Registered No: 2366616

United Utilities PLC

Report and Financial Statements

31 March 2010

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Registered no 2366616

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Chairman's statement

In this important year, which has seen the company make further progress against its strategic objectives and agree price limits for the next five years with the regulator, we have delivered a sound underlying financial performance in both our regulated and non-regulated activities The group continues to benefit from a strong financing position and has headroom to cover its projected financing needs through to the spring of 2012

Strategy
United Utilities has a consistent strategy of focusing on its core activities During 2009/10 we continued to concentrate on the same four key areas that underpin our commitment to delivering value for our shareholders and serving our customers

- Improving operational performance,
- Delivering our regulatory contract,
- The 2009 water price review, and
- Our non-regulated activities

Improving operational performance
We have maintained our focus on operational performance and made good progress during the year We have consistently highlighted a number of performance indicators against which our stakeholders can assess our progress These include relative efficiency, security of water supply (leakage), serious pollution incidents, and overall customer satisfaction in response to enquiries

In terms of relative efficiency, the company has a continuing focus on cost efficiency and is implementing a range of cost control measures, as we aim to lower the cost to serve our customers whilst maintaining and improving levels of service

We are pleased to report that overall customer satisfaction is at its highest level for many years and that we met our regulatory leakage target for the fourth consecutive year This was achieved despite exceptionally difficult winter weather conditions and highlights the commitment of our employees We have also halved the number of serious pollution incidents over the last few years Although we have made good progress, we know that there is more to do and are focused on delivering further improvements

Delivering our regulatory contract
We have completed the 2005-10 regulated water and wastewater contract in the North West of England Over the five-year period we invested over £3 billion in our infrastructure, which allows us to maintain and improve the service we provide to our customers and to meet tough environmental standards However, there is no time to sit back and we have already embarked on delivering the next five-year regulatory contract

The 2009 water price review
2009/10 was an important year for the water sector in England and Wales as the economic regulator, Ofwat, set price limits for the five years from 1 April 2010 to 31 March 2015 We considered the contents carefully before deciding that, on balance, it was in shareholders' and customers' best interests to accept the regulator's proposals

There is no doubt this is a challenging price review However, we are well prepared to meet the requirements of the review given the detailed plans that we have already started to implement

Chairman's statement (continued)

Non-regulated activities
Consistent with our strategy of focusing on our core activities, we completed the disposals of our holdings in Northern Gas Networks and Manila Water Company for a combined price of £132 million Since 31 March 2010, we have also agreed to sell our Australian business for approximately £135 million, our principal UK and European non-regulated water interests for approximately £174 million, and our UK electricity services business We are continuing to evaluate the expressions of interest we have received for our remaining non-regulated businesses

Our employees
Last November, we dealt with record levels of rain and the flooding in Cumbria that occurred as a result I witnessed the huge operational challenge it caused and I would again like to thank our people across the business for their superb response, often in very difficult conditions This commitment from our staff was evident throughout the year, particularly in January, during the exceptional wintry conditions United Utilities has been set new efficiency targets as part of the regulator's price limit proposals and we have had to make some difficult decisions with regard to the internal structure of the group As a result, approximately 500 people left the group during the 2009/10 year A committed workforce is central to delivering our objectives for the next five years and beyond and we continue to communicate regularly and openly with our workforce, affirming the core values of our business passion, trust, team and commitment

Our environment
Embedded within the group's strategic objectives is the goal to operate in a more sustainable manner With long life assets we believe it is essential to take a long-term view of our operations We recently updated our strategic direction statement which considers the needs of our region out to 2035 and takes account of the recent final determination of prices by Ofwat We have factored into our business plan ways in which we can adapt to climate change, whilst ensuring the continuity of water supplies for our customers

In September 2009, we published our water resources management plan This aims to identify the best strategy to balance supply reliability, whilst protecting the environment and having due regard for the affordability of bills It focuses on how we adapt to meet the challenge of climate change, ensuring the abstraction of water in our region is sustainable given the increasing drought risk We will continue to look at ways of reducing demand for water to help alleviate the impact of climate change

Our customers
We are aware of the impact on our household customers of reduced economic activity and higher unemployment and have increased the funding of our charitable trust by two-thirds to £5 million per year Our water and wastewater services currently cost households approximately £1 per day on average Over the next five years, the average annual household bill will fall by £9 in real terms We believe this represents excellent value for money, providing our customers with high quality drinking water to meet all their daily needs and for environmentally responsible wastewater collection and treatment

Outlook
Based on Ofwat's final determination, prices to United Utilities Water PLC's customers across the 2010-15 regulatory period will decrease in real terms by an annual average of 0 4 per cent with a 4 3 per cent real decrease in 2010/11 We are implementing a range of detailed efficiency and performance improvement initiatives and believe we can deliver outperformance in respect of the new regulatory contract Our early capital investment planning should facilitate a smooth transition into the 2010-15 period and we expect capital expenditure to continue at high levels in 2010/11 Overall, we are well positioned for the next five years

Philip Green
Chairman

Business review

Key performance indicators

United Utilities monitors a large number of financial and non-financial key performance indicators (KPIs) to assess its performance The non-financial KPIs include targets set by regulatory bodies We believe that those featured below provide an overall picture of our business Additional non-financial KPIs are provided in our online corporate responsibility report at unitedutilities com/crreport2009 The 2010 corporate responsibility report is expected to be published in September 2010

	2009/10	Restated 2008/09
Financial		
Revenue from continuing operations	£2,439 1m	£2,427 2m
Operating profit from continuing operations	£817 9m	£729 5m
Underlying [1] operating profit from continuing operations	£756 3m	£736 1m
Profit before taxation from continuing operations	£506 1m	£568 2m
Underlying [1] profit before taxation from continuing operations	£532 3m	£570 2m
Environment		
Pollution incidents [2]	8	11
Water quality – mean zonal compliance [3]	99 94%	99 92%
Renewable energy generated [4]	107GWh	100GWh
Employees		
Employee engagement – employee opinion survey	67%	76%
Health and safety – incident rate per 100,000 employees	801	778
Customers		
Water – relative efficiency banding [5]	Band B	Band B
Wastewater – relative efficiency banding [5]	Band C	Band C
Leakage – rolling annual average leakage [6]	461 Ml/d	462 Ml/d
Overall customer satisfaction – water (in response to enquiries)	82%	76%

Notes

(1) Underlying operating profit and underlying profit before taxation are defined in the underlying profit measure table on page 14

(2) Number of category 1 & 2 pollution incidents recorded during the year as defined by the Environment Agency Figures stated are for the years ended 31 December 2009 and 2008

(3) The percentage mean zonal compliance with samples taken according to the current Drinking Water Quality Regulations during the calendar year It is constituted from data for 40 parameters with National or European standards Figures stated are for the years ended 31 December 2009 and 2008

(4) In 2009/10 107 GWh of renewable energy was generated, the equivalent of 57,987 tonnes of carbon dioxide

(5) The operating expenditure relative efficiency band as assessed by Ofwat for the years ended 31 March 2009 and 2008 2009/10 assessment is due to be published by Ofwat later in the year

(6) Annual rolling average total leakage – figures given are in megalitres per day for the years ended 31 March 2010 and 31 March 2009 The Ofwat regulatory rolling average leakage target was 465 megalitres per day for each year

Terms used in this report:

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

Business review (continued)

Business description

United Utilities PLC is the intermediate holding company of the UK's largest listed water business The group owns and manages the regulated water and wastewater network in the North West of England, through its subsidiary United Utilities Water PLC (UUW), which constitutes the vast majority of the group's assets and profit The group also applies its utility skills to manage and operate other utility infrastructure

United Utilities reports through three business segments

- Regulated activities,
- Non-regulated activities, and
- All other segments

Regulated activities

Key facts

- 100 water treatment works
- Over 42,000 kilometres of water pipes
- 57,000 hectares of catchment land
- 575 wastewater treatment works
- Over 43,000 kilometres of sewers
- Serving a population of seven million people

Water and wastewater operations

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

Almost 2,000 million litres of water is supplied every day to approximately 3 2 million homes and businesses Water is collected from catchment land and other sources and stored in reservoirs before being treated and then delivered via a network of pipes to homes and industry A large proportion of the water supplied flows freely by gravity and does not need to be pumped

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

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

Business review (continued)

Business description (continued)

Since privatisation in 1990

- Water quality in the North West has improved from 99 6 per cent to 99 9 per cent,
- Compliance with bathing water standards across the North West has risen from just over 30 per cent to more than 90 per cent,
- Leakage from the network has halved, supported by ongoing investment in replacing ageing water pipes, and
- UUW has invested more than £4,000 for every household in the North West, some £750 above the national average

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

Consistent with the group's approach to longer-term planning, UUW's water resources management plan published in September 2009 considers the water supply/demand balance in the North West of England, including the potential impacts of climate change out to 2035

UUW's strategic direction statement, which was updated in April 2010, sets out the company's plans for the new price review period (2010-15) in a longer-term context The key elements identified in the strategic direction statement are

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

Regulatory environment

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

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

On 26 November 2009 Ofwat published its final determination of price limits for the period 1 April 2010 to 31 March 2015 UUW's profile of price limits for the five years is set out below

Year	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**
K factor	-4 3%	-0 2%	+0 6%	+1 0%	+1 2%

Business review (continued)

Business description (continued)

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

- a £3 6 billion capital investment programme (2007/08 prices),
- 12 per cent, or approximately £900 million, real growth in the regulatory capital value (RCV) over the five years,
- an average annual underlying operating efficiency of 1 2 per cent for the water service and 2 4 per cent for the wastewater service, and
- a return on capital of 4 5 per cent (post-tax, real)

The RCV is the capital base on which water companies earn a return It is increased by capital expenditure and inflation, and reduced by depreciation and clawback of past efficiencies

Non-regulated activities

As well as owning and managing the substantial water and wastewater network in the North West of England, United Utilities also applies its utility skills through outsourced utility contracts and investments

As part of its strategy of focusing on core activities, United Utilities disposed of its investments in Northern Gas Networks and Manila Water during the second half of 2009/10, crystallising approximately £132 million for the group In May 2010, the group also agreed the disposal of its Australian business for approximately £135 million In June 2010 the group agreed the disposal of its principal UK and European non-regulated water interests for approximately £174 million and agreed and completed the disposal of its UK electricity services business United Utilities is continuing to evaluate the expressions of interest it has received for its remaining non-regulated businesses

Performance summary

Group results (continuing operations)

	Year ended 31 March 2010 £m	Restated(1) Year ended 31 March 2009 £m	Change
Operating profit	817 9	729 5	+12 1%
Underlying operating profit (2)	756 3	736 1	+2 7%
Profit before taxation	506 1	568 2	-10 9%
Underlying profit before taxation (2)	532 3	570 2	-6 6%

Note

(1) In accordance with International Financial Reporting Standards, IFRIC 12 'Service Concession Arrangements' is applied retrospectively hence the prior year has been restated

(2) Underlying operating profit and underlying profit before taxation are defined in the underlying profit measure tables on page 14

Business review (continued)

Performance summary (continued)

- Sound results in a challenging economic environment underlying operating profit of £756 million
- Final dividend increased by 4 2 per cent to 17 87 pence per share
- Customer satisfaction at highest recorded levels, leakage target met despite extreme winter weather
- Programme of actions to deliver outperformance over 2010-15 period
- Significant reduction in pensions deficit since September 2009 more sustainable and lower risk approach
- Disposals of non-regulated businesses are progressing and the group is continuing to assess expressions of interest for remaining non-regulated businesses

Financial review

United Utilities has delivered a sound set of financial results for the year ended 31 March 2010 Revenue from continuing operations rose by £12 million to £2,439 million Underlying operating profit increased by 2 7 per cent to £756 million Underlying profit before tax decreased by 6 6 per cent to £532 million

The regulated business has delivered a modest increase in underlying operating profit, which is up three per cent at £701 million This result primarily reflects the price increase allowed by Ofwat coupled with tight cost control, offset as expected by reduced water demand and ongoing cost pressures in areas such as power and bad debts, alongside an expected increase in depreciation The price increase supports the high levels of essential investment in our assets, which helps the business meet strict environmental standards and deliver an improved service for its customers

Capital expenditure in the regulated water and wastewater business amounted to £620 million during the year, including infrastructure renewals expenditure This level of spend is consistent with the planned investment profile for the final year of the 2005-10 capital expenditure programme

In the second half of the year, United Utilities completed the disposals of its holdings in Northern Gas Networks and Manila Water Company for a combined price of £132 million The dividends from these investments amounted to £2 million in 2009/10 and £12 million in 2008/09 Adjusting for these dividends would show a year-on-year increase in underlying non-regulated operating profit of £7 million In May 2010, the group also agreed to sell its Australian business for a total of approximately £135 million In June 2010 the group agreed the disposal of its principal UK and European non-regulated water interests for approximately £174 million and agreed and completed the disposal of its UK electricity services business United Utilities intends to retain the proceeds from these disposals within the group The group is continuing to evaluate the expressions of interest it has received for its remaining non-regulated businesses

Business review (continued)

Financial review (continued)

The group has sought to adopt a more sustainable approach to the delivery of pension provision and has amended the terms of its defined benefit pension schemes This reduces future funding and deficit risk as well as future service cost, thereby enabling the company to retain defined benefit pension schemes for existing members Following consultation, the changes to the rules of the pension scheme were supported by the company's trade unions The reduction in service cost for 2010/11 is expected to be approximately £7 million, although the lower risk investment strategy is likely to reduce investment income and result in a lower net benefit at the profit before tax level The amendments have also resulted in a reduction of £92 million to the group's pension deficit, which is required to be accounted for as a credit to operating profit in the group's income statement Overall, the group's net pension deficit at the year end has decreased by £87 million, compared with the position at 30 September 2009, reflecting the aforementioned changes to the pension schemes and the routine actuarial assessment of movements in assets and liabilities

The group benefits from headroom to cover its projected financing needs through to the spring of 2012 During the year, United Utilities enhanced its liquidity through the issuance of £220 million of new bonds and £150 million of term extensions to existing committed bank facilities This provides the group with good flexibility in terms of when and how it raises further debt finance

Investment income and finance expense

Finance expense of £384 million was £111 million higher than the prior year This expense included £136 million of net fair value losses on debt and derivative instruments, compared with £24 million of net fair value losses in 2008/09 The impact of changes in credit spreads on debt accounted for at fair value through profit or loss can result in significant volatility and this is the principal reason for the large net fair value movement in the year In addition, the volatility in financing expense reflects the fact that, in order to provide a hedge of the interest cost implicit in the regulatory period, the group fixes interest rates for the duration of each five-year review period for a substantial proportion of its debt using interest rate swaps IAS 39 'Financial Instruments Recognition and Measurement' limits the use of hedge accounting for these commercial hedges, thereby increasing the potential volatility of the income statement However, this volatility in fair values has no cashflow impact A reduction in returns on the group's pension schemes' assets in 2009/10, compared with the prior year, has also contributed to the increase in finance expense in the year

Investment income was £46 million, compared with £111 million in the prior year, principally reflecting a reduction in cash, following the return of approximately £1 5 billion to United Utilities Group PLC shareholders in the previous financial year, and lower returns on cash deposits and amounts owed by ultimate parent undertaking

Profit before taxation

Underlying profit before taxation was £532 million, 6 6 per cent lower than 2008/09 This underlying measure adjusts for the impact of one-off items, fair value movements in respect of debt and derivative instruments and the short-term interest benefit in the previous year associated with the cash proceeds from the sale of UUE prior to the £1 5 billion return to United Utilities Group PLC shareholders Reported profit before taxation decreased by 11 per cent to £506 million principally as a result of an increase in finance expense and lower investment income, partly offset by the £92 million one-off credit associated with the changes to the group's pension schemes and a £37 million profit on disposal of investments

Business review (continued)

Financial review (continued)

Taxation

During the year the group received a cash tax inflow of £51 million, following agreement with UK tax authorities of prior years' tax returns After taking account of this repayment, the net position for 2009/10 was a small cash outflow of £1 million

The current tax charge was £31 million and the current tax effective rate was 6 percent, compared with 26 percent in the prior year The current tax charge included a £48 million credit in relation to the agreement with the tax authorities of prior years' tax returns

In the prior year, the group recognised a one-off deferred tax charge of £206 million relating to the abolition of industrial buildings allowances with a cash impact expected to be spread over a period of approximately 20 years This one-off item resulted in a significant increase in the effective tax rate for the prior year

The group has recognised a net deferred tax charge of £49 million compared with a deferred tax charge in the prior year of £210 million This included a £7 million credit in relation to the agreement with the tax authorities of prior years' tax returns

An overall tax charge of £80 million has been recognised for the year ended 31 March 2010 Excluding the impact of prior years' adjustments and the abolition of industrial building allowances, the total tax charge relating to continuing operations would be £134 million or 26 per cent compared with £159 million or 28 percent in the prior year

Dividend per share

The board has proposed a final dividend of 17 87 pence per ordinary share in respect of the year ended 31 March 2010

Cashflow

Cash generated from operations for the year ended 31 March 2010 was £1,005 million, compared with £571 million cash used in the prior year The group's net capital expenditure was £573 million (including the purchase of intangible assets and proceeds from sales of property, plant and equipment), principally in the regulated water and wastewater investment programmes This excludes infrastructure renewals expenditure which is treated as an operating cost under International Financial Reporting Standards

Net debt including derivatives at 31 March 2010 was £4,967 million, compared with £4,941 million at 31 March 2009 Expenditure on the regulatory capital investment programmes and payments of dividends and interest, were broadly offset by the proceeds from the disposals of the group's holdings in Northern Gas Networks and Manila Water Company, operational cashflows and the aforementioned cash tax receipt

Business review (continued)

Financial review (continued)

Debt financing and interest rate management

Gearing (measured as group net debt divided by UUW's regulatory capital value) decreased to 65 per cent at 31 March 2010, compared with 67 per cent at 31 March 2009 Adjusting for the group's non-recourse joint venture debt of £234 million, gearing was 62 per cent

At the year end, United Utilities Water PLC had long-term credit ratings of A3/BBB+ and United Utilities PLC had long-term credit ratings of Baa1/BBB– from Moody's Investors Services and Standard & Poor's Ratings Services respectively Shortly after UUW accepted Ofwat's final determination on 21 January 2010, Moody's reaffirmed its credit ratings of A3 for United Utilities Water PLC and Baa1 for United Utilities PLC, both with stable outlook However, as expected, Standard & Poor's downgraded United Utilities Water PLC to BBB+ from A– and United Utilities PLC to BBB– from BBB+, both with stable outlook, reflecting differing methodologies particularly with regard to the treatment of infrastructure renewals expenditure

Cash and short-term deposits at 31 March 2010 amounted to £302 million During the year, the group's financing headroom position was enhanced through the issuance of an additional £100 million, 5 75 per cent bond maturing in March 2022, an additional £50 million, 6 125 per cent bond maturing in December 2015, and a new £70 million, 2 40 per cent plus RPI index-linked bond maturing in July 2039 United Utilities has headroom to cover its projected financing needs through to the spring of 2012

The group 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 PLC and United Utilities Water PLC of debt instruments on terms and conditions determined at the time the instruments are issued The programme does not represent a funding commitment, with funding dependent upon the successful issue of the debt securities

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

Very long-term sterling inflation index-linked debt is the group's preferred form of funding as this provides a natural hedge to assets and earnings At 31 March 2010, approximately 42 per cent of the group's net debt was in index-linked form, representing around 27 per cent of UUW's regulatory capital value, with an average real interest rate of 1 8 per cent The long-term nature of this funding also provides a good match to the group's long-life infrastructure assets and is a key contributor to the group's average term debt maturity profile which is in excess of 25 years

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

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 basis

Business review (continued)

Financial review (continued)

Liquidity

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 group's €2 billion euro-commercial paper programme

In line with the board's treasury policy, the group aims to maintain a healthy headroom position Available headroom at 31 March 2010 was £1,039 million based on cash, short-term deposits and medium-term committed bank facilities, net of short-term debt This headroom is sufficient to cover the group's projected financing needs through to the spring of 2012

The group believes that it operates a prudent approach to managing banking counterparty risk Counterparty risk, in relation to both cash deposits and derivatives, is controlled through the use of counterparty credit limits The group's cash is held in the form of short-term (generally no longer than three months) money market deposits with either prime commercial banks or with triple A rated money market funds As at 31 March 2010, no cash deposits were held in money market funds

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

Pensions

The group has sought to adopt a more sustainable approach to the delivery of pension provision and has amended the terms of its defined benefit pension schemes The measures taken include a cap on the increase in pensionable earnings, an increase in the normal retirement age, an increase in employee contribution rates, an adjustment to the accrual rates and a rebalancing of the pensions investment strategy This reduces both the future service cost and the future funding risk to the company, thereby enabling the company to retain defined benefit pension schemes for existing members The changes to the scheme rules were supported by the company's trade unions The reduction in service cost for 2010/11 is expected to be approximately £7 million, although the lower risk investment strategy is likely to reduce investment income and result in a lower net benefit at the profit before tax level These amendments have also resulted in a reduction of £92 million to the group's pension deficit, which is required to be accounted for as a credit to operating profit in the group's income statement

Overall, the group's net pension deficit at the year end has decreased by £87 million, compared with the position at 30 September 2009, reflecting the aforementioned changes to the pension schemes and the routine actuarial assessment of movements in assets and liabilities As a result of changes in market conditions over the 12 months, the group's net pension obligations increased during the year from £213 million at 31 March 2009 to £271 million at 31 March 2010 Further detail is provided in note 19 ('Retirement benefit obligations') of these financial statements The group will continue to evaluate its pensions investment strategy to de-risk further its pension provision

Business review (continued)

Underlying profit (continuing activities)

In considering the underlying results for the year, the directors have excluded fair value movements on debt and derivative instruments and those significant items identified as non-recurring Statutory 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

Year ended 31 March 2010

	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Operating profit/(loss) per published results	761 7	63 1	(6 9)	817 9
Impact of changes to pension schemes	(76 7)	(8 9)	(6 7)	(92 3)
Restructuring costs	15 8	4 9	10 0	30 7
Underlying operating profit/(loss)	700 8	59 1	(3 6)	756 3

Year ended 31 March 2009 (restated)

	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Operating profit per published results	678 4	63 4	(12 3)	729 5
Restructuring costs	1 0	(1 0)	1 2	1 2
Other reorganisation costs [1]	-	-	5 4	5 4
Underlying operating profit	679 4	62 4	(5 7)	736 1

	Year ended 31 March 2010 £m	Restated Year ended 31 March 2009 £m
Profit before taxation per published results	506 1	568 2
Impact of changes to pension schemes	(92 3)	-
Restructuring costs	30 7	1 2
Other reorganisation costs[1]	-	5 4
Profit on disposal of investments	(36 6)	-
Evaluation and disposal costs relating to non-regulated businesses	10 8	-
Net fair value losses on debt and derivative instruments	135 8	24 3
Interest on swaps and debt under fair value option	(22 2)	(8 3)
Interest associated with cash proceeds from UUE sale [2]	-	(20 6)
Underlying profit before taxation	532 3	570 2

Business review (continued)

Underlying profit (continuing activities - continued)

	2010 £m	Restated 2009 £m
Finance expense	(383 7)	(272 5)
Net fair value losses	135 8	24 3
Interest on swaps and debt under fair value option	(22 2)	(8 3)
Underlying interest payable	(270 1)	(256 5)
Investment income	(46 1)	(111 2)
Adjustment for net pension interest income	23 2	(6 8)
Adjustment for service concession financing income	(2 9)	(5 2)
Underlying cost of net borrowings	(295 9)	(379 7)
Add back adjustment for net pension interest income	(23 2)	6 8
Add back adjustment for service concession financing income	2 9	5 2
Interest associated with cash proceeds from UUE sale [2]	-	(20 6)
Underlying net interest payable	(316 2)	(388 3)

Notes.

(1) Relates to the capital restructuring associated with the £1 5 billion return to United Utilities Group PLC shareholders

(2) The interest associated with the cash proceeds from the sale of UUE has been deducted to provide a more representative view of underlying performance As the cash proceeds from the sale of UUE were held by the group until the £1 5 billion return to United Utilities Group PLC shareholders in August 2008, this resulted in a short-term net debt and interest reduction

Regulated activities

Revenue from regulated activities increased by three per cent to £1,541 million, principally as a result of an allowed price increase of 6 0 per cent (including inflation of 3 0 per cent), partially offset, as expected and indicated previously, by reduced water demand reflecting the challenging economic climate The regulated price increase supports significant investment in UUW's infrastructure which provides vital water and wastewater services to customers

Underlying operating profit for the year increased by three per cent, primarily reflecting the revenue increase coupled with the impact of tight cost control measures, offset by higher depreciation, bad debts and power costs The increase in depreciation reflects the recent high levels of capital spend, in line with the planned profile of the investment programme Reported operating profit was significantly higher than the prior year, reflecting a one–off credit of £77 million in respect of the group's revised pension provision and partly offset by restructuring costs of approximately £16 million

As outlined previously, the business had entered into forward contracts for the majority of its power requirements for 2009/10 As a result, unit power costs in 2009/10 were approximately 10 per cent higher than in 2008/09 and the power expense has increased by around £6 million The business has also entered into forward contracts for the majority of its power requirements for 2010/11 and 2001 1/12 and unit power costs are expected to be in the order of 20 per cent lower than in 2009/10 Bad debt expense is broadly in line with the prior year at approximately 3 5 per cent of regulated revenue This reflects the impact of the continuing tough economic environment on cash collection rates

Business review (continued)

Regulated activities (continued)

Capital investment in the year, including £114 million of infrastructure renewals expenditure, was £620 million This level of spend was in line with the planned capital investment profile for the final year of UUW's 2005-10 regulatory programme

Operational performance

Operational performance is a key area of focus and UUW is targeting an upper quartile position among UK water companies on key operational measures in the medium-term The regulated business continues to upgrade its infrastructure, replacing 134 kilometres of water mains during the year UUW continues to supply high quality drinking water with a mean zonal compliance water quality performance for the year of 99 94 per cent, which compares with 99 92 per cent for the previous year UUW is making good progress against its key performance indicators

- Relative efficiency — UUW has narrowed the operational efficiency gaps to the most efficient water and wastewater companies since 2005 This is reflected in Ofwat's most recent (2008/09) 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 this period UUW expects at least to sustain these bandings in Ofwat's 2009/10 assessment
- Security of water supply — UUW met its economic level of leakage rolling target for the fourth consecutive year in 2009/10, despite extreme winter weather conditions, reflecting strong management focus and the commitment of the workforce
- Pollution — The business has now met or outperformed its medium-term target of a 50 per cent reduction in major pollution incidents in each of the last four years One water and seven wastewater Category 1&2 incidents were recorded in 2009, compared with the base position of two water and 21 wastewater incidents in 2005
- Sewer flooding — UUW continues to remove properties from the sewer flooding register In 2009, an independent review of UUW's sewer flooding recording and reporting process was undertaken, which was submitted to Ofwat for consideration The independent reviewer concluded that the processes are generally fit for purpose with some scope for streamlining and further improvement UUW agreed to implement changes required by Ofwat as a result of this review and has reassessed its sewer flooding registers The number of properties on the register in 2009/10 is 1,028 (for properties at risk of experiencing at least one sewer flooding incident in ten years), which compares with a reassessed number for 2005/06 of 1,091 properties, a net reduction of 63 properties over the four-year period The company has plans in place to reduce the number of incidents due to sewer flooding (other causes) and to offer mitigation measures for all properties on the register
- Overall customer satisfaction — Significant progress has been achieved and overall customer satisfaction in response to enquiries is now at its highest recorded levels, with a satisfaction rating of 82 per cent for the 12 months to 31 March 2010 UUW achieved its target of 85 per cent for March 2010, the highest score attained for an individual month These satisfaction levels are based on a comprehensive independent survey conducted on behalf of UUW each month Customer satisfaction has improved from less than 50 per cent in 2005 to consistently over 80 per cent during the second half of 2009/10 The business remains focused on achieving further improvements

Although UUW has delivered real progress, the business recognises that there is more to do Sewer flooding incidents, together with environmental underperformance at Fleetwood wastewater treatment works, negatively impacted the 2008/09 overall performance assessment (OPA) score

Business review (continued)

Regulated activities (continued)

Operational performance (continued)

UUW has a capital investment programme designed to improve performance at its Fleetwood works, which is scheduled to be completed later this year on time and on budget The business has introduced an enhanced monitoring system across the company's wastewater treatment works to help improve performance in respect of meeting consent standards at its works With regard to sewer flooding, the business has identified those areas of its sewer network which are high risk with the potential to have a major flooding impact and has commenced a programme of work to help mitigate these risks

Improving the company's response to customer contacts is another key area of focus, in particular billing enquiries The business has introduced new working practices to help improve performance and early progress is encouraging The process of monitoring regulatory targets has been enhanced and managers now have better information and the flexibility to reallocate resources to help meet these targets The more technical work has also been brought back in-house, giving the business greater control to resolve issues and help meet its targets

The business expects an improved OPA score for 2009/10, with an increase in points in the areas of wastewater treatment works compliance, company contact score and unplanned interruptions The actions being taken will have a positive impact on UUW's performance as measured by Ofwat's new service incentive mechanism, which is replacing OPA and is due to be introduced in 2010/11

2009 water price review

On 26 November 2009, Ofwat published its final determination of price limits for the 2010-15 period, which sees customers benefit from lower prices and higher levels of capital investment After careful consideration, UUW accepted these proposals and the new price limits took effect from 1 April 2010 Ofwat's final determination of price limits for UUW was based upon

- a £3 6 billion capital investment programme (2007/08 prices),
- real growth of 12 per cent, or approximately £900 million, in the regulatory capital value over the five-year period,
- an average annual underlying operating efficiency of 1 2 per cent for the water service and 2 4 per cent for the wastewater service,
- a return on capital of 4 5 per cent (post-tax, real), and
- an average annual real price decrease of 0 4 per cent across the five-year period, with a real price decrease of 4 3 per cent in the first year

United Utilities had indicated previously that there was potential for additional investment in respect of the North East Irish Sea, which was dependent upon a European court case decision involving the UK government A ruling by the European Court of Justice on 10 December 2009 means that United Utilities will not be required to undertake this additional investment

Efficiency initiatives

UUW is well prepared for the 2010-15 price review period Over the last year, United Utilities has undertaken a comprehensive review of the business, challenging working practices across the group, and is implementing detailed plans to improve performance and reduce its cost base

Business review (continued)

Regulated activities (continued)

Operating efficiency

During 2009/10, United Utilities reduced the number of people working in the group by the equivalent of around 500 full time employees (includes United Utilities staff and agency staff) Approximately 350 of the 500 worked in or supported the regulated business, equivalent to around seven per cent of that workforce This provides an immediate contribution to the achievement of efficiency targets set by Ofwat

Customer service is a key area of focus, and will contribute to the regulator's new service incentive mechanism assessment UUW aims to reduce its cost to serve significantly, whilst continuing to improve the customer experience The business has reduced its annual cost to serve from £23 per customer to £19 per customer over the last two years and is implementing plans to deliver further reductions, all while customer satisfaction has improved markedly The company has amended staff incentive mechanisms to help get things right first time, with the aim of reducing unnecessary customer calls Performance measurement is now based on first time resolution, rather than average call handling time United Utilities' customer online self-serve system is being enhanced to make it more comprehensive and user friendly, with the aim of reducing by a third the need for customers to contact the company's call centre UUW is focused on improving its debt collection rates and is planning to utilise more local authority collection agreements The company is also enhancing systems to improve its customer segmentation analysis and to obtain better data on customers who have moved address, coupled with a more proactive debt follow-up strategy

United Utilities is reviewing and streamlining its processes as it aims to become a leaner, more efficient company The group is focused on operating with fewer, simpler and more consistent processes For example, UUW is halving the number of steps from metering to cash collection The group is rationalising its IT infrastructure, providing greater automation and visibility of workflow Managers now have ownership of all steps in a process to help enhance performance Individuals also have greater visibility and understanding of how their performance influences the efficiency of the entire process

The group will continue to focus on delivering benefits from its existing efficiency initiatives, such as its workforce management system which is a key element in improving the efficiency of frontline staff, utilising remote operational site management and optimisation of chemical and power usage, improving efficiency of operational pumps, developing combined heat and power assets, which recycle energy generated from wastewater treatment processes, and improving supply chain management to deliver further procurement economies A number of these schemes are also key elements of United Utilities' plan to mitigate its carbon emissions

Capital delivery

United Utilities has a robust commercial capital delivery framework in place for the 2010-15 period Contractor partners have been appointed and the company has signed new supplier contracts, which will deliver significant savings and help improve efficiency Incentive mechanisms are closely linked to the UUW business plan and pain/gain incentives are assessed on a project basis, rather than a cumulative basis, providing more clarity on performance A partial fee retention mechanism is also in place to help drive on-time project delivery In addition, UUW has flexibility in respect of the level of competitive tendering it may use in the award of future work during the five-year regulatory period

United Utilities undertook detailed advanced planning which ensured smooth transition into the 2010-15 period and leveraged recent economic conditions to deliver procurement efficiency benefits UUW expects capital investment, including infrastructure renewals expenditure, in 2010/11 to be substantial as the company aims for a smoother capital delivery profile across the five-year period compared with 2005-10 UUW has a strong focus on asset serviceability and also expects to bring forward the delivery of certain outputs

Business review (continued)

Regulated activities (continued)

Financial

United Utilities has approximately £2 billion of long dated, index-linked debt at an average cost of 1 8 per cent real This compares with Ofwat's cost of debt assumption of 3 6 per cent real and secures financing outperformance for the next five years In line with its policy, the group has also fixed the interest rates on a significant proportion of the remainder of its existing debt portfolio, for the 2010-15 regulatory period, at an average nominal rate in the range 5 0 per cent to 5 5 per cent (inclusive of credit spread) This provides more clarity on UUW's ability to outperform the final determination Taken together with the group's index-linked debt, this equates to approximately £300 million of financing outperformance over the five years, based on an RPI inflation rate of 2 5 per cent per annum In addition, the group requires little refinancing during the 2010-15 period

The changes to the defined benefit pension schemes have significantly reduced the company's pension deficit, reduced the future service cost and reduced future funding and deficit risk, thereby placing the company's pension provision on a much more sustainable footing

Non-regulated activities

Non-regulated revenue was marginally lower at £890 million, reflecting the impact of difficult conditions in the UK property market on the group's utility connections business and, as expected, a reduction in contribution from the group's UK outsourcing contracts in the final year of the 2005-10 regulatory period Reported operating profit was £63 million, in line with the prior year This reflects a one-off credit of £9 million in relation to the group's revised pension provision, partly offset by restructuring costs of approximately £5 million The prior year profit numbers have been restated in accordance with IFRIC 12, as explained in note 32 of the financial statements

During the second half of the year, United Utilities disposed of its investment in Northern Gas Networks Holdings Limited (NGN) for approximately £86 million and sold its economic interest in Manila Water Company (MWC) for approximately £46 million The intention is to retain these proceeds within the group As a result of the disposals, dividends from these investments, which are included in operating profit, were materially lower in 2009/10, at £2 million, compared with £12 million received in 2008/09 Adjusting for the impact of these disposals and the aforementioned one-off items would show an increase in non-regulated underlying operating profit growth of £7 million, for the year ended 31 March 2010, reflecting tight cost control in the business

Business update

United Utilities applies its utility skills from its regulated activities through outsourced utility contracts and investments In June 2009, United Utilities, via the 4D consortium, won a new capital delivery contract with Southern Water to manage the design and build of a new wastewater treatment works in the Brighton and Hove area The contract is underway and construction is expected to take approximately three years, followed by the potential for a two-year contract to operate and maintain the new plant In addition, the 4D consortium has responsibility for managing part of Southern Water's regulatory capital investment programme through to 2015

The contract with Scottish Water, via Scottish Water Solutions Limited in which United Utilities is a major partner, came to a natural end in March 2010 Following the outcome of the recent water price review, Welsh Water announced in February 2010 that it intended to take operations and maintenance services in-house and therefore the contract with United Utilities has not been renewed for the 2010-15 regulatory period

Business review (continued)

Non-regulated activities (continued)

Business update (continued)

Following the sales of its holdings in NGN and MWC, United Utilities received several expressions of interest for its non-regulated activities In May 2010, the group agreed the disposal of its Australian business for approximately £135 million, comprising £106 million in cash and £29 million in net debt assumed by the purchaser In June 2010 the group announced the sale of its principal UK and European non-regulated water interests to Veolia Water UK PLC The transaction value was £174 million, comprising £109 million in cash on completion and £65 million in net debt assumed by the purchaser A further £10 million in cash is payable on a deferred basis, subject to certain contingencies The transactions are subject to a number of consents and regulatory approvals and are expected in the second half of 2010 In June 2010 the group agreed and completed the disposal of its UK electricity services business The group is continuing to evaluate the expressions of interest it has received for its remaining non-regulated businesses

All other segments

As expected, the group's other activities, which include central costs, delivered an underlying operating loss during the year of £4 million, compared with an underlying operating loss of £6 million in 2008/09 As indicated previously, the difficult conditions in the UK property market have affected the performance of United Utilities Property Services, the group's property sales and management business The reported operating loss for other activities was £7 million This reflects restructuring costs of approximately £10 million, partly offset by a one-off credit of £7 million in respect of the group's revised pension provision

Principal risks and uncertainties

The group faces a variety of risks and uncertainties, both foreseeable and unforeseeable, which, if they materialise, could adversely affect its reputation, profitability or financial position, or the pricing and liquidity of its debt securities The principal risks and uncertainties are summarised here

The group maintains an internal control framework that assesses, throughout the year, the nature and magnitude of internal and external risks to the achievement of business goals The board assesses the group's appetite and tolerance to risk and clear risk tolerance boundaries are set Managers are required to employ both proactive and reactive mitigation measures in a prioritised manner to reduce exposures and ensure ongoing resilience should a risk materialise The executive management team regularly reviews significant risks The audit committee regularly reviews the framework's effectiveness and the group's compliance with it

Capital investment programmes

Risk

The regulated business requires significant capital expenditure, particularly in relation to new and replacement plant and equipment for water and wastewater networks and treatment facilities Historically, the group has financed this capital expenditure from operating cashflow and from external debt and equity financing There can be no assurance that operating cashflows will not decline or that external debt financing and other sources of capital will be available, at similar cost to that assumed by Ofwat, in order to meet these capital expenditure requirements Delivery of capital investment programmes could also be affected by a number of factors including adverse legacy effects of earlier capital investments (such as increased maintenance or enhancement costs) or amounts funded in regulatory capital investment programmes proving insufficient to meet the actual amount required This may affect the group's ability to meet regulatory and other environmental performance standards, which may result in fines imposed by UUW's regulators of an amount of up to 10 per cent of regulated business turnover or other sanctions

Business review (continued)

Principal risks and uncertainties (continued)

Capital investment programmes (continued)

Mitigation

In order to minimise the likelihood of funding shortfalls, capital investment programmes are regularly monitored to identify the risk of time, cost and quality variances from plans and budgets and to identify, where possible, any appropriate opportunities for outperformance

Service incentive mechanism and serviceability assessment

Risk

For the 2010-15 period, Ofwat has introduced a new comparative incentive mechanism to reward or penalise water companies' service performance, replacing the overall performance assessment (OPA) The service incentive mechanism (SIM) compares companies' performance in terms of the number of 'unwanted' contacts received from customers and how well they deal with those contacts Depending upon UUW's relative performance under the SIM it could receive a revenue penalty or reward when price limits are next reset in 2014

The group is required to maintain the serviceability of its water and wastewater assets, ensuring they continue to deliver a level of service and performance at least as good as in the past Where serviceability falls below required reference levels of performance Ofwat may impose a penalty in revenue at the next price-setting Or, if performance were to decline, the group may incur additional operating or capital expenditure to restore performance

Mitigation

In preparation for the change, systems and processes are being developed and enhanced, where necessary, to allow the company to report accurately on the volume of 'unwanted' contacts it receives The company's focus is on ensuring right first time service delivery to its customers, thus avoiding the need for 'unwanted' contacts Where 'unwanted' contacts do arise, then there is a clear focus on identifying the root causes These actions are intended to ensure that the company's performance under the SIM is optimised and thereby mitigating the risk of a penalty at the next price-setting

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

The adoption of private sewers

Risk

In 2008, the government announced its intention to transfer sewers and pumping stations currently owned by private individuals and businesses to sewerage undertakers The precise date and nature of the transfer is yet to be determined but could occur as soon as 2011 No allowance has been made in price limits for the costs associated with the transfer Therefore, any costs incurred will represent an unbudgeted increase in operating and capital expenditure

Mitigation

Although there are costs associated with the transfer, as long as they are incurred efficiently they are expected to be largely recoverable when price limits are next reset, either at an interim determination or the next periodic review, but there can be no guarantee of full cost recovery at this stage

Business review (continued)

Principal risks and uncertainties (continued)

Economic environment, inflation and capital marketing conditions
Risk
In recent years, the global banking crisis and economic downturn have impacted the bank lending environment, as well as the debt and equity capital markets This has resulted in the cost of capital increasing and has made the arranging of finance and issuance of new equity and debt capital more expensive and difficult to secure

A compounding challenge arises from the relationship between the regulatory capital value (RCV) of the regulated business and the Retail Prices Index (RPI) The RCV is adjusted annually for inflation so, if RPI decreases, the RCV would be adjusted downward to reflect this This may lead to pressure on gearing (and other key financial ratios), credit ratings of the regulated business (and the group as a whole), and increase the cost or limit the availability of credit In the extreme the group may be required to increase its equity base by either reducing its dividend payments or raising new equity capital The global economic downturn continues to present difficult trading and financing conditions for customers, contractors and suppliers of materials and/ or services to the group

Mitigation
The group monitors closely its liquidity headroom within the parameters approved by the board, the impact of trends in inflation or deflation on its capital position as well as the potential impact of wider changes in the credit markets Where possible, the group has sought to issue debt linked to RPI to minimise the extent of its exposure to deflationary (or low inflationary) conditions The group also monitors the financial position of its key contractors and suppliers and seeks to use its procurement processes to ensure that alternative suppliers can be sourced quickly and, where possible, on similar terms

Pension scheme obligations
Risk
The group participates in a number of pension arrangements, predominantly in the UK The principal schemes are defined benefit schemes, although these have been closed to new employees since October 2006 The assets of these schemes are held in trust funds independent of group finances, with the funds being well diversified and professionally managed The group's current schemes had a combined IAS 19 'Employee Benefits' deficit of £271 million as at 31 March 2010, compared with a deficit of £213 million as at 31 March 2009 and a deficit of £359 million as at 30 September 2009

Mitigation
Increases to pension fund deficits may result in an increased liability for the group, the size of the liability depending upon the extent to which additional deficits are recoverable through the regulatory price determination process In the 2009 water price review, Ofwat took account of broadly 50 per cent of the pension deficit shown in UUW's final business plan for the regulated business when setting its overall price controls In response to the size of its ongoing pension risks and pension costs the group has recently been consulting on a series of changes for employees in its defined benefit schemes These changes, which came into force on 31 March 2010, will result in reduced costs and risks, including deficit, associated with defined benefit liabilities in future In conjunction with the trustees, the group continues to monitor the investment strategy for the pension schemes, including the group's exposure to investment risks

Business review (continued)

Principal risks and uncertainties (continued)

Failure to comply with applicable law or regulations

Risk

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

Mitigation

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

Increased competition in water and wastewater industry

Risk

The Cave review of competition and innovation in water markets was published in April 2009 and in September 2009 the government consulted on legislation to implement a number of the review's proposals If its recommendations are implemented, this could eventually expand the competitive market allowing retail competition to all non-household customers Ofwat and the Environment Agency are considering the introduction of reforms to the regulation of water abstraction licences that would allow trading of licences Ofwat is also examining the scope for 'upstream' competition in treated water supply

Ofwat has taken steps to introduce competition into the water supply market through inset appointments and the water licensing supply regime Prior to 2007 (with one exception), inset appointees had all been granted to existing regulated companies Since 2007, Ofwat has granted more inset appointments, one of which is within UUW's region Further inset appointments may be made in the future, resulting in increased competition

Mitigation

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

Business review (continued)

Principal risks and uncertainties (continued)

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

Risk

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

Mitigation

The group operates long-standing, well tested and appropriately resourced incident response and escalation procedures The processes continue to be refined, alongside related risk management and business continuity procedures These recognise that possible events can have varying causes, impacts and likelihoods While the group seeks to ensure that it has appropriate processes in place, there can be no certainty that such measures will be effective in preventing or, when necessary, managing large-scale incidents to the satisfaction of customers, regulators, government and the wider stakeholder community The group also maintains insurance cover in relation to losses and liabilities likely to be associated with such significant risks, although potential liabilities arising from a catastrophic event could exceed the maximum level of insurance cover that can be obtained cost-effectively The licence of the regulated business also contains a 'shipwreck' clause that, if applicable, may offer a degree of recourse to Ofwat in the event of a catastrophic incident

Risks in the group's non-regulated business

Risk

Outside the regulated business, the group provides services relating to the operation and management of assets for other utility clients in the UK and overseas These services include the maintenance and operation of utility 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 The delivery of contracts, both existing and future, will be achieved by exploiting the group's core infrastructure management skills and may also require capital expenditure The overstretching of such skills could lead to a loss of customers or the inability to meet contractual commitments, or to the incurrence of penalties

Mitigation

The costs and risks associated with these new projects are subject to internal reviews before approval is given to commit to them The group aims to comply with its contractual commitments or operating performance targets and any requirements to maintain service continuity or achieve specified operating efficiencies in relation to those clients Within the non-regulated business, the focus is on deploying the group's core skills on an asset-light basis, whilst continually monitoring contract performance, together with programme and project management

Business review (continued)

Principal risks and uncertainties (continued)

Material litigation

Risk

NOSS Consortium (NOSS) (of which North West Water International Limited, a wholly owned subsidiary of United Utilities PLC, 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 six billion baht The BMA has counterclaimed for approximately three billion baht, however, based upon the facts and matters currently known, the counterclaim appears to lack substance Although there have been some delays in the arbitral process, the arbitration now appears set to proceed

In February 2009, the group was served with notice of a multiparty 'class action' in Argentina into which United Utilities International Limited (UUIL) was enjoined in 2007 The class action is related to the issuance and payment default of a US$230 million bond by Inversora Eléctrica de Buenos Aires S A (IEBA), an Argentine project company set up to purchase one of the Argentine electricity distribution networks, which was privatised in 1997 UUIL had a 45 per cent shareholding in IEBA which it sold in 2005 The class action is being pursued against various parties, including the original direct and indirect shareholders of IEBA, the banks which advised IEBA and the rating agencies of the bonds The bonds, which were issued in 1997, were defaulted in March 2002 and IEBA entered an insolvency process in 2003 The claim is for a non-quantified amount of unspecified damages, and purports to be pursued on behalf of unidentified consumer bondholders in IEBA UUIL has filed a defence to the action and will vigorously resist the proceedings, given the robust defences that UUIL has been advised that it has on procedural and substantive grounds

In March 2010, Manchester Ship Canal Company (MSCC), owners of the Manchester Ship Canal (the 'canal'), issued proceedings, seeking, amongst other relief, damages alleging trespass against UUW in respect of UUW's discharges of water and treated effluent into the canal The respective legal rights of MSCC and UUW relating to the discharges are unclear Accordingly, the relevant legal principles need to be tested through court process UUW will be filing a defence and counterclaim in support of its believed entitlement to make discharges into the canal without charge and MSCC's claim will be vigorously defended thereafter

Mitigation

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

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 2010

Principal activities and business review

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

The company is the intermediate holding company of a group which owns and operates water and wastewater assets and also manages infrastructure for other businesses, predominantly within the United Kingdom

The business review (pages 5 to 25), which includes the financial review (pages 9 to 13), and the Chairman's statement (pages 3 to 4) provides a balanced analysis of the development and performance of the group's business during the financial year, and the position of the group's business at the year end, and forms part of this directors' report A summary of key performance indicators can be found on page 5 A summary of the principal risks and uncertainties can be found on pages 20 to 25 An indication of likely future developments of the group is included in the Chairman's statement The company's principal subsidiary undertakings, and the associated companies and joint ventures in which the group participates, are listed in note 13 to the consolidated financial statements

Dividends

The directors have recommended a final dividend of 17 87 pence per share for the year ended 31 March 2010 which, together with the interim divided of 9 07 pence, gives a total dividend for the year of 26 94 pence for each ordinary share (the first interim, second interim and final dividends paid in respect of the 2009 financial year were 11 34 pence, 8 22 pence and 17 15 pence per share respectively)

Directors

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

PA Aspin	(appointed 21 May 2010)
M Carmedy	(appointed 21 May 2010)
C Cornish	
PN Green	
TP Weller	(resigned 21 May 2010)

Directors' indemnities and insurance

The company has in place contractual entitlements for directors of the company and of its subsidiaries to claim indemnification by the company in respect of certain liabilities which might be incurred by them in the course of their duties as directors

These arrangements, which constitute qualifying third party indemnity provision and qualifying pension scheme indemnity provision, have been established in compliance with the relevant provisions of the Companies Act 2006 They include provision for the company to fund the costs incurred by directors in defending certain claims against them in relation to their duties as directors of the company or its subsidiaries

The company also maintains an appropriate level of directors' and officers' liability insurance

Directors' report (continued)

Polıtıcal and charıtable donatıons

Unıted Utılıtıes does not support any polıtıcal party and does not make what are commonly regarded as donatıons to any polıtıcal party or other polıtıcal organısatıons However, the wıde defınıtıon of donatıons ın the Polıtıcal Partıes, Electıons and Referendums Act 2000 covers actıvıtıes whıch form part of the necessary relatıonshıp between the group and polıtıcal stakeholders Thıs ıncludes promotıng Unıted Utılıtıes' actıvıtıes at any of the maın polıtıcal partıes' annual conferences when they are held ın the North West regıon In 2009/10, the Conservatıve Party held ıts annual conference ın Manchester, as dıd the Labour Party the prevıous year The group ıncurred expendıture of £19,155 (2009 £27,702) as part of thıs process At the 2009 Unıted Utılıtıes Group annual general meetıng, an authorıty was taken to cover such expendıture A sımılar resolutıon wıll be put to the shareholders at the 2010 Unıted Utılıtıes Group annual general meetıng to authorıse the company and ıts subsıdıarıes to make such expendıture

Charıtable donatıons by the group ın the year amounted to £5,247,202 (2009 £4,262,520) ın support of charıtable causes ın the local communıtıes ın whıch ıt operates and those of ınterest to ıts employees

Employees

Unıted Utılıtıes recognıses that ıts busıness ıs only as strong as ıts employees and theır collectıve commıtment to achıevıng busıness goals In lıght of thıs, the group aıms to create a rewardıng place to work, wıth a focus on health and safety, provıdıng employees wıth a work-lıfe balance and the chance to make a contrıbutıon to the communıtıes ın whıch they lıve and work

Health and safety

In 2009/10 Unıted Utılıtıes further consolıdated the health and safety management framework throughout the busıness Durıng the year the group appoınted a dırector of health, safety, rısk and securıty to drıve further ımprovements and to lead the ıntegratıon of these key rısk areas ın the busıness

The reported accıdent ıncıdence rate per 100,000 employees (ınjurıes causıng an absence of greater than one day) ıncreased from 778 to 801 The margınal rıse ın 'lost tıme' accıdents was partly as a result of the extreme wınter weather ın December and January Although the rate ıs below the ındustry sector rate publıshed by the Health and Safety Executıve, the group has plans to halve thıs number durıng the next five years The reported accıdent ıncıdence rate per 100,000 employees for the group's contractors ıs 1,247

Unıted Utılıtıes receıved a number of Royal Socıety for the Preventıon of Accıdents (ROSPA) awards for occupatıonal health and safety ın both the regulated water and non-regulated utılıty outsourcıng busınesses The annual ROSPA awards recognıse the sıgnıficant ımprovements made durıng the last 12 months ın establıshıng effectıve safety management systems and ımprovıng accıdent performance Parts of the non-regulated busıness have followed the lead of the regulated busıness by gaınıng accredıtatıon to the OHSAS 18001 H&S Management Standard

The health of the group's employees ıs vıtal Unıted Utılıtıes offers a number of employee benefıts related to health ıncludıng lıfestyle health assessments, health surveıllance and counsellıng servıces The group appoınted a new occupatıonal health provıder durıng the year to help ımprove these servıces and belıeves that ıts wellbeıng programme supports the current Health and Safety Executıve strategy

Employee engagement

The group places a strong emphasıs on ıncreasıng employees' engagement Thıs ıs measured annually and then acted upon to ımprove how employees feel about Unıted Utılıtıes and strengthen theır understandıng of ıts dırectıon Improvıng engagement ıs a key personal objectıve for leaders In terms of ıts engagement ındex, although the company ıs scorıng above the UK average ın sıx of the 13 key categorıes, overall engagement fell by nıne per cent Targeted actıon plans wıll be put ın place to make ımprovements ın key areas

Directors' report (continued)

Workplace environment

Team and personal objectives are linked to the group's vision, strategy and company objectives, allowing employees to recognise their contribution towards achieving business goals Monthly performance updates, briefings and team talks enable employees to hear and discuss how the business is performing A talent and skills development programme helps create a flexible and skilled workforce, which is critical to the group's ability to deliver improved services

The group's policies on maternity, paternity, adoption and annual leave go beyond its legal obligations as an employer and play an important part in encouraging motivation and building loyalty to the company The business principles make it clear that United Utilities seeks to act with integrity and fairness and observe legal requirements Any employee with concerns that the company may not be adhering to these principles is encouraged to speak up via their manager or by calling a special telephone number in confidence Key policies, which employees need to be aware of, are available on the intranet and promoted through new employee induction sessions Managers benefit from an advice and guidance service which seeks to ensure they manage their employees in line with the correct procedures

The company is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and best practice As an equal opportunities employer, equal consideration is given to applicants with disabilities in the employment criteria The business will modify equipment and practices wherever it is safe and practical to do so Evidence of this is reflected in the retention of the 'double tick' positive disabled people award

More than 92 per cent of employees are members of company pension schemes, which include defined benefit (now closed to new members) and defined contribution schemes United Utilities also operates an open flexible benefits scheme, allowing employees to choose benefits which suit their personal needs through salary sacrifice

United Utilities and its trade unions work together under an employee relations framework to ensure positive working relationships Throughout 2009/10, that approach was used to positive effect in terms of consultation around the pay review and changes made to the defined benefit pension scheme

In February 2009, United Utilities brought a number of outsourced activities back in-house The full impact of this is reflected in the higher average headcount for 2009/10

Essential contractual relationships

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

Policy on payment of creditors

The group's policy is in line with the CBI Code of Prompt Payment (copies are available from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DU) Payment terms are specific to the type of contract and the relevant commercial arrangements, and are agreed with suppliers in advance The group makes every effort to comply with the payment terms as agreed with its suppliers subject to there being no dispute with the invoices received As at 31 March 2010, the average credit period taken for trade purchases is 34 days for the group (2009 34 days) and is 17 days (2009 9 days) for the company

Approach to technology development

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

Directors' report (continued)

Financial instruments

The risk management objectives and policies of the company in relation to the use of financial instruments can be found in note 18 to the financial statements

Fixed assets

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

Events occurring after the reporting period

Details of events after the reporting period are included in note 30 to the consolidated financial statements

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 s418 of the Companies Act 2006

Reappointment of auditors

The board is proposing that shareholders reappoint Deloitte LLP as auditors at the forthcoming annual general meeting and authorise the directors to fix the auditors' remuneration

Approved by the board on 1 July 2010 and signed on its behalf by

TS Keevil
Company secretary

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the International Accounting Standard (IAS) Regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, IAS 1 'Presentation of Financial Statements (September 2007)' requires that directors

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

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

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

Responsibility statement

We confirm that to the best of our knowledge

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

Approved by the board on 1 July 2010 and signed on its behalf by

M Carmedy

Director

Independent auditors' report

to the members of United Utilities PLC

We have audited the financial statements of United Utilities PLC for the year ended 31 March 2010 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of changes in equity and the consolidated and company statements of cashflows, the accounting policies and the related notes 1 to 32 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

This report is made solely to the company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2010 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

- the the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report (continued)

to the members of United Utilities PLC

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

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

J Boardman

Jane Boardman (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Manchester, United Kingdom
1 July 2010

Consolidated income statement

for the year ended 31 March

	Note	2010 £m	Restated 2009 £m
Contınuıng operatıons			
Revenue	1,2	2,439 1	2,427 2
Employee benefits expense			
excludıng pensıon schemes curtaılment gaıns arısıng on amendment of pensıon oblıgatıons and restructurıng costs	3	(362 4)	(347 2)
pensıon schemes curtaılment gaıns arısıng on amendment of pensıon oblıgatıons	3,19	92 3	-
restructurıng costs	3	(30 7)	(1 2)
Total employee benefits expense	3	(300 8)	(348 4)
Depreciatıon and amortısatıon expense	4	(304 7)	(261 9)
Infrastructure renewals expendıture		(113 7)	(117 8)
Other operatıng costs	4	(905 1)	(982 7)
Other reorganısatıon costs	2	-	(5 4)
Other ıncome	4	3 1	18 5
Total operating expenses		(1,621 2)	(1,697 7)
Operatıng profit	2,4	817 9	729 5
Investment ıncome	5	46 1	111 2
Fınance expense	6	(383 7)	(272 5)
Investment ıncome and finance expense		(337 6)	(161 3)
Profit on dısposal of ınvestments	13	36 6	-
Evaluatıon and dısposal costs relatıng to non-regulated busınesses		(10 8)	-
Profit before taxatıon		506 1	568 2
Current taxatıon charge		(30 9)	(149 9)
Deferred taxatıon charge		(48 7)	(3 5)
Deferred taxatıon charge – abolıtıon of ındustrıal buıldıngs allowances		-	(206 4)
Taxatıon	7	(79 6)	(359 8)
Profit for the year from contınuıng operatıons		426 5	208 4
Discontınued operatıons			
Loss for the year from dıscontınued operatıons	8	-	(1 2)
Profit for the year		426 5	207 2

The consolıdated results for the year ended 31 March 2009 have been restated as a result of the adoptıon of IFRIC 12 See note 32 and the accountıng polıcıes for detaıls

Consolidated statement of comprehensive income

for the year ended 31 March

	Note	2010 £m	Restated 2009 £m
Profit for the year		426 5	207 2
Actuarial losses on defined benefit pension schemes	19	(125 4)	(124 3)
Tax on actuarial losses on defined benefit pension schemes		35 1	34 8
Revaluation of investments	13	3 4	(20 3)
Reclassification from other reserves arising on sale of financial asset investment	13	(36 6)	-
Net fair value gains/(losses) on cashflow hedges		0 9	(1 6)
Tax on net fair value (gains)/losses on cashflow hedges		(0 5)	0 4
Foreign exchange adjustments		6 4	8 3
Total comprehensive income for the year		309 8	104 5

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

Consolidated and company statements of financial position

at 31 March

				Group		Company
			Restated	Restated		
	Note	2010 £m	2009 £m	2008 £m	2010 £m	2009 £m
ASSETS						
Non-current assets						
Property, plant and equipment	10	8,122 8	7,866 8	7,481 8	0 4	0 4
Goodwill	11	2 5	2 6	2 3	-	-
Other intangible assets	12	208 6	198 9	176 2	-	-
Investments	13	7 7	136 8	155 5	6,161 0	11,481 3
Trade and other receivables	15	56 5	44 2	53 1	-	-
Deferred tax asset	20	-	-	-	9 9	7 9
Derivative financial instruments	18	378 5	445 7	70 0	107 8	172 8
		8,776 6	8,695 0	7,938 9	6,279 1	11,662 4
Current assets						
Inventories	14	74 8	73 0	63 3	-	-
Trade and other receivables	15	1,970 7	1,974 2	456 2	1,636 8	1,760 1
Cash and short-term deposits	16	301 5	298 6	1,810 5	239 3	100 8
Derivative financial instruments	18	18 3	193 3	73 3	-	1 8
		2,365 3	2,539 1	2,403 3	1,876 1	1,862 7
Total assets		11,141 9	11,234 1	10,342 2	8,155 2	13,525 1
LIABILITIES						
Non-current liabilities						
Trade and other payables	22	(146 5)	(139 8)	(125 5)	-	-
Borrowings	17	(5,307 9)	(5,200 1)	(3,788 9)	(686 6)	(759 2)
Retirement benefit obligations	19	(271 3)	(213 1)	(101 2)	(32 4)	(19 7)
Deferred tax liabilities	20	(1,355 4)	(1,341 3)	(1,166 6)	-	-
Provisions	21	(8 3)	(17 2)	(18 7)	-	-
Derivative financial instruments	18	(102 3)	(90 8)	(42 3)	-	-
		(7,191 7)	(7,002 3)	(5,243 2)	(719 0)	(778 9)
Current liabilities						
Trade and other payables	22	(596 1)	(673 7)	(771 9)	(1,683 9)	(6,276 6)
Borrowings	17	(229 5)	(524 9)	(878 4)	(898 3)	(890 1)
Current income tax liabilities		(104 7)	(78 3)	(66 9)	-	-
Provisions	21	(45 5)	(22 6)	(21 0)	(7 8)	(2 5)
Derivative financial instruments	18	(25 8)	(62 3)	(147 6)	(0 2)	(6 6)
		(1,001 6)	(1,361 8)	(1,885 8)	(2,590 2)	(7,175 8)
Total liabilities		(8,193 3)	(8,364 1)	(7,129 0)	(3,309 2)	(7,954 7)
Total net assets		2,948 6	2,870 0	3,213 2	4,846 0	5,570 4
EQUITY						
Capital and reserves attributable to equity holders of the company						
Share capital	23,24	881 8	881 8	881 6	881 8	881 8
Share premium account	23	1,430 0	1,430 0	1,429 3	1,430 0	1,430 0
Revaluation reserve	23	158 8	158 8	158 8	-	-
Treasury shares	23	-	-	(0 3)	-	-
Cumulative exchange reserve	23	22 3	15 9	7 6	-	-
Other reserves	23	3 8	36 6	58 1	-	-
Retained earnings	23	451 9	346 9	678 1	2,534 2	3,258 6
Shareholders' equity		2,948 6	2,870 0	3,213 2	4,846 0	5,570 4

The amounts for the group for the years ended 31 March 2009 and 31 March 2008 have been restated as a result of the adoption of IFRIC 12 and the amendment to IAS 1 in 'Improvements to IFRSs (2008)' See note 32 and the accounting policies for details These financial statements for the group and United Utilities PLC (company number 2366616) were approved by the board of directors on 1 July 2010 and signed on its behalf by

M Carmedy, Director

Consolidated statement of changes in equity

for the year ended 31 March

	Share capital £m	Share premium account £m	Revaluation reserve £m	Cumulative exchange reserve £m	Other reserves £m	Retained earnings £m	Total £m
Group							
At 1 April 2009 as previously reported	881 8	1,430 0	158 8	16 1	36 6	344 0	2,867 3
Adjustment for service concession accounting (see note 32)	-	-	-	(0 2)	-	2 9	2 7
At 1 April 2009 restated	881 8	1,430 0	158 8	15 9	36 6	346 9	2,870 0
Profit for the year	-	-	-	-	-	426 5	426 5
Other comprehensive income							
Actuarial losses on defined benefit pension schemes (see note 19)	-	-	-	-	-	(125 4)	(125 4)
Tax on actuarial losses on defined benefit pension schemes	-	-	-	-	-	35 1	35 1
Revaluation of investments	-	-	-	-	3 4	-	3 4
Reclassification from other reserves arising on sale of financial asset investment (see note 13)	-	-	-	-	(36 6)	-	(36 6)
Net fair value gains on cashflow hedges	-	-	-	-	0 9	-	0 9
Tax on net fair value gains on cashflow hedges	-	-	-	-	(0 5)	-	(0 5)
Foreign exchange adjustments	-	-	-	6 4	-	-	6 4
Total comprehensive income/ (expense) for the year	-	-	-	6 4	(32 8)	336 2	309 8
Transactions with owners							
Dividends (see note 9)	-	-	-	-	-	(231 2)	(231 2)
At 31 March 2010	881 8	1,430 0	158 8	22 3	3 8	451 9	2,948 6

	Share capital £m	Share premium account £m	Revaluation reserve £m	Treasury shares £m	Cumulative exchange reserve £m	Other reserves £m	Retained earnings £m	Total £m
Group								
At 1 April 2008 as previously reported	881 6	1,429 3	158 8	(0 3)	7 6	58 1	674 9	3,210 0
Adjustment for service concession accounting (see note 32)	-	-	-	-	-	-	3 2	3 2
At 1 April 2008 restated	881 6	1,429 3	158 8	(0 3)	7 6	58 1	678 1	3,213 2
Profit for the year restated	-	-	-	-	-	-	207 2	207 2
Other comprehensive income								
Actuarial losses on defined benefit pension schemes (see note 19)	-	-	-	-	-	-	(124 3)	(124 3)
Tax on actuarial losses on defined benefit pension schemes	-	-	-	-	-	-	34 8	34 8
Revaluation of investments	-	-	-	-	-	(20 3)	-	(20 3)
Net fair value losses on cashflow hedges	-	-	-	-	-	(1 6)	-	(1 6)
Tax on net fair value losses on cashflow hedges	-	-	-	-	-	0 4	-	0 4
Foreign exchange adjustments	-	-	-	-	8 3	-	-	8 3
Total comprehensive income/ (expense) for the year	-	-	-	-	8 3	(21 5)	117 7	104 5
Transactions with owners								
Dividends (see note 9)	-	-	-	-	-	-	(449 9)	(449 9)
New share capital issued	0 2	0 7	-	-	-	-	-	0 9
Equity-settled share-based payments	-	-	-	-	-	-	1 0	1 0
Transfer [1]	-	-	-	0 3	-	-	-	0 3
At 31 March 2009	881 8	1,430 0	158 8	-	15 9	36 6	346 9	2,870 0

Note

(1) On 28 July 2008, a new statutory holding company structure became effective by way of a share exchange between the shareholders of United Utilities PLC and United Utilities Group PLC and the listed parent company became United Utilities Group PLC At that time all existing share option schemes and previous awards made by the United Utilities PLC schemes were transferred to the new listed parent company, and therefore United Utilities PLC has transferred £0 3 million to other debtors

Company statement of changes in equity

for the year ended 31 March

	Share capital £m	Share premium account £m	Retained earnings £m	Total £m
Company				
At 1 April 2009	881 8	1,430 0	3,258 6	5,570 4
Loss for the year attributable to equity holders	-	-	(479 8)	(479 8)
Other comprehensive income				
Actuarial losses on defined benefit pension schemes (see note 19)	-	-	(18 6)	(18 6)
Tax on actuarial losses on defined benefit pension schemes	-	-	5 2	5 2
Total comprehensive expense for the year	-	-	(493 2)	(493 2)
Transactions with owners				
Dividends (see note 9)	-	-	(231 2)	(231 2)
At 31 March 2010	881 8	1,430 0	2,534 2	4,846 0

	Share capital £m	Share premium account £m	Treasury shares £m	Cumulative exchange reserve £m	Retained earnings £m	Total £m
Company						
At 1 April 2008	881 6	1,429 3	(0 3)	(1 1)	2,909 6	5,219 1
Profit for the year attributable to equity holders	-	-	-	-	813 8	813 8
Other comprehensive income						
Actuarial losses on defined benefit pension schemes (see note 19)	-	-	-	-	(20 6)	(20 6)
Tax on actuarial losses on defined benefit pension schemes	-	-	-	-	5 8	5 8
Total comprehensive income for the year	-	-	-	-	799 0	799 0
Transactions with owners						
Dividends (see note 9)	-	-	-	-	(449 9)	(449 9)
New share capital issued	0 2	0 7	-	-	-	0 9
Equity-settled share-based payments	-	-	-	-	1 0	1 0
Transfer	-	-	0 3 (1)	1 1 (2)	(1 1) (2)	0 3
At 31 March 2009	881 8	1,430 0	-	-	3,258 6	5,570 4

Note

(1) On 28 July 2008, a new statutory holding company structure became effective by way of a share exchange between the shareholders of United Utilities PLC and United Utilities Group PLC and the listed parent company became United Utilities Group PLC At that time all existing share option schemes and previous awards made by the United Utilities PLC schemes were transferred to the new listed parent company, and therefore United Utilities PLC has transferred £0 3 million to other debtors

(2) During the prior year management reviewed the cumulative exchange reserve which resulted in the reclassification of £1 1 million to the income statement in order to more accurately reflect the nature of this balance

Consolidated and company statements of cashflows

for the year ended 31 March

		Group	Group	Company	Company
			Restated		
		2010	2009	2010	2009
Continuing operations	Note	£m	£m	£m	£m
Operating activities					
Cash generated from/(used in) operations	28	1,004 8	(570 9)	455 0	205 4
Interest paid		(225 0)	(232 4)	(33 9)	(74 8)
Interest received and similar income		35 1	131 0	4 0	9 6
Tax paid		(51 2)	(32 8)	(51 2)	(30 3)
Tax received		50 6	-	50 6	-
Net cash generated from/(used in) operating activities		814 3	(705 1)	424 5	109 9
Investing activities					
Investment in subsidiaries		-	-	(1 0)	(2 0)
Purchase of property, plant and equipment		(543 2)	(668 2)	-	-
Purchase of other intangible assets		(34 4)	(45 9)	-	-
Proceeds from sale of property, plant and equipment		4 4	3 8	-	-
Purchase of investments	13	(0 8)	-	-	-
Proceeds from disposal of investments	13	132 1	-	-	-
Evaluation and disposal costs relating to non-regulated businesses		(10 8)	-	-	-
Net cash used in investing activities		(452 7)	(710 3)	(1 0)	(2 0)
Financing activities					
Proceeds from issue of ordinary shares		-	0 9	-	0 9
Cash used in structured financing		-	(163 9)	-	-
Proceeds from borrowings		272 9	3,847 6	42 7	1,724 5
Repayment of borrowings		(372 6)	(3,310 9)	(112 7)	(1,948 0)
Dividends paid to equity holders of the company	9	(231 2)	(449 9)	(231 2)	(449 9)
Net cash used in financing activities		(330 9)	(76 2)	(301 2)	(672 5)
Effects of exchange rate changes		13 5	(1 8)	-	-
Net increase/(decrease) in cash and cash equivalents		44 2	(1,493 4)	122 3	(564 6)
Cash and cash equivalents at beginning of the year	16	211 8	1,705 2	99 2	663 8
Cash and cash equivalents at end of the year	16	256 0	211 8	221 5	99 2

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 as adopted by the European Union (EU), requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting periods presented Although these estimates are based upon management's best knowledge of the amount, event or actions, actual results ultimately may differ from these estimates

The adoption of the following standards and interpretations, at 1 April 2009, has had no material impact on the group's financial statements

IFRIC 12 'Service Concession Arrangements'

The interpretation addresses accounting by private sector operators involved in the provision of public sector infrastructure assets and services Relevant assets within its scope have been reclassified from property, plant and equipment to financial assets (where the operator has an unconditional right to receive a specified amount of cash or other financial asset over the life of the arrangement), or intangible assets (where the operator's future cashflows are not specified), or a combination of both (where the operator's return is provided partially by a financial asset and partially by an intangible asset) Its application is retrospective and hence requires the restatement of the comparative information presented for the years ended 31 March 2009 and 31 March 2008 Operating profit for the year ended 31 March 2009 has been reduced by £5 7 million, broadly offset by a corresponding increase in investment income of £5 2 million (see note 32)

IAS 23 (Revised 2007) 'Borrowing Costs'

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of that asset Qualifying assets include property, plant and equipment, inventories and intangible assets developed in projects that take a significant period of time to complete The standard has been adopted as a prospective change and borrowing costs have been capitalised on projects commencing from 1 April 2009 No changes have been made for borrowing costs incurred prior to this date that have been expensed During the year ended 31 March 2010, borrowing costs of £0 5 million have been capitalised

IAS 1 'Presentation of Financial Statements (September 2007)'

The application of this standard has resulted in the balance sheet and cashflow statements being renamed the 'statement of financial position' and the 'statement of cashflows' respectively The shareholders' equity note is presented as a primary statement and is renamed the 'statement of changes in equity' The statement of recognised income and expense is also presented as a primary statement and is renamed the 'consolidated statement of comprehensive income' Taxation on each item within the consolidated statement of comprehensive income is shown separately

'Improvements to IFRSs (2008)'

The amendments to IAS 1 'Presentation of Financial Statements (September 2007)' clarify the classification of derivative financial instruments as current or non-current Previously the group has categorised as current all derivative financial instruments classified as 'held for trading' under IAS 39 'Financial Instruments Recognition and Measurement' As a result of these amendments, 'held for trading' derivatives have now been categorised between current and non-current, based upon the contractual maturity date or, where applicable, the contractual early termination date (see note 32)

Accounting policies (continued)

a) Basis of preparation (continued)
IFRS 2 'Share-based Payments (June 2009)'
The amendment to IFRS 2 is effective for periods commencing on or after 1 January 2010, was endorsed by the EU on 23 March 2010, and has been adopted early in these financial statements

IFRS 7 'Financial Instruments Disclosure – amendments'
The amendments to the standard require additional disclosures in respect of the financial instruments measured at fair value, based upon the nature of the inputs used in making such measurements (see note 18) The amendment to the standard does not require comparatives in the first year of adoption

IFRS 8 'Operating Segments'
The application of this standard requires disclosure of information about the group's operating segments on the same basis as that used for internal reporting, and replaces the requirement to determine the primary (business) and secondary (geographical) reporting segments The group determined that its operating segments were the same as the business segments previously identified under IAS 14 'Segment Reporting', except that the 'other activities' segment has been renamed 'all other segments' Additional disclosures about each of these segments are provided in note 2

As a result of the adoption of these standards, the group has presented a restated statement of financial position for each of the years ended 31 March 2009 and 31 March 2008, together with notes for the relevant restated comparatives

The consolidated income statement for the year ended 31 March 2009 has been re-presented to better reflect the nature of restructuring and reorganisation costs

Going concern
The directors have a reasonable expectation that the company has adequate resources available to it to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements This approach, taking into account the relatively stable and regulated nature of the business, is based, amongst other matters, upon a review of the company's budget for 2010/11, the company's five-year business plan and investment programme, together with a review of the cash and committed borrowing facilities available to the company (discussed in further detail in the liquidity section on page 12 and the debt financing and interest rate management section on pages 11 and 12) That review gives details of the company's headroom as at 31 March 2010

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, the guidance published in November 2008 'An update for Directors of Listed Companies Going Concern and Liquidity Risk' by the Financial Reporting Council

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

Accounting policies (continued)

b) Basis of consolidation (continued)

Subsidiaries

Control is achieved where the company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one-half of the voting rights of an investee entity so as to obtain benefits from its activities

In the parent company accounts, investments are held at cost less provision for impairment

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the income statement in the period of acquisition All intra-group transactions, balances, income and expenses are eliminated on consolidation

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 The carrying amount is reduced by any provision for impairment where necessary

Accounting policies (continued)

d) Intangible assets (continued)

Other intangible assets (continued)

On a business combination, as well as recording separable intangible assets already recognised in the statement of financial position of the acquired entity at their fair value, identifiable intangible assets that arise from contractual or other legal rights are also included in the acquisition statement of financial position at fair value

Internal expenditure is capitalised as internally generated intangibles only if it meets the criteria of IAS 38 'Intangible Assets'

Amortisation periods for categories of intangible assets are

- Computer software 3 to 10 years,
- Other intangible assets 2 to 20 years, and
- Service concessions 20 to 30 years (see note r)

e) Property, plant and equipment

Property, plant and equipment comprises infrastructure assets (water 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, including borrowing costs where applicable, relating to increases in capacity or enhancements of the network is treated as additions Amounts incurred in maintaining the operating capability of the network in accordance with defined standards of service are expensed in the year in which the expenditure is incurred Infrastructure assets are depreciated by writing off their deemed cost, less the estimated residual value, evenly over their useful lives, 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, including relevant borrowing costs, where applicable, for qualifying assets Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred

Freehold land and assets in the course of construction are not depreciated Other assets are depreciated by writing off their cost, less their estimated residual value, evenly over their estimated useful lives, based upon management's judgement and experience, which are principally as follows

- Buildings 10 to 60 years,
- Operational assets 5 to 80 years, and
- Fixtures, fittings, tools and equipment 3 to 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

Accounting policies (continued)

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 statement of financial position on the trade date when the group becomes a party to the contractual provisions of the instrument

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

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

Service concession financial assets
See note r

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

Trade payables
Trade payables are initially measured at fair value and are subsequently measured at amortised cost

Accounting policies (continued)

g) Financial instruments (continued)
Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities

Equity instruments
Equity instruments issued by the group are recorded at the proceeds received, net of direct issue costs

Borrowings
Bonds, 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, or in a fair value hedge

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 related 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 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

Derivative financial instruments and hedge accounting
Interest rate swap agreements 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 statement of financial position 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 as, 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 the income statement Gains or losses from remeasuring the derivative are recognised in the income statement

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 'Financial Instruments Recognition and Measurement', or where the hedge designation is revoked The cumulative fair value adjustment on the hedged instrument is frozen at the date of ineffectiveness, or the date the designation is revoked and is amortised to the income statement based upon a recalculated effective interest rate through to maturity

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

Accounting policies (continued)

g) Financial instruments (continued)
Cashflow hedges (continued)
Hedge accounting is discontinued 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 'Financial Instruments Recognition and Measurement', or where the hedge designation is revoked 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 comprehensive income 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 applicable on the dates of the transactions At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange applicable on that date Gains and losses arising on retranslation are included in net profit or loss for the period Exchange differences arising on investments in equity instruments classified as available for sale are included in the gains or losses arising from changes in fair value which are recognised directly in equity

In order to hedge its exposure to certain foreign exchange risks, the group enters into forward contracts, options and other derivative instruments (see derivative financial instruments and hedge accounting in note g)

Group companies
On consolidation, the statements of financial position of overseas subsidiaries and joint ventures (none of which has the currency of a hyperinflationary economy) are translated into sterling at exchange rates applicable at each reporting date The income statements are translated into sterling using the average rate unless exchange rates fluctuate significantly in which case the exchange rate at the date the transaction occurred is used Exchange differences resulting from the translation of such statements of financial position at rates ruling at the beginning and end of the period, together with the differences between income statements translated at average rates and rates ruling at the period end, are dealt with as movements on the group's cumulative exchange reserve, a separate component of equity Such translation differences are recognised as income or expense in the period in which the operation is disposed of

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate The group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of implementation of IFRS 3 'Business Combinations' (1 April 1999) as sterling denominated assets and liabilities

i) Borrowing costs and finance income
Except as noted below, all borrowing costs and finance income are recognised in the income statement in the period in which they are accrued

Transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability are included in the initial fair value of that instrument

Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset

Accounting policies (continued)

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

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

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

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

Current taxation
Current taxation, including UK corporation tax and foreign tax, is based upon the taxable profit for the period and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at each reporting date Taxable profit differs from the net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

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

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

Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the temporary timing differences are expected to reverse based upon tax rates and laws that have been enacted or substantively enacted at each reporting date

The carrying amount of deferred taxation assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred taxation is charged or credited in the income statement, except when it relates to items charged or credited to equity, in which case the deferred taxation is also dealt with in equity

l) Employee benefits
Retirement benefit obligations
The group operates a number of defined benefit pension schemes, which are independent of the group's finances, for the majority of its employees Actuarial valuations of the schemes are carried out as determined by the pension scheme trustees using the projected unit credit method at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of

Accounting policies (continued)

the actuaries, having regard to the results of these valuations In any intervening years, the actuaries review the continuing appropriateness of the contribution rates

l) Employee benefits (continued)

Retirement benefit obligations (continued)

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

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

All actuarial gains and losses, excluding curtailment gains and losses, are recognised outside the income statement in retained earnings and presented in the statement of comprehensive income

In addition, the group also operates defined contribution pension schemes Payments are charged as employee costs as they fall due The group has no further payment obligations once the contributions have been paid

Share-based compensation arrangements

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

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

At each reporting date, the group revises its estimate of the number of options that are expected to become exercisable with the impact of any revision being recognised in the income statement, and a corresponding adjustment to equity over the remaining vesting period The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised

m) Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated

Expenditure that relates to an existing condition caused by past operations that does not contribute to current or future earnings is expensed Liabilities for environmental remediation and decommissioning costs are recognised, and capitalised in accordance with IAS 37 'Provisions, Contingent liabilities and Contingent Assets' as appropriate, when there is a legal or constructive obligation, environmental assessments indicate that clean-up is probable, and the associated costs can be reliably estimated

n) Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business for goods and services provided Where relevant, this includes an estimate of the sales value of units supplied to customers between the date of the last meter reading and the period end, exclusive of value added tax and foreign sales tax

Accounting policies (continued)

n) Revenue recognition (continued)
The group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured Should the group consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned or collectability is reasonably assured Payments received in advance of revenue recognition are recorded as deferred income

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

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

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

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

Properties held for resale are included at the lower of cost and net realisable value Cost includes the cost of acquiring and developing the sites, including borrowing costs where applicable

Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution

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

The group has service concession arrangements in Scotland, Australia and Bulgaria, where it has been engaged to finance, design, construct and operate water and wastewater assets on behalf of local government authorities or other utility providers for periods of 20 to 30 years At the end of the contracts, the constructed assets will be transferred to the grantors of the respective service concessions at market price or written down asset value, depending upon the contract

The group bears demand risk on revenues arising from its service concession arrangements in Scotland and Bulgaria In accordance with IFRIC 12, the related assets have therefore been classified as intangible assets (see note 12) The service concession arrangements in Australia have a mix of revenue streams, some are fixed, while others vary depending upon demand levels The related assets have therefore been classified as financial asset loan receivables or intangible assets as appropriate (see notes 15 and 12)

s) Critical accounting judgements and key sources of estimation uncertainty
In the process of applying its accounting policies, the group is required to make certain estimates, judgements and assumptions that it believes are reasonable based upon the information available These

Accounting policies (continued)

estimates and assumptions affect the amounts of assets and liabilities at the date of the financial statements and the amounts of revenues and expenses recognised during the reporting periods presented

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

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 upon management's judgement and experience When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively Due to the significance of PPE investment to the group, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically few changes to estimated useful lives have been required

The group is required to evaluate the carrying values of PPE for impairment whenever circumstances indicate, in management's judgement, that the carrying value of such assets may not be recoverable An impairment review requires management to make subjective judgements concerning the 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 When the group considers that the criteria for revenue recognition are not met for a transaction, revenue recognition is delayed until such time as the transaction becomes fully earned or collectability is reasonably assured Payments received in advance of revenue recognition are recorded as deferred income

United Utilities Water PLC raises bills in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes For water and wastewater customers with water meters, the receivable billed is dependent upon the volume supplied including the sales value of an estimate of the units supplied between the date of the last meter reading and the billing date Meters are read on a cyclical basis and the group recognises revenue for unbilled amounts based upon estimated usage from the last billing through to each reporting date The estimated usage is based upon historical data, judgement and assumptions, actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined For customers who do not have a meter, the receivable billed is dependent upon the rateable value of the property, as assessed by an independent rating officer

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

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

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

Accounting policies (continued)

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

Provision for doubtful receivables

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

Accounting for provisions and contingencies

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

Retirement benefits

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

Derivatives and borrowings

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

Therefore, where feasible, the group has taken advantage of the various provisions under IAS 39 'Financial Instruments Recognition and Measurement' 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 as, 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

Accounting policies (continued)

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

Derivatives and borrowings (continued)

Designated borrowings and derivatives recorded at fair value are valued using a discounted cashflow valuation model This model calculates the zero coupon curves for the applicable currency as at each reporting 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 adjusted for credit risk where appropriate Cashflows denominated in foreign currencies are converted into sterling at the spot exchange rate at each reporting date

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 'Financial Instruments Recognition and Measurement' 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

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

t) Recently issued accounting pronouncements

International Financial Reporting Standards

At the date of authorisation of these financial statements, the following relevant standards and interpretations were in issue but not yet effective The directors anticipate that the group will adopt these standards and interpretations on their effective dates

The directors anticipate that the adoption of the following standards and interpretations may have a material impact on the group's financial statements

- IFRS 3 'Business Combinations – revised standard', issued in January 2008, is effective for periods commencing on or after 1 July 2009 and was endorsed by the EU on 12 June 2009 This will have a material impact on the group's financial statements only if it enters into any relevant transactions in the future, and
- IFRIC 18 'Transfers of Assets from Customers', issued in January 2009, is effective for transfers from customers received on or after 1 July 2009, for periods commencing on or after 31 October 2009 and was endorsed by the EU on 27 November 2009 This interpretation will therefore be adopted by the group in the year ending 31 March 2011 The adoption of IFRIC 18 is expected to change the group's policy for the valuation of assets transferred from customers and may lead to an increase in revenue, the value of assets capitalised and future depreciation costs

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

- 'Annual improvements 2009', issued in April 2009, is effective for periods commencing on or after 1 January 2010 and was endorsed by the EU on 23 March 2010,
- 'Annual improvements 2010', issued in May 2010, is effective for periods commencing on or after 1 January 2011 but has not yet been endorsed by the EU,
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation', issued in July 2008, is effective for periods commencing on or after 1 July 2009 and was endorsed by the EU on 4 June 2009, and
- IFRS 9 'Financial Instruments', issued in November 2009, is effective for periods commencing on or after 1 January 2013 but has not yet been endorsed by the EU

Accounting policies (continued)

t) Recently issued accounting pronouncements (continued)
Standards and interpretations in issue but not considered relevant to the activities of the group are as follows

- IAS 24 'Related Party Disclosures – amendment', issued in November 2009, is effective for periods commencing on or after 1 January 2011 but has not yet been endorsed by the EU,
- IAS 27 'Consolidated and Separate Financial Statements – revised standard', issued in January 2008, is effective for periods commencing on or after 1 July 2009 and was endorsed by the EU on 12 June 2009,
- IAS 32 'Financial Instruments – amendment', issued in October 2009, is effective for periods commencing on or after 1 February 2010 and was endorsed by the EU on 23 December 2009,
- IAS 39 'Financial Instruments Recognition and Measurement – amendment', issued in July 2008, is effective for periods commencing on or after 1 July 2009 and was endorsed by the EU on 16 September 2009,
- 'IFRS for Small and Medium-sized Entities', issued in July 2009, is effective immediately,
- IFRS 1 'First-time Adoption – revised standard', issued in November 2008, is effective for periods commencing on or after 1 July 2010 and was endorsed by the EU on 25 November 2009,
- IFRS 1 'First-time Adoption – amendment', issued in July 2009, is effective for periods commencing on or after 1 January 2010 but has not yet been endorsed by the EU,
- IFRS 1 'First-time Adoption – amendment', issued in January 2010, is effective for periods commencing on or after 1 July 2010 but has not yet been endorsed by the EU,
- IFRIC 14 'Prepayments of a Minimum Funding Requirement – amendment', issued in November 2009, is effective for periods commencing on or after 1 January 2011 but has not yet been endorsed by the EU,
- IFRIC 17 'Distribution of Non-cash Assets to Owners', issued in November 2008, is effective for periods commencing on or after 1 July 2009 and was endorsed by the EU on 26 November 2009, and
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments', issued in November 2009, is effective for periods commencing on or after 1 July 2010 but has not yet been endorsed by the EU

The impact of all other IFRSs and IFRICs issued but not yet adopted is not considered relevant to the group

Notes to the financial statements

1. Total revenue

	2010 £m	Restated 2009 £m
Provision of goods and services (see note 2)	2,439 1	2,427 2
Dividend income (see note 4)	2 4	12 4
Investment income (see note 5)	14 1	70 7
	2,455 6	2,510 3

No revenue was derived from exchanges of goods or services during the year ended 31 March 2010 (2009 £nil)

2. Segment reporting

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

The group is organised into two principal operating divisions for management purposes, being regulated and non-regulated activities These divisions form the basis on which the operating segment information, presented in accordance with IFRS 8 'Operating Segments', is reported The comparative figures for the year ended 31 March 2009 have been restated in accordance with IFRS 8

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

The non-regulated activities segment is as previously reported and includes the group's utility outsourcing contracts in the United Kingdom and overseas

The 'all other segments' category was previously reported as the group's other activities segment This category includes the results of United Utilities Property Services Limited (formerly United Utilities Property Solutions Limited), United Utilities PLC and other group holding companies

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

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

Notes to the financial statements (continued)

2. Segment reporting (continued)

Year ended 31 March 2010	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Continuing operations				
Total revenue	1,540 7	890 2	14 1	2,445 0
Inter-segment revenue	(0 8)	-	(5 1)	(5 9)
External revenue	1,539 9	890 2	9 0	2,439 1
Underlying segmental operating profit/(loss)	700 8	59 1	(3 6)	756 3
Restructuring costs	(15 8)	(4 9)	(10 0)	(30 7)
Pension schemes curtailment gains arising on amendment of pension obligations	76 7	8 9	6 7	92 3
Segmental operating profit/(loss)	761 7	63 1	(6 9)	817 9
Investment income				46 1
Finance expense				(383 7)
Profit on disposal of investments				36 6
Evaluation and disposal costs relating to non-regulated businesses				(10 8)
Profit before taxation				506 1

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

Year ended 31 March 2009 restated	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Continuing operations				
Total revenue	1,499 5	911 8	22 4	2,433 7
Inter-segment revenue	(0 9)	(0 1)	(5 5)	(6 5)
External revenue	1,498 6	911 7	16 9	2,427 2
Underlying segmental operating profit/(loss)	679 4	62 4	(5 7)	736 1
Restructuring costs	(1 0)	1 0	(1 2)	(1 2)
Other reorganisation costs	-	-	(5 4)	(5 4)
Segmental operating profit/(loss)	678 4	63 4	(12 3)	729 5
Investment income				111 2
Finance expense				(272 5)
Profit before taxation				568 2

Year ended 31 March 2009	Regulated activities £m	Group £m
Discontinued operations		
External revenue	-	-
Segmental operating loss	(1 2)	(1 2)

For further information on the group's discontinued operations see note 8

Notes to the financial statements (continued)

2. Segment reporting (continued)

Year ended 31 March 2010	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Other information				
Depreciation and amortisation	249 8	26 2	28 7	304 7
Statement of financial position				
Segment total assets	8,570 6	627 8	1,943 5	11,141 9

Year ended 31 March 2009 restated	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Other information				
Depreciation and amortisation	236 2	25 6	0 1	261 9
Statement of financial position				
Segment total assets	8,576 2	813 9	1,844 0	11,234 1

Year ended 31 March 2008 restated	Regulated activities £m	Non-regulated activities £m	All other segments £m	Group £m
Statement of financial position				
Segment total assets	7,752 8	752 8	1,836 6	10,342 2

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

Year ended 31 March 2010	UK £m	Rest of world £m	Group £m
Continuing operations			
External revenue	2,312 2	126 9	2,439 1
Non-current assets *	8,220 9	177 2	8,398 1

Year ended 31 March 2009 restated	UK £m	Rest of world £m	Group £m
Continuing operations			
External revenue	2,345 7	81 5	2,427 2
Non-current assets *	8,045 9	203 4	8,249 3

Year ended 31 March 2008 restated	UK £m	Rest of world £m	Group £m
Continuing operations			
Non-current assets *	7,661 8	207 1	7,868 9

* Segmental non-current assets exclude financial instruments

The group does not rely on any major customers

Notes to the financial statements (continued)

3. Directors and employees

Directors' remuneration

	2010 £m	2009 £m
Salaries	1 6	1 6
Benefits	0 1	0 1
Bonus	2 0	1 0
	3 7	2 7

Included within the above is salary of £0 8 million (2009 £0 8 million) and bonus of £0 9 million (2009 £0 5 million) in respect of the highest paid director

Remuneration of key management personnel

	2010 £m	2009 £m
Salaries and short-term employee benefits	6 1	5 0
Post-employment benefits	0 6	0 7
	6 7	5 7

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

Employee benefits expense (including directors)

	2010 £m	2010 £m	2009 £m	Re-presented 2009 £m
Group				
Continuing operations				
Wages and salaries		355 7		328 1
Social security costs		26 2		26 8
Post-employment benefits				
pension costs excluding curtailment gains arising on amendment of pension obligations and restructuring costs	50 7		60 4	
pension schemes curtailment gains arising on amendment of pension obligations	(92 3)		-	
		(41 6)		60 4
Restructuring costs		30 7		1 2
		371 0		416 5
Capital schemes and charges against provisions		(70 2)		(68 1)
Employee benefits expense attributable to continuing operations		300 8		348 4
Less employee benefits expense attributable to joint ventures		(12 5)		(9 2)
Total employee benefits expense excluding joint ventures		288 3		339 2

Notes to the financial statements (continued)

3. Directors and employees (continued)

	2010 £m	2010 £m	2009 £m	Re-presented 2009 £m
Company				
Continuing operations				
Wages and salarıes		34 1		32 8
Socıal securıty costs		3 4		3 5
Post-employment benefits				
pensıon costs excludıng curtaılment gaıns arısıng on amendment of pensıon oblıgatıons and restructurıng costs	3 2		4 1	
pensıon schemes curtaılment gaıns arısıng on amendment of pensıon oblıgatıons	(5 4)		-	
		(2 2)		4 1
Restructurıng costs		9 2		-
Total employee benefits expense		44 5		40 4

The employee benefits expense excludıng pensıon schemes curtaılment gaıns arısıng on amendment of pensıon oblıgatıons and restructurıng costs per the consolıdated ıncome statement reconcıles to the prevıous table as follows

	Group 2010 £m	Group Re-presented 2009 £m	Company 2010 £m	Company Re-presented 2009 £m
Continuıng operations				
Wages and salarıes	355 7	328 1	34 1	32 8
Socıal securıty costs	26 2	26 8	3 4	3 5
Post-employment benefits excludıng pensıon schemes curtaılment gaıns arısıng on amendment of pensıon oblıgatıons and restructurıng costs	50 7	60 4	3 2	4 1
Capıtal schemes and charges agaınst provısıons	(70 2)	(68 1)	-	-
Employee benefits expense excludıng pensıon schemes curtaılment gaıns and restructurıng costs	362 4	347 2	40 7	40 4
Pensıon schemes curtaılment gaıns arısıng on amendment of pensıon oblıgatıons	(92 3)	-	(5 4)	-
Restructurıng costs	30 7	1 2	9 2	-
Employee benefits expense	300 8	348 4	44 5	40 4

No dırectors had any ınterest ın shares at 31 March 2010 or 31 March 2009

Average number of employees durıng the year (full-tıme equıvalent ıncludıng dırectors)

	2010 number	2009 number
Group		
Continuıng operations		
Regulated actıvıtıes	4,257	3,925
Non-regulated actıvıtıes	4,428	4,364
All other segments	680	677
	9,365	8,966

The average number of employees durıng the year employed by the company was 627 (2009 624)

Notes to the financial statements (continued)

3. Directors and employees (continued)

The table below shows the nature of post-employment benefits

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Defined benefit pension expense/(income) charged/(credited) to operating profit				
pension costs excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs	28 8	39 8	0 9	1 9
pension schemes curtailment gains arising on amendment of pension obligations	(92 3)	-	(5 4)	-
	(63 5)	39 8	(4 5)	1 9
Defined contribution pension costs (see note 19)	21 9	20 6	2 3	2 2
	(41 6)	60 4	(2 2)	4 1

In addition to the above, pension curtailments arising on reorganisation of £17 2 million (2009 £nil) for the group and £0 7 million (2009 £nil) for the company are included within restructuring costs within total employee benefits expense, resulting in total defined benefit pension income of £46 3 million (2009 £39 8 million expense) for the group and £3 8 million income (2009 £1 9 million expense) for the company, see note 19

4. Operating profit

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

	2010 £m	Restated 2009 £m
Depreciation and amortisation expense		
Depreciation of property, plant and equipment		
Owned assets (see note 10)	275 2	236 3
Under finance leases (see note 10)	-	1 7
Amortisation of other intangible assets (see note 12)	29 5	23 9
	304 7	261 9
Other operating costs		
Hired and contracted services	502 0	481 7
Materials	161 3	168 3
Power	93 9	87 6
Property rates	55 8	57 0
Charge for bad and doubtful receivables (see note 15)	57 7	53 6
Other operating leases payable		
Property	7 6	4 9
Plant and equipment	2 6	3 0
Amortisation of government grants (see note 22)	(6 7)	(6 4)
Research and development expenses	0 8	0 9
Other	30 1	132 1
	905 1	982 7
Other income		
Dividend income	(2 4)	(12 4)
Loss on disposal of property, plant and equipment	7 3	0 8
Other income	(8 0)	(6 9)
	(3 1)	(18 5)

Notes to the financial statements (continued)

4. Operating profit (continued)

Durmg the year, the group obtamed the followmg services from its auditors, at the costs detailed below

	2010 £m	2009 £m
Statutory audit of the financial statements	0 4	0 4
Other fees to the auditors		
Local statutory audits for subsidiaries	0 4	0 3
Other audit related	-	0 1
Regulatory reporting	0 2	0 4
Due diligence and transaction support	5 5	1 2
	6 5	2 4

Included in the above statutory audit fee is £30,000 in relation to the company for the year ended 31 March 2010 (2009 £50,000)

5. Investment income

	2010 £m	Restated 2009 £m
Interest receivable on short-term bank deposits held at amortised cost	14 1	27 8
Forward exchange gains on forward contracts	-	36 1
Interest receivable from ultimate parent undertaking	32 0	40 5
	46 1	104 4
Expected return on pension schemes' assets (see note 19)	-	124 3
Interest cost on pension schemes' obligations (see note 19)	-	(117 5)
Net pension interest income	-	6 8
	46 1	111 2

Notes to the financial statements (continued)

6. Finance expense

	2010 £m	2009 £m
Interest payable		
Interest payable on borrowings held at amortised cost	224 6	243 4
Interest payable on finance leases	-	2 7
Interest payable to ultimate parent undertaking	0 1	2 1
	224 7	248 2
Fair value losses/(gains) on debt and derivative instruments[1]		
Fair value hedge relationships		
Borrowings	(110 6)	494 4
Designated swaps	124 7	(441 1)
	14 1	53 3
Hedging for trading derivatives – economic hedge	-	(51 6)
	14 1	1 7
Financial instruments at fair value through profit or loss		
Borrowings designated at fair value through profit or loss[2]	8 0	56 5
Held for trading derivatives – economic hedge	86 0	(161 2)
	94 0	(104 7)
Held for trading derivatives – 2005-2010 regulatory hedges	(47 5)	68 8
Held for trading derivatives – 2010-2015 regulatory hedges	49 7	31 2
Net payments on swaps and debt under fair value option	24 2	15 7
Held for trading derivatives – other[3]	-	20 4
Other	1 3	(8 8)
	27 7	127 3
Net fair value losses on debt and derivative instruments[4]	135 8	24 3
Expected return on pension schemes' assets (see note 19)	(94 1)	-
Interest cost on pension schemes' obligations (see note 19)	117 3	-
Net pension interest expense	23 2	-
Total finance expense	383 7	272 5

Notes

(1) Fair value losses on debt and derivative instruments includes foreign exchange gains of £44 1 million (2009 £352 0 million losses), excluding those on instruments measured at fair value through profit or loss These gains/losses are largely offset by fair value losses/gains on derivatives

(2) Includes £48 2 million losses (2009 £76 6 million gains) 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 joint venture swaps and other economic hedge derivatives relating to debt held at amortised cost

(4) Includes £22 2 million (2009 £8 3 million) interest on swaps and debt under fair value option

Interest payable for the year ended 31 March 2010 is stated net of £0 5 million borrowing costs capitalised in the cost of qualifying assets within property, plant and equipment during the year This has been calculated by applying a capitalisation rate of 3 3 per cent to expenditure on such assets as prescribed by IAS 23 (Revised 2007) 'Borrowing Costs', which has been applied prospectively from 1 April 2009 (see accounting policies)

Notes to the financial statements (continued)

7. Taxation

	2010 £m	Restated 2009 £m
Current taxation		
UK corporation tax	79 9	157 8
Foreign tax	(1 1)	2 1
Prior year adjustments	(47 9)	(10 0)
	30 9	149 9
Deferred taxation (see note 20)		
Current year	55 3	(0 7)
Prior year adjustments	(6 6)	4 2
	48 7	3 5
Abolition of industrial buildings allowances	-	206 4
	48 7	209 9
Total tax charge for the year	79 6	359 8

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

	2010 £m	2010 %
Profit before taxation	506 1	
Tax at the UK corporation tax rate of 28 per cent	141 7	28 0
Adjustments in respect of prior periods	(54 5)	(10 8)
Net income not taxable	(7 6)	(2 3)
Total tax charge and effective tax rate for the year	79 6	14 9

	Continuing operations		Discontinued operations		Total	
	Restated 2009 £m	Restated 2009 %	2009 £m	2009 %	Restated 2009 £m	Restated 2009 %
Profit/(loss) before taxation	568 2		(1 2)		567 0	
Tax at the UK corporation tax rate of 28 per cent	159 1	28 0	(0 3)	28 0	158 8	28 0
Adjustments in respect of prior periods	(5 8)	(1 0)	-	-	(5 8)	(1 0)
Abolition of industrial buildings allowances	206 4	36 3	-	-	206 4	36 4
Net expense not deductible	0 1	-	0 3	(28 0)	0 4	0 1
Total tax charge and effective tax rate for the year	359 8	63 3	-	-	359 8	63 5

Following Royal Assent of the 2008 Finance Act on 21 July 2008, the abolition of industrial buildings allowances was formally enacted The financial impact as a consequence of this legislation was a one-off deferred tax charge of £206 4 million, which is included in the deferred tax charge for the year ended 31 March 2009, however, the cash impact will be spread over a period of approximately 20 years

A tax credit of £54 5 million (2009 £5 8 million) arose in the year in relation to the agreement of prior years' UK tax returns

Notes to the financial statements (continued)

8. Discontinued operations

During the year ended 31 March 2008, the group completed the disposal of United Utilities Electricity (UUE) to North West Electricity Networks Limited on 19 December 2007 for a total enterprise value of £1,782 million

The results of UUE were disclosed, along with the profit on disposal of £493 0 million, as discontinued operations in the group's financial statements in the year ended 31 March 2008 An adjustment of £1 2 million loss was recorded in the year ended 31 March 2009

9. Dividends

	2010 £m	2009 £m
Amounts recognised as distributions to equity holders of the company in the year comprise		
Ordinary shares		
Final dividend for the year ended 31 March 2009 at 17 15 pence per share (2008 31 47 pence)	151 2	277 4
First interim dividend for the year ended 31 March 2010 at 9 07 pence per share (2009 11 34 pence)	80 0	100 0
Second interim dividend for the year ended 31 March 2010 at nil pence per share (2009 8 22 pence)	-	72 5
	231 2	449 9
Proposed dividend for the year ended 31 March 2010 at 17 87 pence per share (2009 17 15 pence)	157 6	151 2

The proposed final dividends for the years ended 31 March 2010 and 31 March 2009 were subject to approval by equity holders of United Utilities PLC and hence have not been included as liabilities in the consolidated financial statements at 31 March 2010 and 31 March 2009 respectively

Notes to the financial statements (continued)

10. Property, plant and equipment

	Land and buildings £m	Infra-structure assets £m	Operational assets £m	Fixtures, fittings, tools and equipment £m	Assets in course of construction £m	Total £m
Group						
Cost						
At 1 April 2008 as previously reported	218 7	3,562 3	4,132 8	514 5	897 4	9,325 7
Adjustment for service concession assets (see note 32)	(0 1)	(147 6)	(0 1)	(2 7)	(10 1)	(160 6)
At 1 April 2008 restated	218 6	3,414 7	4,132 7	511 8	887 3	9,165 1
Additions	4 0	69 8	102 9	71 1	371 1	618 9
Transfers	5 0	86 5	215 4	28 4	(335 3)	-
Disposals	(6 8)	(2 9)	(37 1)	(22 5)	-	(69 3)
Currency translation differences	0 7	11 8	(0 1)	3 4	1 7	17 5
At 31 March 2009 restated	221 5	3,579 9	4,413 8	592 2	924 8	9,732 2
Additions	9 5	76 0	96 6	55 8	309 2	547 1
Transfers	10 4	60 7	317 7	(9 1)	(379 7)	-
Disposals	(8 3)	(13 5)	(17 0)	(36 1)	(2 3)	(77 2)
Currency translation differences	(0 2)	(2 9)	0 1	0 2	(1 5)	(4 3)
At 31 March 2010	232 9	3,700 2	4,811 2	603 0	850 5	10,197 8
Accumulated depreciation						
At 1 April 2008	69 9	158 0	1,256 1	249 9	-	1,733 9
Adjustment for service concession assets (see note 32)	0 1	(47 1)	(2 9)	(0 7)	-	(50 6)
At 1 April 2008 restated	70 0	110 9	1,253 2	249 2	-	1,683 3
Charge for the year	7 2	32 3	149 3	49 2	-	238 0
Disposals	(6 8)	(2 9)	(37 1)	(17 9)	-	(64 7)
Currency translation differences	-	5 1	2 6	1 1	-	8 8
At 31 March 2009 restated	70 4	145 4	1,368 0	281 6	-	1,865 4
Charge for the year	12 6	43 2	164 5	54 9	-	275 2
Transfers	-	2 6	10 2	(12 8)	-	-
Disposals	(8 3)	(13 5)	(17 0)	(26 7)	-	(65 5)
Currency translation differences	-	(0 4)	0 1	0 2	-	(0 1)
At 31 March 2010	74 7	177 3	1,525 8	297 2	-	2,075 0
Net book value at 31 March 2010	158 2	3,522 9	3,285 4	305 8	850 5	8,122 8
Net book value at 31 March 2009 restated	151 1	3,434 5	3,045 8	310 6	924 8	7,866 8
Net book value at 31 March 2008 restated	148 6	3,303 8	2,879 5	262 6	887 3	7,481 8

Notes to the financial statements (continued)

10. Property, plant and equipment (continued)

The group has no property, plant and equipment held under finance leases at 31 March 2010 or 31 March 2009

At 31 March 2010, the group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £382 6 million (2009 £312 5 million)

	Fixtures, fittings, tools and equipment £m
Company	
Cost	
At 1 April 2008, 31 March 2009 and 31 March 2010	4 8
Accumulated depreciation	
At 1 April 2008	4 3
Charge for the year	0 1
At 31 March 2009	4 4
Charge for the year	-
At 31 March 2010	4 4
Net book value at 31 March 2010	0 4
Net book value at 31 March 2009	0 4
Net book value at 31 March 2008	0 5

The company had no contractual commitments for the acquisition of property, plant and equipment at 31 March 2010 or at 31 March 2009

11. Goodwill

	£m
Group	
Cost	
At 1 April 2008	2 3
Currency translation differences	0 3
At 31 March 2009	2 6
Currency translation differences	(0 1)
At 31 March 2010	2 5

Notes to the financial statements (continued)

12. Other intangible assets

	Computer software £m	Service concessions £m	Other £m	Total £m
Group				
Cost				
At 1 Apnl 2008 as previously reported	196 7	-	21 6	218 3
Adjustment for service concession assets (see note 32)	-	115 4	-	115 4
At 1 Apnl 2008 restated	196 7	115 4	21 6	333 7
Additions – purchased	38 7	6 6	0 2	45 5
Disposals	(53 5)	-	(0 3)	(53 8)
Currency translation differences	-	-	2 8	2 8
At 31 March 2009 restated	181 9	122 0	24 3	328 2
Additions – purchased	34 2	-	0 2	34 4
Currency translation differences	-	5 8	(0 7)	5 1
At 31 March 2010	216 1	127 8	23 8	367 7
Amortisation				
At 1 Apnl 2008 as previously reported	123 8	-	9 2	133 0
Adjustment for service concession assets (see note 32)	-	24 5	-	24 5
At 1 Apnl 2008 restated	123 8	24 5	9 2	157 5
Charge for the year	18 0	4 7	1 2	23 9
Disposals	(53 3)	-	-	(53 3)
Currency translation differences	-	-	1 2	1 2
At 31 March 2009 restated	88 5	29 2	11 6	129 3
Charge for the year	25 7	3 0	0 8	29 5
Currency translation differences	-	0 8	(0 5)	0 3
At 31 March 2010	114 2	33 0	11 9	159 1
Net book value at 31 March 2010	101 9	94 8	11 9	208 6
Net book value at 31 March 2009 restated	93 4	92 8	12 7	198 9
Net book value at 31 March 2008 restated	72 9	90 9	12 4	176 2

The 'other' intangible assets category relates mainly to customer related intangibles such as customer contracts and customer lists The service concession assets relate to operations in Scotland, Australia and Bulgaria Further information is provided in the accounting policies At 31 March 2010, the group had entered into contractual commitments for the acquisition of other intangible assets amounting to £19 4 million (2009 £19 5 million)

The company has no intangible assets The company had no contractual commitments for the acquisition of other intangible assets at 31 March 2010 or 31 March 2009

Notes to the financial statements (continued)

13. Investments

	Other investments £m
Group	
At 1 April 2008	155 5
Revaluations	(20 3)
Currency translation differences	1 6
At 31 March 2009	136 8
Additions	0 8
Disposals	(132 1)
Revaluations	3 4
Currency translation differences	(1 2)
At 31 March 2010	7 7

The group's other investments at 31 March 2010 mainly comprise an available for sale investment recorded in respect of the group's accounting for the retirement benefit obligations for the Northern Gas Networks Pension Scheme (see note 19) In the opinion of the directors, there is no material difference between the book and fair values of these investments The fair values of the group's financial instruments are shown in note 18

The group disposed of its 11 7 per cent economic interest in Manila Water Company (MWC) to Ayala Corporation and Philwater Holdings Company Inc, both existing shareholders of MWC, for cash consideration of US$73 million (£46 3 million) on 12 November 2009 On completion of the transaction in March 2010, the group reinvested approximately US$1 2 million (£0 8 million) in new preference shares in Philwater Holdings Company Inc, which has been classified as a loans and receivables investment in accordance with IAS 39 'Financial Instruments Recognition and Measurement'

In addition, the group disposed of its 15 0 per cent economic interest in Northern Gas Networks Holdings Limited (NGN) to Cheung Kong Infrastructure Holdings Limited (CKI) and SAS Trustee Corporation (managed by RREEF Alternative Investments), both existing shareholders of NGN, for a cash consideration of £85 8 million on 16 November 2009

Dividends received from the group's investments in MWC and NGN prior to disposal have been included in continuing operations, within the non-regulated activities business segment, in the group's results for the years ended 31 March 2010 (£2 4 million) and 31 March 2009 (£12 3 million) respectively

The group's profit on disposal of investments comprises

	MWC £m	NGN £m	Total £m
Group			
Proceeds	46 3	85 8	132 1
Carrying value of investment	(46 3)	(85 8)	(132 1)
Reclassification from other reserves arising on sale of financial asset investment	36 6	-	36 6
	36 6	-	36 6

Details of principal operating subsidiary undertakings and joint ventures are set out on the next page These undertakings are included within the consolidated financial statements

Notes to the financial statements (continued)

13. Investments (continued)

	Class of share capital held	Proportion of share capital owed/voting rights %	Nature of business
Subsidiary undertakings			
Great Britain			
United Utilities Water PLC	Ordinary	100.0	Water and wastewater services and network management
United Utilities 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 Utility Solutions (Industrial) Limited (formerly United Utilities Industrial Limited)	Ordinary	100.0	Electricity asset maintenance
United Utilities Property Services Limited (formerly 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 Welsh Water
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 Utility Solutions (E&CS) Limited (formerly 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 Berri 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
4 Delivery Limited	Ordinary	40.0	Consulting services and project management
Brighton and Hove 4Delivery Limited	Ordinary	49.0	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

Notes to the financial statements (continued)

13. Investments (continued)

	Class of share capital held	Proportion of share capital owed/voting rights %	Nature of business
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

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

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

	2010 £m	Restated 2009 £m	Restated 2008 £m
Group share of joint ventures			
Non-current assets	326 7	350 9	321 3
Current assets	89 7	96 0	97 1
Non-current liabilities	(261 0)	(237 9)	(223 6)
Current liabilities	(59 2)	(81 5)	(80 9)
	96 2	127 5	113 9

	2010 £m	Restated 2009 £m
Group share of joint ventures		
Gross income	186 8	203 7
Expenses	(161 6)	(191 2)
Taxation	(4 1)	(1 6)
Profit for the year	21 1	10 9

The joint ventures have no significant contingent liabilities to which the group is exposed and the group has issued guarantees of £126 8 million to its joint ventures (2009 £80 7 million) which are included in the contingent liabilities total disclosed in note 29

	Shares in subsidiary undertakings and total £m
Company	
At 1 April 2008	5,352 3
Additions	6,129 0
At 31 March 2009	11,481 3
Additions	1,500 8
Impairment charge	(6,821 1)
At 31 March 2010	6,161 0

Notes to the financial statements (continued)

13. Investments (continued)

Additions of £1,500 8 million relate to investments in ordinary shares in United Utilities One Limited

An impairment of £6,127 0 million has been taken against investments in United Utilities (Jersey) Investments No 1 Unlimited, United Utilities (Jersey) Investments No 2 Unlimited, United Utilities (Jersey) Investments No 3 Unlimited and United Utilities (Jersey) Investments No 4 Unlimited, following a £6,128 9 million realisation of value through receipt of dividends

An investment of £3,907 1 million in United Utilities North West PLC (UUNW) has been tested for impairment during the year following the acceptance of Ofwat's final determination by the group's principal operating company, United Utilities Water PLC (UUW) The final determination for 2010-15 sets the returns on investment allowed by the regulator for this period

The valuation of UUNW for the purposes of the impairment test was based upon a 'fair value less costs to sell' approach, which incorporated the regulatory capital value (RCV) for UUW as at March 2010 An impairment of £694 1 million has been taken against this investment, reducing the value of the company's investment in UUNW to £3,213 0 million

14. Inventories

	2010 £m	2009 £m
Group		
Raw materials and finished goods	18 9	11 3
Properties held for resale	54 1	51 9
Work in progress	1 8	9 8
	74 8	73 0

The company has no inventories (2009 £nil)

15. Trade and other receivables

	Group 2010 £m	Group Restated 2009 £m	Group Restated 2008 £m	Company 2010 £m	Company 2009
Trade receivables	201 1	195 7	208 7	0 9	0 2
Amounts owed by subsidiary undertakings	-	-	-	1,623 4	1,739 1
Amounts owed by ultimate parent undertaking (see note 27) *	1,519 7	1,482 3	-	4 7	-
Amounts owed by related parties (see note 27)	19 2	12 8	15 0	-	-
Other debtors	79 0	80 5	63 7	0 3	14 0
Prepayments and accrued income	208 2	247 1	221 9	7 5	6 8
	2,027 2	2,018 4	509 3	1,636 8	1,760 1

* Included in net amounts owed by the ultimate parent undertaking is £5 1 million for the group (2009 £nil, 2008 n/a) and £5 1 million for the company (2009 £nil) relating to net group tax relief receivable from United Utilities Group PLC

Notes to the financial statements (continued)

15. Trade and other receivables (continued)

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

			Group		Company
		Restated	Restated		
	2010	2009	2008	2010	2009
	£m	£m	£m	£m	£m
Non-current	56 5	44 2	53 1	-	-
Current	1,970 7	1,974 2	456 2	1,636 8	1,760 1
	2,027 2	2,018 4	509 3	1,636 8	1,760 1

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

	2010	2009
	£m	£m
Group		
At 1 April	192 8	171 7
Amounts charged to operating expenses	57 7	53 6
Trade receivables written-off	(43 9)	(32 5)
At 31 March	206 6	192 8

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

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

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

Group	Aged less than one year £m	Aged between one year and two years £m	Aged greater than two years £m	Carrying value £m
At 31 March 2010				
Trade receivables - gross	210 3	61 6	135 8	407 7
Amounts owed by ultimate parent undertaking	37 4	1,482 3	-	1,519 7
Amounts owed by related parties	17 2	1 1	0 9	19 2
Other debtors	79 0	-	-	79 0
Prepayments and accrued income	208 0	-	0 2	208 2
At 31 March 2009 restated				
Trade receivables - gross	199 1	65 2	124 2	388 5
Amounts owed by ultimate parent undertaking	1,482 3	-	-	1,482 3
Amounts owed by related parties	10 7	0 7	1 4	12 8
Other debtors	80 5	-	-	80 5
Prepayments and accrued income	246 5	0 3	0 3	247 1
At 31 March 2008 restated				
Trade receivables - gross	196 6	61 7	122 1	380 4
Amounts owed by related parties	13 6	0 3	1 1	15 0
Other debtors	63 6	0 1	-	63 7
Prepayments and accrued income	217 7	-	4 2	221 9

Notes to the financial statements (continued)

15. Trade and other receivables (continued)

The above analysis in respect of gross trade receivables reconciles to net trade receivables by deduction of the allowance for doubtful receivables of £206 6 million (2009 £192 8 million, 2008 £171 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 2010				
Trade receivables - gross	1 5	0 2	0 6	2 3
Amounts owed by subsidiary undertakings – gross	315 3	482 7	908 3	1,706 3
Amounts owed by ultimate parent undertaking – gross	4 7	-	-	4 7
Other debtors	0 3	-	-	0 3
Prepayments and accrued income	7 5	-	-	7 5
At 31 March 2009				
Trade receivables - gross	1 0	0 2	0 3	1 5
Amounts owed by subsidiary undertakings – gross	863 1	56 8	899 2	1,819 1
Other debtors	14 0	-	-	14 0
Prepayments and accrued income	6 2	0 5	0 1	6 8

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

The above analysis in respect of gross trade receivables reconciles to net trade receivables by the deduction of the allowance for doubtful receivables of £1 4 million (2009 £1 3 million)

The above analysis in respect of gross amounts owed by subsidiary undertakings reconciles to net amounts due by deduction of the allowance for doubtful receivables of £82 9 million (2009 £80 0 million) relating to non-trading subsidiary undertakings

Trade and other receivables is split as follows

	Group			Company	
	2010 £m	Restated 2009 £m	Restated 2008 £m	2010 £m	2009 £m
Debtors in respect of unmetered water supplies	93 0	89 6	74 4	-	-
Debtors in respect of metered water supplies	115 0	107 8	100 5	-	-
Sundry debtors	43 0	60 6	47 2	-	-
Total regulated debtors	251 0	258 0	222 1	-	-
Non-regulated debtors	1,776 2	1,760 4	287 2	1,636 8	1,760 1
Trade and other receivables	2,027 2	2,018 4	509 3	1,636 8	1,760 1

The directors consider that the carrying amount of trade and other receivables approximates to their fair value at 31 March 2010, 31 March 2009 and 31 March 2008

The group's average credit period taken on sales is 33 days (2009 31 days, 2008 33 days)

Notes to the financial statements (continued)

16. Cash and cash equivalents

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Cash at bank and in hand	72 6	117 8	10 4	-
Short-term bank deposits	228 9	180 8	228 9	100 8
Cash and short-term deposits	301 5	298 6	239 3	100 8
Bank overdrafts (included in borrowings, see note 17)	(45 5)	(86 8)	(17 8)	(1 6)
Cash and cash equivalents in the statement of cashflows	256 0	211 8	221 5	99 2

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

17. Borrowings

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

Group	2010 £m	2009 £m
Non-current liabilities		
Bonds	4,159 0	4,005 7
Bank and other term borrowings	1,148 9	1,194 4
	5,307 9	5,200 1
Current liabilities		
Bonds	-	160 2
Euro-commercial paper	-	56 2
Bank and other term borrowings	120 5	156 6
Bank overdrafts	45 5	86 8
Amounts owed to ultimate parent undertaking	63 5	65 1
	229 5	524 9
	5,537 4	5,725 0

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

Group	Currency	Year of maturity	Fair value 2010 £m	Carrying value 2010 £m	Fair value 2009 £m	Carrying value 2009 £m
Borrowings in fair value hedge relationships						
5 75% 375m (2009 275m) bond	GBP	2022	383 2	367 9	274 7	270 3
5 625% 300m bond	GBP	2027	308 5	326 7	286 1	338 3
5 00% 200m bond	GBP	2035	184 6	208 2	165 1	220 3
5 375% 150m bond	GBP	2018	161 6	163 0	158 8	164 4
5 25% 150m bond	GBP	2010	-	-	154 1	153 2
4 25% 500m bond	EUR	2020	444 8	467 2	425 0	479 7
5 375% 350m bond	USD	2019	230 5	250 1	218 0	285 1
4 55% 250m bond	USD	2018	157 9	169 6	150 2	191 5
5 02% JPY 10bn dual currency loan	JPY/USD	2029	70 1	84 0	76 7	94 5

Notes to the financial statements (continued)

17. Borrowings (continued)

	Currency	Year of maturity	Fair value 2010 £m	Carrying value 2010 £m	Fair value 2009 £m	Carrying value 2009 £m
Borrowings designated at fair value through profit or loss						
6 875% 400m bond	USD	2028	266 8	266 8	259 7	259 7
1 135% 3bn bond	JPY	2013	20 8	20 8	20 0	20 0
Borrowings measured at amortised cost						
6 125% 425m (2009 375m) bond	GBP	2015	473 2	432 0	405 9	379 1
1 97%+RPI 200m 1L loan	GBP	2016	203 6	217 5	183 7	220 2
1 9799%+RPI 100m 1L bond	GBP	2035	100 4	112 6	83 2	114 2
1 7829%+RPI 100m 1L bond	GBP	2040	92 3	111 4	74 4	113 0
1 5802%+RPI 100m 1L bond	GBP	2042	85 9	111 0	68 3	112 6
1 847%+RPI 100m 1L bond	GBP	2056	77 8	110 8	67 5	106 8
1 815%+RPI 100m 1L bond	GBP	2056	76 8	110 3	66 5	106 4
1 662%+RPI 100m 1L bond	GBP	2056	72 7	110 1	62 7	106 2
1 585%+RPI 100m 1L bond	GBP	2057	70 5	105 9	60 5	102 2
2 40%+RPI 70m 1L bond	GBP	2039	67 1	71 4	-	-
3 375%+RPI 50m 1L bond	GBP	2032	74 0	59 7	60 0	60 6
1 3258%+RPI 50m 1L bond	GBP	2041	40 4	55 6	32 1	56 4
1 397%+RPI 50m 1L bond	GBP	2046	40 1	55 5	30 4	56 3
1 5366%+RPI 50m 1L bond	GBP	2043	42 5	55 4	33 8	56 2
1 7937%+RPI 50m 1L bond	GBP	2049	43 9	55 3	37 1	56 1
1 5865%+RPI 50m 1L bond	GBP	2056	35 3	55 0	30 3	53 1
1 556%+RPI 50m 1L bond	GBP	2056	35 1	54 7	30 2	52 8
1 435%+RPI 50m 1L bond	GBP	2056	33 5	54 5	28 6	52 6
1 702%+RPI 50m 1L bond	GBP	2057	36 9	53 4	31 7	51 5
1 73%+RPI 50m IL loan	GBP	2020	50 4	50 2	42 9	48 4
1 61%+RPI 50m IL loan	GBP	2020	49 8	50 2	42 3	48 5
1 90%+RPI 50m IL loan	GBP	2020	51 2	50 1	43 7	48 3
1 84%+RPI 50m IL loan	GBP	2020	50 9	50 1	43 7	48 4
1 93%+RPI 50m IL loan	GBP	2020	51 3	50 0	43 8	48 2
2 46%+RPI 50m IL loan	GBP	2020	53 9	49 9	46 4	48 2
2 10%+RPI 50m IL loan	GBP	2020	52 1	49 9	44 6	48 1
1 88%+RPI 50m IL loan	GBP	2020	51 0	49 9	43 5	48 2
1 3805%+RPI 35m 1L bond	GBP	2056	22 9	38 2	19 6	36 8
1 66%+RPI 35m 1L bond	GBP	2037	28 8	36 7	24 3	35 4
1 591%+RPI 25m 1L bond	GBP	2056	17 6	27 4	15 1	26 5
0 24%+LIBOR (floating) 6 5m bond	GBP	2013	6 5	6 5	6 5	6 3
Long-term bank borrowings - floating	GBP	2010-12	249 9	250 0	250 3	250 0
Short-term bank borrowings - fixed	GBP	2010	53 3	53 3	84 1	84 1
Commission for New Towns loan	GBP	2053	50 9	30 6	45 1	30 8
Committed facilities - drawn	GBP	2009	-	-	55 0	55 0
0 365%+LIBOR (floating) 10m bond	USD	2009	-	-	7 0	7 0
1 30%+LIBOR (floating) 5bn bond	JPY	2017	38 8	35 3	38 8	35 3
Other debt issued by joint ventures	Various	Various	233 7	233 7	230 1	230 1
Euro-commercial paper	Various	2009	-	-	56 2	56 2
Other borrowings						
Amounts owed to ultimate parent undertaking	GBP	2010	63 5	63 5	65 1	65 1
Bank overdrafts	GBP	2010	45 5	45 5	86 8	86 8
			5,152 8	5,537 4	4,910 2	5,725 0

Borrowings are unsecured Funding raised in currencies other than sterling is generally swapped to sterling to match funding costs to income and assets Abbreviations used in the above table are defined on page 74

Notes to the financial statements (continued)

17. Borrowings (contmued)

The followmg analysis provides information about the contractual terms of the company's borrowmgs

Company	2010 £m	2009 £m
Non-current liabilities		
Bonds	686 6	759 2
	686 6	759 2
Current liabilities		
Bonds	-	7 0
Bank and other term borrowings	53 3	99 1
Bank overdraft	17 8	1 6
Euro-commercial paper	-	18 5
Amounts owed to subsidiary undertakings	763 7	698 8
Amounts owed to ultimate parent undertaking	63 5	65 1
	898 3	890 1
	1,584 9	1,649 3

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

Company	Currency	Year of maturity	Fair value 2010 £m	Carrying value 2010 £m	Fair value 2009 £m	Carrying value 2009 £m
Borrowings in fair value hedge relationships						
5 375% 350m bond	USD	2019	230 5	250 1	218 0	285 1
4 55% 250m bond	USD	2018	157 9	169 6	150 2	191 5
Borrowings measured at amortised cost						
Amounts owed to subsidiary undertakings	GBP	2010	763 7	763 7	698 8	698 8
Amounts owed to ultimate parent undertaking	GBP	2010	63 5	63 5	65 1	65 1
Short-term bank borrowings – fixed	GBP	2010	53 3	53 3	84 1	84 1
0 24%+LIBOR (floating) 6 5m bond	GBP	2013	6 5	6 5	6 5	6 3
Committed facilities – drawn	GBP	2009	-	-	15 0	15 0
6 875% 400m bond	USD	2028	266 8	260 4	259 7	276 3
0 365%+LIBOR (floating) 10m bond	USD	2009	-	-	7 0	7 0
Euro-commercial paper	Various	2009	-	-	18 5	18 5
Other borrowings						
Bank overdrafts	GBP	2010	17 8	17 8	1 6	1 6
			1,560 0	1,584 9	1,524 5	1,649 3

Borrowings are unsecured

Notes
Currency

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

Index-linked debt

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

Notes to the financial statements (continued)

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, market risk and capital risk Market risk includes interest rate, foreign exchange 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 materially 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)

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 statement of financial position At 31 March the maximum exposure to credit risk for the group and the company was as follows

			Group		Company
		Restated	Restated		
	2010	2009	2008	2010	2009
	£m	£m	£m	£m	£m
Cash and short-term deposits (see note 16)	301 5	298 6	1,810 5	239 3	100 8
Trade and other receivables (see note 15)	2,027 2	2,018 4	509 3	1,636 8	1,760 1
Investments (see note 13)	7 7	136 8	155 5	-	-
Derivative financial instruments	396 8	639 0	143 3	107 8	174 6
	2,733 2	3,092 8	2,618 6	1,983 9	2,035 5

Notes to the financial statements (continued)

18. Financial instruments (continued)

Included within trade and other receivables are amounts owed by the ultimate parent undertaking of £1,519 7 million (2009 £1,482 3 million)

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

The credit exposure on derivatives is disclosed gross of any collateral received from the respective counterparties As at 31 March 2010 the group held £53 3 million (2009 £84 1 million) as collateral in relation to swap contracts

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 monthly

At 31 March the headroom was as follows

	2010 £m	2009 £m
Group		
Cash and short-term deposits (see note 16)	301 5	298 6
Medium-term committed undrawn bank facilities	966 8	1,075 8
Short-term debt	(162 3)	(307 2)
Term debt maturing within one year	(67 2)	(177 7)
	1,038 8	889 5

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

Short-term debt includes £53 3 million (2009 £84 1 million) collateral liability pledged in relation to a particular swap contract

Medium-term committed bank facilities excludes £100 0 million (2009 £335 0 million) of facilities expiring within one year

The group and company had available committed borrowing facilities as follows

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Expiring within one year	100 0	350 0	75 0	300 0
Expiring after one year but in less than two years	525 0	300 0	400 0	125 0
Expiring after more than two years	520 0	895 0	270 0	620 0
Total borrowing facilities	1,145 0	1,545 0	745 0	1,045 0
Facilities drawn(1)	-	(55 0)	-	(15 0)
Offsetting bank guarantees	(78 2)	(79 2)	(78 2)	(79 2)
Undrawn borrowing facilities	1,066 8	1,410 8	666 8	950 8

Note

(1) For both the group and the company, £nil million of these were facilities expiring within one year (2009 £15 million) and £nil million were facilities expiring after more than two years (2009 £40 million for the group, £nil for the company)

Notes to the financial statements (continued)

18. Financial instruments (continued)

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

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	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
At 31 March 2010								
Bonds	10,193 9		167 1	167 9	175 2	191 8	170 0	9,321 9
Bank and other term borrowings	1,872 3		203 4	89 3	196 3	41 9	37 7	1,303 7
Amounts owed to ultimate parent undertaking	63 5		63 5	-	-	-	-	-
Adjustment to carrying value[2]	(6,592 3)	(6,592 3)						
Financial liabilities excluding derivatives	5,537 4	(6,592 3)	434 0	257 2	371 5	233 7	207 7	10,625 6
Derivatives								
Payable	1,252 5		156 9	74 8	68 6	82 3	57 0	812 9
Receivable	(1,577 3)		(139 9)	(99 5)	(93 2)	(142 1)	(88 3)	(1,014 3)
Adjustment to carrying value[2]	56 1	56 1						
Derivatives – net assets	(268 7)	56 1	17 0	(24 7)	(24 6)	(59 8)	(31 3)	(201 4)

	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
At 31 March 2009								
Bonds	10,221 6		323 1	158 7	159 6	167 0	183 8	9,229 4
Bank and other term borrowings	2,123 1		315 9	82 8	84 1	188 0	29 4	1,422 9
Amounts owed to ultimate parent undertaking	65 1		65 1	-	-	-	-	-
Adjustment to carrying value[2]	(6,684 8)	(6,684 8)						
Financial liabilities excluding derivatives	5,725 0	(6,684 8)	704 1	241 5	243 7	355 0	213 2	10,652 3
Derivatives								
Payable	1,016 6		237 6	115 8	95 5	97 0	65 4	405 3
Receivable	(1,653 5)		(395 6)	(130 5)	(113 5)	(137 8)	(191 8)	(684 3)
Adjustment to carrying value[2]	151 0	151 0						
Derivatives – net assets	(485 9)	151 0	(158 0)	(14 7)	(18 0)	(40 8)	(126 4)	(279 0)

Notes to the financial statements (continued)

18. Financial instruments (continued)

Maturity analysis (continued)

Company	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
At 31 March 2010								
Bonds	1,145 1		38 1	38 2	44 7	37 8	37 7	948 6
Bank and other term borrowings	71 1		71 1	-	-	-	-	-
Amounts owed to ultimate parent undertaking	63 5		63 5	-	-	-	-	-
Amounts owed to subsidiary undertakings	763 7		763 7	-	-	-	-	-
Adjustment to carrying value[2]	(458 5)	(458 5)						
Financial liabilities excluding derivatives	1,584 9	(458 5)	936 4	38 2	44 7	37 8	37 7	948 6
Derivatives								
Payable	292 6		24 4	6 3	9 7	10 4	9 3	232 5
Receivable	(416 7)		(39 9)	(19 9)	(19 9)	(51 5)	(12 3)	(273 2)
Adjustment to carrying value[2]	16 5	16 5						
Derivatives – net assets	(107 6)	16 5	(15 5)	(13 6)	(10 2)	(41 1)	(3 0)	(40 7)

	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
At 31 March 2009								
Bonds	1,367 1		47 5	40 4	40 6	47 2	40 4	1,151 0
Bank and other term borrowings	119 7		119 7	-	-	-	-	-
Amounts owed to ultimate parent undertaking	65 1		65 1	-	-	-	-	-
Amounts owed to subsidiary undertakings	698 8		698 8	-	-	-	-	-
Adjustment to carrying value[2]	(601 4)	(601 4)						
Financial liabilities excluding derivatives	1,649 3	(601 4)	931 1	40 4	40 6	47 2	40 4	1,151 0
Derivatives								
Payable	328 8		50 6	7 3	10 1	12 4	11 1	237 3
Receivable	(531 4)		(58 7)	(21 1)	(21 1)	(21 2)	(94 0)	(315 3)
Adjustment to carrying value[2]	34 6	34 6						
Derivatives – net assets	(168 0)	34 6	(8 1)	(13 8)	(11 0)	(8 8)	(82 9)	(78 0)

Notes

(1) Forecast future cashflows are calculated, where applicable, utilising forward interest rates based upon the interest environment at year end and are, therefore, susceptible to changes in market conditions For index-linked debt it has been assumed that RPI will be 2 65 per cent over the life of each bond

(2) The carrying value of debt is calculated following various methods in accordance with IAS 39 'Financial Instruments Recognition and Measurement' and, therefore, this adjustment reconciles the undiscounted forecast future cashflows to the carrying value of debt in the statement of financial position

Notes to the financial statements (continued)

18. Financial instruments (continued)

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 results 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 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 its underlying assets and cashflows The regulated business earns an economic return on its regulatory capital value (RCV) asset, comprising a real return through revenues, determined by the real cost of capital fixed by the regulator for each five-year regulatory pricing period, and an inflation return as an uplift to its RCV

The preferred form of debt, therefore, is sterling index-linked debt which incurs fixed interest, in real terms, and forms a natural hedge of regulatory assets and cashflows

Where conventional long-term debt is raised in a fixed-rate form, to manage exposure to long-term interest rates, the debt is generally swapped at inception to create a floating rate liability for the term of the liability through the use of interest rate swaps

To manage the exposure to medium-term interest rates, the group fixes interest costs for a substantial proportion of the group's debt for the duration of each five-year regulatory pricing period at around the time of that price control determination

Sensitivity analysis
As required by IFRS 7 'Financial Instruments Disclosures', the sensitivity analysis has been prepared on the basis of the amount of net debt and the interest rate hedge positions in place as at 31 March 2010 and 31 March 2009, respectively As a result, this analysis relates to the position at the reporting date and is not indicative of the years then ended, as these factors would have varied throughout the year

The following assumptions were made in calculating the interest sensitivity analysis

- all fair value hedge relationships, including associated swaps classified as held for trading, are fully effective and therefore there is no sensitivity in the statement of financial position to interest rates with regard to these designated debt and swaps instruments,
- all borrowings designated at fair value through profit or loss are effectively hedged by associated swaps and therefore there is no sensitivity in the statement of financial position to interest rates (excluding the effect of accrued interest) with regard to the associated debt and swap instruments,
- the main sensitivity in the statement of financial position 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 12-month impact on interest,

Notes to the financial statements (continued)

18. Financial instruments (continued)

- the standard requires that a change in the relevant risk variable be applied to the risk exposures in existence at the reporting date, therefore deposits at the reporting 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 statement of financial position is not exposed to movements in interest rates It is assumed that inflation is held constant,
- 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 rates, and
- all other factors are held constant

		Group		Company
	2010	2009	2010	2009
	£m	£m	£m	£m
Impact on profit before taxation and equity				
100bp increase in interest rate	75 9	64 4	(9 8)	(8 2)
100bp decrease in interest rate	(80 9)	(67 6)	11 0	8 6

Brackets denote a reduction in profit

The exposure largely relates to the fair value exposure on the group's fixed rate financing Management assesses the net interest exposure and determines whether to mitigate this risk further by entering into financial futures contracts At 31 March 2010 and 31 March 2009, the group had no financial futures contracts in place

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

Group At 31 March 2010	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
Borrowings in hedge relationships							
Fixed rate instruments	2,036 7	-	-	-	-	-	2,036 7
Effect of swaps	-	2,036 7	-	-	-	-	(2,036 7)
	2,036 7	2,036 7	-	-	-	-	-
Borrowings designated at fair value through the profit or loss							
Fixed rate instruments	287 6	-	-	-	20 8	-	266 8
Effect of swaps	-	287 6	-	-	(20 8)	-	(266 8)
	287 6	287 6	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	598 9	55 6	2 2	4 3	2 6	3 1	531 1
Floating rate instruments	488 0	488 0	-	-	-	-	-
Index-linked instruments	2,062 7	2,062 7	-	-	-	-	-
	3,149 6	2,606 3	2 2	4 3	2 6	3 1	531 1
Effect of a fixed hedge for the term of the regulatory period	-	(1,831 3)	-	-	-	1,381 3	450 0
Total external borrowings	5,473 9	3,099 3	2 2	4 3	2 6	1,384 4	981 1
Amounts owed to ultimate parent undertaking	63 5	63 5	-	-	-	-	-
Total borrowings	5,537 4	3,162 8	2 2	4 3	2 6	1,384 4	981 1
Cash and short-term deposits	(301 5)	(301 5)	-	-	-	-	-
Net borrowings	5,235 9	2,861 3	2 2	4 3	2 6	1,384 4	981 1

Notes to the financial statements (continued)

18. Financial instruments (continued)

Group	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2009							
Borrowings in hedge relationships							
Fixed rate instruments	2,197 3	153 2	-	-	-	-	2,044 1
Effect of swaps	-	2,044 1	-	-	-	-	(2,044 1)
	2,197 3	2,197 3	-	-	-	-	-
Borrowings designated at fair value through the profit or loss							
Fixed rate instruments	279 7	-	-	-	-	20 0	259 7
Effect of swaps	-	279 7	-	-	-	(20 0)	(259 7)
	279 7	279 7	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	695 4	195 7	0 8	0 6	2 7	0 9	494 7
Floating rate instruments	525 3	525 3	-	-	-	-	-
Index-linked instruments	1,962 2	1,962 2	-	-	-	-	-
	3,182 9	2,683 2	0 8	0 6	2 7	0 9	494 7
Effect of a fixed hedge for the term of the regulatory period	-	(1,475 5)	348 4	-	-	-	1,127 1
Total external borrowings	5,659 9	3,684 7	349 2	0 6	2 7	0 9	1,621 8
Amounts owed to ultimate parent undertaking	65 1	65 1	-	-	-	-	-
Total borrowings	5,725 0	3,749 8	349 2	0 6	2 7	0 9	1,621 8
Cash and short-term deposits	(298 6)	(298 6)	-	-	-	-	-
Net borrowings	5,426 4	3,451 2	349 2	0 6	2 7	0 9	1,621 8

Company	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2010							
Borrowings in hedge relationships							
Fixed rate instruments	419 7	-	-	-	-	-	419 7
Effect of swaps	-	419 7					(419 7)
	419 7	419 7					
Borrowings measured at amortised cost							
Fixed rate instruments	313 7	53 3	-	-	-	-	260 4
Floating rate instruments	24 3	24 3	-	-	-	-	-
	338 0	77 6	-	-	-	-	260 4
Total external borrowings	757 7	497 3	-	-	-	-	260 4
Amounts owed to subsidiary undertakings measured at amortised cost	763 7	763 7	-	-	-	-	-
Amounts owed to ultimate parent undertaking	63 5	63 5	-	-	-	-	-
Total borrowings	1,584 9	1,324 5	-	-	-	-	260 4
Cash and short-term deposits	(239 3)	(239 3)	-	-	-	-	-
Net borrowings	1,345 6	1,085 2	-	-	-	-	260 4

Notes to the financial statements (continued)

18. Financial instruments (continued)

Company	Total £m	1 year or less £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m
At 31 March 2009							
Borrowings in hedge relationships							
Fixed rate instruments	476 6	-	-	-	-	-	476 6
Effect of swaps	-	476 6	-	-	-	-	(476 6)
	476 6	476 6	-	-	-	-	-
Borrowings measured at amortised cost							
Fixed rate instruments	393 9	117 6	-	-	-	-	276 3
Floating rate instruments	14 9	14 9	-	-	-	-	-
	408 8	132 5	-	-	-	-	276 3
Total external borrowings	885 4	609 1	-	-	-	-	276 3
Amounts owed to subsidiary undertakings measured at amortised cost	698 8	698 8	-	-	-	-	-
Amounts owed to ultimate parent undertaking	65 1	65 1	-	-	-	-	-
Total borrowings	1,649 3	1,373 0	-	-	-	-	276 3
Cash and short-term deposits	(100 8)	(100 8)	-	-	-	-	-
Net borrowings	1,548 5	1,272 2	-	-	-	-	276 3

Currency risk

The group and company's assets are principally sterling denominated, however, the group and company have access to various international debt capital markets and raise foreign currency denominated debt Where debt is denominated in a currency which is not sterling, the group and company'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 and company have no material exposure to movements in exchange rates

Inflation risk

The group's index-linked borrowings and interest liabilities are exposed to a risk of change in 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

The carrying value of index-linked debt held by the group is as follows

	2010 £m	2009 £m
Index-linked debt	2,062 7	1,962 2

Notes to the financial statements (continued)

18. Financial instruments (continued)

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 2010 and 31 March 2009, respectively As a result, this analysis relates to the position at the reporting date and is not indicative of the years then ended, as these factors would have varied throughout the year The following table details the sensitivity of profit before taxation to changes in the RPI, excluding the hedging aspect of the group's regulatory assets, which are not financial assets as defined by IAS 32 'Financial Instruments Disclosure and Presentation'

Group	2010 £m	2009 £m
Impact on profit before taxation and equity		
One per cent increase in RPI	(21 1)	(20 0)
One per cent decrease in RPI	21 1	20 0

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 12-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 reporting 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 from Moody's Investors Services, which the group believes best mirrors the Water Services Regulation Authority's (Ofwat) assumptions in relation to capital structure The strategy of targeting a credit rating of A3 has been consistently maintained since 2007

One of Ofwat's primary duties is to ensure that water companies are able to finance their functions, in particular by securing a reasonable return on their capital Therefore, mirroring Ofwat's assumptions for credit ratings (and hence capital structure) should safeguard the group's ability to earn a reasonable return on its capital, securing access to finance at a reasonable cost and enabling the group to continue as a going concern in order to provide returns for shareholders and credit investors, and benefits for other stakeholders

In order to maintain a credit rating of A3 the group needs to manage its capital structure with reference to the ratings methodology and measures used by the relevant rating agencies The ratings methodology is normally based upon 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

Fair values

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

Notes to the financial statements (continued)

18. Financial instruments (continued)

Group	Carrying value 2010 £m	Fair value 2010 £m	Restated Carrying value 2009 £m	Restated Fair value 2009 £m	Restated Carrying value 2008 £m	Restated Fair value 2008 £m
Financial assets						
Non-current assets						
Available for sale investments	6 9	6 9	136 8	136 8	155 5	155 5
Loans and receivables						
Investments	0 8	0 8	-	-	-	-
Trade and other receivables	56 5	56 5	44 2	44 2	53 1	53 1
Derivative financial instruments						
Fair value hedge derivatives – swaps	293 8	293 8	244 8	244 8	44 3	44 3
Held for trading derivatives – swaps(3)	84 7	84 7	200 9	200 9	25 7	25 7
Current assets						
Loans and receivables						
Trade and other receivables	1,970 7	1,970 7	1,974 2	1,974 2	456 2	456 2
Cash and short-term deposits	301 5	301 5	298 6	298 7	1,810 5	1,814 1
Derivative financial instruments						
Fair value hedge derivatives – swaps	-	-	169 9	169 9	-	-
Held for trading derivatives – swaps(3)	18 3	18 3	23 4	23 4	73 3	73 3
Financial liabilities						
Non-current liabilities						
Trade and other payables at amortised cost	(146 5)	(146 5)	(139 8)	(139 8)	(125 5)	(125 5)
Borrowings						
Financial liabilities designated at fair value through profit or loss	(287 6)	(287 6)	(279 7)	(279 7)	(223 1)	(223 1)
Financial liabilities in hedged relationships						
Fair value hedge	(2,036 7)	(1,941 2)	(2,044 1)	(1,754 6)	(1,534 8)	(1,437 6)
Other financial liabilities	(2,983 6)	(2,694 5)	(2,876 3)	(2,350 1)	(2,031 0)	(1,785 0)
	(5,307 9)	(4,923 3)	(5,200 1)	(4,384 4)	(3,788 9)	(3,445 7)
Derivative financial instruments						
Fair value hedge derivatives - swaps	(5 0)	(5 0)	(1 3)	(1 3)	(22 3)	(22 3)
Held for trading derivatives – swaps(3)	(97 3)	(97 3)	(89 5)	(89 5)	(20 0)	(20 0)
Current liabilities						
Trade and other payables at amortised cost	(596 1)	(596 1)	(673 7)	(673 7)	(771 9)	(771 9)
Borrowings						
Financial liabilities in hedge relationships						
Fair value hedge	-	-	(153 2)	(154 1)	(725 0)	(738 9)
Other financial liabilities	(229 5)	(229 5)	(371 7)	(371 7)	(153 4)	(153 6)
	(229 5)	(229 5)	(524 9)	(525 8)	(878 4)	(892 5)
Derivative financial instruments						
Fair value hedge derivatives – swaps	-	-	-	-	(82 9)	(82 9)
Held for trading derivatives – swaps(3)	(25 8)	(25 8)	(62 3)	(62 3)	(64 7)	(64 7)
Adjustment for accrued interest(1)(2)	-	40 8	-	41 5	-	34 7
	(3,674 9)	(3,249 5)	(3,598 8)	(2,742 4)	(3,136 0)	(2,768 6)

Notes

(1) The fair values quoted include £nil million interest receivable (2009 £nil, 2008 £2 8 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

(2) Fair values quoted include accrued interest of £40 8 million (2009 £41 5 million, 2008 £37 5 million) in respect of the associated borrowings This accrued interest is also included in the fair value of trade and other payables The impact on the total fair value of financial instruments has been removed in the adjustment for accrued interest

(3) Derivatives forming an economic hedge of the currency exposure on borrowings included in these balances were £100 3 million (2009 £182 8 million, 2008 £59 5 million)

Notes to the financial statements (continued)

18. Financial instruments (continued)

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 51 In determining fair values, assumptions are made with regard to credit spreads based upon indicative pricing data

In respect of the total change during the year in the fair value of financial liabilities designated as at fair value through profit or loss for continuing operations of £7 9 million loss (2009 £56 6 million loss), £48 2 million loss (2009 £76 6 million gain) is attributable to changes in credit risk The cumulative impact of changes in credit spread was £59 0 million profit (2009 £107 2 million profit) The difference between the carrying amount and the amount contracted to settle on maturity was a carrying amount increase of £63 4 million (2009 a carrying amount increase of £55 5 million)

Company	Carrying value 2010 £m	Fair value 2010 £m	Carrying value 2009 £m	Fair value 2009 £m
Financial assets				
Non-current assets				
Derivative financial instruments				
Fair value hedge derivatives – swaps	107 8	107 8	172 8	172 8
Current assets				
Loans and receivables	1,636 8	1,636 8	1,760 1	1,760 1
Cash and short-term deposits	239 3	239 3	100 8	100 8
Derivative financial instruments				
Held for trading derivatives - swaps	-	-	1 8	1 8
Financial liabilities				
Non-current liabilities				
Borrowings				
Financial liabilities in hedged relationships				
Fair value hedge	(419 7)	(388 4)	(476 6)	(368 2)
Other financial liabilities	(266 9)	(273 3)	(282 6)	(266 2)
	(686 6)	(661 7)	(759 2)	(634 4)
Current liabilities				
Trade and other payables at amortised cost	(1,683 9)	(1,683 9)	(6,276 6)	(6,276 6)
Borrowings				
Other financial liabilities	(898 3)	(898 3)	(890 1)	(890 1)
Derivative financial instruments				
Held for trading derivatives - swaps	(0 2)	(0 2)	(6 6)	(6 6)
Adjustment for accrued interest[1]	-	6 5	-	7 0
	(1,285 1)	(1,253 7)	(5,897 0)	(5,765 2)

Notes

(1) The fair value quoted includes £nil million interest receivable (2009 £nil) 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

(2) Fair values quoted include accrued interest of £6 5 million (2009 £7 0 million) in respect of the associated borrowings This accrued interest is also included in the fair value of trade and other payables The impact on the total fair value of financial instruments has been removed in the adjustment for accrued interest

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i e as prices) or indirectly (i e derived from prices), and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based upon observable market data (unobservable)

Notes to the financial statements (continued)

18. Financial instruments (continued)

Group 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available for sale financial assets				
Investments	-	6 9	-	6 9
Financial assets at fair value through profit or loss				
Derivative financial assets	-	396 8	-	396 8
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(128 1)	-	(128 1)
Financial liabilities designated as fair value through profit or loss	-	(287 6)	-	(287 6)
	-	(12 0)	-	(12 0)

Company 2010	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets at fair value through profit or loss				
Derivative financial assets	-	107 8	-	107 8
Financial liabilities at fair value through profit or loss				
Derivative financial liabilities	-	(0 2)	-	(0 2)
	-	107 6	-	107 6

There were no transfers between level 1 and 2 during the year No comparatives are required in the first year of adoption of the amendments to IFRS 7

19. Retirement benefit obligations

Defined benefit schemes

The group participates in a number of pension schemes principally in the United Kingdom The three major schemes are funded defined benefit schemes – the United Utilities Pension Scheme (UUPS), the United Utilities Group PLC section of the Electricity Supply Pension Scheme (ESPS) and the Northern Gas Networks Pension Scheme (NGNPS), all of which are closed to new employees The assets of these schemes are held in trust funds independent of the group's finances

The last actuarial valuation of UUPS was carried out as at 30 September 2008, ESPS was carried out as at 31 March 2008 and NGNPS was carried out as at 31 December 2008 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 2010 by projecting forward from the dates of the respective valuations, and have been performed by an independent actuary, Mercer Limited

On 31 March 2005, the group made lump-sum payments of £216 0 million and £103 5 million to UUPS and ESPS respectively The payments were in lieu of the estimated company contributions that were expected to have been payable for defined benefit members over the five years from 1 April 2005 Whilst some company contributions to UUPS and ESPS resumed in respect of the defined benefit members during 2008/09, significant elements of the company contribution holiday following the lump sum payments continued during the year ended 31 March 2010 The group made total contributions of £44 1 million (2009 £45 4 million) to its pension schemes for the year ended 31 March 2010 The group also operates a series of unfunded, unregistered retirement benefit schemes The cost of the unfunded, unregistered retirement benefit schemes is included in the total pension cost, on a basis consistent with IAS 19 'Employee Benefits' and the assumptions set out below The company made total contributions of £5 2 million (2009 £16 7 million) to its pension schemes for the year ended 31 March 2010

Notes to the financial statements (continued)

19. Retirement benefit obligations (contmued)

The group also contmues to pay contributions in respect of NGNPS, the defined contribution members and insurance premiums Other payments will be made by the company in accordance with the funding agreements between the trustees and United Utilities Group PLC Overall, the group expects to contribute around £106 5 million and the company expects to contribute around £5 7 million to the defined benefit schemes in the year ending 31 March 2011

The group's total defined benefit pension income for the year was £23 1 million (2009 £33 0 million expense), including pension income credited to operating profit of £46 3 million (2009 £39 8 million expense) which reflects curtailment gains arising on amendment of pension obligations of £92 3 million (2009 £nil) A group pension obligation of £271 3 million is included in the statement of financial position at 31 March 2010 (2009 £213 1 million) The company's total defined benefit pension income for the year was £0 7 million (2009 £0 4 million expense), including pension income credited to operating profit of £3 8 million (2009 £1 9 million expense) which reflects curtailment gains arising on amendment of pension obligations of £5 4 million (2009 £nil) A company pension obligation of £32 4 million is included in the statement of financial position at 31 March 2010 (2009 £19 7 million) Information about the pension arrangements for executive directors is contained in note 3

The credit of £92 3 million offsetting the pension expense for the year ended 31 March 2010 has arisen as a result of the amendment of pensions obligations (see pensions information in the business review on page 13) These include the introduction of a restriction on the rate of increase in pensionable pay for defined benefit members of the UUPS and the ESPS This restriction took effect on 31 March 2010 Changes to the benefits accruing after 31 March 2010 for the defined benefit members of the UUPS have also been implemented The impact of these changes will be reflected in the current service cost element of the pension expense for 2010/11

The main financial assumptions used by the actuary were as follows

	2010 %	2009 %
Group and Company		
Discount rate – UUPS	5 70	7 00
Discount rate – ESPS	5 70	7 00
Discount rate – NGNPS	5 70	6 90
Expected return on assets – UUPS	6 20	6 60
Expected return on assets – ESPS	6 30	6 20
Expected return on assets – NGNPS	6 10	5 90
Pensionable salary growth – UUPS	3 30	4 15
Pensionable salary growth – ESPS	3 30	4 20
Pensionable salary growth – NGNPS	4 30	4 20
Pension increases	3 30	3 20
Price inflation	3 30	3 20

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

	2010 years	2009 years
Group and Company		
Retired member	24 9	24 9
Non-retired member	26 0	26 0

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

Notes to the financial statements (continued)

19. Retirement benefit obligations (continued)

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

	Schemes' assets %	2010 £m	Schemes' assets %	2009 £m
Group				
Equities	48 1	917 8	55 0	815 4
Gilts	8 8	168 4	10 2	152 1
Bonds	42 1	805 0	33 7	500 7
Property	0 8	15 6	0 7	9 8
Cash	0 2	4 1	0 4	5 8
Total fair value of schemes' assets	100 0	1,910 9	100 0	1,483 8
Present value of defined benefit obligations		(2,182 2)		(1,696 9)
Net retirement benefit obligations		(271 3)		(213 1)

	Schemes' assets %	2010 £m	Schemes' assets %	2009 £m
Company				
Equities	51 3	184 9	55 5	157 4
Gilts	10 0	36 1	13 2	37 5
Bonds	38 6	139 2	30 9	87 5
Property	-	-	0 2	0 5
Cash	0 1	0 4	0 2	0 6
Total fair value of schemes' assets	100 0	360 6	100 0	283 5
Present value of defined benefit obligations		(393 0)		(303 2)
Net retirement benefit obligations		(32 4)		(19 7)

To develop the expected long-term rate of return on asset assumptions, the group considered the current level of expected returns on risk-free investments, the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class The expected return for each asset class was then weighted based upon the actual asset allocation to develop the expected long-term rate of return on asset assumptions for the portfolio The group's actual return on schemes' assets was a gain of £459 3 million (2009 £372 1 million loss) and the company's actual return on the schemes' assets was a gain of £87 9 million (2009 £67 9 million loss)

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
At 1 April	(1,696 9)	(1,964 4)	(303 2)	(361 4)
Interest cost on schemes' obligations	(117 3)	(117 5)	(20 7)	(21 6)
Actuarial (losses)/gains	(490 6)	372 1	(88 9)	70 4
Curtailments/settlements				
arising on reorganisation	(17 2)	-	(0 7)	-
arising on amendment of pension obligations	92 3	-	5 4	-
Member contributions	(8 8)	(9 2)	(0 3)	(0 4)
Benefits paid	85 1	61 9	16 3	11 7
Current service cost	(26 0)	(36 7)	(0 7)	(1 9)
Past service cost	(2 8)	(3 1)	(0 2)	-
At 31 March	(2,182 2)	(1,696 9)	(393 0)	(303 2)

Notes to the financial statements (continued)

19. Retirement benefit obligations (contmued)

At 31 March 2010, £7 2 milhon (2009 £5 9 milhon) of the group's defined benefit obligations related to unfunded, unregistered benefit plans, and £7 2 milhon (2009 £5 9 milhon) of the company's defined benefit obligations related to unfunded, unregistered benefit plans

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
At 1 April	1,483 8	1,863 2	283 5	346 0
Expected return on schemes' assets	94 1	124 3	17 6	23 1
Actuarial gains/(losses)	365 2	(496 4)	70 3	(91 0)
Member contributions	8 8	9 2	0 3	0 4
Benefits paid	(85 1)	(61 9)	(16 3)	(11 7)
Company contributions	44 1	45 4	5 2	16 7
At 31 March	1,910 9	1,483 8	360 6	283 5

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

	Group 2010 £m	Group 2009 £m	Company 2010 £m	Company 2009 £m
Group				
Current service cost	(26 0)	(36 7)	(0 7)	(1 9)
Curtailments/settlements				
arising on reorganisation	(17 2)	-	(0 7)	-
arising on amendment of pension obligations	92 3	-	5 4	-
Past service cost	(2 8)	(3 1)	(0 2)	-
Pension income/(expense) credited/(charged) to operating profit (see note 3)	46 3	(39 8)	3 8	(1 9)
Expected return on schemes' assets	94 1	124 3	17 6	23 1
Interest on schemes' obligations	(117 3)	(117 5)	(20 7)	(21 6)
Pension (expense)/income (charged)/credited to investment income and finance expense (see notes 6 and 5)	(23 2)	6 8	(3 1)	1 5
Net pension income/(expense) credited/ (charged) before taxation	23 1	(33 0)	0 7	(0 4)

Group defined benefit pension costs excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs included within employee benefit expense of £28 8 million (2009 £39 8 million) comprise current service costs and past service costs Total group post-employment benefits expense excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs charged to operating profit of £50 7 million (2009 £60 4 million) comprise the defined benefit costs described above of £28 8 million (2009 £39 8 million) and defined contribution pension costs of £21 9 million (2009 £20 6 million)

Company defined benefit pension costs excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs included within employee benefit expense of £0 9 million (2009 £1 9 million) comprise current service costs and past service costs Total company post-employment benefits expense excluding pension schemes curtailment gains arising on amendment of pension obligations and restructuring costs charged to operating profit of £3 2 million (2009 £4 1 million) comprise the defined benefit costs described above of £0 9 million (2009 £1 9 million) and defined contribution pension costs of £2 3 million (2009 £2 2 million)

Notes to the financial statements (continued)

19. Retırement benefit oblıgatıons (continued)

Curtaılments arısıng on reorganısatıon of £17 2 mıllıon (2009 £nıl) for the group and £0 7 mıllıon (2009 £nıl) for the company are ıncluded wıthın restructurıng costs wıthın total employee benefits expense

The reconcılıatıon of the openıng and closıng statement of financıal posıtıon balances ıs as follows

	Group		Company	
	2010	2009	2010	2009
	£m	£m	£m	£m
At 1 Aprıl	(213 1)	(101 2)	(19 7)	(15 4)
Income/(expenses) recognısed ın the ıncome statement	23 1	(33 0)	0 7	(0 4)
Contrıbutıons paıd	44 1	45 4	5 2	16 7
Actuarıal losses gross of taxatıon	(125 4)	(124 3)	(18 6)	(20 6)
At 31 March	(271 3)	(213 1)	(32 4)	(19 7)

Actuarıal gaıns and losses are recognısed dırectly ın the statement of comprehensıve ıncome At 31 March 2010, a cumulatıve pre-tax loss of £220 5 mıllıon (2009 £95 1 mıllıon) for the group, and a cumulatıve loss of £86 8 mıllıon (2009 £68 2 mıllıon) for the company had been recorded dırectly ın the statement of comprehensıve ıncome

The hıstory of the schemes for the current and prıor years ıs as follows

	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Group					
Present value of defined benefit oblıgatıons	(2,182 2)	(1,696 9)	(1,964 4)	(2,835 3)	(2,721 0)
Faır value of schemes' assets	1,910 9	1,483 8	1,863 2	2,896 6	2,740 3
Net retırement benefit (oblıgatıons)/surplus	(271 3)	(213 1)	(101 2)	61 3	19 3
Experıence adjustments on schemes' lıabılıtıes	1 8	(8 9)	23 8	92 6	-
Experıence adjustments on schemes' assets	365 2	(496 4)	(239 9)	(43 3)	397 2

	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Company					
Present value of defined benefit oblıgatıons	(393 0)	(303 2)	(361 4)	(388 8)	(120 2)
Faır value of schemes' assets	360 6	283 5	346 0	398 9	119 0
Net retırement benefit (oblıgatıons)/surplus	(32 4)	(19 7)	(15 4)	10 1	(1 2)
Experıence adjustments on schemes' lıabılıtıes	-	2 0	16 4	13 3	-
Experıence adjustments on schemes' assets	70 3	(91 0)	(68 6)	(1 1)	16 4

At 31 March 2010, gross pensıon lıabılıtıes ın respect of retırement benefit oblıgatıons for NGNPS were £233 5 mıllıon (2009 £171 7 mıllıon) Gross pensıon assets ın respect of NGNPS at 31 March 2010 were £225 8 mıllıon (2009 £169 7 mıllıon) The group recorded a related deferred tax asset at 31 March 2010 of £2 2 mıllıon (2009 £0 6 mıllıon) The dırectors consıder that the group should apply defined benefit accountıng ın respect of the scheme However, the group does not have the responsıbılıty to fund the net pensıon deficıt and has reflected thıs by the recognıtıon of an avaılable for sale financıal asset wıthın ınvestments of £5 5 mıllıon at 31 March 2010 (2009 £1 4 mıllıon)

Notes to the financial statements (continued)

19. Retirement benefit obligations (continued)

Defined contribution pension costs

The schemes also include a defined contribution section which constitutes around two per cent of the total asset value

During the year, the group made £9 9 million (2009 £7 0 million) of contributions to defined contribution schemes, which are included in arriving at operating profit from continuing operations The company made £2 3 million (2009 £2 2 million) of contributions to defined contribution schemes

Various companies in the United Kingdom electricity industry participate in the Electricity Supply Pension Scheme (ESPS), which is an industry-wide defined benefit scheme The United Utilities Electricity Services Limited (UUES) section of the Electricity North West Limited (ENW) Group of the scheme was created in December 2007 to accommodate the transfer of employees from ENW (formerly United Utilities Electricity Limited) to UUES At that date, the UUES section of the scheme was fully funded The group makes cash contributions over the period of the Asset Services Agreement (ASA) between UUES and ENW, which are fully recoverable from ENW under the terms of the ASA There is no obligation brought forward, or carried forward, for which the group is responsible 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 2010, gross pension liabilities in respect of retirement benefit obligations for the UUES section of the ESPS were £224 6 million (2009 £157 3 million) Gross pension assets in respect of the UUES section of the ESPS, at 31 March 2010, were £214 1 million (2009 £149 4 million) £12 0 million of cash contributions have been made to the UUES section of the ESPS during the year ended 31 March 2010 (2009 £13 6 million), these costs being charged to operating profit as defined contribution pension costs Therefore, in total, the group incurred defined contribution pension costs of £21 9 million (2009 £20 6 million) (see note 3)

20. Deferred tax liabilities

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

				Group	Company
	Accelerated tax depreciation £m	Retirement benefit obligations £m	Other £m	Total £m	Total £m
At 1 April 2008 as previously reported	1,213 8	(28 3)	(21 5)	1,164 0	(4 8)
Adjustment for service concession taxation (see note 32)	2 6	-	-	2 6	-
At 1 April 2008 restated	1,216 4	(28 3)	(21 5)	1,166 6	(4 8)
Abolition of industrial buildings allowances (see note 7)	206 4	-	-	206 4	-
Charged/(credited) to the income statement	35 2	3 4	(35 1)	3 5	2 7
Credited to equity	-	(34 8)	(0 4)	(35 2)	(5 8)
At 31 March 2009 restated	1,458 0	(59 7)	(57 0)	1,341 3	(7 9)
Charged to the income statement	3 7	18 8	26 2	48 7	3 2
(Credited)/charged to equity	-	(35 1)	0 5	(34 6)	(5 2)
At 31 March 2010	1,461 7	(76 0)	(30 3)	1,355 4	(9 9)

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

Notes to the financial statements (continued)

21. Provisıons

	Group			Company		
	Restructurıng £m	Other £m	Total £m	Restructurıng £m	Other £m	Total £m
At 1 Aprıl 2008	12 3	27 4	39 7	-	12 9	12 9
Reclassıfied ın the year	-	-	-	-	(8 5)	(8 5)
Charged/(credıted) to the ıncome statement	7 2	5 5	12 7	-	(0 5)	(0 5)
Utılısed ın the year	(8 1)	(4 5)	(12 6)	-	(1 4)	(1 4)
At 31 March 2009	11 4	28 4	39 8	-	2 5	2 5
Charged to the ıncome statement	30 7	18 6	49 3	9 3	-	9 3
Utılısed ın the year	(23 5)	(11 8)	(35 3)	(4 0)	-	(4 0)
At 31 March 2010	18 6	35 2	53 8	5 3	2 5	7 8

The restructurıng provısıon at 31 March 2010 relates to severance costs as a result of varıous group reorganısatıons (see note 3) Other provısıons prıncıpally relate to contractual and legal claıms agaınst the group and represent management's best estımate of the value of settlement and costs It ıs estımated that these claıms wıll be settled ın less than one year

Provısıons have been analysed between current and non-current as follows

	Group			Company		
	Restructurıng £m	Other £m	Total £m	Restructurıng £m	Other £m	Total £m
At 31 March 2010						
Non-current	-	8 3	8 3	-	-	-
Current	18 6	26 9	45 5	5 3	2 5	7 8
	18 6	35 2	53 8	5 3	2 5	7 8
At 31 March 2009						
Non-current	-	17 2	17 2	-	-	-
Current	11 4	11 2	22 6	-	2 5	2 5
	11 4	28 4	39 8	-	2 5	2 5

22. Trade and other payables

	Group	
	2010 £m	2009 £m
Non-current		
Deferred grants and contrıbutıons	139 3	136 0
Other credıtors	7 2	3 8
	146 5	139 8

The company has no non-current trade and other payables

Notes to the financial statements (continued)

22. Trade and other payables (continued)

	Group		Company	
				Re-presented
	2010 £m	2009 £m	2010 £m	2009 £m
Current				
Trade payables	67 6	86 6	2 4	1 1
Amounts owed to ultimate parent undertaking	2 1	1 3	-	0 6
Amounts owed to subsidiary undertakings				
Group tax relief payable	-	-	19 0	98 9
Other	-	-	1,630 4	6,143 6
Amounts owed to related parties (see note 27)	0 9	1 9	-	-
Other tax and social security	7 6	7 7	1 0	0 9
Deferred grants and contributions	6 5	6 3	-	-
Other creditors	3 0	3 1	3 0	3 1
Accruals and deferred income	508 4	566 8	28 1	28 4
	596 1	673 7	1,683 9	6,276 6

The average credit period taken for trade purchases is 34 days for the group (2009 34 days) and is 17 days (2009 9 days) for the company

The directors consider that the carrying amount of trade payables approximates to their fair value at both 31 March 2010 and 31 March 2009 The amounts owed to subsidiary undertakings for the year ended 31 March 2009 have been re-presented to better reflect the nature of the balance

Deferred grants and contributions

	2010 £m	2009 £m
Group		
At 1 April	142 3	122 1
Received in the year	10 2	26 6
Credited to the income statement	(6 7)	(6 4)
At 31 March	145 8	142 3

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

	2010 £m	Restated 2009 £m	Restated 2008 £m
Group			
Share capital	881 8	881 8	881 6
Share premium account	1,430 0	1,430 0	1,429 3
Revaluation reserve	158 8	158 8	158 8
Treasury shares (1)	-	-	(0 3)
Cumulative exchange reserve	22 3	15 9	7 6
Other reserves	3 8	36 6	58 1
Retained earnings	451 9	346 9	678 1
	2,948 6	2,870 0	3,213 2

Note·

(1) On 28 July 2008, a new statutory holding company structure became effective by way of a share exchange between the shareholders of United Utilities PLC and United Utilities Group PLC and the listed parent company became United Utilities Group PLC At that time all existing share option schemes and previous awards made by the United Utilities PLC schemes were transferred to the new listed parent company, and therefore United Utilities PLC has transferred £0 3 million to other debtors

	2010 £m	2009 £m
Company		
Share capital	881 8	881 8
Share premium account	1,430 0	1,430 0
Retained earnings	2,534 2	3,258 6
	4,846 0	5,570 4

Notes to the financial statements (continued)

23. Shareholders' equity (continued)

On 28 July 2008 a new statutory holding company structure became effective by way of a share exchange between the shareholders of United Utilities PLC and United Utilities Group PLC and the listed parent company became United Utilities Group PLC At this time all existing share option schemes and previous awards made by the United Utilities PLC schemes were transferred to United Utilities Group PLC Consequently, nil ordinary shares were allotted during the year ended 31 March 2010 (2009 166,288 ordinary shares) for the exercise of options in accordance with the rules of the employee ShareSave scheme and the executive share option scheme for a total consideration of £nil million (2009 £0 9 million)

As permitted by section 408 of the Companies Act 2006, the company has not presented its own income statement The amount of group loss for the financial year dealt with in the company's income statement is £479 8 million loss (2009 £813 8 million profit) after accounting for dividends received from subsidiary undertakings of £6,365 6 million (2009 £931 3 million) and impairment of investments of £6,821 1 million (2009 £nil)

24. Share capital

Company	2010 number	2010 £	2009 number	2009 £
Authorised				
Ordinary shares of 100 0 pence each	1,299,999,999	1,299,999,999	1,299,999,999	1,299,999,999
Deferred A shares of 100 0 pence each	1	1	1	1
	1,300,000,000	1,300,000,000	1,300,000,000	1,300,000,000
Issued, called up and fully paid				
Ordinary shares of 100 0 pence each	881,787,478	881,787,478	881,787,478	881,787,478
Deferred A shares of 100 0 pence each	1	1	1	1
	881,787,479	881,787,479	881,787,479	881,787,479

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

25. Operating lease commitments

Group Commitments under non-cancellable operating leases due	2010 Property £m	2010 Plant and equipment £m	2009 Property £m	2009 Plant and equipment £m
Within one year	5 0	1 4	2 6	1 1
In the second to fifth years inclusive	10 5	1 5	7 9	1 7
After five years	247 5	0 1	230 1	-
	263 0	3 0	240 6	2 8

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

Company Commitments under non-cancellable operating leases due	2010 Property £m	2010 Plant and equipment £m	2009 Property £m	2009 Plant and equipment £m
Within one year	0 5	0 1	-	-
In the second to fifth years inclusive	1 1	-	-	-
	1 6	0 1	-	-

Notes to the financial statements (continued)

26. Share-based payments

On 28 July 2008, a new statutory holding company structure became effective by way of a share exchange between the shareholders of United Utilities PLC and United Utilities Group PLC and the listed parent company became United Utilities Group PLC (UUG) At that time all existing share option schemes and previous awards made by the United Utilities PLC schemes were transferred to the new listed parent company From this point, all awards made by the group's schemes are in UUG shares

Up to 28 July 2008, the company operated several share option schemes From 28 July 2008, the operation of these schemes transferred to UUG However, the company continues to participate in these share option schemes Options are exercisable at a price equal to the average quoted market price of UUG's shares on the date of grant Options are forfeited if the employee leaves the group through resignation or dismissal before the options vest

Cash-settled and equity-settled share-based payments are measured at fair value at the date of grant The fair value determined at the date of grant of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based upon the group's estimate of shares that will eventually vest

Fair value is measured by use of both simulation and binomial models according to the relevant measures of performance The models include adjustments, based upon management's best estimate, for the effects of exercise restrictions, behavioural considerations and expected dividend payments The option life is derived from the models based upon these assumptions and other assumptions identified below

The total expense included within operating profit from continuing operations in respect of equity-settled share-based payments was £2 4 million (2009 £1 9 million) and £nil (2009 £nil) in respect of cash-settled share-based payments, plus £0 3 million accrual of national insurance contributions (2009 £0 2 million)

The United Utilities Employee Share Trust was established by a trust deed executed on 21 August 1996 The Trustees hold the trust fund for the benefit of the beneficiaries (being employees or former employees of the group's companies and their relatives) to the extent determined by the rules of the share schemes As at 31 March 2010, the Trust held 41,418 (2009 41,418) 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 10 years from the date of grant

Employee ShareSave scheme

The employee ShareSave scheme was available to all eligible employees and was based on Save As You Earn (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 The latest grant under the ShareSave scheme was made in the year ended 31 March 2004 No further grants have been made under this scheme

Performance share plan

The performance share plan (PSP) is for senior executives of the group Options under the PSP are exercisable no earlier than three years from the 31 March preceding the date of grant and have an exercise period of three months PSP awards granted prior to 31 March 2008 are subject to a total shareholder return (TSR) performance condition (a market-based measure of performance) PSP awards granted during the

Notes to the financial statements (continued)

26. Share-based payments (continued)

year ended 31 March 2009 onwards are 50 per cent subject to a TSR performance condition (a market-based measure of performance), the remaining 50 per cent of the awards are subject to operational performance conditions

Matching share award plan
The matching share award plan (MSAP) is for senior executives of the group Options under this scheme are exercisable no earlier than three years from the 31 March preceding the date of grant and have an exercise period of three months MSAP awards are 50 per cent subject to a TSR performance condition (a market-based measure of performance), the remaining 50 per cent of the award is subject to operational performance conditions

Deferred share plan
The deferred share plan (DSP) is for the employees at the level below senior executive An annual award in deferred group shares is made on the basis of a maximum of 30 per cent of salary, apportioned according to the extent of the employee's achievement of the annual cash incentive plan maximum for the financial year A limited number of employees at the next level below senior executive may also be nominated to receive a one-off award of a fixed number of deferred group shares in recognition of exceptional performance during the year Shares are released after a three-year holding period and are conditional on continued employment with the group during this time These options may, at the group's discretion, be settled in cash DSP awards grant employees free shares with no performance conditions which are entitled to dividend equivalents, therefore the fair value of the award is equal to the market price of the share at the grant date (2010 weighted average fair value at date of award £5 41, 2009 £4 90)

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 2010, the group has recorded liabilities of £nil (2009 £nil) 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 charge of £nil (2009 £nil) during the year in respect of SARs At 31 March 2010, the total intrinsic value of the vested SARs was £nil (2009 £nil)

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

The following tables show the inputs to the model used to calculate the fair value of equity-settled share options granted during the years ended 31 March 2010 and 31 March 2009 respectively

	Matching share award plan TSR 50%	Matching share award plan Operational 50%	Performance share plan[1] TSR 50%	Performance share plan[1] Operational 50%
2010				
Weighted average exercise price (£ per share)	-	-	-	-
Vesting period (years)	2 8	2 8	2 8	2 8
Expected volatility (%)	26 8	-	26 8	-
Expected option life after adjustment for anticipated forfeiture (years)	2 8	2 8	2 8	2 8
Risk free rate (%)	2 4	-	2 4	-
Expected dividend yield (%)	-	-	-	-
Fair value (£ per share)	1 64	5 10	1 64	5 10

Notes
(1) Awarded in June 2009

Notes to the financial statements (continued)

26. Share-based payments (continued)

	Matching share award plan TSR 50%	Matching share award plan Operational 50%	Performance share plan(2) TSR 50%	Performance share plan(2) Operational 50%	Performance share plan(3) TSR 50%	Performance share plan(3) Operational 50%
2009						
Weighted average exercise price (£ per share)	-	-	-	-	-	-
Vesting period (years)	2 7	2 7	2 7	2 7	2 2	2 2
Expected volatility (%)	19 0	19 0	19 0	19 0	25 0	25 0
Expected option life after adjustment for anticipated forfeiture (years)	2 7	2 7	2 7	2 7	2 2	2 2
Risk free rate (%)	4 8	4 8	4 7	4 7	1 5	1 5
Expected dividend yield (%)	6 5	-	6 5	-	6 7	-
Fair value (£ per share)	2 47	6 97	2 39	6 89	2 36	5 41

Notes
(2) Awarded in August 2008
(3) Awarded in January 2009

No cash-settled share options were granted during the year (2009 £nil)

The expected volatility is based upon the historical volatility of the parent company's share price over the expected life of the option

The movement in total outstanding options in respect of grants of equity instruments after 7 November 2002 unvested as of 1 April 2004, and therefore within the scope of IFRS 2 'Share-based Payments', is provided below

	Company share option scheme 1999		Employee ShareSave scheme		Matching share award plan	Performance share plan	Deferred share plan	Cash-settled share-based payments
	Number of options	Weighted average exercise price £	Number of options	Weighted average exercise price £	Number of options	Number of options	Number of options	Number of SARs
Outstanding at 1 April 2008	144,491	5 44	57,861	4 23	108,236	1,903,505	-	92,201
Granted	-	-	-	-	147,945	270,739	229,775	-
Dividend reinvestment	-	-	-	-	16,677	83,085	4,316	2,408
Forfeited	(15,381)	-	(1,114)	-	-	(48,587)	-	-
Exercised	(20,579)	5 44	(52,017)	4 90	-	-	-	-
Expired	-	-	(4,730)	-	-	(1,625,408)	-	(94,609)
Outstanding at 31 March 2009	108,531	5 44	-	-	272,858	583,334	234,091	-
Granted	-	-	-	-	73,270	391,574	74,279	-
Dividend reinvestment	-	-	-	-	24,036	68,108	17,567	-
Forfeited	(7,720)	-	-	-	(5,886)	(14,374)	(43,025)	-
Exercised	-	-	-	-	-	-	(61,425)	-
Expired	-	-	-	-	-	-	-	-
Outstanding at 31 March 2010	100,811	5 44	-	-	364,278	1,028,642	221,487	-
Range of prices								
31 March 2010		5 44		-				
31 March 2009		5 44		4 90				
Weighted average share price at date of exercise								
31 March 2010		n/a		n/a	n/a	n/a	4 86	n/a
31 March 2009		6 85		7 05	n/a	n/a	n/a	n/a
Contractual remaining life								
31 March 2010		2 7 years		-	0 9 years	1 1 years	1 3 years	-
31 March 2009		3 7 years		-	1 6 years	1 5 years	1 9 years	-

Notes to the financial statements (continued)

26. Share-based payments (continued)

The weighted average exercise price of share options in the matching share award plan, performance share plan and deferred share plan was £nil for the year ended 31 March 2010 (2009 £nil)

None of the share options identified above as outstanding at 31 March 2010 had vested at that date

For the purpose of IFRS 2, expiry of performance share plan awards is measured with reference to the achievement of the performance conditions within the vesting conditions at the reporting date, not the end of the notional vesting period of three years from grant date Therefore options with performance conditions measured at the end of a reporting period are treated as expired if their performance conditions are not achieved at the reporting date

Options outstanding at 31 March under the share option schemes which are outside the scope of IFRS 2, together with their exercise prices and dates, were

	2010 Number of options	2009 Number of options	Exercise price[(1)] £	Normal dates of exercise
Executive share option scheme	-	127,944	7 68	2002 to 2009
Company share option scheme 1999	-	13,803	6 16	2002 to 2009
	100,598	111,604	6 80	2003 to 2010
	25,923	25,923	6 66	2003 to 2010
	110,291	113,653	6 52	2004 to 2011
	40,104	47,872	5 89	2005 to 2012
	191,163	201,674	6 11	2005 to 2012
	468,079	642,473		

Note
(1) The exercise price equalled the market price at the date the option was granted

Discontinued operations

Vertex performance share plan (Vertex PSP)

The outstanding number of options at 1 April 2008 was 563,243 The number of options increased for dividend reinvestment by 14,106 and then the total of 577,349 options expired in the year ended 31 March 2009 The closing number of outstanding options at 31 March 2009 was nil

27. Related party transactions

Group

Transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note

Trading transactions

The following transactions were carried out with the group's joint ventures

	Sales of services		Purchases of goods and services	
	2010 £m	2009 £m	2010 £m	2009 £m
Joint ventures	92 9	109 8	4 8	11 4

Notes to the financial statements (continued)

27. Related party transactions (continued)

	Amounts owed by related parties		Amounts owed to related parties	
	2010	2009	2010	2009
	£m	£m	£m	£m
Joint ventures (see notes 15,22)	19 2	12 8	0 9	1 9

Non-tradmg transactions
The followmg transactions were carried out with the group's ultimate parent undertakmg, Umted Utlhtes Group PLC

	Interest receivable		Interest payable	
	2010	2009	2010	2009
	£m	£m	£m	£m
Ultimate parent undertakmg	32 0	40 5	0 1	2 1

	Amounts owed by related parties		Amounts owed to related parties	
	2010	2009	2010	2009
	£m	£m	£m	£m
Ultimate parent undertakmg	1,519 7	1,482 3	65 6	66 4

Sales of services to related parties were on the group's normal tradmg terms

The amounts outstandmg are unsecured and will be settled in accordance with normal credit terms The group has issued guarantees of £126 8 million (2009 £80 7 million) to its joint ventures (see note 13) A £0 4 million provision has been made for doubtful receivables in respect of the amounts owed by related parties (2009 £0 1 million) A £0 3 million expense has been recognised for bad and doubtful receivables in respect of the amounts owed by related parties (2009 £nil)

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

Total dividend income received during the year amounted to £6,365 6 million (2009 £931 3 million), total interest receivable during the year from subsidiary undertakings was £18 7 million (2009 £74 7 million), in addition, total interest receivable during the year from the ultimate parent company was £16 0 million (2009 £2 1 million payable) and total recharges were £102 2 million (2009 £132 2 million) Amounts outstanding at 31 March 2010 between the parent company, subsidiary undertakings and ultimate parent undertaking are provided in notes 15, 17 and 22

The company has entered into performance guarantees with joint ventures as at 31 March 2010, where a financial limit has been specified of £157 3 million (2009 £75 3 million) The company guaranteed intra-group loans made by subsidiary undertakings of £343 9 million (2009 £343 9 million) Balances will be settled in accordance with normal credit terms An allowance for doubtful receivables of £82 9 million (2009 £80 0 million) has been made for amounts owed by subsidiary undertakings In the year ended 31 March 2010, an expense of £2 9 million was recorded in respect of bad or doubtful receivables due from subsidiary undertakings (2009 £69 9 million)

Notes to the financial statements (continued)

28. Cash generated from operations

	Group		Company	
		Restated		
	2010	2009	2010	2009
	£m	£m	£m	£m
Continuing operations				
Profit/(loss) before taxation	506 1	568 2	(474 3)	781 9
Adjustment for investment income and finance expense	337 6	161 3	2 6	59 9
Adjustment for profit on disposal of investments	(36 6)	-	-	-
Adjustment for evaluation and disposal costs relating to non-regulated businesses	10 8	-	-	-
Operating profit/(loss)	817 9	729 5	(471 7)	841 8
Adjustments for				
Depreciation of property, plant and equipment	275 2	238 0	-	0 1
Amortisation of other intangible assets	29 5	23 9	-	-
Loss on disposal of property, plant and equipment	7 3	0 8	-	-
Equity-settled share-based payments charge	2 4	1 9	-	0 8
Other non-cash movements*	(92 3)	-	686 8	-
Changes in working capital				
Increase in inventories	(1 8)	(9 7)	-	-
Decrease/(increase) in trade and other receivables	18 0	(1,505 2)	112 1	(359 7)
(Decrease)/increase in provisions and payables	(51 4)	(50 1)	127 8	(277 6)
Cash generated from/(used in) continuing operations	1,004 8	(570 9)	455 0	205 4

* Material non-cash transactions during the current year include, for the group, the pension schemes curtailment gains arising on amendment of pension obligations (£92 3 million, see note 19) and, for the company, the impairment of the company's investment in its subsidiary United Utilities North West PLC (£694 1 million, see note 13) and its four Jersey subsidiaries (£6,127 0 million, see note 15) offset by non-cash settled dividends received from the four Jersey subsidiaries (£6,128 9 million) and pension schemes curtailment gains arising on amendment of pension obligations (£5 4 million, see note 19)

The company acquired £1,500 8 million of ordinary shares in United Utilities One Limited by transfer of an inter-company receivable balance (see note 13)

There were no material non-cash transactions during the prior year affecting the group or company

Discontinued operations
For the year ended 31 March 2009, cash generated from operating activities for discontinued operations was £nil

29. Contingent liabilities

The company guaranteed loans of group undertakings up to a maximum of £1,165 1 million (2009 £1,154 2 million), including £821 2 million (2009 £810 3 million) relating to United Utilities Water PLC's loans from European Investment Bank and £343 9 million (2009 £343 9 million) relating to intra-group loans made by subsidiary undertakings

The group has entered into performance guarantees as at 31 March 2010, where a financial limit has been specified of £201 2 million (2009 £119 8 million)

The company has entered into performance guarantees as at 31 March 2010, where a financial limit has been specified of £194 7 million (2009 £114 4 million)

Notes to the financial statements (continued)

30. Events after the reporting period

In May 2010 the group agreed the disposal of its Australian business for approximately £135 million comprising £106 million in cash and £29 million in net debt assumed by the purchaser The transaction is subject to a number of consents and regulatory approvals and financial close is expected in the second half of 2010 The results of the Australian business are included within continuing operations for the year ended 31 March 2010 and are presented within the group's non-regulated activities segment

In June 2010 the group announced the sale of its principal UK and European non-regulated water interests and infrastructure services to Veolia Water UK PLC The transaction value was £174 million, comprising of £109 million in cash on completion and £65 million in net debt assumed by the purchaser A further £10 million in cash is payable on a deferred basis, subject to certain contingencies The group is continuing to evaluate the expressions of interest it has received for its remaining non-regulated businesses

The group's contract with Welsh Water has not been renewed for the 2010–15 regulatory period In June 2010 the group agreed and completed the disposal of its UK electricity services business The contribution from these businesses was immaterial to the non-regulated activities segmental result for the year ended 31 March 2010

31. Ultimate parent undertaking

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

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

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

32. Prior year adjustments

The group and company have adopted IFRIC 12 'Service Concession Arrangements' and the amendments to IAS 1 arising from the 'Improvements to IFRSs (2008)' project in these financial statements (see accounting policies) The adoption of IFRIC 12 has had no impact on the company only financial statements

The adoption of the amendments to IAS 1 'Presentation of Financial Statements (September 2007)' has not had a material impact on the company only statements of financial position for the years ended 31 March 2009 or 31 March 2008 and consequently the company has not re-presented these statements

Notes to the financial statements (continued)

32. Prior year adjustments (continued)

The impact on the adoption of these new standards and interpretations on the consolidated financial statements is set out below

2009 Consolidated statement of financial position	31 March 2009 as previously reported £m	Restatement for IFRIC 12 £m	Re-presentation for IAS 1 £m	31 March 2009 restated £m
ASSETS				
Non-current assets				
Property, plant and equipment	7,977 2	(110 4)	-	7,866 8
Goodwill	2 6	-	-	2 6
Other intangible assets	106 1	92 8	-	198 9
Investments	136 8	-	-	136 8
Trade and other receivables	21 5	22 7	-	44 2
Derivative financial instruments	412 6	-	33 1	445 7
	8,656 8	5 1	33 1	8,695 0
Current assets				
Inventories	73 0	-	-	73 0
Trade and other receivables	1,974 2	-	-	1,974 2
Cash and short-term deposits	298 6	-	-	298 6
Derivative financial instruments	226 4	-	(33 1)	193 3
	2,572 2	-	(33 1)	2,593 1
Total assets	11,229 0	5 1	-	11,234 1
LIABILITIES				
Non-current liabilities				
Trade and other payables	(139 8)	-	-	(139 8)
Borrowings	(5,200 1)	-	-	(5,200 1)
Retirement benefit obligations	(213 1)	-	-	(213 1)
Deferred tax liabilities	(1,338 9)	(2 4)	-	(1,341 3)
Provisions	(17 2)	-	-	(17 2)
Derivative financial instruments	(4 5)	-	(86 3)	(90 8)
	(6,913 6)	(2 4)	(86 3)	(7,002 3)
Current liabilities				
Trade and other payables	(673 7)	-	-	(673 7)
Borrowings	(524 9)	-	-	(524 9)
Current income tax liabilities	(78 3)	-	-	(78 3)
Provisions	(22 6)	-	-	(22 6)
Derivative financial instruments	(148 6)	-	86 3	(62 3)
	(1,448 1)	-	86 3	(1,361 8)
Total liabilities	(8,361 7)	(2 4)	-	(8,364 1)
Total net assets	2,867 3	2 7	-	2,870 0
EQUITY				
Capital and reserves attributable to equity holders of the company				
Share capital	881 8	-	-	881 8
Share premium account	1,430 0	-	-	1,430 0
Revaluation reserve	158 8	-	-	158 8
Cumulative exchange reserve	16 1	(0 2)	-	15 9
Other reserves	36 6	-	-	36 6
Retained earnings	344 0	2 9	-	346 9
Shareholders' equity	2,867 3	2 7	-	2,870 0

Notes to the financial statements (continued)

32. Prior year adjustments (continued)

2009 Consolidated income statement	2009 as previously reported £m	Restatement for IFRIC 12 £m	Re-presentation of restructuring costs £m	2009 restated £m
Continuing operations				
Revenue	2,434 7	(7 5)	-	2,427 2
Employee benefits expense	(347 2)	-	(1 2)	(348 4)
Depreciation and amortisation expense	(263 5)	1 6	-	(261 9)
Infrastructure renewals expenditure	(117 8)	-	-	(117 8)
Other operating costs	(989 5)	0 2	6 6	(982 7)
Other reorganisation costs	-	-	(5 4)	(5 4)
Other income	18 5	-	-	18 5
Total operating expenses	(1,699 5)	1 8	-	(1,697 7)
Operating profit	735 2	(5 7)	-	729 5
Investment income	106 0	5 2	-	111 2
Finance expense	(272 5)	-	-	(272 5)
Investment income and finance expense	(166 5)	5 2	-	(161 3)
Profit before taxation	568 7	(0 5)	-	568 2
Current taxation charge	(149 9)	-	-	(149 9)
Deferred taxation charge	(3 7)	0 2	-	(3 5)
Deferred taxation charge – abolition of industrial buildings allowances	(206 4)	-	-	(206 4)
Taxation	(360 0)	0 2	-	(359 8)
Profit for the year from continuing operations	208 7	(0 3)	-	208 4
Discontinued operations				
Loss for the year from discontinued operations	(1 2)	-	-	(1 2)
Profit for the year	207 5	(0 3)	-	207 2

Notes to the financial statements (continued)

32. Prior year adjustments (continued)

2008 consolidated statement of financial position	31 March 2008 as previously reported £m	Restatement for IFRIC 12 £m	Re-presentation for IAS 1 £m	31 March 2008 restated £m
ASSETS				
Non-current assets				
Property, plant and equipment	7,591 8	(110 0)	-	7,481 8
Goodwill	2 3	-	-	2 3
Other intangible assets	85 3	90 9	-	176 2
Investments	155 5	-	-	155 5
Trade and other receivables	28 2	24 9	-	53 1
Derivative financial instruments	44 3	-	25 7	70 0
	7,907 4	5 8	25 7	7,938 9
Current assets				
Inventories	63 3	-	-	63 3
Trade and other receivables	456 2	-	-	456 2
Cash and short-term deposits	1,810 5	-	-	1,810 5
Derivative financial instruments	99 0	-	(25 7)	73 3
	2,429 0	-	(25 7)	2,403 3
Total assets	10,336 4	5 8	-	10,342 2
LIABILITIES				
Non-current liabilities				
Trade and other payables	(125 5)	-	-	(125 5)
Borrowings	(3,788 9)	-	-	(3,788 9)
Retirement benefit obligations	(101 2)	-	-	(101 2)
Deferred tax liabilities	(1,164 0)	(2 6)	-	(1,166 6)
Provisions	(18 7)	-	-	(18 7)
Derivative financial instruments	(53 2)	-	10 9	(42 3)
	(5,251 5)	(2 6)	10 9	(5,243 2)
Current liabilities				
Trade and other payables	(771 9)	-	-	(771 9)
Borrowings	(878 4)	-	-	(878 4)
Current income tax liabilities	(66 9)	-	-	(66 9)
Provisions	(21 0)	-	-	(21 0)
Derivative financial instruments	(136 7)	-	(10 9)	(147 6)
	(1,874 9)	-	(10 9)	(1,885 8)
Total liabilities	(7,126 4)	(2 6)	-	(7,129 0)
Total net assets	3,210 0	3 2	-	3,213 2
EQUITY				
Capital and reserves attributable to equity holders of the company				
Share capital	881 6	-	-	881 6
Share premium account	1,429 3	-	-	1,429 3
Revaluation reserve	158 8	-	-	158 8
Treasury shares	(0 3)	-	-	(0 3)
Cumulative exchange reserve	7 6	-	-	7 6
Other reserves	58 1	-	-	58 1
Retained earnings	674 9	3 2	-	678 1
Shareholders' equity	3,210 0	3 2	-	3,213 2