(771.9)	(749.2)	(615.6)	(502.5)
Borrowings	17	(878.4)	(1,509.5)	(856.0)	(928.0)
Current income tax liabilities		(66.9)	(168.0)	-	-
Provisions	21	(21.0)	(8.5)	(4.4)	(2.0)
Derivative financial instruments	18	(136.7)	(67.3)	(51.8)	(7.3)
		(1,874.9)	(2,502.5)	(1,527.8)	(1,439.8)
Total liabilities		(7,126.4)	(9,526.1)	(2,103.1)	(2,317.6)
Total net assets		3,210.0	2,734.8	5,219.1	4,317.8
EQUITY					
Capital and reserves attributable to equity holders of the company					
Share capital	23	881.6	879.8	881.6	879.8
Share premium account	23	1,429.3	1,421.9	1,429.3	1,421.9
Revaluation reserve	23	158.8	158.8	-	-
Treasury shares	23	(0.3)	(0.3)	(0.3)	(0.3)
Cumulative exchange reserve	23	7.6	(4.2)	(1.1)	(1.7)
Other reserves	23	58.1	24.3	-	-
Retained earnings	23	674.9	254.5	2,909.6	2,018.1
Shareholders' equity		3,210.0	2,734.8	5,219.1	4,317.8

The balance sheet amounts in respect of investments, retirement benefits, deferred tax, inventories, other reserves and retained earnings have been re-presented at 31 March 2007. Refer to notes 14, 19 and 23 for details.

Approved by the board of directors on 2 June 2008 and signed on its behalf by


Sir Richard Evans
Chairman


Tim Weller
Chief financial officer

Statements of recognised income and expense

for the year ended 31 March

	Note	Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
Actuarial (losses)/gains on defined benefit pension schemes	19,23	(126.4)	46.5	(30.6)	(21.4)
Revaluation of investments	13,23	34.9	8.9	–	–
Fair value (losses)/gains on cashflow hedges	23	(1.5)	2.8	–	–
Foreign exchange adjustments	23	11.8	(6.4)	0.6	(6.9)
Tax on items taken directly to equity	23	35.8	(14.8)	8.6	6.4
Net (expense)/income recognised directly in equity		(45.4)	37.0	(21.4)	(21.9)
Profit/(loss) for the year		909.2	433.5	1,311.3	(106.7)
Total recognised income and expense for the year		863.8	470.5	1,289.9	(128.6)

Cashflow statements

for the year ended 31 March

	Note	Re-presented Group		Company	
		2008 £m	2007 £m	2008 £m	2007 £m
Operating activities					
Cash generated from operations	28	876 9	810 8	1,293 2	62 2
Interest paid		(299 9)	(341 8)	(62 2)	(81 2)
Interest received and similar income		119 1	99 8	12 6	13 6
Tax paid		(98 6)	(17 8)	(133 7)	(30 6)
Net cash generated from/(used in) operating activities (continuing operations)		597 5	551 0	1,109 9	(36 0)
Net cash generated from operating activities (discontinued operations)	28	99 5	204 3	-	-
		697 0	755 3	1,109 9	(36 0)
Investing activities					
Disposal of investments	13	0 6	-	-	-
Disposal of associated company	7	75 8	-	75 8	-
Disposal of subsidiaries	7,28	1,152 7	206 4	-	227 6
Net cash outflow from group reorganisation		(15 0)	-	-	-
Purchase of property, plant and equipment		(644 5)	(548 5)	-	-
Purchase of other intangible assets		(25 3)	(5 0)	-	-
Proceeds from sale of property, plant and equipment		15 0	27 0	-	-
Net cash generated from/(used in) investing activities (continuing operations)		559 3	(320 1)	75 8	227 6
Net cash used in investing activities (discontinued operations)		(161 0)	(125 1)	-	-
		398 3	(445 2)	75 8	227 6
Financing activities					
Proceeds from issue of ordinary shares	23	9 2	18 5	9 2	18 5
Cash (used in)/proceeds from structured financing		(170 1)	81 4	-	-
Proceeds from borrowings		1,068 9	1,600 8	805 3	629 9
Repayment of borrowings		(2,297 2)	(821 0)	(1,272 7)	(236 4)
Dividends paid to equity holders of the company		(400 4)	(387 3)	(400 4)	(387 3)
Dividends received from discontinued operations		100 0	36 0	-	-
Net cash (used in)/generated from financing activities (continuing operations)		(1,689 6)	528 4	(858 6)	24 7
Net cash (used in)/generated from financing activities (discontinued operations)		(190 1)	51 9	-	-
		(1,879 7)	580 3	(858 6)	24 7
Effects of exchange rate changes (continuing operations)		148 9	6 4	-	-
Net (decrease)/increase in cash and cash equivalents (continuing operations)		(383 9)	765 7	327 1	216 3
Net (decrease)/increase in cash and cash equivalents (discontinued operations)		(251 6)	131 1	-	-
		(635 5)	896 8	327 1	216 3
Cash and cash equivalents at beginning of the year	16	2,340 7	1,443 9	336 7	120 4
Cash and cash equivalents at end of the year	16	1,705 2	2,340 7	663 8	336 7

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

IFRS 7 'Financial Instruments Disclosures', the Amendment to IAS 1 'Presentation of Financial Statements Capital Disclosures' and IFRIC 11 'IFRS 2 Group and Treasury Share Transactions' have been adopted in the year

The 2007 comparatives have been re-presented to reflect the following

- re-presentation of the group's 2007 results to reflect the results of United Utilities Electricity, its industrial liquid waste and facilities management operations and its associate as discontinued operations (see notes 1 and 7),
- re-presentation of inventories to reflect properties previously held as current asset investments reclassified to inventories (see note 14),
- re-presentation of shareholders' equity to incorporate a category for other reserves to include revaluation of investments and fair value gains/(losses) on cashflow hedges and the associated tax on these items (see note 23), and
- adjustment for retirement benefits to reflect the group's participation in the Northern Gas Networks Pension Scheme. The group recorded a related deferred tax asset and investment offsetting the impact on net assets at 31 March 2007 to £nil (see note 19)

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, where appropriate, 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. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses

All intra-group transactions, balances, income and expenses are eliminated on consolidation

Associates

An associate is an entity over which the group, either directly or indirectly, is in a position to exercise significant influence by participating in, but not controlling, the financial and operating policies of the entity. Associates are accounted for using the equity method. Losses of an associate in excess of the group's interest in the associate are not recognised, except to the extent that the group has incurred obligations in respect of the associate. Unrealised profits and losses recognised by the group on transactions with an associate are eliminated to the extent of the group's interest in the associate concerned

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

c) Non-current assets held for sale

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

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

d) Intangible assets

Goodwill

Goodwill arising on consolidation is recognised as an asset

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

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

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

Other intangible assets

Other intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. 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 balance sheet 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 balance sheet 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 3-10 years, and
- Other intangible assets 2-20 years

e) Property, plant and equipment

Property, plant and equipment comprises infrastructure assets (mains, sewers, impounding and pumped raw water storage reservoirs, dams, sludge pipelines and sea outfalls) and other assets (including properties and overground plant and equipment)

Water and wastewater infrastructure assets

Infrastructure assets comprise a network of water and wastewater systems. Expenditure on the infrastructure assets relating to increases in capacity or enhancements of the network are 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, which range from 15 to 300 years

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. 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 on management's judgement and experience, which are principally as follows

- Buildings 30-60 years,
- Operational assets 5-80 years, and
- Fixtures, fittings, tools and equipment 3-40 years

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 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 cashflows 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 cashflows, discounted on a pre-tax basis, using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cashflows have not been adjusted

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment losses in respect of non-current assets are recognised in the income statement within operating costs

Where an impairment loss subsequently reverses, the reversal is recognised in the income statement and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years

g) Financial instruments

Financial assets and financial liabilities are recognised and derecognised on the group's balance sheet 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 cashflow statement 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 are classified as available-for-sale in accordance with IAS 39 'Financial Instruments Recognition and Measurement' and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period

Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost, less any impairment for irrecoverable amounts. Estimated irrecoverable amounts are based on historical experience of the receivables balance

Accounting policies continued

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

Bank borrowings

Interest-bearing bank loans and overdrafts are usually recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. In some cases, borrowings are designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss
Borrowings are designated at fair value through profit or loss at inception where the complexity of the swaps means that they are disallowed from being allocated in a hedge relationship despite there being significant fair value offset between the hedged item and the derivative itself. The otherwise inconsistent accounting treatment that would have resulted allows the group to satisfy the criteria for this designation. Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised incorporates any interest paid on the financial liability. The treatment of financial liabilities designated at fair value through profit or loss is consistent with the group's documented risk management strategy. Where applicable, hedge accounting will be applied

Derivative financial instruments and hedge accounting

Interest rate swap agreements and financial futures are used to manage interest rate exposure, while the group enters into cross-currency swaps to manage its exposure to fluctuations in foreign exchange rates. The group does not use derivative financial instruments for speculative purposes

All financial derivatives are recognised in the balance sheet at fair value. Changes in the fair value of all derivative financial instruments are recognised in the income statement within finance expense as they arise, except for derivatives that are designated and effective in terms of cashflow hedging relationships, in which case the gains and losses are deferred in equity

Fair value hedges

For an effective hedge of an exposure to changes in the fair value, the hedged item is adjusted for changes in fair value attributable to the risk being hedged with the corresponding entry in profit or loss. Gains or losses from remeasuring the derivative are recognised in profit or loss

Where changes in the fair value of a derivative differ from changes in the fair value of the hedged item attributable to the risks being hedged, the hedge ineffectiveness is recorded in the income statement within finance expense

Hedge accounting is discontinued prospectively when the hedging instrument is sold, terminated or exercised, where

the hedge relationship no longer meets the criteria for hedge accounting in accordance with IAS 39, or where the hedge designation is revoked. Any adjustment that has been recognised to the hedged item, for which the effective interest rate is used, is amortised to the income statement and is based on the recalculated effective interest rate at the time at which amortisation commences

Cashflow hedges

Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cashflows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement

Hedge accounting is discontinued when the hedge designation is revoked, or the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the period

Net investment hedges

Exchange differences arising from the translation of net investments in foreign operations are recognised directly in equity. Gains and losses on those hedging instruments (which include foreign currency forward contracts) designated as hedges of net investments in foreign operations are recognised in equity to the extent that the hedging relationships are effective. These amounts are included in foreign exchange adjustments within the statement of recognised income and expense. Gains and losses relating to hedge ineffectiveness are recognised immediately in the income statement for the period. Gains and losses accumulated in the exchange reserve are included in the income statement when the foreign operations are disposed of

h) Foreign currency translation

Transactions and balances

Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. At each balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling on the balance sheet 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 forward contracts, options and other derivative instruments (see derivative financial instruments and hedge accounting in note g)

Group companies

On consolidation, the balance sheets 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 the balance sheet 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 balance sheets 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

All borrowing costs and finance income that are not directly attributable to the acquisition, issue or disposal of a financial asset or financial liability 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

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 the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer

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

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately

k) Taxation

The taxation expense represents the sum of current taxation and deferred taxation

Current taxation

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

Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

Deferred taxation

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred taxation liabilities are provided, using the liability method, on all taxable temporary differences at the balance sheet date. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests

in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date

The carrying amount of deferred taxation assets is reviewed at each balance sheet 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 substantial majority of its employees. Actuarial valuations of the schemes are carried out as determined by the pension scheme trustees using the projected unit credit method at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. In any intervening years, the actuaries review the continuing appropriateness of the contribution rates

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

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

All actuarial gains and losses are recognised outside the income statement in retained earnings and presented in the statement of recognised income and expense

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 on estimates of the number of options that are expected to vest. Fair value is based on both simulation and binomial models, according to the relevant measures of performance

At each balance sheet 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

Accounting policies continued

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

Environmental expenditure that relates to current or future revenues is expensed or capitalised as appropriate. 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 costs are recognised 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 collectibility is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred income

o) Grants and contributions

Grants and contributions receivable in respect of property, plant and equipment are treated as deferred income, which is credited to the income statement over the estimated 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

Finance leases

Finance leases are capitalised in the consolidated balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is shown as a finance lease obligation to the lessor. Leasing repayments comprise both a capital and a finance element. Where the lease is of a fixed interest nature, the finance element is written off to the income statement so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Where the lease is of a floating interest rate nature, the finance element written off to the income statement reflects the floating interest rate charge incurred during the period on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease

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

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) Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the group's 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 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

Carrying value of property, plant and equipment

The estimated useful economic lives of property, plant and equipment (PPE) are based on 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 cashflows, 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. 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 collectibility is reasonably assured. Payments received in advance of revenue recognition are recorded as deferred income

United Utilities Water PLC raises bills and recognises revenue 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 an estimate of the sales value of units supplied between the date of the last meter reading and the year end. Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the financial year. The estimated usage is based on historical data, judgement and assumptions, actual results could differ from these estimates, which would

result in operating revenues being adjusted in the period that the revision to the estimates is determined. For customers who do not have a meter, the receivable billed is dependent upon the rateable value of the property, as assessed by an independent rating officer.

The customers of the electricity distribution business are the electricity supply companies that utilise United Utilities Electricity's distribution network to distribute electricity from generators to the end consumer. The receivable billed is dependent upon the volume of electricity distributed, including estimates of the units distributed to customers. The estimated usage is based on historical data, judgement and assumptions. Operating revenues are gradually adjusted to reflect actual usage in the period over which the meters are read.

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 received in advance of performance is recognised as deferred income. When performance occurs, the deferred income is released and simultaneously reported as revenue.

A breakdown of revenues by segment is contained in note 1 to the consolidated financial statements.

Provision for doubtful receivables

At each balance sheet date, the company and each of its subsidiaries evaluate the recoverability of trade receivables and record provisions for doubtful receivables based on experience. These provisions are based on, amongst other things, customer category and consideration of actual collection history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

Accounting for provisions and contingencies

The group is subject to a number of claims incidental to the normal conduct of its business, relating to and including commercial, contractual and employment matters, which are handled and defended in the ordinary course of business. The group routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable estimates involve judgements made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available. Matters that either are possible obligations or do not meet the recognition criteria for a provision are disclosed in note 29, unless the possibility of transferring economic benefits is remote.

Retirement benefits

The group operates a number of defined benefit schemes, one of which has 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 on the latest actuarial valuation and assumptions determined by the actuary. The assumptions are based on information supplied to the actuary by the company, supplemented by discussions between the actuary and management. The assumptions are disclosed in note 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

The group's default treatment is for borrowings to be carried at amortised cost, whilst derivatives are recognised separately on the balance sheet at fair value with movements in those fair values reflected through the income statement. This has the potential to introduce considerable volatility to both the income statement and balance sheet.

Therefore, where feasible, the group has taken advantage of the various provisions under IAS 39 to designate borrowings at fair value through the income statement or equity to reduce this volatility and better represent the economic hedges that exist between the group's borrowings and related derivative contracts.

In order to apply hedge accounting, it must be demonstrated that the derivative has been, and will continue to be, an effective hedge of the hedged risk within the debt item. Changes in the fair value of all derivatives are recognised in the income statement, except for derivatives that are designated and effective in terms of cashflow hedging relationships, in which case the gains and losses are deferred in equity. The group applies the fair value through profit or loss option where the complexity of the swaps means that they are disallowed from being accounted for in a hedge relationship despite there being significant fair value offset between the hedged item and the derivative itself. This area is considered to be of significance due to the magnitude of the group's level of borrowings.

Designated borrowings and derivatives valued at fair value are valued using a discounted cash flow valuation model. This model calculates the zero coupon curves for each currency as at the balance sheet date and uses these to determine future floating cashflows. Future fixed and floating cashflows are discounted using discount factors derived from the same zero coupon curves.

The valuation of debt designated as being within a fair value hedged relationship is calculated based upon the risk being hedged in line with IAS 39. The group looks to hedge cashflows which represents its floating rate exposure, and it is this portion which is used in the valuation model.

The valuation of debt designated at fair value through the profit or loss incorporates an assumed credit spread in the discount factor. Credit spreads are determined based upon indicative pricing data.

Cashflows denominated in foreign currencies are determined and discounted back based upon the zero coupon curve for that currency and then converted into sterling at the spot exchange rate observed at the balance sheet date.

Taxation

Assessing the outcome of uncertain tax positions requires judgements to be made regarding the result of negotiations with, and enquiries from, tax authorities in a number of jurisdictions.

Accounting policies continued

s) 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 will have a material impact on the group's financial statements.

- IAS 23 Amendment – 'Borrowing Costs' On 29 March 2007, the International Accounting Standards Board (IASB) issued a revised IAS 23 'Borrowing Costs'. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to prepare for use or sale. The revised standard is effective for periods commencing on or after 1 January 2009. The group is, therefore, required to capitalise borrowing costs as part of the cost of qualifying assets from 1 April 2009. This amendment has not yet been endorsed by the EU.
- IFRIC 14 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction' On 5 July 2007, the IASB issued IFRIC 14, IAS 19, which provides clarification and guidance on determining the amount of surplus that can be recognised on the balance sheet in relation to a retirement benefit plan. This interpretation is effective for periods commencing on or after 1 January 2008. This interpretation will impact the amount that the group can recognise as a surplus in respect of its post-retirement defined benefit plans. This interpretation has not yet been endorsed by the EU.
- IFRS 3 'Business Combinations', issued in January 2008, is effective for periods commencing on or after 1 July 2009. This has not yet been adopted by the EU.

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

- IAS 32 'Financial Instruments – Presentation' and IAS 1 'Presentation of Financial Statements – Amendments', are effective for periods commencing on or after 1 January 2009. The latter has not yet been adopted by the EU.
- IFRS 8 'Operating Segments', issued in November 2006, is effective for periods commencing on or after 1 January 2009.
- IFRIC 12 'Service Concession Arrangements', issued in November 2006, is effective for periods commencing on or after 1 January 2008.
- IFRIC 13 'Customer Loyalty Programmes'

Interpretations in issue but not considered relevant to the activities of the group are as follows:

- IFRIC 1 'Changes in Existing Decommissioning, Restoration and Similar Liabilities'
- IFRIC 2 'Members' Shares in Cooperative Entities and Similar Instruments'
- IFRIC 5 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'
- IFRIC 6 'Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'
- IFRIC 7 'Applying the Re-statement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies'

Notes to the consolidated financial statements

1 Segment reporting

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

For management purposes, the group is organised into two principal operating divisions, being regulated and non-regulated activities. These divisions form the basis on which the primary segment information is reported.

The regulated activities segment (formerly described as United Utilities North West) previously included the results of United Utilities Electricity (UUE). Following the sale of UUE, which principally comprised the group's electricity distribution assets, on 19 December 2007, the results of this business are treated as discontinued and are not included in the continuing operations regulated activities segment (see note 7). The regulated segment therefore only includes the regulated results of United Utilities Water PLC.

The non-regulated activities segment (formerly described as United Utilities Contract Solutions) previously included the contribution from the group's industrial liquid waste and facilities management operations. Following the sale of these operations on 26 October 2007 and 22 February 2008 respectively, these non-regulated activities are also treated as discontinued (see note 7). The non-regulated continuing operations segment therefore relates to the group's utility outsourcing contracts in the United Kingdom and overseas.

In April 2007, the operations and maintenance of UUE's assets was outsourced under an Asset Services Agreement to United Utilities Electricity Services Limited (UUES), a newly incorporated group company. UUES' results from this date are reported within continuing operations as part of the non-regulated activities segment. The results of UUE, including those for the year ended 31 March 2007, when UUE operated its own assets, have been reported in full as discontinued.

In addition, the other activities segment previously included some residual activities associated with UUE, but not related to regulated electricity distribution. These residual activities were sold, along with UUE, and hence have been treated as discontinued and are no longer included in the continuing operations other activities segment. The other activities segment therefore includes the results of United Utilities Property Solutions Limited, the parent company and other group holding companies.

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.

Year ended 31 March 2008	Regulated £m	Non-regulated £m	Other activities £m	Group £m
Continuing operations				
Total revenue	1,416.3	949.2	41.3	2,406.8
Inter-segment revenue	(2.1)	(33.2)	(8.6)	(43.9)
External revenue	1,414.2	916.0	32.7	2,362.9
Segmental operating profit	611.6	50.6	1.0	663.2
Investment income				146.7
Finance expense				(331.6)
Profit before taxation				478.3
Taxation				(62.0)
Profit for the year from continuing operations				416.3
<hr/>				
Year ended 31 March 2007 re-presented	Regulated £m	Non-regulated £m	Other activities £m	Group £m
Continuing operations				
Total revenue	1,320.8	729.2	53.0	2,103.0
Inter-segment revenue	(6.5)	(101.6)	(8.2)	(116.3)
External revenue	1,314.3	627.6	44.8	1,986.7
Segmental operating profit/(loss)	581.0	62.6	(1.5)	642.1
Investment income				118.3
Finance expense				(258.1)
Profit before taxation				502.3
Taxation				(143.9)
Profit for the year from continuing operations				358.4

Notes to the consolidated financial statements continued

1 Segment reporting continued

Year ended 31 March 2008	Regulated £m	Non-regulated £m	Telecoms £m	Group £m
Discontinued operations				
Total revenue	223 7	11 0	–	234 7
Inter-segment revenue	–	21 6	–	21 6
External revenue	223 7	32 6	–	256 3
Segmental operating profit	153 3	0 7	4 5	158 5

Year ended 31 March 2007	Regulated £m	Non-regulated £m	Vertex £m	Other activities £m	Group £m
Discontinued operations					
Total revenue	315 4	20 9	303 4	–	639 7
Inter-segment revenue	–	38 4	89 5	–	127 9
External revenue	315 4	59 3	392 9	–	767 6
Segmental operating profit	169 1	6 5	15 0	9 8	200 4

Year ended 31 March 2008	Regulated £m	Non-regulated £m	Other activities £m	Discontinued operations £m	Unallocated £m	Group £m
Other information						
Capital additions	706 0	61 6	0 1	166 8	–	934 5
Depreciation and amortisation	222 9	24 9	0 4	–*	–	248 2
Balance sheet						
Segment assets	7,752 8	695 6	73 6	–	1,814 4	10,336 4
Segment liabilities	(593 3)	(310 6)	(113 7)	–	(6,108 8)	(7,126 4)

Year ended 31 March 2007 re-presented	Regulated £m	Non-regulated £m	Other activities £m	Discontinued operations £m	Unallocated £m	Group £m
Other information						
Capital additions	469 2	41 0	1 9	200 8	–	712 9
Depreciation and amortisation	195 5	24 3	1 5	–*	–	221 3
Balance sheet						
Segment assets	7,210 3	550 8	99 4	1,953 6	2,446 8	12,260 9
Segment liabilities	(438 1)	(190 0)	(45 5)	(429 2)	(8,423 3)	(9,526 1)

* Depreciation and amortisation in respect of the group's discontinued operations is disclosed in note 7

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest bearing cash and borrowings and taxation related assets and liabilities.

Of the group's consolidated revenue and net assets for continuing operations, greater than 90 per cent of revenue is derived from customers located in the United Kingdom and greater than 90 per cent of the net assets are located in the United Kingdom, for both of the years ended 31 March 2008 and 31 March 2007 and, hence, no geographical analysis is presented.

2 Directors and employees

Directors' remuneration

	2008 £m	2007 £m
Fees to non-executive directors	0 6	0 6
Salaries	1 6	2 0
Benefits	0 4	1 1
Bonus	1 4	1 3
Share-based payments	–	0 6
	4 0	5 6

Benefits of £0.4 million (2007: £1.1 million) include £0.3 million (2007: £0.7 million) in respect of compensation for loss of office.

Further information about the remuneration of individual directors and details of their pension arrangements is provided in the directors' remuneration report on pages 41 to 51.

Remuneration of key management personnel

	2008 £m	2007 £m
Salaries and short-term employee benefits	5.6	6.1
Post-employment benefits	0.6	0.3
Share-based payments	0.1	0.9
	6.3	7.3

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

Employee benefits expense (including directors)

	Re-presented Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Continuing operations				
Wages and salaries	308.9	238.1	16.2	12.1
Social security costs	24.7	19.8	1.9	1.3
Post-employment benefits	48.1	52.1	1.8	1.9
	381.7	310.0	19.9	15.3
Capital schemes and charges against provisions	(64.2)	(55.9)	-	-
Employee benefits expense attributable to continuing operations	317.5	254.1	19.9	15.3
Discontinued operations				
Wages and salaries	10.2	233.0	-	-
Social security costs	0.8	20.9	-	-
Post-employment benefits	7.0	17.8	-	-
	18.0	271.7	-	-
Capital schemes and charges against provisions	(1.9)	(43.8)	-	-
Employee benefits expense attributable to discontinued operations	16.1	227.9	-	-
	333.6	482.0	19.9	15.3
Less employee benefits expense attributable to joint ventures	(7.1)	(4.7)	-	-
Total employee benefits expense	326.5	477.3	19.9	15.3

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

	2008 number	Re-presented 2007 number
Continuing operations		
Regulated activities	3,888	3,633
Non-regulated activities	4,517	3,201
Other activities	268	221
	8,673	7,055
Discontinued operations		
United Utilities Electricity	57	1,198
Industrial liquid waste	34	162
Facilities management	145	176
Vertex	-	8,277
	8,909	16,868

The 2008 United Utilities Electricity employee benefit expense and related average number of employees relates to the employees who did not transfer as operational staff to the group's non-regulated segment to deliver the operations and maintenance contract retained by the group

The average number of employees during the year employed by the company was 198 (2007 133)

Notes to the consolidated financial statements continued

2 Directors and employees continued

The table below shows the nature of post-employment benefits

	Continuing operations		Discontinued operations		Total		Group	
	£m	£m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Defined benefit pension expense charged to operating profit (see note 19)	44.1	6.3	50.4	36.5	12.0	48.5		
Contributions to defined contribution pension schemes (see note 19)	4.0	0.7	4.7	15.6	5.8	21.4		
	48.1	7.0	55.1	52.1	17.8	69.9		
							Company	
							2008 £m	2007 £m
Defined benefit pension expense charged to operating profit (see note 19)							0.8	1.6
Contributions to defined contribution pension schemes (see note 19)							1.0	0.3
							1.8	1.9

3 Operating profit

The following items have been (credited)/charged to the income statement in arriving at the group's operating profit from continuing operations and the profit from discontinued operations

Re-presented	Continuing operations		Discontinued operations		Total		Total	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m
Other income includes								
(Profit)/loss on disposal of property, plant and equipment	(5.7)	(3.4)	2.5	(2.4)	(3.2)	(5.8)		
Employee benefits expense								
Employee costs (see note 2)	317.5	254.1	16.1	227.9	333.6	482.0		
Depreciation and amortisation expense								
Depreciation of property, plant and equipment								
Owned assets (see note 10)	224.3	211.9	9.7	67.9	234.0	279.8		
Under finance leases (see note 10)	1.7	1.9	-	0.1	1.7	2.0		
Amortisation of other intangible assets (see note 12)	22.2	7.5	0.6	13.4	22.8	20.9		
	248.2	221.3	10.3	81.4	258.5	302.7		
Other operating costs								
Hired and contracted services	445.0	341.9	12.6	128.2	457.6	470.1		
Materials	119.8	131.8	0.9	23.8	120.7	155.6		
Power	65.5	69.2	1.0	4.2	66.5	73.4		
Property rates	61.2	56.2	11.7	21.0	72.9	77.2		
Charge for bad and doubtful receivables (see note 15)	55.8	39.9	0.2	(0.5)	56.0	39.4		
Other operating leases payable								
Property	2.9	3.2	0.1	7.2	3.0	10.4		
Plant and equipment	1.8	1.0	-	0.7	1.8	1.7		
Amortisation of government grants (see note 22)	(6.2)	(5.8)	(6.4)	(8.2)	(12.6)	(14.0)		
Research and development expenses	1.2	1.1	0.5	1.3	1.7	2.4		
Other	288.2	138.4	52.6	56.1	340.8	194.5		
	1,035.2	776.9	73.2	233.8	1,108.4	1,010.7		

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

	2008 £m	Re-presented 2007 £m
Statutory audit of the financial statements	0.5	0.6
Other fees to the auditors		
Local statutory audits for subsidiaries	0.4	0.5
Other audit related	0.1	–
Regulatory reporting – other	0.2	0.2
Regulatory reporting – Sarbanes Oxley preparation	–	2.3
Tax advisory services	–	0.1
Due diligence and transaction support	3.6	0.9
	4.8	4.6

Included in the above statutory audit fee is £50,000 (2007 £50,000) in relation to the company

4 Investment income

	2008 £m	Re-presented 2007 £m
Interest receivable on short-term bank deposits held at amortised cost	67.8	69.8
Foreign exchange gains on forward contracts	55.4	30.9
	123.2	100.7
Expected return on pension schemes' assets (see note 19)	128.6	92.5
Interest cost on pension schemes' obligations (see note 19)	(105.1)	(74.9)
Net pension interest income	23.5	17.6
	146.7	118.3

Notes to the consolidated financial statements continued

5 Finance expense

	2008 £m	Re-presented 2007 £m
Interest payable		
Interest payable on borrowings held at amortised cost	285 7	281 2
Interest payable on finance leases	3 2	2 9
	288 9	284 1
Fair value losses/(gains)⁽¹⁾		
Fair value hedge relationships		
Borrowings	177 8	(172 2)
Designated swaps	(109 6)	150 3
	68 2	(21 9)
Held for trading derivatives – economic hedge	(78 1)	27 8
	(9 9)	5 9
Financial instruments at fair value through profit or loss		
Borrowings designated at fair value through profit or loss ⁽²⁾	(5 7)	(28 0)
Held for trading derivatives – economic hedge	(26 3)	30 1
	(32 0)	2 1
Held for trading derivatives – 2005-2010 regulatory hedges	24 5	(88 7)
Net payments on swaps and debt under fair value option	49 5	55 4
Held for trading derivatives – other ⁽³⁾	11 2	(2 4)
Other	(0 6)	1 7
	84 6	(34 0)
Net fair value losses/(gains) ⁽⁴⁾	42 7	(26 0)
	331 6	258 1

Notes

- (1) Fair value losses/(gains) includes foreign exchange losses of £153.6 million (2007: £119.3 million gains), excluding those on instruments measured at fair value through profit or loss.
- (2) Includes £28.2 million gain (2007: £6.0 million loss) 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 the expired THUS Group plc option, joint venture swaps and other economic hedge derivatives relating to debt held at amortised cost.
- (4) Includes £41.7 million (2007: £57.3 million) interest on swaps and debt under fair value option.

6 Taxation

	2008 £m	Re-presented 2007 £m
<i>Continuing operations</i>		
Current taxation		
UK corporation tax	108.9	84.6
Foreign tax	2.7	3.1
Prior year adjustments	(23.0)	(34.1)
	88.6	53.6
Deferred taxation (see note 20)		
Current year	37.5	73.0
Prior year adjustments	17.6	17.3
Change in taxation rate	(81.7)	–
	(26.6)	90.3
Total tax charge for the year	62.0	143.9
<i>Discontinued operations</i>		
Current taxation		
UK corporation tax	28.4	35.6
Foreign tax	–	1.3
Prior year adjustments	(0.1)	(16.8)
	28.3	20.1
Deferred taxation (see note 20)		
Current year	12.4	15.7
Prior year adjustments	(4.6)	3.4
Change in taxation rate	(21.7)	–
	(13.9)	19.1
Total tax charge for the year	14.4	39.2

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

	2008 £m	2008 %	2007 £m	Re-presented 2007 %
<i>Continuing operations</i>				
Profit before taxation	478.3		502.3	
Tax at the UK corporation tax rate of 30 per cent (2007 30 per cent)	143.5	30.0	150.7	30.0
Adjustments in respect of prior periods	(5.4)	(1.1)	(16.8)	(3.3)
Change in taxation rate	(81.7)	(17.1)	–	–
Net expense not deductible	5.6	1.2	10.0	1.9
Total tax charge and effective tax rate for the year	62.0	13.0	143.9	28.6

A tax credit of £5.4 million (2007 £16.8 million) arose in the year in relation to prior year tax returns

	2008 £m	2008 %	2007 £m	2007 %
<i>Discontinued operations</i>				
Profit before taxation	141.9		192.9	
Adjustment for share of results of associated company	–		(18.7)	
	141.9		174.2	
Tax at the UK corporation tax rate of 30 per cent (2007 30 per cent)	42.6	30.0	52.3	30.0
Adjustments in respect of prior periods	(4.7)	(3.3)	(13.4)	(7.7)
Change in taxation rate	(21.7)	(15.3)	–	–
Net income not taxable	(1.8)	(1.3)	(1.6)	(0.9)
Total tax charge and effective tax rate for the year on trading profit	14.4	10.1	37.3	21.4
Tax on profit/(loss) on disposal of discontinued operations	–		1.9	
	14.4		39.2	

The deferred tax credit arising in the year due to the change in taxation rate is due to the reduction in the mainstream corporation tax rate from 30 per cent to 28 per cent from 1 April 2008

Notes to the consolidated financial statements continued

7 Discontinued operations

In line with its declared strategy of concentrating on its core skills of managing water, wastewater, electricity and gas networks, the group completed the disposal of UUE to North West Electricity Networks Limited on 19 December 2007 for a total enterprise value of £1,782 million

The group continues to seek opportunities to grow its non-regulated business by applying its core skills where it identifies opportunities to generate additional shareholder value with little impact on the risk profile of the group. In addition to the United Kingdom utility outsourcing market, United Utilities is currently focusing business development resources on specific opportunities in the United Kingdom municipal solid waste treatment market, Australia and the fast-developing Gulf region. In line with this strategy, the group sold its industrial liquid waste and facilities management operations and made its final exit from the telecoms sector during the year. On 26 October 2007, the group sold its industrial liquid waste operations to Group Tradebe for consideration of £3.7 million and on 22 February 2008, the group completed the sale of its facilities management operations to Europa Facility Holdings Limited for consideration of £9.0 million.

The results of UUE, the group's industrial liquid waste and facilities management operations and its share of results from its associate have been disclosed, along with the profit/(loss) on disposal, as discontinued operations in the group's financial statements. The detailed trading results and the profit/(loss) on disposal of each discontinued operation are shown below. Cashflows in relation to discontinued operations are separately disclosed in the group's cashflow statement.

Revenue from the discontinued operations was derived principally from customers located in the United Kingdom, the related net assets are also primarily located in the United Kingdom.

There is no tax charged on the profits resulting from the disposal of the discontinued operations during the year ended 31 March 2008 as these were tax exempt sales of shares.

	Year ended 31 March 2008 £m	Year ended 31 March 2007 £m
United Utilities Electricity	493.0	118.5
Industrial liquid waste	(5.0)	1.7
Facilities management	10.4	3.4
Telecoms (including loss on disposal of THUS Group plc shares of £10.0 million)	(5.5)	18.7
Vertex	-	(67.2)
Profit for the year from discontinued operations	492.9	75.1

	Period ended 19 December 2007 £m	Year ended 31 March 2007 £m
United Utilities Electricity <i>Discontinued operations</i>		
Total external revenue	223.7	315.4
Depreciation and amortisation	(10.0)	(64.2)
Other operating expenses	(60.4)	(72.3)
Operating profit	153.3	178.9
Investment income and finance expense	(17.1)	(31.2)
Profit before taxation	136.2	147.7
Taxation on profit	(14.4)	(29.2)
Profit for the period/year from discontinued operations	121.8	118.5
Profit on disposal of discontinued operations	371.2	
Total profit for the period from discontinued operations	493.0	

The net assets at the date of disposal and at 31 March 2007 were as follows

	19 December 2007 £m	31 March 2007 £m
Property, plant and equipment	1,957 4	1,821 0
Other intangible assets	23 3	24 2
Trade and other receivables	166 2	314 7
Retirement benefit surplus	31 5	24 5
Cash and short-term deposits	-	1 8
Non-current liabilities	(1,339 7)	(1,349 1)
Trade and other payables	(115 9)	(167 0)
Net assets	722 8	670 1
Transaction costs	46 0	
Profit on disposal	371 2	
Total fair value of consideration satisfied by cash⁽¹⁾	1,140 0	

Note

(1) Total fair value of consideration comprised cash of £1,140 0 million. The enterprise value of £1,782 0 million incorporates cash consideration received added to the market value of the debt disposed of, which at the date of disposal totalled £642 0 million.

	Period ended 26 October 2007 £m	Year ended 31 March 2007 £m
Industrial liquid waste <i>Discontinued operations</i>		
Total external revenue	5 3	16 0
Depreciation and amortisation	(0 2)	(2 4)
Other operating expenses	(5 2)	(11 5)
Operating (loss)/profit	(0 1)	2 1
Investment income and finance expense	-	0 3
(Loss)/profit before taxation	(0 1)	2 4
Taxation on (loss)/profit	-	(0 7)
(Loss)/profit for the period/year from discontinued operations	(0 1)	1 7
Loss on disposal of discontinued operation	(4 9)	
Total loss for the period from discontinued operations	(5 0)	

The net assets at the date of disposal and at 31 March 2007 were as follows

	26 October 2007 £m	31 March 2007 £m
Property, plant and equipment	4 3	9 2
Goodwill	2 9	2 9
Trade and other receivables	2 3	2 7
Trade and other payables	(1 6)	(8 9)
Net assets	7 9	5 9
Transaction costs	0 7	
Loss on disposal	(4 9)	
Total fair value of consideration satisfied by cash	3 7	

Notes to the consolidated financial statements continued

7 Discontinued operations continued

Facilities management Discontinued operations	Period ended 22 February 2008 £m	Year ended 31 March 2007 £m
Revenue		
External sales	5 7	4 9
Intra-group sales	21 6	38 4
Total revenue	27 3	43 3
Depreciation and amortisation	(0 1)	(0 6)
Other operating expenses	(26 4)	(38 3)
Operating profit	0 8	4 4
Investment income and finance expense	0 5	0 5
Profit before taxation	1 3	4 9
Taxation on profit	–	(1 5)
Profit for the period/year from discontinued operations	1 3	3 4
Profit on disposal of discontinued operations	9 1	
Total profit for the period from discontinued operations	10 4	

Profit before taxation includes profit generated from intercompany trading of £0.2 million in the period ended 22 February 2008 (2007 £4.1 million)

The net (liabilities)/assets at the date of disposal and at 31 March 2007 were as follows

	22 February 2008 £m	31 March 2007 £m
Property, plant and equipment	0 2	1 9
Inventories	–	0 3
Trade and other receivables	7 6	11 9
Cash and short-term deposits	1 2	0 9
Trade and other payables	(8 3)	(6 5)
Retirement benefit (obligations)/surplus	(1 0)	1 0
Net (liabilities)/assets	(0 3)	9 5
Transaction costs	0 2	
Profit on disposal	9 1	
Total fair value of consideration satisfied by cash	9 0	

The group sold its 22.63 per cent stake in THUS Group plc on 19 June 2007 for consideration of £75.8 million, which completed United Utilities' exit from the telecoms sector. The sale is treated as an adjustment to consideration arising on the disposal of Your Communications and, as such, both the loss on disposal and the group's share of THUS' results prior to the disposal are disclosed within discontinued operations. The group's share of results for the period from 1 April 2007 to 19 June 2007 has not been separately disclosed in the income statement or statement of recognised income and expense for the current year, on the grounds of materiality.

On 26 March 2007, the group sold the Vertex business. The purchaser was a consortium of US-based private equity firms led by Oak Hill Capital Partners and also including GenNx360 and Knox Lawrence International.

The results of Vertex have been disclosed within discontinued operations in the group's financial statements. The detailed trading results and loss on disposal of Vertex for the period ended 26 March 2007 are shown below.

Vertex	Period ended 26 March 2007
<i>Discontinued operations</i>	£m
Revenue	
External sales	303.4
Intra-group sales	89.5
Total revenue	392.9
Depreciation and amortisation	(14.2)
Other operating expenses	(363.7)
Operating profit	15.0
Investment income and finance expense	4.2
Profit before taxation	19.2
Taxation on profit	(5.9)
Profit for the period from discontinued operations	13.3
Loss on disposal of discontinued operations before taxation and assumption of deferred contingent consideration	(65.1)
Assumption of deferred contingent consideration	(13.5)
Loss on disposal of discontinued operations before taxation	(78.6)
Taxation on loss on disposal of discontinued operations	(1.9)
Total loss for the period from discontinued operations	(67.2)

Profit before taxation for the period ended 26 March 2007 includes profit generated from intercompany trading of £8.7 million.

The net assets of Vertex at the date of disposal were as follows:

	26 March 2007 £m
Property, plant and equipment	21.4
Intangible assets	262.6
Trade and other receivables	73.5
Trade and other payables	(53.4)
Retirement benefit obligations	(6.3)
Non-current liabilities	(142.5)
Net assets	155.3
Loss on disposal before taxation	(78.6)
Repayment of intercompany debt	107.6
Transaction costs	8.6
Total fair value of consideration⁽¹⁾	192.9

Note

(1) Total fair value of consideration comprises cash of £206.4 million, less the assumption of deferred contingent consideration of £13.5 million (see note 24).

Notes to the consolidated financial statements continued

8 Dividends

	2008 £m	2007 £m
Amounts recognised as distributions to equity holders in the year comprise		
Ordinary shares		
Final dividend for the year ended 31 March 2007 at 30.30 pence per share (2006 29.58 pence)	266.6	259.0
Interim dividend for the year ended 31 March 2008 at 15.20 pence per share (2007 14.63 pence)	133.8	128.3
	400.4	387.3
Proposed final dividend for the year ended 31 March 2008 at 31.47 pence per share (2007 30.30 pence)	277.4	266.6

The proposed final dividends for the years ended 31 March 2008 and 31 March 2007 were subject to approval by equity holders of the company and hence have not been included as liabilities in the financial statements at 31 March 2008 and 31 March 2007 respectively

9 Earnings per share

	2008 £m	Re-presented 2007 £m
Profit for the year attributable to equity holders of the company – continuing and discontinued operations	909.2	433.5
Adjustment for profit for the period from discontinued operations	(492.9)	(75.1)
Profit for the year attributable to equity holders of the company – continuing operations	416.3	358.4
	2008 pence	2007 pence
Earnings per share from continuing and discontinued operations		
Basic	103.3	49.4
Diluted	103.2	49.2
Earnings per share from continuing operations		
Basic	47.3	40.9
Diluted	47.3	40.7
Earnings per share from discontinued operations		
Basic	56.0	8.5
Diluted	55.9	8.5

Basic earnings per share have been calculated by dividing profit for the financial year attributable to equity holders of the company by 880.4 million, being the weighted average number of shares in issue during the year (2007 876.8 million)

Diluted earnings per share have been calculated by dividing profit for the financial year attributable to equity holders of the company by 880.6 million, being the weighted average number of shares in issue during the year including dilutive shares (2007 880.6 million)

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

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

	2008 million	2007 million
Average number of ordinary shares in issue – basic	880.4	876.8
Average number of potentially dilutive ordinary shares under option	1.0	5.7
Number of ordinary shares that would have been issued at fair value	(0.8)	(1.9)
Average number of ordinary shares – diluted	880.6	880.6

10 Property, plant and equipment

Group	Land and buildings £m	Infrastructure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Cost						
At 1 April 2006	344.7	3,200.6	5,864.4	512.4	790.3	10,712.4
Additions	9.0	53.3	152.7	47.5	423.2	685.7
Transfers	6.4	135.6	316.5	17.3	(475.8)	-
Disposals	(13.1)	(0.7)	(23.2)	(119.0)	(6.7)	(162.7)
Currency translation differences	(0.2)	(1.9)	-	(0.4)	-	(2.5)
At 31 March 2007	346.8	3,386.9	6,310.4	457.8	731.0	11,232.9
Additions	7.0	79.3	193.0	72.5	554.7	906.5
Transfers	6.3	73.7	106.6	14.4	(201.0)	-
Disposals	(142.1)	(3.7)	(2,477.2)	(30.5)	(188.6)	(2,842.1)
Currency translation differences	0.7	26.1	-	0.3	1.3	28.4
At 31 March 2008	218.7	3,562.3	4,132.8	514.5	897.4	9,325.7
Accumulated depreciation						
At 1 April 2006	103.9	91.2	1,713.0	260.4	-	2,168.5
Charge for the year	12.4	28.7	192.2	48.5	-	281.8
Transfers	-	(2.1)	-	2.1	-	-
Disposals	(6.7)	(0.2)	(13.3)	(92.6)	-	(112.8)
Currency translation differences	-	0.6	-	0.2	-	0.8
At 31 March 2007	109.6	118.2	1,891.9	218.6	-	2,338.3
Charge for the year	8.7	31.8	151.0	44.2	-	235.7
Disposals	(48.5)	(3.7)	(786.8)	(11.0)	-	(850.0)
Currency translation differences	0.1	11.7	-	(1.9)	-	9.9
At 31 March 2008	69.9	158.0	1,256.1	249.9	-	1,733.9
Net book value at 31 March 2008	148.8	3,404.3	2,876.7	264.6	897.4	7,591.8
Net book value at 31 March 2007	237.2	3,268.7	4,418.5	239.2	731.0	8,894.6

The carrying amount of the group's operational assets includes an amount of £64.4 million (2007 £66.0 million) in respect of assets held under finance leases

At 31 March 2008, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £485.2 million (2007 £370.7 million)

Company	Fixtures, fittings, tools and equipment £m
Cost	
At 1 April 2006, 31 March 2007 and 31 March 2008	4.8
Accumulated depreciation	
At 1 April 2006	4.0
Charge for the year	0.2
At 31 March 2007	4.2
Charge for the year	0.1
At 31 March 2008	4.3
Net book value at 31 March 2008	0.5
Net book value at 31 March 2007	0.6

The company had no contractual commitments for the acquisition of property, plant and equipment at 31 March 2008 or at 31 March 2007

Notes to the consolidated financial statements continued

11 Goodwill

Group	£m
Cost	
At 1 April 2006	153.1
Additions	3.2
Impairment	(0.8)
Disposals	(149.7)
Currency translation differences	(0.8)
At 31 March 2007	5.0
Disposals (see note 7)	(2.9)
Currency translation differences	0.2
At 31 March 2008	2.3

Goodwill is subject to impairment testing annually, or more frequently if there are indications of impairment. The recoverable amounts of cash generating units (CGUs) are determined from value-in-use calculations that use amounts from approved budgets and plans for the next seven years and extrapolate cashflows for a further five years based on an estimated growth rate. The range of discount rates applied to the cashflow projections were 13.6 to 15.0 per cent (2007: 12.0 per cent). The growth rate used of 2.4 per cent (2007: 2.8 to 5.0 per cent) was based on industry growth rates, which does not exceed the long-term average growth rate.

Goodwill is allocated to the appropriate CGU according to the business segment. Goodwill was held entirely within the non-regulated business segment at both 31 March 2008 and 31 March 2007.

During the year ended 31 March 2007, an impairment of £0.8 million was recognised within discontinued operations in respect of goodwill relating to First Revenue Assurance LLC, a subsidiary of Vertex.

12 Other intangible assets

Group	Computer software £m	Other £m	Total £m
Cost			
At 1 April 2006	292.4	130.9	423.3
Additions – purchased	22.2	1.8	24.0
Disposals	(85.7)	(113.4)	(199.1)
Currency translation differences	–	(0.7)	(0.7)
At 31 March 2007	228.9	18.6	247.5
Additions – internally generated	2.7	–	2.7
Additions – purchased	24.6	0.7	25.3
Disposals	(59.5)	(0.2)	(59.7)
Currency translation differences	–	2.5	2.5
At 31 March 2008	196.7	21.6	218.3
Amortisation			
At 1 April 2006	157.4	29.7	187.1
Charge for the year	12.0	8.9	20.9
Disposals	(44.5)	(31.2)	(75.7)
Currency translation differences	–	(0.3)	(0.3)
At 31 March 2007	124.9	7.1	132.0
Charge for the year	21.6	1.2	22.8
Disposals	(22.7)	(0.2)	(22.9)
Currency translation differences	–	1.1	1.1
At 31 March 2008	123.8	9.2	133.0
Net book value at 31 March 2008	72.9	12.4	85.3
Net book value at 31 March 2007	104.0	11.5	115.5

The other intangible assets category relates mainly to customer related intangibles such as customer contracts and customer lists.

At 31 March 2008, the group had entered into contractual commitments for the acquisition of other intangible assets amounting to £16.9 million (2007: £nil). The company had no contractual commitments for the acquisition of other intangible assets at 31 March 2008 (2007: £nil).

13 Investments

Group	Associate £m	Other investments £m	Total £m
At 1 April 2006	60.7	110.0	170.7
Additions	4.3	–	4.3
Disposals	–	(0.4)	(0.4)
Revaluation	–	8.9	8.9
Share of results of associated company	18.7	–	18.7
Exchange adjustments	–	(0.4)	(0.4)
At 31 March 2007	83.7	118.1	201.8
Adjustment in relation to NGNPS (see note 19)	–	0.6	0.6
At 31 March 2007	83.7	118.7	202.4
Reclassification from prepayments and accrued income	–	1.0	1.0
Disposals	(83.7)	(0.6)	(84.3)
Revaluation	–	34.9	34.9
Exchange adjustments	–	1.5	1.5
At 31 March 2008	–	155.5	155.5

The group's other investments mainly comprise a 15.0 per cent shareholding in Northern Gas Networks Holdings Limited. The group also holds an overall 11.8 per cent shareholding in Manila Water Company. In the opinion of the directors, there is no material difference between the book and fair values of these investments.

In addition to its existing shareholding of 39,153,285, on 1 February 2007, the group received a further 2,274,701 shares with a fair value of £4.3 million in THUS Group plc as a result of the vesting of options received as part of the consideration for the sale of the Your Communications business.

During the year ended 31 March 2007, the group accounted for its investment in THUS Group plc as an associate in accordance with IAS 28 'Investments in Associates' and applied equity accounting. The group's share of post-acquisition results for the period to 19 June 2007 has not been separately disclosed in the income statement or the statement of recognised income and expenditure on the grounds of materiality.

On 19 June 2007, the group disposed of its remaining investment in THUS Group plc (see note 7).

The fair values of the group's financial instruments are shown in note 18.

Notes to the consolidated financial statements continued

13 Investments continued

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

	Class of share capital held	Proportion of share capital owned/voting rights %	Nature of business
Subsidiary undertakings			
Great Britain			
United Utilities Water PLC	Ordinary	100.0	Water and wastewater services and network management
United Utilities Electricity Services Limited	Ordinary	100.0	Operation of electricity distribution network
United Utilities International Limited	Ordinary	100.0	Consulting services and project management
United Utilities Industrial Limited	Ordinary	100.0	Electricity asset maintenance
United Utilities Property Solutions Limited	Ordinary	100.0*	Property management
United Utilities Operational Services Limited	Ordinary	100.0	Operation and maintenance of water and wastewater assets of Dŵr Cymru
United Utilities Operational Services (Highland) Limited	Ordinary	100.0	Operation and maintenance of wastewater assets
United Utilities Operational Services (Tay) Limited	Ordinary	100.0	Operation and maintenance of wastewater assets
United Utilities Operational Services (Moray) Limited	Ordinary	100.0	Operation and maintenance of wastewater assets
United Utilities Networks Limited	Ordinary	100.0	Multi-utility metering and network operations
United Utilities Operations Limited	Ordinary	100.0	Operation of gas distribution network
Australia			
United Utilities Australia Pty Limited	Ordinary	100.0	Water treatment operations, technical and management services
United Utilities Macarthur Operations Pty Limited	Ordinary	100.0	Technical and management services
Yabulu Water Pty Limited	Ordinary	100.0	Technical and management services
UU Victor Harbor Pty Limited	Ordinary	100.0	Wastewater treatment operations
UU Onkaparinga Pty Limited	Ordinary	100.0	Technical and management services
UU Berni Barmera Pty Limited	Ordinary	100.0	Water treatment operations
Joint ventures			
Great Britain			
Catchment Limited	Ordinary	50.0	Contract operations and maintenance services
Catchment (Tay) Limited	Ordinary	33.3	Contract operations and maintenance services
Catchment (Moray) Limited	Ordinary	33.3	Contract operations and maintenance services
Meter Fit (North West) Limited	Ordinary	50.0	Metering installation services
Meter Fit (North East) Limited	Ordinary	50.0	Metering installation services
UUGM Limited	Ordinary	60.0	Consulting services and project management
Scottish Water Solutions Limited	Ordinary	14.7	Consulting services and project management
4Delivery Limited	Ordinary	40.0	Consulting services and project management
Australia			
Yan Yean Water Pty Limited	Ordinary	50.0	Water treatment operations
Macarthur Water Pty Limited	Ordinary	50.0	Water treatment operations
Riverland Water Pty Limited	Ordinary	50.0	Water treatment operations
Campaspe Asset Management Services Pty Limited	Ordinary	50.0	Asset management and water treatment
Estonia			
AS Tallinna Vesi	Ordinary	26.5	Contract operations and maintenance services
Bulgaria			
Sofiyska Voda AD	Ordinary	57.8	Contract operations and maintenance services
Poland			
Aqua Spolka Akcyjna	Ordinary	33.2	Contract operations and maintenance services
Philippines			
Water Capital Works Inc	Ordinary	24.1	Water treatment operations

* Shares are held by subsidiary undertakings, except where marked with an asterisk where shares are held directly by United Utilities PLC.

A full list of the company's subsidiary undertakings is included within the company's annual return, which will be filed with the Registrar of Companies in due course

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

	Associate 31 March 2008 £m	Associate 31 March 2007 £m	Group share of joint ventures 31 March 2008 £m	Group share of joint ventures 31 March 2007 £m
Non-current assets	–	510.4	318.1	274.6
Current assets	–	144.4	97.1	110.3
Non-current liabilities	–	(51.4)	(221.8)	(222.6)
Current liabilities	–	(132.2)	(80.9)	(81.1)
	–	471.2	112.5	81.2

	Associate 2008 £m	Associate 2007 £m	Group share of joint ventures 2008 £m	Group share of joint ventures 2007 £m
Gross income	–	532.7	211.5	204.2
Expenses	–	(547.8)	(198.6)	(188.1)
Taxation	–	69.6	(3.3)	(3.4)
Post-tax results – continuing	–	54.5	9.6	12.7
Post-tax results – discontinued	–	29.4	–	–
Profit for the year	–	83.9	9.6	12.7

The joint ventures have no significant contingent liabilities to which the group is exposed and the group has contingent liabilities of £78.0 million in relation to its interests in the joint ventures (2007 £78.0 million)

Company	Associate £m	Shares in subsidiary undertakings £m	Total £m
At 1 April 2006	73.9	5,427.8	5,501.7
Reclassification to derivatives	(13.2)	–	(13.2)
Additions	4.3	–	4.3
Disposals	–	(224.5)	(224.5)
At 31 March 2007	65.0	5,203.3	5,268.3
Additions	–	149.0	149.0
Disposals	(65.0)	–	(65.0)
At 31 March 2008	–	5,352.3	5,352.3

14 Inventories

Group	2008 £m	Re-presented 2007 £m
Raw materials and finished goods	10.8	10.8
Properties held for resale	41.3	38.5
Work in progress	11.2	13.5
	63.3	62.8

The comparatives for the year ended 31 March 2007 have been re-presented to reflect the removal of the category for current asset investments from the balance sheet. Properties previously held as current asset investments amounting to £38.5 million have been reclassified as inventories as the directors believe this provides a fairer presentation of the nature of these assets

Notes to the consolidated financial statements continued

15 Trade and other receivables

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Trade receivables	208 7	161 5	2 1	1 7
Amounts owed by subsidiary undertakings	–	–	1,286 3	988 8
Amounts owed by related parties (see note 27)	15 0	11 9	–	–
Other debtors	38 8	30 6	–	–
Prepayments and accrued income	221 9	235 8	11 5	3 1
	484 4	439 8	1,299 9	993 6

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

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Non-current	28 2	21 6	–	–
Current	456 2	418 2	1,299 9	993 6
	484 4	439 8	1,299 9	993 6

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

	Group	
	2008 £m	2007 £m
At 1 April	147 7	155 6
Amounts charged to operating expenses	56 0	39 4
Trade receivables written off	(31 8)	(46 5)
Disposed of during the year	(0 2)	(0 8)
At 31 March	171 7	147 7

At each balance sheet date, the company and each of its subsidiaries evaluate the recoverability of trade receivables and record provisions for doubtful receivables based on experience

There are no allowances for doubtful trade receivables held by the company at 31 March 2008 (2007 £nil). Amounts owed by subsidiary undertakings are shown net of an allowance for doubtful receivables of £10.1 million (2007 £nil). The 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.

Ageing of gross receivables

The following table provides information regarding the ageing of gross receivables

Group	At 31 March 2008	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying
					value £m
		196 6	61 7	122 1	380 4
		13 6	0 3	1 1	15 0
		17 8	0 1	20 9	38 8
		217 7	–	4 2	221 9
	At 31 March 2007	165 8	49 0	94 4	309 2
		9 5	0 3	2 1	11 9
		4 2	0 6	25 8	30 6
		230 7	2 9	2 2	235 8

The above analysis in respect of gross trade receivables reconciles to net trade receivables by deduction of the allowance for doubtful receivables of £171.7 million (2007 £147.7 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 2008				
Trade receivables	1 0	1 1	–	2 1
Amounts owed by subsidiary undertakings – gross	389 1	(103 6)	1,010 9	1,296 4
Prepayments and accrued income	11 5	–	–	11 5
At 31 March 2007				
Trade receivables	0 7	1 0	–	1 7
Amounts owed by subsidiary undertakings – gross	(29 8)	531 7	486 9	988 8
Prepayments and accrued income	3 1	–	–	3 1

Amounts owed by subsidiary undertakings is a sum of all subsidiary balances where the total of intercompany tax, debt, interest and trade balances is in a net receivable position

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 £10.1 million (2007: £nil)

Trade and other receivables is split as follows

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Debtors in respect of unmetered water supplies	74 4	65 0	–	–
Debtors in respect of metered water supplies	100 5	87 2	–	–
Sundry debtors	47 2	49 2	–	–
Total regulated debtors	222 1	201 4	–	–
Non-regulated debtors	262 3	238 4	1,299 9	993 6
Trade and other receivables	484 4	439 8	1,299 9	993 6

The directors consider that the carrying amount of trade and other receivables approximates to their fair value, at both 31 March 2008 and 31 March 2007

The group's average credit period taken on sales is 33 days (2007: 28 days)

16 Cash and cash equivalents

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Cash at bank and in hand	140 9	73 3	86 4	5 2
Short-term bank deposits	1,669 6	2,330 0	577 4	331 5
Cash and short-term deposits	1,810 5	2,403 3	663 8	336 7
Bank overdrafts (included in borrowings, see note 17)	(105 3)	(62 6)	–	–
Cash and cash equivalents in the cashflow statement	1,705 2	2,340 7	663 8	336 7

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 consolidated financial statements continued

17 Borrowings

Group

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

Group	2008 £m	2007 £m
<i>Non-current liabilities</i>		
Bonds	3,031 5	4,080 3
Bank and other term borrowings	701 1	711 3
Finance lease obligations	56 3	63 3
	3,788 9	4,854 9
<i>Current liabilities</i>		
Bonds	738 0	696 7
Euro-commercial paper	-	451 6
Bank and other term borrowings	22 4	286 6
Bank overdrafts	105 3	62 6
Finance lease obligations	12 7	12 0
	878 4	1,509 5
	4,667 3	6,364 4

Terms and debt repayment schedule

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

Group	Currency	Year of maturity	Fair value £m	2008 Carrying value £m	Fair value £m	2007 Carrying value £m
Borrowings in fair value hedge relationships						
5 625% 300m bond	GBP	2027	281 0	301 1	309 0	295 9
5 25% 150m bond	GBP	2010	150 5	148 5	149 0	145 8
5 375% 150m bond	GBP	2018	149 0	147 4	152 7	142 9
5% 200m bond	GBP	2035	171 4	191 6	191 9	188 4
4 875% 600m bond	EUR	2009	479 0	473 2	412 2	403 4
6 625% 1bn bond	EUR	2007	–	–	705 9	673 8
4 25% 500m bond	EUR	2020	345 7	373 4	320 7	321 7
4 55% 250m bond	USD	2018	114 1	124 6	113 8	113 7
5 375% 350m bond	USD	2019	169 3	186 0	174 9	170 6
6 45% 500m bond	USD	2008	259 9	251 8	264 6	255 7
0 44%+HIBOR (floating) 150m bond	HKD	2007	–	–	9 8	9 8
5 02% 10bn dual currency loan	JPY/USD	2029	56 6	62 2	51 4	53 9
Borrowings in cashflow hedge relationships						
90m (floating) loan ⁽¹⁾	GBP	2013	–	–	90 4	90 0
Borrowings designated at fair value through profit or loss						
8 875% 250m bond ⁽¹⁾	GBP	2026	–	–	344 7	344 7
6 875% 400m bond	USD	2028	208 7	208 7	217 5	217 5
0 705% 3bn bond	JPY	2008	–	–	12 9	12 9
1 135% 3bn bond	JPY	2013	14 4	14 4	12 5	12 5
Borrowings measured at amortised cost						
0 24%+LIBOR (floating) 6 5m bond	GBP	2013	6 5	6 4	6 6	6 5
8 875% 200m bond ⁽¹⁾	GBP	2026	–	–	275 7	194 9
1 5802%+RPI 100m IL bond	GBP	2042	88 9	107 2	94 5	103 3
1 7829%+RPI 100m IL bond	GBP	2040	95 3	107 6	101 5	103 6
1 9799%+RPI 100m IL bond	GBP	2035	102 3	108 7	107 3	104 7
1 4746%+RPI 100m IL bond ⁽¹⁾	GBP	2046	–	–	90 1	103 0
3 375%+RPI 50m IL bond	GBP	2032	71 3	57 6	75 2	55 4
1 3258%+RPI 50m IL bond	GBP	2041	41 7	53 7	44 4	51 7
1 397%+RPI 50m IL bond	GBP	2046	41 4	53 6	43 9	51 6
1 3805%+RPI 35m IL bond	GBP	2056	24 6	36 8	29 7	35 3
1 435%+RPI 50m IL bond	GBP	2056	35 9	52 5	43 3	50 5
1 556%+RPI 50m IL bond	GBP	2056	37 7	52 7	45 3	50 6
1 5865%+RPI 50m IL bond	GBP	2056	37 9	53 0	45 5	50 9
1 591%+RPI 25m IL bond	GBP	2056	18 9	26 4	22 8	25 4
1 662%+RPI 100m IL bond	GBP	2056	78 0	106 0	93 5	101 9
1 815%+RPI 100m IL bond	GBP	2056	82 4	106 2	102 5	102 1
1 847%+RPI 100m IL bond	GBP	2056	83 4	106 7	99 7	102 5
1 5366%+RPI 50m IL bond	GBP	2043	44 1	53 5	46 8	51 5
1 7937%+RPI 50m IL bond	GBP	2049	46 4	53 4	48 9	51 4
1 585%+RPI 100m IL bond	GBP	2057	75 7	102 0	–	–
1 702%+RPI 50m IL bond	GBP	2057	39 6	51 4	–	–
1 66%+RPI 35m IL bond	GBP	2037	30 1	35 4	–	–
1 97%+RPI 200m IL loan	GBP	2016	194 1	209 0	198 6	200 7
4 21% 10m bond	EUR	2008	8 0	8 0	6 9	6 8
0 385%+LIBOR (floating) 10m bond	USD	2008	5 0	5 0	5 1	5 1
0 365%+LIBOR (floating) 10m bond	USD	2009	5 1	5 0	5 2	5 1
Commission for New Towns loan	GBP	2053	48 6	31 0	53 2	31 2
Long-term bank borrowings – fixed	GBP	2007-2008	5 1	5 0	216 5	210 0
Long-term bank borrowings – floating	GBP	2007-2012	200 0	200 0	254 4	253 0
Other debt issued by joint ventures ⁽²⁾	Various	Various	216 3	216 3	213 0	213 0
Euro-commercial paper	Various	2007-2008	–	–	451 6	451 6

Notes to the consolidated financial statements continued

17 Borrowings continued

Group	Currency	Year of maturity	Fair value £m	2008 Carrying value £m	Fair value £m	2007 Carrying value £m
Other borrowings						
Finance lease obligations	GBP	2014	69 0	69 0	75 3	75 3
Bank overdrafts	GBP	2008	105 3	105 3	62 6	62 6
			4,338 2	4,667 3	6,493 5	6,364 4

Notes

(1) These borrowings were sold or repaid as part of the sale of United Utilities Electricity

(2) Included within other debt issued by joint ventures are loans totalling £28.5 million (2007 £26.9 million) in cashflow hedge relationships

Abbreviations used in the above table are defined on page 87

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

Finance lease obligations

Finance lease obligations are payable as follows

Group	Minimum lease payments		Present value of minimum lease payments	
	2008 £m	2007 £m	2008 £m	2007 £m
Amounts payable under finance leases				
Within one year	12 7	12 0	12 7	12 0
In the second to fifth years inclusive	55 7	54 4	45 6	43 8
After five years	16 0	31 8	10 7	19 5
	84 4	98 2	69 0	75 3
Less future finance charges	(15 4)	(22 9)	–	–
Present value of lease obligations	69.0	75 3	69 0	75 3
Less amount due for settlement within 12 months			(12 7)	(12 0)
Amount due for settlement after 12 months			56 3	63 3

Finance lease obligations relate to operational assets. Interest rates implicit in the minimum lease payments were fixed on completion of the infrastructure build when the primary period of the lease commenced. In addition, contingent rentals are either payable or receivable, which adjusts the minimum lease payments to reflect changes in future market rates of interest. These contingent rentals are recognised as an increase or reduction in the finance expense in the period to which they relate. Contingent rentals recognised as a reduction in finance expense in the year totalled £2.6 million (2007 £3.4 million).

The net finance charge for the year, after adjusting for contingent rentals, was £3.2 million (2007 £2.9 million) (see note 5) and the effective borrowing rate (after adjusting for contingent rentals) for the year was 5.048 per cent (2007 4.260 per cent). The average lease term is six years (2007 seven years).

In addition, the minimum lease payments are subject to adjustment for future tax changes. Any adjustment to the rentals is recognised as an increase or reduction in the future finance expense over the remaining term of the lease.

The group's obligations under finance leases are unsecured. The directors consider the fair value of the group's lease obligations approximate to their carrying value.

Company

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

Company	2008 £m	2007 £m
Non-current liabilities		
Bonds	521 0	764 1
Bank and other term borrowings	0 3	1 1
	521 3	765 2
Current liabilities		
Bonds	264 8	12 9
Euro-commercial paper	–	451 6
Amounts owed to subsidiary undertakings	591 2	463 5
	856 0	928 0
	1,377 3	1,693 2

Terms and debt repayment schedule

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

Company	Currency	Year of maturity	Fair value £m	2008 Carrying value £m	Fair value £m	2007 Carrying value £m
Borrowings in fair value hedge relationships						
4 55% 250m bond	USD	2018	114.1	124.6	113.8	113.7
5 375% 350m bond	USD	2019	169.3	186.0	174.9	170.6
6 45% 500m bond	USD	2008	259.9	251.8	264.6	255.7
Borrowings designated at fair value through profit or loss						
0 705% 3bn bond	JPY	2008	-	-	12.9	12.9
Borrowings measured at amortised cost						
6 875% 400m bond	USD	2028	208.7	199.0	217.5	200.6
4 21% 10m bond	EUR	2008	8.0	8.0	6.9	6.8
0 24%+LIBOR (floating) 6 5m bond	GBP	2013	6.5	6.4	6.6	6.5
0 385%+LIBOR (floating) 10m bond	USD	2008	5.0	5.0	5.1	5.1
0 365%+LIBOR (floating) 10m bond	USD	2009	5.1	5.0	5.2	5.1
Long-term bank borrowings – floating	GBP	2010	0.3	0.3	1.1	1.1
Euro-commercial paper	Various	2007-2008	-	-	451.6	451.6
Amounts owed to subsidiary undertakings	GBP	n/a	591.2	591.2	463.5	463.5
			1,368.1	1,377.3	1,723.7	1,693.2

Notes

Currency

GBP	pound sterling
EUR	euro
HKD	Hong Kong dollar
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) as published by HM Government

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

18 Financial instruments

Risk management

All of the group's activities involve analysis, management and, in some cases, acceptance of risk or a combination of risks. The most important types of financial risk are credit risk, liquidity risk and market risk. Market risk includes foreign exchange, interest rate and inflation risks.

The group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and limits continually by means of reliable and up-to-date systems. The group modifies and enhances its risk management policies and systems to reflect changes in markets and products. The board formulates the high level group risk management policy. The treasury committee is responsible for monitoring the implementation of the policy. The board has approved all of the classes of financial instruments used by the group. The group's treasury function, which is authorised to conduct the day-to-day treasury activities of the group, reports annually to the board and quarterly to the treasury committee.

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

Credit risk

Credit risk is the risk that financial loss arises from the failure of a customer or counterparty to meet its obligations under a contract. It arises principally from trade finance (the supply of services to the public and other businesses) and treasury activities (the investment of essential liquidity). The group has policies and procedures to control and monitor credit risk. The group does not believe it is exposed to any material concentrations of credit risk.

The group looks to manage its risk from trade finance through the effective management of customer relationships. The Water Industry Act 1991 (as amended by the Water Industry Act 1999) prohibits the disconnection of a water supply for non-payment and the limiting of a 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. 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. Due to this, the directors believe there is no further credit risk provision required in excess of the allowance for doubtful receivables (see note 15).

Notes to the consolidated financial statements continued

18 Financial instruments continued

The counterparties in respect of treasury activities consist of financial institutions and other bodies considered to have good credit ratings. Although the group is potentially exposed to credit loss in the event of non-performance by counterparties, such credit risk is measured and controlled through regular review of the credit ratings assigned to the counterparties by credit rating agencies, and by limiting the total amount of exposure to any one party. Management does not expect any counterparty to fail to meet its obligations, and there has not been any such failure during the year, or in the preceding year.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At 31 March the maximum exposure to credit risk for the group and the company was as follows:

	Re-presented Group		Re-presented Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Cash and short-term deposits	1,810 5	2,403 3	663 8	336 7
Trade and other receivables	484 4	439 8	1,299 9	993 6
Investments	155 5	202 4	5,352 3	5,268 3
Derivative financial instruments	143 3	76 2	0 9	18 8
	2,593 7	3,121 7	7,316 9	6,617 4

Cash and short-term deposits and trade and other receivables are measured at amortised cost. Investments and derivative financial instruments are measured at fair value.

Liquidity risk

Liquidity risk is the risk that the group will not have sufficient funds to meet the obligations or commitments arising from its business operations and its financial liabilities. The group manages the liquidity profile of its assets, liabilities and commitments so that cashflows are appropriately balanced and all funding obligations are met when due. The board approves a liquidity framework within which the business operates. Performance against this framework is actively monitored and reported to the board monthly using a headroom figure.

At 31 March the headroom was as follows:

	Group	
	2008 £m	2007 £m
Cash and short-term deposits	1,810 5	2,403 3
Medium-term committed undrawn bank facilities	1,549 6	1,172 2
Short-term debt	(105 3)	(514 2)
Term debt maturing within one year	(760 4)	(983 3)
	2,494 4	2,078 0

Medium-term committed bank facilities excludes £50 0 million (2007: £125 0 million) of facilities expiring within one year.

The group and the company had available committed borrowing facilities as follows:

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Expiring within one year	50 0	125 0	25 0	80 0
Expiring after one year but in less than two years	350 0	100 0	300 0	50 0
Expiring after more than two years	1,245 0	1,075 0	720 0	720 0
Total undrawn borrowing facilities	1,645 0	1,300 0	1,045 0	850 0
Offsetting bank guarantees	(45 4)	(2 8)	(45 4)	(2 8)
Undrawn borrowing facilities	1,599 6	1,297 2	999 6	847 2

In addition to the committed facilities available, the group uses its \$1,500 0 million euro-commercial paper programme to help it manage its liquidity position.

Short-term deposits mature within three months. Bank overdrafts are repayable on demand.

Maturity analysis

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

Group At 31 March 2008	Total ⁽¹⁾ £m	Adjustment ⁽²⁾ £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Bonds	9,654 6		892 7	270 4	103 4	108 1	117 4	8,162 6
Bank and other term borrowings	1,357 4		148 3	37 3	37 8	87 4	181 4	865 2
Finance lease obligations	84 4		12 7	13 0	13 6	14 2	14 9	16 0
Adjustment to carrying value ⁽²⁾	(6,429 1)	(6,429 1)						
Financial liabilities excluding derivatives	4,667 3	(6,429 1)	1,053 7	320 7	154 8	209 7	313 7	9,043 8
Derivatives								
Payable	2,806 4		2,435 7	95 1	60 6	60 5	63 6	90 9
Receivable	(2,766 4)		(2,371 7)	(111 5)	(57 8)	(53 0)	(54 2)	(118 2)
Adjustment to carrying value ⁽²⁾	6 6	6 6						
Derivatives – net liabilities	46 6	6 6	64 0	(16 4)	2 8	7 5	9 4	(27 3)

At 31 March 2007	Total ⁽¹⁾ £m	Adjustment ⁽²⁾ £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Bonds	11,104 0		943 3	868 7	308 4	146 3	147 2	8,690 1
Bank and other term borrowings	2,008 7		824 4	44 2	39 4	38 3	87 8	974 6
Finance lease obligations	98 2		12 0	12 7	13 2	13 9	14 6	31 8
Adjustment to carrying value ⁽²⁾	(6,846 5)	(6,846 5)						
Financial liabilities excluding derivatives	6,364 4	(6,846 5)	1,779 7	925 6	361 0	198 5	249 6	9,696 5
Derivatives								
Payable	3,189 5		1,757 5	971 8	149 1	89 8	58 1	163 2
Receivable	(2,928 5)		(1,716 6)	(836 4)	(93 9)	(74 2)	(52 4)	(155 0)
Adjustment to carrying value ⁽²⁾	(96 4)	(96 4)						
Derivatives – net liabilities	164 6	(96 4)	40 9	135 4	55 2	15 6	5 7	8 2

Company At 31 March 2008	Total ⁽¹⁾ £m	Adjustment ⁽²⁾ £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Bonds	1,282 5		303 5	35 8	31 1	31 4	38 2	842 5
Bank and other term borrowings	0 3		–	–	0 3	–	–	–
Amounts owed to subsidiary undertakings	591 2		591 2	–	–	–	–	–
Adjustment to carrying value ⁽²⁾	(496 7)	(496 7)						
Financial liabilities excluding derivatives	1,377 3	(496 7)	894 7	35 8	31 4	31 4	38 2	842 5
Derivatives								
Payable	363 1		356 2	6 9	–	–	–	–
Receivable	(280 4)		(274 0)	(6 4)	–	–	–	–
Adjustment to carrying value ⁽²⁾	(1 7)	(1 7)						
Derivatives – net liabilities	81 0	(1 7)	82 2	0 5	–	–	–	–

At 31 March 2007	Total ⁽¹⁾ £m	Adjustment ⁽²⁾ £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Bonds	1,276 5		60 7	306 4	35 5	30 5	30 6	812 8
Bank and other term borrowings	449 4		448 1	0 1	1 2	–	–	–
Amounts owed to subsidiary undertakings	463 5		463 5	–	–	–	–	–
Adjustment to carrying value ⁽²⁾	(496 2)	(496 2)						
Financial liabilities excluding derivatives	1,693 2	(496 2)	972 3	306 5	36 7	30 5	30 6	812 8
Derivatives								
Payable	446 0		58 2	381 7	6 1	–	–	–
Receivable	(332 9)		(47 6)	(278 5)	(6 8)	–	–	–
Adjustment to carrying value ⁽²⁾	(24 5)	(24 5)						
Derivatives – net liabilities	88 6	(24 5)	10 6	103 2	(0 7)	–	–	–

Notes to the consolidated financial statements continued

18 Financial instruments continued

Notes

- (1) Forecast future cashflows are calculated, where applicable, utilising forward interest rates based on the interest environment at year end and are, therefore, susceptible to changes in market conditions. For index-linked debt it has been assumed that RPI will be 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 and, therefore, this adjustment converts the undiscounted forecast future cashflows to the carrying value of debt in the balance sheet.

Market risk

Market risk is the risk that movements in market rates, including foreign exchange rates, interest rates and inflation will affect the group's profit. The management of market risk is undertaken with risk limits approved by the board.

The group borrows in the major global debt markets in a range of currencies at fixed and floating rates of interest, using derivatives, where appropriate, to generate the desired effective currency profile and interest basis.

The group uses a variety of financial instruments, including derivatives, when raising finance for its operations in order to manage any exposure arising from funding activity.

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 cashflows due to changes in interest rates. The group uses interest rate swap contracts and financial futures to hedge these exposures. Investments in equity securities and short-term receivables and payables are not exposed to interest rate risk.

The group's policy is to structure debt in a way that best matches the cashflows generated by its underlying assets. As a UK regulated business, revenues are determined every five years based upon a real cost of capital. The preferred form of debt, therefore, is sterling index-linked debt. Where long-term debt is raised in a fixed rate form, the group will swap to floating rate, at inception over the life of the liability, through the use of interest rate swaps.

Under an interest rate swap, the group agrees with another party to exchange at specific intervals the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. The notional principal of these instruments reflects the extent of the group's involvement in the instruments, but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

The group's revenues are determined based upon the real cost of capital fixed by the regulator for each five-year regulatory pricing period. The group fixes a material proportion of the floating cost of debt for the duration of the five-year regulatory pricing period, using a second layer of interest rate swaps to match the group's revenue stream.

Annually the group enters into futures contracts to hedge the remaining floating rate exposure not covered by the interest rate swaps for the current year.

Sensitivity analysis

As required by IFRS 7, the sensitivity analysis has been prepared on the basis of the amount of net debt and the interest rate hedge positions in place as at 31 March 2008 and 31 March 2007, respectively. As a result, this analysis relates to the position at the balance sheet date and 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:

- all fair value hedge relationships are fully effective and therefore there is no balance sheet sensitivity to interest rates with regard to the designated debt and swaps,
- all borrowings designated at fair value through profit or loss are effectively hedged by associated swaps and therefore there is no balance sheet sensitivity to interest rates (excluding the effect of accrued interest) with regard to the associated debt and swap instruments,
- the main balance sheet sensitivity to interest rates (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,
- the sensitivity of net finance expense to movements in interest rates is calculated on net floating rate exposures on debt and derivatives, and on deposits. The floating leg of a swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates will have a full twelve-month impact on interest,
- the standard requires that a change in the relevant risk variable be applied to the risk exposures in existence at the balance sheet date, therefore deposits at the balance sheet date are taken and any debt or swaps maturing during the year are disregarded,
- index-linked debt is carried at amortised cost and therefore the balance sheet is not exposed to movements in interest rates. We have assumed that inflation is held constant,
- financial futures contracts entered into by the group to further manage the floating interest rate exposure are excluded from this analysis,
- the analysis excludes the impact of movements in market variables on the carrying value of pensions and other post-retirement obligations,
- management has assessed 100bp as a reasonably possible movement in UK interest rate, and
- all other factors are held constant.

	2008 £m	Group 2007 £m	2008 £m	Company 2007 £m
Impact on profit before taxation and equity				
100bp increase in interest rate	35 4	93 5	(3 3)	(8 1)
100bp decrease in interest rate	(42 2)	(96 5)	2 6	7 9

Brackets denote a reduction in profit

Management assesses the net interest exposure and determines whether to mitigate this risk further. In 2008, the group entered into financial futures contracts in order to materially fix its net floating interest rate exposure. For a +/-100bp movement in interest rate, the net impact on finance expense included within the figures above was a reduction in profit of £1.1 million (2007: an increase in profit of £9.7 million). The trading of financial futures aims to reduce this exposure towards £nil in 2008.

Repricing analysis

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

Group At 31 March 2008	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	2,259 8	725 0	148 5	-	-	-	1,386 3
Effect of swaps	-	1,534 8	(148 5)	-	-	-	(1,386 3)
	2,259 8	2,259 8	-	-	-	-	-
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	223 1	-	-	-	-	-	223 1
Effect of swaps	-	223 1	-	-	-	-	(223 1)
	223 1	223 1	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	108 2	13 8	0 2	0 2	0 8	3 7	89 5
Floating rate instruments	542 8	542 8	-	-	-	-	-
Index-linked instruments	1,533 4	1,533 4	-	-	-	-	-
	2,184 4	2,090 0	0 2	0 2	0 8	3 7	89 5
Effect of a fixed hedge for the term of the regulatory period	-	(2,030 6)	1,582 2	448 4	-	-	-
Total borrowings	4,667 3	2,542 3	1,582 4	448 6	0 8	3 7	89 5
Cash and short-term deposits	(1,810 5)	(1,810 5)	-	-	-	-	-
Net borrowings	2,856 8	731 8	1,582 4	448 6	0 8	3 7	89 5

Notes to the consolidated financial statements continued

18 Financial instruments continued

Group At 31 March 2007	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	2,765 8	673 8	659 1	145 8	–	–	1,287 1
Effect of swaps	–	2,092 0	(659 1)	(145 8)	–	–	(1,287 1)
Floating rate instruments	99 8	99 8	–	–	–	–	–
Effect of swaps	–	(90 0)	–	90 0	–	–	–
	2,865 6	2,775 6	–	90 0	–	–	–
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	587 6	12 9	–	–	–	–	574 7
Effect of swaps	–	574 7	–	–	–	–	(574 7)
	587 6	587 6	–	–	–	–	–
Borrowings measured at amortised cost							
Fixed rate instruments	971 4	671 5	12 0	0 3	0 2	0 3	287 1
Floating rate instruments	543 7	543 7	–	–	–	–	–
Index-linked instruments	1,396 1	1,396 1	–	–	–	–	–
	2,911 2	2,611 3	12 0	0 3	0 2	0 3	287 1
Effect of a fixed hedge for the term of the regulatory period	–	(3,378 5)	–	2,239 7	1,138 8	–	–
Total borrowings	6,364 4	2,596 0	12 0	2,330 0	1,139 0	0 3	287 1
Cash and short-term deposits	(2,403 3)	(2,403 3)	–	–	–	–	–
Net borrowings	3,961 1	192 7	12 0	2,330 0	1,139 0	0 3	287 1
Company At 31 March 2008							
	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	562 4	251 8	–	–	–	–	310 6
Effect of swaps	–	310 6	–	–	–	–	(310 6)
	562 4	562 4	–	–	–	–	–
Borrowings measured at amortised cost							
Fixed rate instruments	207 0	8 0	–	–	–	–	199 0
Floating rate instruments	16 7	16 7	–	–	–	–	–
	223 7	24 7	–	–	–	–	199 0
Effect of a fixed hedge for the term of the regulatory period	–	(190 0)	190 0	–	–	–	–
Total external borrowings	786 1	397 1	190 0	–	–	–	199 0
Amounts owed to subsidiary undertakings measured at amortised cost	591 2	591 2	–	–	–	–	–
Total borrowings	1,377 3	988 3	190 0	–	–	–	199 0
Cash and short-term deposits	(663 8)	(663 8)	–	–	–	–	–
Net borrowings	713 5	324 5	190 0	–	–	–	199 0

Company At 31 March 2007	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	540 0	-	255 7	-	-	-	284 3
Effect of swaps	-	540 0	(255 7)	-	-	-	(284 3)
	540 0	540.0	-	-	-	-	-
Borrowings designated at fair value through profit or loss							
Fixed rate instruments	12 9	12 9	-	-	-	-	-
	12 9	12 9	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	659 0	451 6	6 8	-	-	-	200 6
Floating rate instruments	17 8	17 8	-	-	-	-	-
	676 8	469 4	6 8	-	-	-	200 6
Effect of a fixed hedge for the term of the regulatory period	-	(190 0)	-	190 0	-	-	-
Total external borrowings	1,229 7	832 3	6 8	190 0	-	-	200 6
Amounts owed to subsidiary undertakings measured at amortised cost	463 5	463 5	-	-	-	-	-
Total borrowings	1,693 2	1,295 8	6 8	190 0	-	-	200 6
Cash and short-term deposits	(336 7)	(336 7)	-	-	-	-	-
Net borrowings	1,356 5	959 1	6 8	190 0	-	-	200 6

Currency risk

The group's assets are principally sterling denominated, however, the group has access to various international debt capital markets and raises foreign currency denominated debt. Where debt is denominated in a currency which is not sterling, the group's policy is generally to swap the foreign currency denominated cashflows into sterling through the use of foreign currency swaps. As a result, for the majority of foreign currency denominated borrowings, the group has no material exposure to movements in exchange rates.

Under a currency swap, the group agrees with another party to exchange the principal amount of two currencies, together with interest amounts in the two currencies agreed by reference to a specific interest rate basis and principal amount. The principal of these instruments reflects the extent of the group's involvement in the instruments but does not represent its exposure to credit risk, which is assessed by reference to the fair value.

As required by IFRS 7, the foreign exchange rate risk sensitivity analysis has been prepared on the basis of the net debt positions in place as at 31 March 2008 and 31 March 2007, respectively. As a result, this analysis relates to the position at the balance sheet date and 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 sensitivity analysis:

- management has assessed ten per cent to be a reasonably possible movement across all foreign exchange rates,
- as required by IFRS 7, the impact has been assessed for monetary items only,
- the sensitivity to JPY is the result of forward exchange contracts denominated in JPY. In calculating the sensitivity in movements in the GBP/JPY exchange rate, it has been assumed that the theoretical relationship between forward exchange rates, spot exchange rates and the interest rate differential between the two currencies holds true, and
- all other factors are held constant.

Impact on profit before taxation	2008 JPY £m	2007 JPY £m
Ten per cent increase in exchange rates	(2 3)	(0 9)
Ten per cent decrease in exchange rates	2 6	1 0

Brackets denote a reduction in profit.

Currency

JPY Japanese yen

For JPY, the impact on equity is £135.5 million increase for a ten per cent increase in exchange rates (2007 increase £55.2 million) and £165.9 million decrease for a ten per cent decrease in exchange rates (2007 decrease £67.5 million).

Notes to the consolidated financial statements continued

18 Financial instruments continued

The difference between the impact on equity and the impact on profit before taxation is due to the equity impact including movements in JPY denominated forward contracts which are used as hedging instruments in hedges of net investments in foreign operations, but excluding the impact of the retranslation of the investments which the forwards are hedging – due to the investments not being financial assets as defined by IFRS 7. Had the impact of the retranslation of the investments been included in the above analysis, the impact on profit before taxation and impact on equity would have been equal. Sensitivity analyses for United States dollar and euro have not been presented as, due to the swaps in place to hedge the risk, the group has no material exposure to these currencies. The company has no material exposure to currency risk.

Inflation risk

The group's index-linked borrowings and interest liabilities are exposed to a risk of change in the carrying value due to changes in the UK RPI. This form of liability is a good match for the group's regulated assets, which are also linked to RPI due to the revenue price cap imposed by the regulator. This price cap is linked to RPI and limits management's ability to change prices. By matching liabilities to assets, index-linked debt hedges the exposure to changes in RPI and delivers a cashflow benefit, as compensation for the inflation risk is provided through adjustment to the principal rather than in cash. Management looks to issue index-linked debt wherever possible, but has a limited counterparty base willing to invest in these instruments. As such, the ability to issue this form of debt is limited.

The carrying value of index-linked debt held by the group is as follows

	2008 £m	2007 £m
Index-linked debt	1,533.4	1,396.1

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 2008 and 31 March 2007, respectively. As a result, this analysis relates to the position at the balance sheet 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, excluding the hedging aspect of the group's regulatory assets, which are not financial assets as defined by IFRS 7.

	2008 £m	2007 £m
Impact on profit before taxation and equity		
One per cent increase in RPI	(15.7)	(14.3)
One per cent decrease in RPI	15.7	14.3

Brackets denote a reduction in profit

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 profit and loss and the analysis above 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 balance sheet date the index-linked interest and principal adjustments impacting the income statement are fixed and based upon either the previous three or eight-month RPI.

The company has no material exposure to inflation risk.

Capital risk management

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, which the group believes best mirrors the Water Services Regulation Authority's (Ofwat) assumptions in relation to capital structure.

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, 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 the relevant rating agencies. The ratings methodology is normally based on a number of key ratios (such as Regulatory Capital Value (RCV) gearing and adjusted interest cover) and threshold levels as updated and published from time to time by the rating agencies.

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.

The group's strategy of targeting a credit rating of A3 for United Utilities Water PLC was announced as part of the group's interim results announcement in November 2007. Consistent with this strategy and in order to adjust the RCV gearing levels in line with the rating agencies' tolerance levels for an A3 credit rating, the group announced that it intends to return £1.5 billion to shareholders (with a corresponding reduction in its equity base) during August 2008 and reduce its dividend per share by 30 per cent with effect from February 2009.

Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows

Group	2008 Carrying value £m	2008 Fair value £m	Re-presented 2007 Carrying value £m	2007 Fair value £m
Financial assets				
Non-current assets				
Available for sale investments	155 5	155 5	202 4	202 4
Loans and receivables				
Trade and other receivables	28 2	28 2	21 6	21 6
Derivative financial instruments				
Fair value hedge derivatives	44 3	44 3	15 2	15 2
Current assets				
Loans and receivables				
Trade and other receivables	456 2	456 2	418 2	418 2
Cash and short-term deposits	1,810 5	1,814 1	2,403 3	2,407 0
Derivative financial instruments				
Held for trading derivatives – swaps	99 0	99 0	52 4	52 4
Option over THUS Group plc shares	–	–	8 6	8 6
	99 0	99 0	61 0	61 0
Financial liabilities				
Non-current liabilities				
Trade and other payables at amortised cost	(125 5)	(125 5)	(414 3)	(414 3)
Borrowings				
Financial liabilities designated at fair value through profit or loss	(223 1)	(223 1)	(574 7)	(574 7)
Financial liabilities in hedge relationships				
Fair value hedge	(1,534 8)	(1,437.6)	(2,092 0)	(2,140 2)
Cashflow hedge ⁽¹⁾	–	–	(90 0)	(90 4)
Other financial liabilities	(2,031 0)	(1,785 0)	(2,098 2)	(2,138 9)
	(3,788.9)	(3,445 7)	(4,854 9)	(4,944 2)
Derivative financial instruments				
Fair value hedge derivatives – swaps	(53 2)	(53 2)	(173 5)	(173 5)
Current liabilities				
Trade and other payables at amortised cost	(771 9)	(771 9)	(749 2)	(749 2)
Borrowings				
Financial liabilities designated at fair value through profit or loss	–	–	(12 9)	(12 9)
Financial liabilities in hedge relationships				
Fair value hedge	(725 0)	(738 9)	(683 6)	(715 7)
Other financial liabilities	(153 4)	(153 6)	(813 0)	(820 7)
	(878 4)	(892 5)	(1,509 5)	(1,549 3)
Derivative financial instruments				
Held for trading derivatives – swaps	(136 7)	(136 7)	(67 3)	(67 3)
Adjustment for accrued interest ⁽²⁾⁽³⁾	–	34 7	–	57 5
	(3,160 9)	(2,793 5)	(4,647 0)	(4,714 9)

In order to determine the fair values in the table above, all borrowings and derivatives are valued using a discounted cashflow valuation model as described within the accounting policies on page 63. 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 period in the fair value of financial liabilities designated as at fair value through profit or loss for continuing operations of £5.7 million gain (2007 £28.0 million gain), £28.2 million gain (2007 £6.0 million loss) is attributable to changes in credit risk. The cumulative impact of changes in credit spread was £30.6 million profit (2007 £2.4 million profit). The difference between the carrying amount and the amount contracted to settle on maturity was a carrying amount decrease of £41.5 million (2007 a carrying amount increase of £55.1 million).

Notes to the consolidated financial statements continued

18 Financial instruments continued

Company	2008 Carrying value £m	2008 Fair value £m	2007 Carrying value £m	2007 Fair value £m
Financial assets				
Current assets				
Loans and receivables	1,299 9	1,299 9	993 6	993 6
Cash and short-term deposits	663 8	666 5	336 7	336 8
Derivative financial instruments				
Held for trading derivatives – swaps	0 9	0 9	10 2	10 2
Option over THUS Group plc shares	–	–	8 6	8 6
	0.9	0 9	18 8	18 8
Financial liabilities				
Non-current liabilities				
Borrowings				
Financial liabilities in hedged relationships				
Fair value hedge	(310 6)	(283 4)	(540 0)	(553 3)
Other financial liabilities	(210 7)	(220 6)	(225 2)	(242 4)
	(521 3)	(504 0)	(765 2)	(795 7)
Derivative financial instruments				
Fair value hedge derivatives – swaps	(30 1)	(30 1)	(100 1)	(100 1)
Current liabilities				
Trade and other payables at amortised cost	(615 6)	(615 6)	(502 5)	(502 5)
Borrowings				
Financial liabilities designated at fair value through profit or loss				
Fair value hedge	(251 8)	(259 9)	–	–
Other financial liabilities	(604 2)	(604 2)	(915 1)	(915 1)
	(856 0)	(864 1)	(928 0)	(928 0)
Derivative financial instruments				
Held for trading derivatives – swaps	(51 8)	(51 8)	(7 3)	(7 3)
Adjustment for accrued interest ⁽²⁾⁽³⁾	–	10 5	–	13 3
	(110 2)	(87 8)	(954 0)	(971 1)

Notes

- (1) Included in the group fair value table for 2007 is a liability relating to a cashflow hedge, the notional and fair value of which is inconsequential. Within the year ended 31 March 2008, a movement in the fair value of the derivative of £1 5 million loss (2007 £2 8 million gain) was recognised and taken to reserves, gross of tax.
- (2) The fair value quoted includes £2 8 million interest receivable (2007 £4 0 million), (company £2 8 million, 2007 £0 1 million). This interest receivable is also included within the fair value of trade and other receivables. The impact on the total fair value of financial instruments has been removed in the adjustment for accrued interest.
- (3) Fair values quoted include accrued interest of £37 5 million (2007 £61 5 million) in respect of the associated borrowings (company £13 3 million, 2007 £13 4 million). 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.

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 Group of the Electricity Supply Pension Scheme (ESPS), both of which are closed to new employees. UUPS also includes a defined contribution section which constitutes less than 0 9 per cent of the total asset value. The assets of these schemes are held in trust funds independent of the group's finances.

The group has re-presented its balance sheet at 31 March 2007 to reflect its participation in the Northern Gas Networks Pension Scheme (NGNPS) on behalf of its subsidiary United Utilities Operations Limited. The directors have determined that the group should apply defined benefit accounting in respect of this scheme. At 31 March 2008, gross pension liabilities in respect of retirement benefit obligations for NGNPS were £200 6 million (2007 £191 5 million). Gross pension assets in respect of NGNPS at 31 March 2008 were £193 7 million (2007 £190 6 million). The group recorded a related deferred tax asset at 31 March 2008 of £1 9 million (2007 £0 3 million) (see note 20). The group does not have the responsibility to fund the net pension deficit and has reflected this by the recognition of an available for sale financial asset within investments of £5 0 million at 31 March 2008 (2007 £0 6 million) (see note 13).

The last actuarial valuations of the UUPS and NGNPS were carried out as at 31 March 2007 and the ESPS was carried out as at 30 November 2007. 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 2008 by projecting forward from the dates of the respective valuations, and have been performed by an independent actuary, Mercer Human Resource Consulting.

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. Company contributions to UUPS and ESPS will now resume in respect of the defined benefit members from mid 2008. The group will continue to pay contributions in respect of the defined contribution members and insurance premiums. Other payments will be made by the group in accordance with the funding agreements between the trustees and the group. The group will continue to contribute to NGNPS. Overall, the group expects to contribute around £50.0 million of contributions to its schemes in the year ended 31 March 2009.

The group did not make any significant contributions to the UUPS or ESPS schemes for the year ended 31 March 2008. The group contributed £11.2 million to the NGNPS during the year. During the year, the group also contributed to its section of the Essex County Council Pension Fund until the sale of the group's facilities management operations. 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. In accordance with these unfunded arrangements, the group made payments directly to former directors, including lump sum payments, of £0.9 million in the year ended 31 March 2008 (2007: £nil). The group also made contributions to the schemes of £nil (2007: £5.1 million) on behalf of the unfunded, unregistered retirement benefit schemes.

The total defined benefit pension expense for the period was £52.2 million (2007: £11.9 million). A pension obligation of £101.2 million is included in the balance sheet at 31 March 2008 (2007 re-presented surplus of £61.3 million). Information about the pension arrangements for executive directors is contained in the directors' remuneration report.

The main financial assumptions used by the actuary were as follows:

Group and Company	2008 %	2007 %
Discount rate – UUPS	6.00	5.20
Discount rate – ESPS	6.10	5.30
Discount rate – NGNPS	5.80	–
Expected return on assets – UUPS	6.80	6.50
Expected return on assets – ESPS	6.50	6.30
Expected return on assets – NGNPS	6.20	–
Pensionable salary growth – UUPS	4.35	3.95
Pensionable salary growth – ESPS	4.40	4.00
Pensionable salary growth – NGNPS	4.40	–
Pension increases	3.40	3.00
Price inflation	3.40	3.00

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

Group and Company	2008 years	2007 years
Retired member	24.9	23.8
Non-retired member	26.0	25.9

Recent studies 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 calculation of the defined benefit obligations of the group.

At 31 March, the fair value of the schemes' assets and liabilities recognised in the balance sheet were as follows:

Group	Schemes' assets %	2008 £m	Schemes' assets %	2007 £m
Equities	65.4	1,217.7	65.0	1,759.3
Gilts	19.4	360.6	20.4	550.7
Bonds	13.5	252.4	13.6	368.9
Property	0.7	13.2	–	–
Cash	1.0	19.3	1.0	27.1
Total fair value of assets	100.0	1,863.2	100.0	2,706.0
Present value of defined benefit obligations		(1,964.4)		(2,643.8)
Net retirement benefit (obligations)/surplus		(101.2)		62.2
Adjustment in relation to NGNPS		–		(0.9)
Net retirement benefit (obligations)/surplus		(101.2)		61.3

Notes to the consolidated financial statements continued

19 Retirement benefit obligations continued

Company	Schemes' assets %	2008 £m	Schemes' assets %	2007 £m
Equities	62.6	216.7	65.0	259.3
Gilts	22.8	79.0	20.4	81.4
Bonds	13.8	47.6	13.6	54.2
Cash	0.8	2.7	1.0	4.0
Total fair value of assets	100.0	346.0	100.0	398.9
Present value of defined benefit obligations		(361.4)		(388.8)
Net retirement benefit (obligations)/surplus		(15.4)		10.1

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 on 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 schemes' assets was a loss of £74.2 million (2007: £107.5 million gain) and the company's actual return on the schemes' assets was a loss of £43.8 million (2007: £39.3 million loss).

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

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
At 1 April	(2,643.8)	(2,721.0)	(388.8)	(120.2)
Adjustment in relation to NGNPS	(191.5)	-	-	-
At 1 April	(2,835.3)	(2,721.0)	(388.8)	(120.2)
Interest cost on schemes' obligations	(137.0)	(130.0)	(20.1)	(6.0)
Actuarial gains	113.5	99.3	38.0	26.3
Curtailments/settlements	861.0	68.1	5.2	-
Member contributions	(11.0)	(13.7)	(0.3)	(0.3)
Benefits paid	100.4	103.4	14.5	29.4
Transfer on disposal of businesses	-	-	(6.9)	(316.4)
Current service cost	(46.0)	(48.8)	(1.8)	(1.4)
Past service costs	(10.0)	(1.1)	(1.2)	(0.2)
At 31 March	(1,964.4)	(2,643.8)	(361.4)	(388.8)

At 31 March 2008, £7.0 million (2007: £7.9 million) of the defined benefit obligations related to unfunded benefit plans.

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

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
At 1 April	2,706.0	2,740.3	398.9	119.0
Adjustment in relation to NGNPS	190.6	-	-	-
At 1 April	2,896.6	2,740.3	398.9	119.0
Expected return on schemes' assets	165.7	160.3	24.8	8.4
Actuarial losses	(239.9)	(52.8)	(68.6)	(47.7)
Curtailments/settlements	(885.9)	(60.4)	(3.0)	-
Member contributions	11.0	13.7	0.3	0.3
Benefits paid	(100.4)	(103.4)	(14.5)	(29.4)
Transfer on disposal of businesses	-	-	6.9	343.2
Company contributions	16.1	8.3	1.2	5.1
At 31 March	1,863.2	2,706.0	346.0	398.9

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

Re-presented	Group					
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	£m	£m	2008 £m	£m	£m	2007 £m
Current service cost	(40 3)	(5 7)	(46 0)	(34 0)	(14 8)	(48 8)
Curtailments/settlements	5 6	–	5 6	–	1 4	1 4
Past service costs	(9 4)	(0 6)	(10 0)	(2 5)	1 4	(1 1)
Pension expense charged to operating profit	(44 1)	(6 3)	(50 4)	(36 5)	(12 0)	(48 5)
Expected return on schemes' assets	128 6	37 1	165 7	92 5	67 8	160 3
Interest on schemes' obligations	(105 1)	(31 9)	(137 0)	(74 9)	(55 1)	(130 0)
Pension expense credited to investment income	23 5	5 2	28 7	17 6	12 7	30 3
Curtailments/settlements (charged)/credited to profit/(loss) on disposal	–	(30 5)	(30 5)	–	6 3	6 3
Net pension (charged)/credited before taxation	(20 6)	(31 6)	(52 2)	(18 9)	7 0	(11 9)

	Company	
	2008 £m	2007 £m
	Current service cost	(1 8)
Curtailments/settlements	2 2	–
Past service cost	(1 2)	(0 2)
Pension expense charged to operating profit	(0 8)	(1 6)
Expected return on schemes' assets	24 8	8 4
Interest on schemes' obligations	(20 1)	(6 0)
Pension expense credited to investment income	4 7	2 4
Transfer on disposal of businesses credited to loss on disposal	–	26 8
Net pension credited before taxation	3 9	27 6

The reconciliation of the opening and closing balance sheet position is as follows

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
At 1 April	62 2	19 3	10 1	(1 2)
Adjustment in relation to NGNPS	(0 9)	–	–	–
At 1 April	61 3	19 3	10 1	(1 2)
Expenses recognised in the income statement	(52 2)	(11 9)	3 9	0 8
Transfer on disposal of businesses recognised in the income statement	–	–	–	26 8
Contributions paid	16 1	8 3	1 2	5 1
Actuarial (losses)/gains gross of taxation	(126 4)	46 5	(30 6)	(21 4)
At 31 March	(101 2)	62 2	(15 4)	10 1
Adjustment in relation to NGNPS	–	(0 9)	–	–
At 31 March	(101 2)	61 3	(15 4)	10 1

Actuarial gains and losses are recognised directly in the statement of recognised income and expense. At 31 March 2008, a cumulative pre-tax gain of £29.2 million (2007: £155.6 million gain) for the group, and a cumulative loss of £47.6 million (2007: £17.0 million loss) for the company had been recorded directly in the statement of recognised income and expense.

Notes to the consolidated financial statements continued

19 Retirement benefit obligations continued

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

	Group			
	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	(1,964 4)	(2,643 8)	(2,721 0)	(2,382 3)
Fair value of schemes' assets	1,863 2	2,706 0	2,740 3	2,297 7
Net retirement benefit (obligations)/surplus	(101 2)	62 2	19 3	(84 6)
Adjustment in relation to NGNPS	-	(0 9)	-	-
Net retirement benefit (obligations)/surplus	(101 2)	61 3	19 3	(84 6)
Experience adjustments on schemes' liabilities	23 8	92 6	-	(14 3)
Experience adjustments on schemes' assets	(239 9)	(43 3)	397 2	45 3

	Company			
	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit obligations	(361 4)	(388 8)	(120 2)	(103 1)
Fair value of schemes' assets	346.0	398 9	119 0	94 9
Net retirement benefit (obligations)/surplus	(15 4)	10 1	(1 2)	(8 2)
Experience adjustments on schemes' liabilities	16.4	13 3	-	(0 6)
Experience adjustments on schemes' assets	(68 6)	(1 1)	16 4	1 9

During the year, the group made £4 0 million (2007 £15 6 million) of contributions to defined contribution schemes, which are included in arriving at operating profit from continuing operations and a further £0 7 million (2007 £5 8 million) which are recognised within discontinued operations. The company made £1 0 million (2007 £0 3 million) of contributions to defined contribution schemes.

Various companies in the United Kingdom electricity business 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 scheme was created in December 2007 to accommodate the transfer of employees from Electricity North West Limited (formerly United Utilities Electricity Limited) to UUES. At that date, the UUES section of the scheme was fully funded. The group makes cash contributions over the period of the Asset Services Agreement (ASA) between UUES and Electricity North West, which are fully recoverable from Electricity North West under the terms of the ASA. There is no obligation brought forward, or carried forward, for which the group is responsible. However, as the group is the employer, it is required to disclose the gross pension liabilities and assets associated with the scheme.

At 31 March 2008, gross pension liabilities in respect of retirement benefit obligations for the UUES section were £196 3 million (December 2007 £172 8 million). Gross pension assets in respect of the UUES section, at 31 March 2008, were £186 6 million (December 2007 £177 8 million). During the period from 19 December 2007 to 31 March 2008, no cash contributions have been made to the UUES section of the ESPS.

20 Deferred tax

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

	Group			Company	
	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m	Total £m
At 1 April 2006	1,564.8	(106.1)	(32.1)	1,426.6	(7.4)
Charged to the income statement	15.1	–	94.3	109.4	6.5
Charged/(credited) to equity	–	14.0	0.8	14.8	(6.4)
At 31 March 2007	1,579.9	(92.1)	63.0	1,550.8	(7.3)
Adjustment in relation to NGNPS (see note 19)	–	(0.3)	–	(0.3)	–
At 31 March 2007	1,579.9	(92.4)	63.0	1,550.5	(7.3)
Change in taxation rate	(105.3)	6.1	(4.2)	(103.4)	0.5
Charged/(credited) to the income statement	51.4	84.6	(73.1)	62.9	10.6
Credited to equity	–	(35.4)	(0.4)	(35.8)	(8.6)
Disposed of during the year	(312.2)	8.8	(6.8)	(310.2)	–
At 31 March 2008	1,213.8	(28.3)	(21.5)	1,164.0	(4.8)

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

Following the Chancellor's 2008 Budget the group is forecasting a one-off deferred tax charge in 2008/09 relating to the abolition of industrial buildings allowances. This one-off charge is anticipated to be over £200 million.

21 Provisions

	Group			Company	
	Restructuring £m	Onerous leases £m	Other £m	Total £m	Other and total £m
At 1 April 2006	18.4	12.0	22.7	53.1	–
Reclassification in the year	–	14.9	23.4	38.3	12.6
Charged to the income statement	5.0	–	1.8	6.8	2.0
Utilised in the year	(13.0)	–	(14.9)	(27.9)	(0.1)
Disposed of in the year	(4.1)	(19.2)	(8.1)	(31.4)	–
At 31 March 2007	6.3	7.7	24.9	38.9	14.5
Charged/(credited) to the income statement	22.3	(4.0)	4.9	23.2	(1.0)
Utilised in the year	(12.2)	–	(2.4)	(14.6)	(0.6)
Disposed of in the year	(4.1)	(3.7)	–	(7.8)	–
At 31 March 2008	12.3	–	27.4	39.7	12.9

During the year ended 31 March 2007, the directors reviewed the liabilities of the group and, after due consideration of their nature, considered it appropriate to reclassify certain liabilities, in respect of potential legal claims against the group and the cost of vacant properties, from accruals to provisions. The total effect increased provisions and decreased accruals and deferred income within trade and other payables by £38.3 million (company £12.6 million) during the prior year.

The restructuring provision principally relates to severance and programme costs as a result of group reorganisation.

Other provisions principally relate to legal claims against the group and company and represent management's best estimate of the value of settlement and costs. It is estimated that these claims will be settled in more than one year.

Notes to the consolidated financial statements continued

21 Provisions continued

Provisions have been analysed between current and non-current as follows

				Group	Company
	Restructuring £m	Onerous leases £m	Other £m	Total £m	Other and total £m
At 31 March 2008					
Non-current	-	-	18.7	18.7	8.5
Current	12.3	-	8.7	21.0	4.4
	12.3	-	27.4	39.7	12.9
At 31 March 2007					
Non-current	-	7.7	22.7	30.4	12.5
Current	6.3	-	2.2	8.5	2.0
	6.3	7.7	24.9	38.9	14.5

22 Trade and other payables

	Group		Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Non-current				
Deferred grants and contributions	122.1	400.1	-	-
Other creditors	3.4	14.2	-	-
	125.5	414.3	-	-
Current				
Trade payables	78.8	52.7	2.0	1.7
Amounts owed to subsidiary undertakings	-	-	583.1	455.5
Amounts owed to related parties (see note 27)	0.1	0.3	-	-
Other tax and social security	7.1	6.9	0.6	0.3
Other creditors	3.7	16.8	3.7	16.8
Accruals and deferred income	682.2	672.5	26.2	28.2
	771.9	749.2	615.6	502.5

The average credit period taken for trade purchases is 29 days for the group (2007 23 days) and is 18 days (2007 re-presented 14 days) for the company. The prior year comparative for the company has been re-presented to bring the calculation in line with that of the group.

The directors consider that the carrying amount of trade payables approximates to their fair value at both 31 March 2008 and 31 March 2007.

Deferred grants and contributions

	2008 £m	2007 £m
At 1 April	400.1	347.3
Received in the year	69.3	67.4
Disposed of in the year	(334.7)	(0.6)
Credited to the income statement	(12.6)	(14.0)
At 31 March	122.1	400.1

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

Group	Share capital £m	Share premium account £m	Revaluation reserve £m	Treasury shares £m	Cumulative exchange reserve £m	Other reserves £m	Re-presented	
							Retained earnings £m	Total £m
At 1 April 2006	875.4	1,407.8	158.8	(0.3)	2.2	13.4	171.9	2,629.2
Profit for the year attributable to equity holders	-	-	-	-	-	-	433.5	433.5
Dividends	-	-	-	-	-	-	(387.3)	(387.3)
New share capital issued	4.4	14.1	-	-	-	-	-	18.5
Post-employment benefits – actuarial gains on defined benefit schemes	-	-	-	-	-	-	46.5	46.5
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-	3.9	3.9
Revaluation of investments	-	-	-	-	-	8.9	-	8.9
Fair value gains on cashflow hedges	-	-	-	-	-	2.8	-	2.8
Tax on items taken directly to equity	-	-	-	-	-	(0.8)	(14.0)	(14.8)
Exchange adjustments	-	-	-	-	(6.4)	-	-	(6.4)
At 31 March 2007	879.8	1,421.9	158.8	(0.3)	(4.2)	24.3	254.5	2,734.8
Profit for the year attributable to equity holders	-	-	-	-	-	-	909.2	909.2
Dividends	-	-	-	-	-	-	(400.4)	(400.4)
New share capital issued	1.8	7.4	-	-	-	-	-	9.2
Post-employment benefits – actuarial losses on defined benefit schemes	-	-	-	-	-	-	(126.4)	(126.4)
Credit to equity for equity-settled share-based payments	-	-	-	-	-	-	2.6	2.6
Revaluation of investments	-	-	-	-	-	34.9	-	34.9
Fair value losses on cashflow hedges	-	-	-	-	-	(1.5)	-	(1.5)
Tax on items taken directly to equity	-	-	-	-	-	0.4	35.4	35.8
Exchange adjustments	-	-	-	-	11.8	-	-	11.8
At 31 March 2008	881.6	1,429.3	158.8	(0.3)	7.6	58.1	674.9	3,210.0

The comparatives for the year ended 31 March 2007, for the group have been re-presented to incorporate within equity a category for other reserves to include revaluation of investments and fair value gains/(losses) on cashflow hedges and the associated tax on these items. The amounts were previously disclosed within retained earnings but are now classified within other reserves as the directors believe this provides a fairer presentation of these items. The comparatives for the year ended 31 March 2007 for the group have also been re-presented to reflect its participation in the Northern Gas Networks Pension Scheme. This adjustment had a net £nil impact on retained earnings (see note 19).

Notes to the consolidated financial statements continued

23 Shareholders' equity continued

Company	Share capital £m	Share premium account £m	Treasury shares £m	Cumulative exchange reserve £m	Retained earnings £m	Total £m
At 1 April 2006	875.4	1,407.8	(0.3)	5.2	2,523.2	4,811.3
Loss for the year attributable to equity holders	-	-	-	-	(106.7)	(106.7)
Dividends	-	-	-	-	(387.3)	(387.3)
New share capital issued	4.4	14.1	-	-	-	18.5
Post-employment benefits – actuarial losses on defined benefit schemes	-	-	-	-	(21.4)	(21.4)
Credit to equity for equity-settled share-based payments	-	-	-	-	3.9	3.9
Tax on items taken directly to equity	-	-	-	-	6.4	6.4
Exchange adjustments	-	-	-	(6.9)	-	(6.9)
At 31 March 2007	879.8	1,421.9	(0.3)	(1.7)	2,018.1	4,317.8
Profit for the year attributable to equity holders	-	-	-	-	1,311.3	1,311.3
Dividends	-	-	-	-	(400.4)	(400.4)
New share capital issued	1.8	7.4	-	-	-	9.2
Post-employment benefits – actuarial losses on defined benefit schemes	-	-	-	-	(30.6)	(30.6)
Credit to equity for equity-settled share-based payments	-	-	-	-	2.6	2.6
Tax on items taken directly to equity	-	-	-	-	8.6	8.6
Exchange adjustments	-	-	-	0.6	-	0.6
At 31 March 2008	881.6	1,429.3	(0.3)	(1.1)	2,909.6	5,219.1

The authorised ordinary share capital of the company was 1,300,000,000 ordinary shares of £1 each at 31 March 2008 (2007 1,119,000,000). The allotted and fully paid ordinary share capital of the company at 31 March 2008 was 881,621,190 ordinary shares (2007 879,812,392).

1,808,798 (2007 4,389,815) ordinary shares were allotted during the year ended 31 March 2008 for the exercise of options in accordance with the rules of the employee ShareSave schemes and the executive share option scheme for a total consideration of £9.2 million (2007 £18.5 million).

As permitted by section 230(4) of the Companies Act 1985, 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 £1,311.3 million (2007 £106.7 million loss) after accounting for dividends received from subsidiary undertakings of £1,580.7 million (2007 £48.1 million) and a profit on disposal of its associate of £8.7 million (2007 loss on disposal of Vertex of £100.4 million).

24 Acquisition of subsidiary undertakings

The group made no material acquisitions during the year ended 31 March 2008.

On 30 March 2006, the group and company acquired 100 per cent of the issued share capital of 1st Software Limited for initial cash consideration of £25.3 million and deferred contingent consideration of up to £13.5 million. On 26 March 2007, on disposal of the Vertex business, the liability for the deferred contingent consideration was assumed by United Utilities PLC. The deferred contingent consideration was settled in full on 31 March 2008 by United Utilities PLC (see note 7).

25 Operating lease commitments

Group	2008		2007	
	Property £m	Plant and equipment £m	Property £m	Plant and equipment £m
Commitments under non-cancellable operating leases due				
Within one year	1.9	0.9	3.8	1.7
In the second to fifth years inclusive	6.1	1.3	12.3	2.0
After five years	175.6	-	180.3	-
	183.6	2.2	196.4	3.7

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 has the right to renew such leases and escalation of rents is via rent reviews over a minimum five-year period.

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 share-based payments transactions are measured at fair value. Fair value is remeasured at each balance sheet date and at the date of settlement, with changes in fair value recognised in the profit or loss for the period.

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 is expensed on a straight-line basis over the vesting period, based on 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 on 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 on these assumptions and other assumptions identified below.

The total expense included within operating profit from continuing operations in respect of equity-settled share-based payments was £2.6 million (2007 £3.9 million) and £nil (2007 £0.1 million) in respect of cash-settled share-based payments.

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 2008, the Trust held 53,601 (2007 53,601) shares on trust and these shares will be 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:

Continuing operations

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 ten years from the date of grant.

Employee ShareSave scheme

The employee ShareSave scheme is available to all eligible employees and is based on SAYE savings contracts with options exercisable within a six-month period from the conclusion of a three or five-year period as appropriate from the date of grant. Under the terms and conditions of this scheme, for every month (up to no more than six months) an employee fails to contribute the agreed monthly amount determined under the rules of the scheme the last date exercisable will be delayed by one month.

Performance share plan

The performance share plan (PSP) is for senior executives of the group. Options under the performance share plan 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 are subject to a total shareholder return (TSR) performance condition (a market-based measure of performance).

Matching share award plan

The matching share award plan (MSP) 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. MSP awards are 50 per cent subject to a TSR performance condition (a market-based measure of performance). The remaining 50 per cent of the award is subject to operational performance conditions.

Cash-settled share-based payments

The group issued, to certain employees, share appreciation rights (SARs) that require the group to pay the intrinsic value of the SARs to the employee at the date of exercise. At 31 March 2008, the group has recorded liabilities of £0.2 million (2007 £0.4 million) in respect of SARs.

The fair value of the SARs is determined using the Black-Scholes pricing model using the assumptions detailed below. The group recorded a total credit of £0.2 million (2007 £0.1 million expense) during the year in respect of SARs. At 31 March 2008, the total intrinsic value of the vested SARs was £nil (2007 £nil).

Other share-based payment plan

The main all-employee scheme is the HM Revenue and 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 ten per cent of taxable pay each year. The funds are deducted from pre-tax 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. In 2004, the group introduced 'matching' shares. It 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 tax advantages.

Notes to the consolidated financial statements continued

26 Share-based payments continued

	Matching share award plan TSR 50%	Matching share award plan Operational 50%	Cash-settled share-based payments	Performance share plan
2008				
Weighted average exercise price (£ per share)	–	–	–	–
Vesting period (years)	3.0	3.0	–	3.0
Expected volatility (%)	15.0	15.0	–	14.0
Expected option life after adjustment for anticipated forfeiture (years)	2.7	2.7	–	2.8
Risk free rate (%)	5.4	5.4	–	5.7
Expected dividend yield (%)	6.79	–	–	5.9
Fair value (£ per share)	1.43	6.62	–	1.84
2007				
Weighted average exercise price (£ per share)	–	–	–	–
Vesting period (years)	–	–	3.0	3.0
Expected volatility (%)	–	–	14.2	14.2
Expected option life after adjustment for anticipated forfeiture (years)	–	–	2.7	2.7
Risk free rate (%)	–	–	4.84	4.85
Expected dividend yield (%)	–	–	–	–
Fair value (£ per share)	–	–	7.55	1.77

The rules of the cash-settled share-based payment plan and PSP were amended in the year ended 31 March 2007 to include dividend reinvestment.

The expected volatility is based on the historical volatility of the company's share price over the expected life of the option.

The movement in total outstanding options in respect of grants of equity instruments after 7 November 2002 unvested as of 1 April 2004, and therefore within the scope of IFRS 2, is provided below

Re-presented	Company share option scheme 1999		Employee ShareSave scheme		Matching share award plan		Performance share plan		Cash-settled share-based payments
	Number of options	Weighted average exercise price (£)	Number of options	Weighted average exercise price (£)	Number of options	Weighted average exercise price (£)	Number of options	Weighted average exercise price (£)	Number of SARs
Outstanding at 1 April 2006	420,953	5 44	2,810,871	4 05	-	-	3,630,686	-	127,407
Granted	-	-	-	-	-	-	817,226	-	56,592
Dividend reinvestment	-	-	-	-	-	-	35,868	-	2,481
Forfeited	-	-	(114,952)	4 06	-	-	(317,408)	-	(34,630)
Exercised	(131,183)	5 44	(1,696,035)	3 98	-	-	(566,620)	-	-
Expired	(52,698)	5 44	(30,852)	4 15	-	-	(816,274)	-	(4,332)
Outstanding at 31 March 2007	237,072	5 44	969,032	4 19	-	-	2,783,478	-	147,518
Granted	-	-	-	-	101,367	-	305,868	-	-
Dividend reinvestment	-	-	-	-	6,869	-	84,580	-	3,534
Forfeited	(22,832)	-	(22,815)	4 23	-	-	(240,185)	-	(3,561)
Exercised	(69,749)	5 44	(877,997)	4 19	-	-	-	-	-
Expired	-	-	(10,359)	4 04	-	-	(1,030,236)	-	(55,290)
Outstanding at 31 March 2008	144,491	5 44	57,861	4 23	108,236	-	1,903,505	-	92,201
Range of prices									
31 March 2008		5 44		4 23		-		-	-
31 March 2007		5 44		3 96-4 23		-		-	-
Weighted average share price at date of exercise									
31 March 2008		7 12		6 85		-		-	-
31 March 2007		7 07		7 17		-		6 52	-
Contractual remaining life									
31 March 2008		4 7 years		0 4 years		2 0 years		1 3 years	0 5 years
31 March 2007		5 7 years		1 4 years		-		2 3 years	2 3 years

None of the share options identified above as outstanding at 31 March 2008 had vested at that date

Options outstanding at 31 March under the share option schemes which are outside the scope of IFRS 2 'Share-based Payments', together with their exercise prices and dates, were

	2008	2007	Exercise price pence	Normal dates of exercise
Employee ShareSave scheme	-	74,166	432 3 ⁽¹⁾	2005 or 2007
Executive share option scheme	-	46,965	546 4 ⁽²⁾	2000 to 2007
	-	151,364	664 5 ⁽²⁾	2000 to 2007
	26,598	103,083	766 0 ⁽²⁾	2001 to 2008
	93,934	147,123	750 5 ⁽²⁾	2001 to 2008
	182,816	324,683	664 0 ⁽²⁾	2002 to 2009
Company share option scheme 1999	17,045	69,247	532 2 ⁽²⁾	2002 to 2009
	146,529	261,989	587 9 ⁽²⁾	2003 to 2010
	29,971	128,446	575 8 ⁽²⁾	2003 to 2010
	156,691	262,755	563 7 ⁽²⁾	2004 to 2011
	71,937	163,313	509 3 ⁽²⁾	2005 to 2012
	257,569	438,894	528 3 ⁽²⁾	2005 to 2012
	983,090	2,172,028		

Notes

(1) The exercise price represents 80 per cent of the market price at the date the option was granted

(2) The exercise price equalled the market price at the date the option was granted

Notes to the consolidated financial statements continued

26 Share-based payments continued

Discontinued operations

Vertex performance share plan (Vertex PSP)

The Vertex PSP was for senior executives of the group. Options under the Vertex 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. Vertex PSP awards are subject to both a TSR performance condition (a market-based measure of performance) and earnings before interest, taxation and amortisation (EBITA) and return on capital employed (ROCE) performance conditions (non-market based measures of performance).

The Vertex PSP scheme was discontinued in line with the disposal of Vertex on 26 March 2007 (see note 7). Accordingly, all Vertex PSP options will vest no later than 31 March 2009 and the remaining charge is considered to be inconsequential.

For those share option awards granted in the year ended 31 March 2008 and 31 March 2007, the assumptions used in the calculation of the fair values were as follows:

	2008	2007
Weighted average exercise price (£ per share)	-	-
Vesting period (years)	-	3.0
Expected volatility (%)	-	14.3
Expected option life after adjustment for anticipated forfeiture (years)	-	2.7
Risk free rate (%)	-	4.85
Expected dividend yield (%)	-	-
Fair value (£ per share)	-	4.36

The movement in total outstanding options in respect of grants of Vertex PSP equity instruments after 7 November 2002 unvested as of 1 April 2004, and therefore within the scope of IFRS 2, is provided below:

	Number of options	Weighted average exercise price (£)
Outstanding at 1 April 2006	913,696	-
Granted	463,010	-
Dividend reinvestment	-	-
Forfeited	(483,003)	-
Exercised	-	-
Expired	-	-
Outstanding at 31 March 2007	893,703	-
Granted	-	-
Dividend reinvestment	22,579	-
Forfeited	(7,476)	-
Exercised	-	-
Expired	(345,563)	-
Outstanding at 31 March 2008	563,243	-
Range of prices		
31 March 2008		-
31 March 2007		-
Weighted average share price at date of exercise		
31 March 2008		-
31 March 2007		-
Contractual remaining life		
31 March 2008		0.7 years
31 March 2007		2.3 years

The rules of the Vertex PSP were amended in the year ended 31 March 2007 to include dividend reinvestment.

None of the share options identified above as outstanding at 31 March 2008 had vested at that date.

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 associate and joint ventures

	Sales of services		Purchases of goods and services	
	2008 £m	2007 £m	2008 £m	2007 £m
Joint ventures	130.9	95.3	3.2	3.0
Associate	–	10.2	–	6.2
	130.9	105.5	3.2	9.2

	Amounts owed by related parties		Amounts owed to related parties	
	2008 £m	2007 £m	2008 £m	2007 £m
Joint ventures	15.0	10.6	0.1	–
Associate	–	1.3	–	0.3
	15.0	11.9	0.1	0.3

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. No guarantees have been given or received. A £nil provision has been made for doubtful receivables in respect of the amounts owed by related parties (2007 £0.1 million).

The group disposed of its associate during the year ended 31 March 2008 (see notes 7 and 13).

Company

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

Total dividend income received during the year amounted to £1,580.7 million (2007 £48.1 million), total net interest paid during the year was £17.2 million (2007 £4.7 million interest received) and total recharges were £34.6 million (2007 £28.2 million). Amounts outstanding at 31 March 2008 and at 31 March 2007 between the parent company and subsidiary undertakings are provided in notes 15, 17 and 22.

In addition, the parent company also recharges certain costs to its associate in the normal course of business. Total recharges were £nil (2007 £8.6 million) during the period until 19 June 2007 on disposal of the associate. There were no amounts outstanding between the parent company and its associate at 31 March 2007.

Related party receivables and payables are not secured and no guarantees were issued in respect thereof. Balances will be settled in accordance with normal credit terms. An allowance for doubtful receivables of £10.1 million (2007 £nil) has been made for amounts owed by subsidiary undertakings. In the year ended 31 March 2008, an expense of £212.1 million was recorded in respect of bad or doubtful receivables due from subsidiary undertakings (2007 £nil).

The directors and key management of the company are the same as for the group. Information on the remuneration of directors and key management personnel can be found in note 2.

Notes to the consolidated financial statements continued

28 Cash generated from operations

	Group		Re-presented Company	
	2008 £m	2007 £m	2008 £m	2007 £m
Continuing operations				
Profit/(loss) before taxation	478 3	502 3	1,285 4	(132 6)
Adjustment for investment income and finance expense	184 9	139 8	78 1	64 8
Operating profit/(loss)	663 2	642 1	1,363 5	(67 8)
Adjustments for				
Depreciation of property, plant and equipment	226 0	213 8	0 1	0 2
Amortisation of other intangible assets	22 2	7 5	-	-
Profit on disposal of property, plant and equipment	(5 7)	(3 4)	-	-
Equity-settled share-based payments charge	2 6	3 9	2 6	3 9
Other non-cash movements	3 9	-	-	-
Profit on disposal of associates	-	-	(8 7)	-
Loss on disposal of subsidiaries	-	-	-	100 4
Changes in working capital				
(Increase)/decrease in inventories	(4 1)	4 0	-	-
(Increase)/decrease in trade and other receivables	(81.3)	(66 6)	(114 2)	78 6
Increase/(decrease) in provisions and payables	50 1	9 5	49 9	(53 1)
Cash generated from continuing operations	876 9	810 8	1,293 2	62 2
Discontinued operations				
Profit before taxation	141 9	174 2		
Adjustment for investment income and finance expense	16 6	26 2		
Operating profit	158.5	200 4		
Adjustments for				
Depreciation of property, plant and equipment	9 7	68 0		
Amortisation of other intangible assets	0 6	13 4		
Loss/(profit) on disposal of property, plant and equipment	2 5	(2 4)		
Changes in working capital				
Decrease/(increase) in inventories	3 6	(0 1)		
Decrease in trade and other receivables	6 3	61 3		
Decrease in provisions and payables	(36 5)	(84 8)		
Interest paid	(17 1)	(43 6)		
Interest received and similar income	10 3	12 1		
Tax paid	(38 4)	(19 9)		
Cash generated from operating activities – discontinued operations	99 5	204 3		

Non-cash transactions

During the year, the retained pension balances £nil (2007 £26 8 million) in respect of United Utilities Electricity and the group's facilities management operations have been transferred to the company's share of the defined benefit pension schemes (see note 19)

There were no material non-cash transactions during the year affecting the group

Disposal of subsidiary

The company cashflow statement includes additional proceeds in relation to the intra-group disposal of 1st Software Limited of £nil (2007 £21 2 million)

29 Contingent liabilities

The company guaranteed loans of group undertakings up to a maximum of £418.2 million (2007 £703.7 million), including £418.2 million (2007 £613.7 million) relating to United Utilities Water PLC's loans from European Investment Bank and £nil (2007 £90.0 million) relating to United Utilities Electricity Limited's loans from European Investment Bank

The group has entered into performance guarantees as at 31 March 2008, where a financial limit has been specified of £121.6 million (2007 £134.1 million)

The company has entered into performance guarantees as at 31 March 2008, where a financial limit has been specified of £106.5 million (2007 £134.1 million)

30 Events after the balance sheet date

On 30 May 2008, the parent company entered into a loan agreement with United Utilities Group PLC (UUG) for £1.5 billion. UUG will become the ultimate holding company of the group subsequent to the scheme of arrangement scheduled to occur in July 2008. The draw down of the loan facility will be contingent on the completion of the scheme of arrangement.

There were no other events arising after the balance sheet date that require recognition or disclosure in the financial statements for the year ended 31 March 2008.

Shareholder information

£1.5 billion return of value to shareholders

As set out in the circular to shareholders published on 6 June 2008, the board intends to return to shareholders a total of £1.5 billion or 170 pence per share. This substantial total return is analysed in the table below.

Proposed return of value to shareholders	£m	Pence per share*
Net equity proceeds from sale**	1,050**	119
Additional return to create more efficient capital structure	450	51
Total proposed return via B share scheme	1,500	170

Notes

* Based on 880 million ordinary shares in issue at the time the sale was agreed

** £1,782 million sale price less United Utilities Electricity net debt of £686 million at fair value at the date of disposal, including United Utilities' group debt apportioned to the electricity business and transaction costs of £46 million

The proposed return of value will be in the form of a redeemable B share scheme providing shareholders (other than shareholders in certain overseas jurisdictions) with a choice of receiving the return as capital or income and the option to spread the return over two financial years.

In order to implement the B share scheme and increase the group's distributable reserves, the company intends to propose a change to its corporate structure. The proposed change, which is subject to court and shareholder approval, involves a scheme of arrangement to introduce a new parent company above United Utilities PLC. The reserves created by the implementation of the new structure will be available for the proposed return of value and the declaration of future dividends.

The scheme of arrangement will involve the new parent company acquiring all of the shares in United Utilities PLC and issuing new shares. This will comprise the issue of new ordinary shares and redeemable B shares to facilitate the return of value. The number of new ordinary shares issued will be reduced from the existing number of ordinary shares, commensurate with the return of value, with a view to aiding comparability of share price and earnings per share before and after the return of value. Following the implementation of the new structure, United Utilities' shareholders will hold shares in the new parent company equivalent to their previous percentage holding in United Utilities PLC. The new structure will be implemented at the same time as the return of value.

The necessary steps to achieve the above corporate restructuring are expected to be completed during the summer, enabling the return of value to take place in August 2008.

Annual general meeting

The company is holding its 2008 annual general meeting on Friday 25 July 2008 at the Bridgewater Hall, Manchester. It will start at 11.00 a.m. The notice calling the meeting includes a full explanation of the resolutions to be proposed at the annual general meeting.

Key events for shareholders – 2008/09

Subject to the successful conclusion of a scheme of arrangement, United Utilities PLC will be replaced by a new holding company to be known as United Utilities Group PLC. Shortly after the annual general meeting, United Utilities PLC shares will be cancelled and delisted and United Utilities Group PLC will issue ordinary shares and B redeemable shares in their place. Furthermore:

- United Utilities PLC will pay the 2008 final dividend on 8 August 2008
- We will despatch new share certificates for ordinary shares and outstanding B shares in United Utilities Group PLC by 11 August 2008
- United Utilities Group PLC will despatch cheques in payment of the B dividend and the first redemption date for the B shares on 11 August 2008
- We will announce the half year results on 26 November 2008 (provisional)
- We will pay the 2009 interim dividend in February 2009
- We will despatch cheques in respect of Final B Share Redemption on 20 April 2009
- We will announce the preliminary full year results in May or June 2009
- We will publish United Utilities Group PLC's first annual report and accounts, the stakeholder report and summary financial statement in June 2009
- We will hold the first annual general meeting of United Utilities Group PLC in July 2009

Keeping you in the picture

You can find more information about United Utilities quickly and easily on the United Utilities' website. In addition to the annual report and accounts, the stakeholder report and other reports, company announcements are also published on the website, including the interim and preliminary results announcements and associated presentations. www.unitedutilities.com/corporatereports

In addition to these reports, the group also publishes in printed form a wide range of reports, leaflets and factsheets about various aspects of its business. You can get more information about them from Gaynor Kenyon, Communications Director, at Haweswater House, Lingley Mere Business Park, Lingley Green Avenue, Great Sankey, Warrington, WA5 3LP (telephone +44 (0) 1925 237000, email gaynor.kenyon@uuplc.co.uk)

You can obtain a copy of the regulatory accounts for United Utilities Water for the year ended 31 March 2008 from the company's website – go to www.unitedutilities.com You can also obtain a copy, free of charge, by telephoning Julie McGowan on +44 (0) 1925 237059

Enquiring about your shareholding

If you want to ask about your shareholding, or need any information, please contact the company's registrar, Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA (telephone +44 (0) 871 384 2041 or textphone for shareholders with hearing difficulties +44 (0) 871 384 2255)

The registrar's website allows shareholders with internet access to view details of their shareholdings and dividends, to vote at general meetings and to register to receive communications electronically You can use the tools on the website to value your portfolio by reference to a recent market price and, if you wish, sell your shares online To register with Shareview go to www.shareview.co.uk, click on 'Create a portfolio' and follow the on-screen registration process using the eight-digit account number on the enclosed proxy form

If you have received more than one copy of this document, you may have more than one account in your name on the register of members To merge your holdings, please write to Equiniti at the above address, giving details of the accounts concerned and how you want them to be merged

Paying your dividends direct to your account

The registrars pay dividends direct to a shareholder's bank or building society account through the BACS (Bankers' Automated Clearing Service) system If you have not already arranged for your dividends to be paid direct to your bank or building society account and you want to do so, please contact the company's registrar at the address above

Dealing in United Utilities' shares

You can now buy or sell our ordinary shares using Equiniti's share dealing service (telephone +44 (0) 845 603 7037) or deal online www.shareview.co.uk/dealing

Holding your shares tax-efficiently

The United Utilities' single company ISA (a Maxi or Mini shares-only individual savings account), managed by Equiniti, offers a tax-efficient way of holding United Utilities' shares To get more information, please ring +44 (0) 871 384 2244 stating that you are a United Utilities shareholder

Donating shares to the ShareGift scheme

ShareGift is a charity (registered charity number 1052686) which specialises in accepting donations of small numbers of shares which are uneconomic to sell on their own Shares which have been donated to ShareGift are aggregated and sold when practicable, with the proceeds passed on to a wide range of UK charities Further details about ShareGift can be obtained from its website at www.ShareGift.org or by writing to ShareGift at 17 Carlton House Terrace, London SW1Y 5AH (telephone +44 (0) 207 930 3737)

American Depositary Receipts (ADRs)

United Utilities' shares are traded in the US in the form of American Depositary Receipts (ADRs), and trade under the symbol UUPLY on the OTC market Each ADR represents two shares JPMorgan Chase Bank, N A is the depositary and its address for enquiries is JPMorgan Chase Bank, N A , JPMorgan Service Center, PO Box 3408, South Hackensack, NJ 07606 3408 Telephone (800) 990 1135 (US toll free) or outside the US, +1 (201) 680 6630 or visit the website www.adr.com/shareholder

Avoiding unsolicited mail

The company is legally obliged to make its register of members available to other organisations and, because of this, you may receive mail you have not asked for If you want to limit the amount of personally addressed unsolicited mail you receive, and you have a UK registered address, please write to the Mailing Preference Service, Freepost 29, LON20771, London W1E 0ZT, or register by telephoning +44 (0) 845 703 4599 or online www.mpsonline.org.uk

Warning to shareholders

Over the last year, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports

The Financial Services Authority (FSA) maintains on its website a list of unauthorised overseas firms who are targeting, or have targeted, UK investors and any approach from such organisations should be reported to the FSA so that this list can be kept up to date and any other appropriate action can be considered If you deal with an unauthorised firm, you would not be eligible to receive payment under the Financial Services Compensation Scheme More detailed information on this or similar activity can be found on the FSA website www.moneymadeclear.fsa.gov.uk

If you have any further questions about your dividend or shareholding, please call the helpline on +44 (0) 871 384 2041 or visit the website www.unitedutilities.com

Glossary

These explanations are designed to help understanding of our non-financial KPIs. Additional measures and information can be found at www.unitedutilities.com/stakeholder2008

Environment

Pollution incidents the number of category 1 and 2 incidents (i.e. the most serious types) that cause pollution of water courses during the calendar year, as defined by the Environment Agency. For further explanation please visit <http://www.environment-agency.gov.uk>

Water quality mean zonal compliance is a calendar year measure of overall drinking water quality used by the Drinking Water Inspectorate. It comprises an average measure of 40 different parameters tested at customers' taps and supply points. For further explanation please visit www.dwi.gov.uk

Greenhouse gas emissions these are measured in metric tonnes of carbon dioxide equivalent. This is derived by multiplying the amount of the gas emitted by its global warming potential (i.e. how much more effect it has compared to carbon dioxide)

Greenhouse gases are six gases that we measure for their contribution to global warming. Each gas has a different impact and these are expressed in terms of carbon dioxide emissions.

For further explanation please visit www.defra.gov.uk

Renewable energy generated the number of gigawatt-hours of energy generated by United Utilities from renewable energy sources such as hydro electric.

A gigawatt is a unit of power equal to one billion (one thousand million) watts.

Employees

Employee engagement – employee opinion survey we carry out an annual survey of our employees to find out what they think about working for United Utilities. This leads to action planning to make United Utilities a better place to work. The employee engagement measure encompasses how employees think, feel and act.

Health and safety – accident incident rate per 100,000 employees this is the number of lost time accidents (business time lost due to accidents) in the year, pro-rated to produce a rate per 100,000 employees.

Customers

Water – relative efficiency how efficient we are in spending money to run our services compared to other water companies, as assessed by regulator Ofwat for the calendar years ended 31 December 2007 and 2006.

Wastewater – relative efficiency as above.

Leakage – rolling annual average leakage measured in MI/d or megalitres per day. One megalitre equals one million litres.

Sewer flooding – number of properties on the at-risk register a register that records properties at risk of experiencing one or two sewer flooding incidents in ten years.

Overall customer satisfaction – water (in response to enquiries) an internal assessment mechanism which measures the level of customer satisfaction in relation to the responses received from enquiries, which involves interviewing customers. Such sample interviews are conducted monthly.